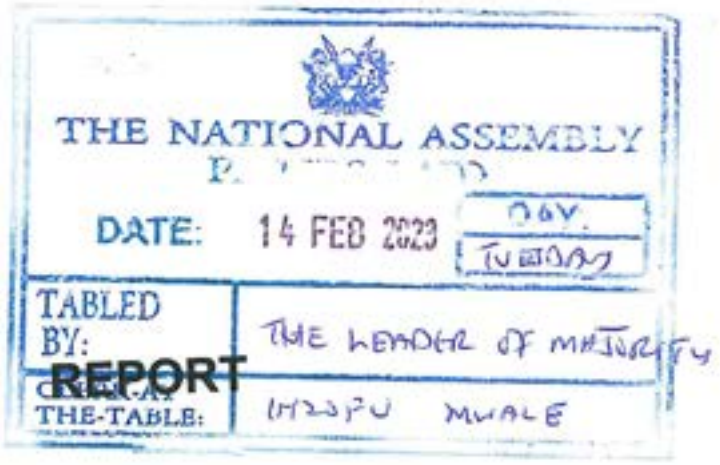


OF

THE AUDITOR-GENERAL

FOR

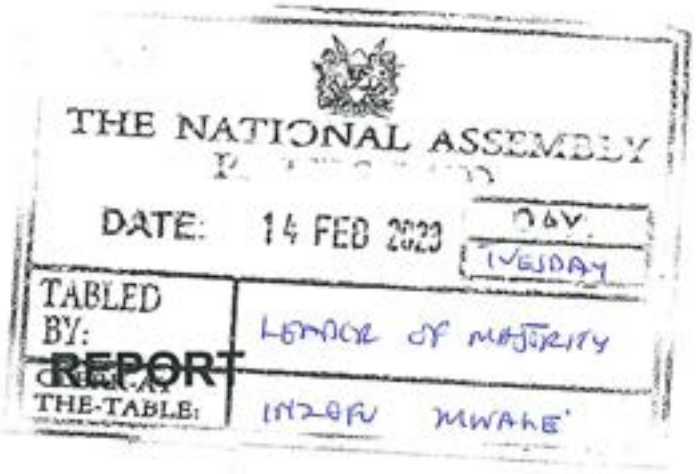
THE NATIONAL GOVERNMENT

MINISTRIES, DEPARTMENTS AND AGENCIES

FOR

THE YEAR 2020/2021





OF

THE AUDITOR-GENERAL

FOR

THE NATIONAL GOVERNMENT

MINISTRIES, DEPARTMENTS AND AGENCIES

FOR

THE YEAR 2020/2021

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Foreword

This report, popularly referred to as the Blue Book, is a compilation of the audit reports of Ministries, Departments and Agencies including their respective Donor Funded Projects for the year ended 30 June, 2021.

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

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

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

However, despite numerous reports indicating lack of accountability and documents to support the legality and effectiveness in the use of public resources, the failure to apply the requisite sanctions and consequences has resulted to some Accounting Officers not adequately accounting for the management and use of public resources with impunity. The lack of action and sanctions has also led to fiscal indiscipline including misallocations, wastage of resources, lack of value for money in implementation of projects and loss of public funds, thereby impacting negatively on development programmes. This in turn threatens economic growth and sustainability of service delivery to citizens. There are instances where some Accounting Officers fail to adequately prepare for audit which is exhibited by numerous inaccuracies in financial statements presented for audit, lack of requisite supporting documents and, in some cases, reluctance to cooperate with the auditors during the audit process.

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

The Office continues to seek financial independence and support from Parliament and The National Treasury for enhancement of resources to enable it build technical capacity, expand its presence in the counties, widen the scope and comprehensiveness of audit and motivate staff. We continue to devolve our services closer to the people through establishment of regional offices and construction of office premises to accommodate our staff in order to address the audit needs at the grassroot level. We have so far constructed regional offices in Garissa, Kakamega and Eldoret, while construction works in Embu is almost complete. Plans for construction of our Headquarters in Nairobi, which is currently at the design stage, has been delayed by lack of funding. However, the Office continues to make appeals to Parliament and The National Treasury for adequate funds to enable us perform our functions and achieve our mandate in enhancing accountability across government, both at the national and county levels, and in all other entities funded from public funds.

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

Specific reports together with my opinion for each entity are contained in the respective MDA's audited financial statements for the year ended 30 June, 2021, which I have already submitted to Parliament and to each Accounting Officer.

A summary highlighting key cross-cutting audit findings will be submitted separately.

1.0 Introduction

1.1 Constitutional Mandate of the Auditor-General

The Auditor-General is mandated by the Constitution of Kenya, 2010, under Article 229, to audit and report on the use of public resources by all entities funded from public funds. These entities include; the National Government, County Governments, the Judiciary, Parliament, Statutory Bodies/State Corporations, Commissions, Independent Offices, Public Debt, Political Parties funded from public funds, other government agencies and any other entity funded from public funds. The mandate of the Auditor-General is further expounded by the Public Audit Act, 2015.

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

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

1.2 Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) Cash Basis, as prescribed by the Public Sector Accounting Standards Board (PSASB), and for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how each entity monitors compliance with relevant

legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

1.3 Auditor-General's Responsibility

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

In addition, Article 229(6) of the Constitution requires me to express a conclusion on whether or not, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the law and other authorities that govern them, and that public resources are applied in an effective way. I also consider the entities' control environment in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems, in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015.

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

1.4 Reporting Structure

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

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

In order to address these requirements, my audit reports contain the following:

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

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

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

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

1.5 Audit Opinions

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

a) Unmodified Opinion

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

b) Qualified Opinion

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

c) Adverse Opinion

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

d) Disclaimer of Opinion

The financial statements exhibit serious and significant misstatements that may arise from inadequate information, limitation of scope, inadequacy or lack of proper records such

that I was not able to form an opinion on the financial operations. The financial statements with Disclaimer of Opinion are listed in Appendix D.

The key findings noted during the audit of the financial statements for the year ended 30 June, 2021 are highlighted in the ensuing pages.

THE NATIONAL TREASURY - VOTE 1071

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1. Inaccuracies in the Financial Statements

The statement of assets and liabilities and the statement of cash flows reflects a prior year adjustment of Kshs.161,975,656 and the respective comparative balance of Kshs.956,197,623 as explained in Note 15.18 to the financial statements. However, the respective Note does not provide the details of the comparative balance. Further, the Trial Balance provided for audit reflected a nil balance in respect to prior year adjustments. No schedules or ledgers in support of the prior year adjustments were provided for audit review.

Consequently, it was not possible to ascertain the accuracy and validity of the prior year adjustment in the current and prior years.

2. Acquisition of Assets

The statement of receipts and payments reflects a balance of Kshs.19,356,211,675 in respect to acquisition of assets which, as disclosed in Note 15.12 to the financial statements, includes a balance of Kshs.490,436,605 spent on foreign equity participation. Review of the cash book provided indicated that the Management had incurred Kshs.961,024,323 with regard to the same item resulting to an unexplained and unreconciled variance of Kshs.470,587,718.

In the circumstances, it has not been possible to ascertain the accuracy and validity of the acquisitions of assets for the current and prior years.

3. Purchase of Specialized Materials and Services

The statement of receipts and payments reflects an amount of Kshs.26,166,355,878 under use of goods and services which, as disclosed in Note 15.06 to the financial statements, includes an amount of Kshs.10,008,528,374 incurred on purchase of specialized materials and services. However, the schedule in support of the expenditure only indicated the item code, date of payment and amount paid but omitted the fields for payee and the purpose for which the expenditure was incurred.

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

4. Unauthorized Utilization of Surplus

Review of the financial statements revealed that, during the year under review, the statement of receipts and payments reflects an expenditure of Kshs.96,100,506,622,

against the total receipts of Kshs.95,959,362,651 resulting to an over expenditure of Kshs.141,143,971. Management has however, indicated that this was due to The National Treasury spending part of the previous year's surplus of Kshs.351,896,424 which should have been surrendered to the Exchequer. The balance was not surrendered to the Exchequer for re-voting as prescribed under Regulation 117(2) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the propriety in the utilization of Kshs.141,143,971 during the year could not be confirmed. Further, the Management was in breach of the law.

Other Matter

5. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.114,525,735,724 and Kshs.95,959,362,651, respectively resulting to an under-funding of Kshs.18,566,373,073 or 16% of the budget. Similarly, The National Treasury expended Kshs.96,100,506,622 against an approved budget of Kshs.114,525,735,724 resulting to an under-expenditure of Kshs.18,425,229,102 or 16% of the budget. However, the actual expenditure exceeded the receipts realised during the year by Kshs.141,143,971. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

6. Lack of Fixed Assets Register

Annex 4 to the financial statements reflects a summary of fixed assets register with a historical cost of Kshs.5,614,749,805 (2020: Kshs.4,826,589,614) including assets valued at Kshs.788,160,191 as additions during the year under review. However, The National Treasury did not provide an assets' register to support the assets valued at Kshs.5,614,749,805 as required by Regulation 143(1) of the Public Finance Management (National Government) Regulations, 2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

9. Late Exchequer Releases

Attention is drawn to Note 13.6 where an amount of Kshs.165,455,973,366 is indicated as payments in the cash book not yet recorded in the bank statement (uncleared items). Examination of records indicated that the total amount of Kshs.165,455,973,366 related to Exchequer releases to Ministries, Departments and Agencies, Public Debt and County Governments disbursed between 1 July and 8 July, 2021. Although Management explained that the amount represented receipts of proceeds from Sovereign Bond and International Monetary Fund (IMF) and that approval was given by the Office of the Controller of Budget, this was against the provisions of Regulation 97(4) of the Public Finance Management (National Government) Regulations, 2015 which states, inter alia, "that an actual cash transaction taking place after the 30 June, shall not be treated as pertaining to the previous financial year." This is also in breach of Article 260 of the Constitution which states that "financial year means the period of twelve months ending on the thirtieth day of June or other day prescribed by national legislation."

Further, the practice of backdating transactions to 30 June, is against the concept of IPSAS cash accounting. The practice has also resulted in discrepancies between Exchequer disbursements reported by The National Treasury and Exchequer receipts reported by some counties in their financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

10. There were no materials issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES – PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

12. There were no material issues noted during the audit of the financial statements of the Consolidated Fund Services – Public Debt.

Emphasis of Matter

13. Payment of Commitment Fees on Undrawn Amounts

The statement of receipts and payments reflects finance costs including loan interest amounting to Kshs.408,338,777,362, which as disclosed in Note 13.3 to the financial statements, includes interest payment on foreign borrowing of Kshs.106,265,999,668. The latter balance includes commitment fees on undrawn amounts paid during the period under review amounting to Kshs.2,063,104,537. The commitment fees relates to loans signed between the Government of Kenya and foreign lenders for the loans that had not been drawn.

Review of the summary statement of debt stock as at 30 June, 2021 revealed that twenty (20) loans agreements with a cumulated loan of Kshs.379,943,389,070 were signed between 1 July, 2019 and 31 December, 2020. However, no drawdowns on these loans had been made by the various implementing agencies for the funded projects and programmes as at 30 June, 2021. Had the Implementing Agencies put proper mechanisms in place to enable absorption of the committed credit within the agreed timeframe, the payment of commitment fees would have been minimized. The National Treasury, being the overall supervisor of Government Ministries, Departments and Implementing Agencies ought to have ensured that programmes and projects were ready for execution before committing the Government with the credits.

14. Guaranteed Debts

The summary statement of public debt reflects total outstanding debt stock balance of Kshs.7,545,923,130,128 as at 30 June, 2021. Review of the debt stock records provided revealed that the balance includes guaranteed loans amounting to Kshs.157,219,741,914 as at 30 June, 2021. These are loans advanced to State Agencies for which The National Treasury is a guarantor. Although the guaranteed loans are serviced by the recipient entities and would only be charged to the Consolidated Fund in cases of default, the guaranteed loans constitute contingent liabilities and form part of public debt as guaranteed debts. However, the balance does not include loans and overdrafts, if any, held by other National and County Governments entities. Management has however indicated that there were no borrowings by the County Governments and The National Treasury did not guarantee any loan by State Agencies during the year. Management has also indicated that where a State Agency secures a loan, it is the responsibility of the

Board of Directors to ensure that the amount is repaid and is not chargeable to the Consolidated Fund.

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

15. Default on Debt Repayment

Review of records held by The National Treasury's Commonwealth Secretariat Debt Recording and Management System revealed that the Government has defaulted on servicing an amount of Kshs.5,108,764,705 in respect of three (3) loans advanced by an international commercial bank towards the construction of three (3) dams as detailed below:

Project	Disbursed Amount Euro	Principal Defaulted Euro	Interest Defaulted Euro	Total Arrears Euro	Equivalent Kshs.
Arror Dam	91,852,267	-	6,159,578	6,159,578	790,661,549
Itare Dam Project	141,552,608	20,026,363	3,794,129	23,820,492	3,057,668,414
Kimwarer Dam	71,878,751	5,126,759	4,692,545	9,819,304	1,260,434,742
Total	**305,283,626**	**25,153,122**	**14,646,252**	**39,799,374**	**5,108,764,705**

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

My opinion is not modified in respect of the above matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

16. There were no materials issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

RECEIVER OF REVENUE - REVENUE STATEMENTS (RECURRENT)

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

18. Long Outstanding Arrears of Revenue

As disclosed in Part VI of the revenue statements, the statement of arrears of revenue as at 30 June, 2021 reflects total tax arrears amounting to Kshs.1,601,133,022,443 as analysed in the Kenya Revenue Authority debt portfolio. The balance includes an amount of Kshs.177,788,000,000 categorized as long outstanding legacy debts. These debts date back to 1992 and relate to penalties, interest, prior debt, estimated assessment debt and other debts that are subject to key factors including data corrections, objections and appeal processes.

Further, the statement of arrears of loan and interest as at 30 June, 2021 reflects non-tax revenues arrears of Kshs.74,015,186,078 comprising of loan redemption amounting to Kshs.38,078,376,052 and loan interest amounting to Kshs.35,936,810,026. Included in the balance is an amount of Kshs.39,165,038,029 which has been outstanding for more than two years. Although Management provided various reasons for the non-receipt of the revenues, it has not stated how it intends to ensure that the revenues are collected and accounted for or why the balances continue to be retained in the revenue statements some of which are unrecoverable.

Other Matter

19. Under-Collection of Property Income

As disclosed in Note 7 to the revenue statements, total property income realized in the period under review was Kshs.50,499,781,627 against estimated revenue of Kshs.66,981,870,924 resulting to under-collection of Kshs.16,482,089,297 or 25%. The under-collection may have impacted negatively on funding the budgets of the various public entities and therefore affecting development and service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REVENUE STATEMENTS (DEVELOPMENT)

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

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

Other Matter

23. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.104,620,168,896 and Kshs.86,841,732,043 respectively resulting to under performance of Kshs.17,778,436,853 or 17% of the budget. Management has attributed the under collection to the Covid -19 pandemic and the resultant restrictions which hampered implementation of various projects that had been budgeted for. Management also attributed the under collection on the delay in documentation by the county governments. The underfunding of the planned development activities may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REVENUE STATEMENTS – GOVERNMENT INVESTMENTS AND PUBLIC ENTERPRISES

REPORT ON THE REVENUE STATEMENTS

Basis for Adverse Opinion

26. Failure to Prepare Revenue Statements in Accordance with the Public Sector Accounting Standards Board's Template

Review of the Government Investments and Public Enterprises – Revenue Statement for the year ended 30 June, 2021 revealed that Management did not prepare the statement of financial assets and liabilities as prescribed by the Public Sector Accounting Standards Board (PSASB) as communicated through The National Treasury Circular Ref. No. AG.4/16/ 2 Vol.3(72) of 30 June, 2021: The National Treasury provided revised reporting templates for the annual and quarterly statements as prescribed by PSASB to enable entities comply with statutory requirements for end of year and in-year reporting in accordance with the Public Finance Management Act, 2012.

Consequently, and in the absence of the statement of financial assets and liabilities, it was not possible to ascertain the status of the outstanding loans as at 30 June, 2021.

27. Unreconciled Outstanding Loans Balances

As previously reported, included in the Government Investments and Public Enterprises (GIPE) revenue statement for the year ended 30 June, 2021 is an analysis of the outstanding loans as at 30 June, 2021, which reflects an outstanding loans balance of Kshs.921,930,325,958. However, entities with a total loan balances amounting to Kshs.801,382,820,943 reflected in the statement differed with the loan balance of Kshs.468,063,607,436 independently confirmed from the entities resulting to an unexplained variances as summarized below.

	Institution	Balance as Per the Revenue Statements	Balance Confirmed After Circularisation	Variance
		Kshs.	Kshs.	Kshs.
1	Agricultural Settlement Fund and Central Land Board	75,778,732	1,997,085	73,781,647
2	Agro-Chemical and Food Company Limited	2,846,884,000	2,941,884,000	(95,000,000)
3	Catering Levy Trustee/Kenya Utalii College	122,000,000	122,125,028	(125,028)
4	Coast Water Service Board	26,271,589,290	12,612,106,531	13,659,482,759
5	IDB Capital Limited	1,555,675,500	427,859,958	1,127,815,542
6	Industrial and Commercial Development Corporation	1,154,256,132	834,256,132	320,000,000
7	Kenya Civil Aviation Authority	2,083,556,987	2,029,024,956	54,532,031

	Institution	Balance as Per the Revenue Statements	Balance Confirmed After Circularisation	Variance
		Kshs.	Kshs.	Kshs.
8	Kenya Electricity Generating Company Limited	124,031,838,792	91,083,498,902	32,948,339,890
9	Kenya Meat Commission	940,241,100	300,000,000	640,241,100
10	Kenya Mortgage Refinance Company	34,028,098,320	-	34,028,098,320
11	Kenya Power and Lighting Company Limited	81,057,031,602	48,028,197,610	33,028,833,992
12	Kenya Railways Corporation	473,210,691,342	275,999,310,390	197,211,380,952
13	Kenyatta University	10,857,620,656	-	10,857,620,656
14	Lake Victoria South Water Services Board	14,511,405,134	1,978,015,170	12,533,389,964
15	Northern Water Services Board	5,389,000,000	2,757,691,547	2,631,308,453
16	Nzoia Sugar Company Limited	458,510,100	11,026,057,100	(10,567,547,000)
17	South Nyanza Sugar Company Limited	199,027,420	207,504,015	(8,476,595)
18	Tana Water Services Board	7,543,116,143	1,806,440,885	5,736,675,258
19	Water Resource Management	1,397,341,243	362,612,300	1,034,728,943
20	Rural Electrification Authority	13,649,158,450	15,545,025,827	(1,895,867,377)
	Total	**801,382,820,943**	**468,063,607,436**	

Further, debtors with outstanding balances amounting to Kshs.116,884,137,600 did not confirm their loan balances as at 30 June, 2021 as detailed below.

	Institution	Balance as Per Revenue Statements
		Kshs.
1	Athi Water Services Board	60,318,787,074
2	Co-operative Bank of Kenya Limited	287,416,721
3	East African Sugar Industries Limited, Muhoroni	177,123,100
4	Equity Bank Limited	614,213,405
5	Faulu Kenya Deposit Taking Micro-Finance Limited	58,892,166
6	Halal Meat Products	27,701,420
7	Kenya Airports Authority	2,966,983,076
8	Kenya Urban Transport Various Towns	40,706,140
9	Kenya Women Finance Trust Deposit Taking Micro-Finance Limited	60,333,584
10	Kilifi Mariakani Water and Sewerage Company Limited	1,059,644,328
11	Kwale Water and Sewerage Company Limited	2,051,255,560
12	Lake Victoria North Water Services Board	11,607,143,705
13	Local Government Loans Authority	7,594,273,720
14	Malindi Water, Sewerage and Sanitation Company Limited	1,058,633,217

	Institution	Balance as Per Revenue Statements
		Kshs.
15	Miwani Outgrowers Mills Limited	6,600,000
16	Miwani Sugar Company (1989) Limited	16,000,020
17	Miwani Sugar Mills Limited	78,088,180
18	Mombasa Pipeline Board	22,964,980
19	Mombasa Water and Sanitation Company Limited	1,798,411,538
20	Mumias Outgrowers Company Limited	16,517,400
21	Mumias Sugar Company Limited	3,000,000,000
22	Nairobi City Council	102,333,760
23	National Irrigation Board	2,262,036,544
24	National Water Conservation and Pipeline Corporation	2,460,874,897
25	Rift Valley Water Services Board	4,895,315,071
26	Tanathi Water Services Board	9,713,565,506
27	Tavevo Water and Sewerage Company Limited	1,506,555,390
28	Uchumi Supermarkets Limited	1,200,000,000
29	Water Sector Trust Fund	1,881,757,098
	Total	**116,884,137,600**

Under the circumstances, the validity, accuracy and completeness of the reported outstanding loans balance of Kshs.921,930,325,958 as at 30 June, 2021 could not be confirmed.

Other Matter

28. Dormant Loans

As previously reported, included in the total loan portfolio of Kshs.921,930,325,958 as at 30 June, 2021 were seventeen (17) loans amounting to Kshs.218,811,487,711 representing 24% of the total loan portfolio that had no movement during the year and have remained unpaid over a significant period. Further, the Management did not provide the aging analysis of the dormant loans tabulated below:

	Institution	Amount Outstanding as at 30 June, 2021
		Kshs.
1	Kenya Railways Corporation	179,042,472,762
2	Kenyatta University	10,857,620,656
3	Tanathi Water Services Board	9,713,565,506
4	Tana Water Services Board	7,543,116,143
5	Mumias Sugar Company Limited	3,000,000,000
6	National Water Conservation and Pipeline Corporation	2,460,874,897

	Institution	Amount Outstanding as at 30 June, 2021
		Kshs.
7	National Irrigation Board	2,262,036,544
8	Water Resource Management	1,397,341,243
9	Uchumi Supermarkets Limited	1,200,000,000
10	Kenya Meat Commission	940,241,100
11	East African Sugar Industries Limited, Muhoroni	177,123,100
12	Miwani Sugar Mills Limited	78,088,180
13	Kenya Tourist Development Corporation	48,000,000
14	Kenya Urban Transport Various Towns	40,706,140
15	Halal Meat Products	27,701,420
16	Miwani Sugar Company (1989) Limited	16,000,020
17	Miwani Outgrowers Mills Limited	6,600,000
	Total	**218,811,487,711**

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

29. Because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

30. Because of the significance of the matters discussed in the Basis for Adverse Opionion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

EAST AFRICA TOURIST VISA FEE COLLECTION ACCOUNT

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

34. Unsupported and Undisclosed Balance

The statement of outstanding obligations guaranteed by the Government of Kenya reflects an outstanding balance of Kshs.152,317,825; (2020-Kshs.152,317,825) being capital and interest owed by the Cereals and Sugar Finance Company. However, the balance has not been supported by any verifiable records and documents. Further, the Consolidated National Government Investment Report for the year 2020/2021, prepared by The National Treasury in accordance with Section 89 of the Public Finance Management Act, 2012, indicates that the total outstanding Government guaranteed debt stood at Kshs.157,220,000,000 as detailed below:

Agency	Outstanding Balances as at 30 June, 2021 (Kshs.)
Kenya Electricity Generating Company PLC	26,577,000,000
Kenya Ports Authority	37,901,000,000
Kenya Power and Lighting Company	11,779,000,000
Kenya Airways	80,963,000,000
Total	**157,220,000,000**

The total outstanding Government guaranteed debt of Kshs.157,220,000,000 above does not include the balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya prepared and submitted for audit by The National Treasury, which is indicated as relating to capital and interest owed by the Cereals and Sugar Finance Corporation. Although Management has indicated that the Corporation is dormant and has embarked on the process of winding up of the Corporation, it is not clear how the guaranteed debt will be cleared without supporting documentation on the same.

Under the circumstances, the completeness and accuracy of the outstanding balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2021 could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

35. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

36. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

CONSOLIDATED FUND SERVICES - SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

38. Multiple Laws Guiding Operations of the Fund

Until 2017, the Government through The National Treasury has been paying subscriptions to International Organizations through Vote R53 – Consolidated Fund Services - Subscriptions to International Organizations under various pieces of legislation namely: International Finance Corporation Act, Cap 466, International Development Association Act, Cap 465, Bretton Woods Agreements Act, Cap 464, the African Development Bank Act, Cap 492 and the Multilateral Investment Guarantee Agency Convention,1988 (Revised 2010). Other Ministries, Departments and Agencies, MDAs have been remitting such subscriptions through their voted provisions within their budgets.

However, the Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017 established the African Union and Other International Organizations Subscription Fund through which Kenya's contributions to African Union and Other International Organizations across all Government Agencies were to be paid. This in effect rendered all other individual voted provisions to be consolidated and budgeted under one umbrella body, the African Union and Other International Organizations Subscription Fund.

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

39. Budgetary Control and Performance

Review of the statement of comparison of budget and actual amounts revealed that the Fund had a budget of Kshs.500,000 but did not incur any expenditure during the period under review resulting in under absorption of funds by the same amount or 100% under-utilization. The under-utilization of funds was attributed to the fact that the Fund did not receive any invoices during the period under review. There is need for Management to review its budget making process with a view to formulating a realistic budget that would be actualized during implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES – PENSION AND GRATUITIES

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

45. Unsupported Accounts Payables

As disclosed in Note 15.6 to the financial statements, the statement of financial assets and liabilities reflects an accounts payables balance of Kshs.6,171,928,414 (2020: Kshs.5,358,204,131) as at 30 June, 2021. As previously reported, the balance has not been supported by detailed schedules indicating names, dates and amounts owed to respective creditors and the corresponding source documents. Management provided a soft copy of the ledger and indicated that the balance relates to accumulated returned pensions which has been growing since the introduction of the Pensions Management Information System (PMIS). However, detailed schedules indicating names, dates and amounts owed to respective creditors were not provided for audit review.

Consequently, the accuracy, completeness and validity of the reported accounts payables balance of Kshs.6,171,928,414 as at 30 June, 2021, could not be ascertained.

46. Long Outstanding Balance

The statement of financial assets and liabilities reflects a bank balance of Kshs.1,205,074,907 which, as disclosed in Note 15.5 to the financial statements, relates to the funds held at the recurrent bank account at the Central Bank of Kenya. However, an examination of the bank reconciliation statement for the month of June, 2021 revealed payments in cash book not in bank amounting to Kshs.33,634,076 with transactions dating as far back as August, 2019. Further, the reconciliation statement reflects payments in bank not in cash book of Kshs.16,733,547 with some transactions having remained outstanding since 2008. In addition, the bank reconciliation statement reflects receipts in bank not in cash book amounting to Kshs.1,362,296 while receipts in cash book not in bank amounted to Kshs.28,544,800 with some transactions having remained outstanding since 2010. Management has cleared the above balances leaving a balance of Kshs.1,410,365 still outstanding.

Although, Management has indicated that it has sought guidance from Old Balances Committee on how to deal with the items, no evidence of communication to the Committee was provided for audit review and no lasting solution has been forthcoming.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

48. Failure to Provide Internal Audit Reports

As previously reported, the Department has continued to operate without the services of an internal audit thereby exposing public resources to risk of abuse and wasteful operations. However, Management indicated that the Department has an Internal Audit function even though there were no reports from the team.

In the circumstances, the existence of an effective internal control system to safeguard public resources could not be confirmed.

REVENUE STATEMENTS OF THE PENSIONS DEPARTMENT

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

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

Other Matter

50. Unresolved Prior Years Matters

The following prior year matters remained unresolved as at 30 June, 2021.

50.1 Discrepancies Between Budget Statement and Printed Estimates

The statement of comparison of budget and actual amounts for the year ended 30 June, 2019 reflected total non-tax receipts budget of Kshs.309,398,233 being contribution by government employees to social welfare which differed from the 2018/2019 printed revenue estimates amount of Kshs.894,349,041, resulting to an unexplained and unreconciled variance of Kshs.584,950,808.

50.2 Variance Between the Revenue Statement and Trial Balance

The statement of revenues and transfers for the year ended 30 June, 2019 reflected total non-tax receipts of Kshs.262,230,402; (2018 - Kshs.308,019,086). However, the trial balance and revenue analysis provided for audit reflected a total non-tax receipts balance of Kshs.270,789,739 resulting to an unexplained variance of Kshs.8,559,337.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

54. Budgetary Control and Performance

The statement of comparison between the budget and actual amounts reflects approved revenue budget of Kshs.492,983,367 and actual amounts realized of Kshs.391,281,000 resulting to an under-funding of Kshs.103,702,367 or 30% of the budget. Similarly, the Project spent Kshs.408,810,452 out of the approved budget of Kshs.492,983,367 or 17% of the approved budget resulting to an under expenditure of Kshs.84,172,915. Management has attributed the low performance mainly to the impact of Covid-19 which imposed travel restrictions leading delayed procurement of goods and services. The low realization of receipts and the low absorption may have adversely affected the achievement of the planned activities which may have impacted negatively on service delivery of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

GLOBAL FUND PROGRAMMME - TO ACCELERATE THE REDUCTION OF TB, LEPROSY AND LUNG DISEASE BURDEN THROUGH PROVISION OF PEOPLE CENTERED, UNIVERSALLY ACCESSIBLE, ACCEPTABLE AND AFFORDABLE QUALITY SERVICES IN KENYA (GRANT NO. KEN-T-TNT 1548)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

58. Unsupported Expenditure - Counterpart Funding

The statement of receipts and payments reflects receipts from Government of Kenya (Counterpart Funding) of Kshs.387,459,444. However, the amount differs from the amount indicated in the ledger of Kshs.479,667,665 by an unexplained variance of Kshs.92,208,221. Further, the statement of receipts and payments reflects comparative receipts from Government of Kenya (Counterpart Funding) of Kshs.250,000,000 for the financial year ended 30 June, 2020 bringing the cumulative to-date from inception to Kshs.637,459,444. Management has not supported the expenditure to show how the balance has been build up since the Program inception. Although the amount had previously been omitted in the audited financial statements for the year then ended, the balances have not been marked as restated in the face of the financial statements.

Consequently, in absence of any reconciliation and explanation, the accuracy and completeness of the reported cumulative receipts from Government of Kenya and Other Grants and Transfer payments (CPF) balance of Kshs.637,459,444 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

59. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.701,838,786 and Kshs.505,966,555 respectively resulting to an under-funding of Kshs.91,957,722 or 28% of the budget. Similarly, the Program expended Kshs.511,798,842 against an approved budget of Kshs.701,654,497 resulting to an under-expenditure of Kshs.785,954,969 or 27% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

61. There were no material issues relating to internal controls, risk management and governance.

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

64. Lack of Internal Audit Services

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PUBLIC FINANCIAL MANAGEMENT REFORMS PROGRAM (CREDIT NOS. DANIDA FY06, SIDA 51110081, IDA GESDEK-6133-KE & KDSP-5765-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

67. Proceeds from Domestic and Foreign Grants

I draw your attention to Note 2 to the financial statements which reflects an amount of Kshs.55,057,288 in respect to proceeds from foreign and domestic grants. However, Note 11A in the special deposit accounts movement schedule indicates total withdrawals from the special deposit accounts of USD856,600 equivalent to Kshs.92,973,610 resulting to a variance of Kshs.37,916,322 between the amount reported in the Project's financial statements and the amount withdrawn from the special deposit account. Management

has however attributed the discrepancy to the amount which had been drawn from the special deposit account in the Central Bank of Kenya but had not been issued to the Project through the Exchequer.

My opinion is not modified in respect to the above matter.

Other Matter

68. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects a receipts budget and actual receipts on comparable basis of Kshs.1,016,219,415 and Kshs.446,505,445 respectively, resulting to receipts shortfall of Kshs.600,048,445 or 59% while the expenditure budget and actual payments on comparable basis of Kshs.1,016,219,415 and Kshs.881,239,653 respectively, resulting to an under-absorption of Kshs.134,979,762 or 13% of the approved budget. The underfunding and underperformance affected the planned activities and have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

71. As required by DANIDA FY06, SIDA 51110081, IDA GESDEK-6133-KE and KDSP-5765-KE Agreements, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

73. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.18,700,000 and Kshs.9,075,750 respectively resulting to an under-funding of Kshs.9,624,250 or 51% of the budget. Similarly, the Project expended Kshs.9,075,750 against an approved budget of Kshs.18,700,000 resulting to an under-expenditure of Kshs.9,624,250 or 51% of the budget. Management has attributed the dismal performance to failure to carry out planned trainings due to the effects of the Covid-19 outbreak and the fact that all payments are done directly by the donor in the form of A.I.A after approval from The National Treasury. The underfunding and underperformance affected the planned activities and impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

74. Irregular Termination of Technical Assistant Contract

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

77. Dormant Project Bank Accounts

The Project continues to maintain three local currency accounts, two held at Co-operative Bank of Kenya with bank balances of Kshs.1,136,902 and Kshs.359, respectively and a third Account at Equity Bank with a balance of Kshs.22,823,151 as at 30 June, 2021. No deposits or withdrawals have been made for the last five (5) financial years with respect to the two Co-operative bank accounts while the Equity bank account did not have transactions during the year under review.

Further, the programme had no activities during the year, yet the project account had Kshs.23,960,413 in the bank that remained unutilized. The continued maintenance of the dormant accounts expose the Programme to risk of loss of funds. Management should embark on a foreclosure report to terminate the Programme and avert gradual loss through bank charges and interests on idle resources.

My opinion is however not modified with respect to the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

78. There were no material issues relating to lawfulness and effectivenss in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

81. Amount Withdrawn but Unclaimed

Part B of the statement of special (designated) account reconciliation for the project reflects Euro 1,152,653.73 (Kshs.147,804,787.79) at the then exchange rate of 1 Euro at Kshs.128.23 as withdrawn but unclaimed as at 30 June, 2021. This represents cumulative funds transfers to the local project bank account but whose expenditure returns have not been submitted to The National Treasury by close of the financial year. Further, an additional Euro 30,000 (Kshs.2,846,900) cash advance to the project reflected in the list of advances which ought to have been justified by 31 December, 2015 is yet to be justified as at 30 June, 2021 under the Grant Facility CKE 6010.

My opinion is not modified in respect of the effects of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

82. Failure to Close Project

As per Clause 10 of the financing agreement, the Project was to end on 31 October, 2010 but the closing date was later extended to 31 December, 2014. However, the Project Management is yet to formally prepare and submit the Project closure report. Consequently, the Project is in breach of the agreement with Agence Francaise Development (AFD).

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

GLOBAL FUND PROGRAM - TO REDUCE MORBIDITY AND MORTALITY CAUSED BY MALARIA IN THE VARIOUS EPIDEMIOLOGICAL ZONES BY TWO THIRDS OF THE 2015 LEVEL BY 2020 PROGRAM-GRANT AGREEMENT-KEN-M-TNT NO.1546

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

89. Unsupported Expenditure - Counterpart Funding

The statement of receipts and payments reflects receipts from Government of Kenya (Counterpart Funding) of Kshs.383,971,795. However, the amount differs from the amount indicated in the ledger of Kshs.62,554,589 by an unexplained variance of Kshs.321,417,206.

Further, the statement of receipts and payments reflects comparative receipts from the Government of Kenya (Counterpart Funding) of Kshs.250,000,000 for the financial year ended 30 June, 2020 bringing the cumulative to-date from inception to Kshs.633,971,795. Management has not supported the expenditure to show how the balance has been built up since the inception of the Program. Although the amount had previously been omitted in the audited financial statements for the year then ended, the balances have not been marked as restated in the face of the financial statements.

Consequently, in absence of any reconciliation and explanation, the accuracy and completeness of the reported receipts from Government of Kenya of Kshs.633,971,795 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

90. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.2,834,891,108 and Kshs.2,034,686,081 respectively resulting to an under-funding of Kshs.800,205,027 or 28% of the budget. Similarly, the Program expended Kshs.2,053,436,139 against an approved budget of Kshs.2,839,391,108 resulting to an under-expenditure of Kshs.785,954,969 or 28% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

91. Non-Compliance with the Public Finance Management Regulations, 2015

The budget for total payments of Kshs.2,839,391,108 exceeds the budgeted total receipts budget of Kshs.2,834,891,108 by Kshs.4,500,000 implying that the Management has anticipated to spend more than what the Program could actually realize.

This is contrary to Regulation 12(c) of the PFM (National Government) Regulations, 2015 which states that "Unless provided otherwise in the Act, these Regulations or any other guidelines developed in furtherance of the Act or these Regulations, the following guidelines shall be observed at all times during budget formulation and approval budget shall be balanced".

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GLOBAL FUND PROGRAM-TO CONTRIBUTE TO ACHIEVING VISION 2030 THROUGH UNIVERSAL ACCESS TO COMPREHENSIVE HIV PREVENTION, TREATMENT AND CARE PROJECT - KEN-H-TNT, GA NO. 1547

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

93. Unsupported Expenditure - Counterpart Funding

The statement of receipts and payments reflects receipts from Government of Kenya (Counterpart Funding) of Kshs.1,840,254,274. However, the amount differs from the amount indicated in the ledger of Kshs.1,757,959,461 by an unexplained variance of Kshs.82,294,813. In addition, the original Payment Voucher No. 486 for Kshs.686,787,309 which was included in the schedule in support of Kshs.1,757,959,461, was not provided for audit.

Further, the statement of receipts and payments reflects comparative receipts from Government of Kenya (Counterpart Funding) of Kshs.1,614,446,081 for the financial year ended 30 June, 2020 bringing the cumulative to-date from inception to Kshs.3,454,700,355. Management has not supported the expenditure to show how the balance has been built up since the inception of the Program. Although the amount had previously been omitted in the audited financial statements for the year then ended 30 June, 2020 and earlier years, the balances have not been marked as restated in the face of the financial statements.

Consequently, in absence of any reconciliation and explanation, the accuracy and completeness of the reported receipts from Government of Kenya and other grants and

transfers and payments (CPF) balance of Kshs.3,454,700,355 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

94. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.12,297,591,685 and Kshs.10,882,430,493 respectively resulting to an under-funding of Kshs.1,415,161,192 or 12% of the budget. Similarly, the Program expended Kshs.10,918,124,580 against an approved budget of Kshs.12,297,591,685 resulting to an under-expenditure of Kshs.1,379,467,105 or 11% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

ADDITIONAL FINANCING FOR THE INFRASTRUCTURE FINANCE AND PUBLIC PRIVATE PARTNERSHIP PROJECT (IDA CREDIT NO. 6121-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

98. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects approved revenue budget of Kshs.317,000,000 and actual amounts realized of Kshs.256,108,600 resulting to an under-funding of Kshs.60,891,400 or 19% of the budget. Similarly, the Project spent Kshs.150,512,680 out of the approved budget of Kshs.317,000,000 resulting to an under expenditure of Kshs.166,487,320 or 47% of the approved budget. Management has

attributed the under expenditure to delayed signing of consultants' contracts, suspension/delayed training and workshops and delayed procurement of the program car but has not given specific reasons for specific variances in the items.

In the circumstances, low absorption of project funds implies that the project may not be able to meet its strategic objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

99. Irregular Recruitment of an Advisor

The statement of receipts and payments for the period under review reflects compensation of employee's expenditure of Kshs.84,065,438. Review of records related to the expenditure revealed that through the project, the National Treasury procured the services of an advisor to the Cabinet Secretary – The National Treasury and Planning vide a contract dated 30 July, 2020 for a period of two (2) years effective 1 August, 2020 to 31 July, 2022 at a salary of Kshs.1,813,029 per month. It was however noted that the position is not provided for in the approved project organization structure as outlined in the IFPPP Project Implementation Manual.

Although Management has indicated that the advisor was recruited using direct selection method and based on "No objection" communication from the World Bank, the recruitment was contrary to Section 5(2) of the Employment Act, 2007 which state that an employer shall promote equal opportunity in employment and strive to eliminate discrimination in any employment policy or practice. Further, the advisor's salary was negotiated with a negotiation committee appointed by the Cabinet Secretary and was not subjected to the advisory by the Salaries and Remuneration Commission for salary grading of the officer nor was it pegged on the Public Service or other existing criteria.

In addition, examination of the terms of reference of the employment contract of the advisor revealed that the scope of service goes beyond the mandate of the project and workplans and progress reports detailing the deliverables of the advisor were not provided for audit verification. It was therefore not possible to confirm value for money on the expenditure amounting to Kshs.19,943,319 paid to the advisor during the year ended 30 June, 2021.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

100. Lack of Internal Audit Services

During the year under review, the project was not subjected to review by The National Treasury Internal Audit Unit. The Internal Audit Unit only commenced review on

28 June, 2021, two days to the closure of the financial year. This is contrary to Section 73(1) of the Public Finance Management Act, 2012 which requires all government entities to make appropriate arrangements for internal audit function Further, paragraph 3.2.8 of IFPPP Project Implementation Manual provides for Internal Audit and the Audit Committee of the National Treasury to provide internal audit services and oversee the adequacy of internal control mechanisms over the Project.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

FINANCING LOCALLY-LED CLIMATE ACTION PROGRAM PREPARATION ADVANCE NO. IDA V319-KE (P173065)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

103. Amount Withdrawn but Not Claimed

Part B of the special (designated) account reconciliation statement for the Program reflects amounts withdrawn but unclaimed of USD 369,926 (Kshs.39,896,500, based on an exchange rate of Kshs.107.85), as at 30 June, 2021. This represents cumulative funds transferred to the Program bank account but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

Other Matter

104. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.159,486,605 against budgeted receipts of Kshs.171,237,191, resulting in a shortfall of Kshs.11,750,586 or 17% of total budget. The shortfall arose under the IDA Loan where actual receipts amounted to Kshs.119,486,605 against the budgeted receipts of Kshs.131,237,191, resulting in a shortfall of Kshs.11,750,586 or 17% of the total budgeted receipts.

Further, the statement of comparative budget and actual amounts reflects budgeted payments of Kshs.171,237,191 and actual payments of Kshs.93,687,314, resulting to under-expenditure of Kshs.77,549,877 or 45% of total budget. Included in the under-expenditure of Kshs.77,549,877 is a closing bank balance of Kshs.58,511,086 reflected under Note 7 to the financial statements. Although these funds were withdrawn during the year under review, they were not utilized. Management has attributed the under-expenditure to slow procurement processes at The National Treasury and Planning.

In view of the above, the Program may not have implemented all its planned and approved programmes, resulting to delayed provision of services to the people of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

107. As required by the International Development Association (IDA) and Credit Facility Agreement No. IDA V319-KE dated 20 March, 2020, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

PUBLIC DEBT MANAGEMENT SUPPORT PROJECT – ADB GRANT AGREEMENT NO. 5500155013708

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

108. There were material issues noted during the audit of the financial statements of the Project.

Other Matter

109. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total receipts of Kshs.28,170,286 against estimated receipts of Kshs.41,000,000 resulting into shortfall of receipts of Kshs.12,829,714 or 31%. Similarly, the statement reflects actual expenditure totalling Kshs.28,170,286 against estimated expenditure of Kshs.41,000,000 resulting into an under-expenditure of Kshs.12,829,714 or 31% which occurred under purchase of goods and services. The under expenditure was attributed to planned activities not being undertaken due to Covid-19 pandemic.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE NATIONAL TREASURY

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

116. As required by the financing agreement IDA Credit No.5638-KE, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR PLANNING - VOTE 1072

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

120. Unsupported Pending Bills

Annex 1 to the financial statements reflects a pending bills balance of Kshs.28,062,845 which includes an amount of Kshs.5,397,937 relating to historical balance brought forward from the 2017/2018 financial year. This historical balance further includes two balances of Kshs.2,007,000 and Kshs.363,000 relating to two hotels in Nakuru and Mombasa and dated 28 June, 2014 and 13 July, 2018, respectively all totalling to Kshs.2,370,000. These bills were reflected as additional pending bills in the year under review. However, the additional pending bills were not reflected in the prior years audited financial statements and were not supported with the relevant supporting documentation including, requisitions, local service/purchase orders, invoices and delivery notes.

In the absence of the relevant supporting documents, it was not possible to confirm the authenticity of pending bills amounting to Kshs.2,370,000. In addition, failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

122. Management of Grounded Motor Vehicles

A review of the State Department's motor vehicle register revealed that the State Department had sixty (60) motor vehicles out of which twenty-three (23) or 38% were grounded. In addition, the details of the specific defects and duration of the defects, log books and the work tickets for these grounded vehicles, were not provided for audit verification. Further, it was noted that the motor vehicle register provided was missing some crucial information about the grounded vehicles.

This is contrary to Section K.11 of the Code of Regulations, (Revised 2006), which provides that the use of the work ticket(s) for a Government vehicle is compulsory and that the instructions set out in the front cover of the book of work tickets must be made known to all drivers and other officers responsible for the management of Government transport. In addition, a summary (as provided for at part G of the cover) of fuel, oil and

distance travelled, should be entered, with the related work ticket number, in the vehicle log-book on completion of each such ticket or at the end of each month, should a ticket remain incomplete at the end of that month. Further, Section K.12 provides that a register of all Government vehicles, trailers and motor cycles should be maintained by the Permanent Secretary/Head of Department of each Ministry. The Register should include the following particulars: (i) Description of vehicle, trailer and motor-cycle (ii) Chassis number (iii) Engine number (iv) GK Registration number (v) The date the vehicle was put into service (vi) Department to which allotted; and (vii) The date of disposal of the vehicle.

In the absence of proper records with details of the grounded vehicles, it was not possible confirm effective management of the grounded vehicles, which may continue to deteriorate resulting in loss of any salvage value which would have been realized through disposal of the motor vehicles.

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

DATA COLLECTION AND DATABASE DEVELOPMENT PROJECT (UNFPA-KEN7P32A) - KENYA NATIONAL BUREAU OF STATISTICS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

124. Status of Project Activities

As reported in the prior years, the Project remained dormant in the year under review. However, it had an opening cash in bank balance amounting to Kshs.2,162,338 against which bank charges amounting Kshs.4,320 were debited resulting in a closing balance of Kshs.2,158,018 as reflected in the statement of financial assets and liabilities as at 30 June, 2021.

Management has indicated that activities for the Project were implemented under GOK/UNFPA 8th County Programme and therefore, no new programme agreement was signed in respect to the Project's activities, which entailed financing preparatory activities for the 2019 Kenya Population and Housing Census. Management has further indicated that although no funding was received in the four financial years ended 30 June, 2021, UNFPA has indicated they will finance a 9th GOK/UNFPA Country Programme on data collection and database management. Management says it has maintained the Project bank account for the purpose.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

125. Undisclosed Financing Conditions

The Project financing agreement NO.KEN7P32A signed between the Government of Kenya and UNFPA was not provided for audit review. As a result, the accuracy and validity of the cumulative receipts and payments amounting to Kshs.393,337,875, and Kshs.391,179,857 respectively transacted during the year ended 30 June, 2021 could not been confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

COORDINATION OF POPULATION POLICY IMPLEMENTATION PROJECT (UNFPA PROJECT NO. KEN08POP) – NATIONAL COUNCIL FOR POPULATION AND DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MULTIPLE INDICATOR CLUSTER SURVEY PROJECT - UNICEF - KENYA NATIONAL BUREAU OF STATISTICS

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

131. Status of Project Activities

The financial statements indicate that the Project did not receive any funds from UNICEF or the Government of Kenya during the year under review. In addition, no project activities were carried out in the year and the only expense incurred amounting to Kshs.4,320 related to bank charges for the Project account. Management has previously indicated the intention to close the Project Bank account to avoid the bank charges but is yet to do so.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

132. Undisclosed Financing Conditions

As in the previous financial year, the Project financing agreement signed between the Government of Kenya and UNICEF was not provided for audit review. Management has explained that no agreement was signed in respect to the Project as funding from UNICEF was based on work plans for various activities. However, Management has not disclosed the terms and conditions attached to the work plans.

As a result, the validity of the cumulative receipts and payments amounting to Kshs.86,392,918 and Kshs.86,339,620 respectively transacted during the year ended 30 June, 2021 has not been confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

135. Late Submission of Financial Statements

Management submitted the financial statements for audit on 6 October, 2021, Six (6) days after the statutory deadline of 30 September, 2021 contrary to Section 81(4)(a) of the Public Finance Management Act, 2012 which requires Accounting Officers to submit financial statements to the Auditor-General within three (3) months after the end of each financial year.

Consequently, the Management was in breach of the law.

136. Non-Compliance with Affirmative Action on Gender, Ethnicity and Regional Distribution

Review of the payroll records revealed that the Project has Ten (10) staff who are engaged on contractual basis to carry out various roles as per the project's agreement. However, an examination of staff personal records indicates that about four (4) or 40% of the staff belong to one ethnic community contrary to Article 232(1)(h & i) of the constitution of Kenya 2010 which recognizes representation of Kenya's diverse communities and equal opportunities for appointment, training and advancement and Section 7(2) of the National Cohesion and Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from the same ethnic community.

The Management was in breach of the law.

137. Purchase of Goods and Services

137.1 Domestic Travel and Subsistence

The statement of receipts and payments reflects a balance of Kshs.4,505,301 under purchase of goods and services which as disclosed in Note 9.5 to the financial statements includes an amount of Kshs.1,268,336 on domestic travel and subsistence out of which Kshs.438,800 was spent on adjudication of tender worth Kshs.3,259,600. The payment was made to staff who travelled to Naivasha in the month of August, 2020 and conference facilities for the tender processing of eight (8) Computers and six (6) laptops. However, the adjudication would have been done efficiently and economically at the Project's offices hence saving project funds. No plausible explanation was provided by Management for incurring expenditure amounting to Kshs.1,268,336 on travelling for the adjudication of a tender worth Kshs.3,259,600.

In the circumstances, it has not been possible to ascertain whether the Project got value for money on the travel expenses.

137.2 Acquisition of Non-Financial Assets

The statement of receipts and payments reflects a balance of Kshs.4,105,519 under acquisition of non-financial assets. The assets included eight (8) laptops and six (6) desktop computers. However, there is no evidence that these assets were included in

the fixed assets register. This is contrary to provisions of Section 162(1) of the Public Procurement and Asset Disposal Act, 2015 which requires an Accounting Officer of a procuring entity to ensure that all inventory, stores and assets purchased be received and taken on charge as a basis for ensuring that all procured items are properly accounted for and put in proper use as intended by the procuring entity. The assets remained unrecorded and therefore could not be verified.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

THE EXECUTIVE OFFICE OF THE PRESIDENT - VOTE 1011

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

140. Pending Bills

Note 21.1 to the financial statements reflects pending accounts payable of Kshs.5,349,989,714 as at 30 June, 2021. The bills were not paid during the year under review but were instead carried forward to the financial year 2021/2022. Failure to settle bills during the year to which they relate distorts the budget implementation of the subsequent year as the outstanding bills form a first charge on available resources.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

144. Unsupported Imprest Claims

The statement of receipts and payments reflects expenditure of Kshs.42,112,100 in respect of purchase of goods and services. Included in this figure is an amount of Kshs.17,143,100 paid in respect of domestic travel and subsistence out of which Kshs.8,997,700 relates to temporary imprests issued without imprest warrants contrary to Regulation 91(2) of Public Finance Management (National Government) Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

146. As required by the African Development Bank, I report based on the audit that the Project's funds have been used in accordance with the conditions of Grant Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided. Further, the goods and services financed have been procured in accordance with the Grant Agreement and the Bank's rules and procedures and necessary supporting documents, records and accounts have been kept in respect of all Project activities and adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exists.

UNICEF – KENYA GENERATION UNLIMITED (GenU) PROJECT (PROGRAMME NO. 2400/A0/A6)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR INTERIOR AND CITIZEN SERVICES - VOTE 1021

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

153. Variances Between Balances in the Financial Statements and Trial Balance

A comparison of the financial statements and the Integrated Financial Management Information System (IFMIS) generated trial balance provided for audit revealed variances between the two sets of records on seventeen (17) account items as detailed below:

Account No.	Item Description	Balance as Per Financial Statements (Kshs.)	Balance as Per Trial Balance (Kshs.)	Variance (Kshs.)
6510000	Special Accounts	0	3,899,599,805	(3,899,599,805)
6520000	Treasury Bank Accounts	0	85,281	(85,281)
6530000	Recurrent Bank Account	509,937,446	(408,575,188,720)	409,085,126,166
6540000	Development Bank Accounts	815,847,042	(5,083,766,907)	5,899,613,949
6550000	Deposit Bank Account	533,636,762	362,819,658	170,817,104
6580000	Cash in Hand	45,164,045	473,232,332,365	(473,187,168,320)
6710000	Domestic Debtors and Advances	0	545,040	(545,040)
6720000	Domestic Debtors and Advances	0	31,285	(31,285)
6740000	Other Debtors and Prepayments	0	(1,257,053,461)	1,257,053,461
6760000	Government Imprest	2,389,969	2,155,433,186	(2,153,043,217)
6780000	Suspense and Clearance Account	0	14,770,712,904	(14,770,712,904)
6790000	Other Current Assets	0	137,493,096	(137,493,096)
7320000	Deposits	533,636,762	10,053,228,283	(9,519,591,521)
7310000	Other Liabilities	0	3,472,192,790	(3,472,192,790)
7380000	Withholding Taxes	0	(293,312,653)	293,312,653
7390000	System Required Liabilities	0	(127,306,544,715)	127,306,544,715
9910000	Provisions	0	1,964,665,301	(1,964,665,301)

Under the circumstances, the accuracy and completeness of the account items balances reflected in the financial statements for the year ended 30 June, 2021 could not be ascertained.

154. Long Outstanding and Un-Reconciled Bank Balances

The statement of assets and liabilities reflects a balance of Kshs.1,904,585,295 under cash and cash equivalents which, as disclosed in Note 22A to the financial statements, includes an amount of Kshs.1,859,421,250 in respect of bank balances. However, the bank reconciliation statements reflected various unreconciled items that had been outstanding for over one year with some dating as far back as the year 2016 as indicated below:

Bank Account	Unpresented Cheques (Kshs.)	Receipts in Bank not in Cash Book (Kshs.)	Payments in Bank not in Cash Book (Kshs.)	Receipts in Cash Book not in Bank (Kshs.)
Deposit	2,436,001	14,048,902	2,040,200	17,280,002
Recurrent	1,208,457,022	1,043,185,629	3,825,353,331	24,523,593
Development	310,494,059	221,937,305	1,134,328,365	396,858,807
Total	**1,521,387,081**	**1,279,171,835**	**4,961,721,896**	**438,662,402**

Under the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,904,585,295 as at 30 June, 2021 could not be confirmed.

Other Matter

155. Pending Bills

Records maintained by the State Department for Interior and Citizen Service indicates that bills amounting to Kshs.1,989,542,041 relating to the financial year 2020/2021 were not paid during the year under review but instead were carried forward to 2021/2022. Failure to settle bills during the year to which they relate distorts the budget implementation of the subsequent year as the outstanding bills form a first charge on resources available.

156. Unresolved Prior Year Matters

In the previous year's audit report, several issues were raised under the Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Effectiveness of Internal Controls, Risk Management and Governance, respectively. Although management indicated in the progress on follow-up on prior year's auditor's recommendations that the matters had been resolved, the recommendations and resolutions by the Public Accounts Committee on the matters were not provided for verification.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

157. Provision of Enhanced Comprehensive Group Life Cover

The National Police Service entered into a one-year contract with National Hospital Insurance Fund (NHIF) for provision of Enhanced Comprehensive Group Life Cover and Inclusion of Compensation under the Work Injury Benefits Act (WIBA) and Group Personal Accident Cover (GPA) for Members of the National Police Service and the Kenya Prisons Service from 1 January, 2021 to 31 December, 2021. The insurance policy was intended to cover the principal members if in employment and dependents at the commencement of the cover. The total agreed premium was Kshs.2,295,594,440 with a total population of 131,816. Further review of the procurement documents for the insurance contract revealed that the Service initiated a direct procurement of the group life cover from NHIF without any justification for the procurement method adopted. Analysis of the procurement process and implementation of the contract revealed the following issues:

157.1 Unsupported Reduction in the Quoted Premium

Review of the contract indicated that the NHIF had quoted an amount of Kshs.8,103,918,659 as annual premium for the cover as tabulated below:

Serial No.	Category	Total Exposure (Kshs.)	Rate Applicable	Annual Premium (Kshs.)
1.	Group Life	750,882,759,947	5.5%	4,129,855,179
2.	Last Expense(M+6)	111,830,250,000	7%	782,811,750
3.	GPA Accidental Disability and Death (Permanent /Temporary) Loss of Income up to a Maximum of 2 years	750,882,759,947	2%	1,501,765,520
4.	WIBA	750,882,759,947	2.25%	1,689,486,210
	Total Annual Premium			**8,103,918,659**

Negotiation minutes indicates that the two parties agreed to a total annual premium of Kshs.2,295,594,440. However, there was no agreed schedule of the adjustments made to the above schedule and rates applicable for each category and the extent of the risk exposure covered. Therefore, the basis for the reduction of the premium could not be ascertained.

157.2 Delayed Settlement of Claims on Last Expenses

Review of the claims for last (funeral) expenses covered under the Comprehensive Group Life made in the year 2021 revealed that three hundred and seventy-four (374) claims of

principal members, spouses and children totalling Kshs.66,650,000 were submitted to NHIF for settlement but had not been settled as at 31 December, 2021. It was not explained why NHIF had not settled the claims contrary to Clause 5 of the contract which provides that NHIF shall upon written notification of death of a member or dependent while the cover is in force pay to the next of kin or such other person directed in writing the amount specified for funeral expenses within two (2) days subject to provision of a duly completed claim form and copy of burial permit.

157.3 Unsubmitted Quarterly Reports on Claims by NHIF

Review of the claim's records revealed that quarterly reports on claims and their status were not submitted contrary to Clause 3.1.5 of the contract which states that NHIF shall provide a comprehensive report to the National Police Service and the Kenya Prisons Service on claims under this scheme every three months. It was therefore not possible to evaluate the performance of NHIF based on the claims paid, pending claims and any outstanding claim against the premiums paid by the client.

157.4 Compensations Claims under Work Injury Benefits Act (WIBA) Not Paid

The insurance contract provides eight (8) years gross compensation for death/illness /Injury as a result of occupational causes under the Work Injury Benefit Act (WIBA) which shall be as a stand-alone policy and compensation based on gross salary. The contract provides that injury assessment shall be conducted in all NHIF Accredited hospitals and be approved by Directorate of Occupational Safety and Health (DOSH).

Review of compensation process followed by the Service to prepare claims revealed that the Service sent claim forms to NHIF and also sent Form 1 to DOSH. However, there were no clear guidelines on how NHIF was to process the claims once the NHIF received approval from DOSH. As a result, during the 2021 calendar year, the Kenya Police Service had thirty-eight (38) unpaid claims resulting from accidental death. No documentary evidence was provided on the status of the unpaid accidental death claims.

Further, although the Kenya Police Service provided details of injury claims under WIBA which the Service had sent claim forms to NHIF and notified DOSH, NHIF had not paid any injury claims from January 2021 and for the 2021 calendar year resulting in seven hundred and thirty-four (734) unpaid injury claims as of 31 December, 2021.

157.5 Failure to Provide Documents for Ex-gratia Claims under Provision of Comprehensive Medical Cover

The contract between the National Police Service and NHIF for provision of comprehensive medical cover for the Members of the National Police Service included a clause on ex-gratia benefits premium of Kshs.200,000,000. Further, the ex-gratia claims should be approved by the standing committee of the client before any payment is made on any ex-gratia claim. The contract requires NHIF to submit to the standing committee quarterly report on all ex-gratia claims including the value, beneficiary, background and status of the claims among others. In addition, NHIF was required to submit back any unspent amount of ex-gratia at the end of the contract period.

Examination of the contract documents and payment vouchers provided for audit revealed that the State Department did not maintain a record of approved ex-gratia claims and payments for the period under review. Further, the Management did not provide NHIF quarterly reports on all ex-gratia claims incurred during the year under review.

Under the circumstances, the State Department may not have received value for money on premium paid to NHIF for comprehensive medical cover.

158. Stalled Project at Buna Police Station, Wajir County

The State Department entered into a contract for construction of Buna Police Station at a contract sum of Kshs.121,240,000 and sub-contracts for mechanical works at Kshs.5,728,824, electrical works at Kshs.18,380,699 and high, low level water tanks at Kshs.8,783,015 all totalling Kshs.154,132,538 with an expected completion date of November 2012. However, review of project records revealed that in November 2021 (9 years after the expected completion date) the project was yet to be completed.

Consequently, the value for money for the abandoned project may not have been realized.

159. Abandoned Construction Works of Laisamis Police Station

The State Department entered into a contract for erection and completion of Laisamis Police Station at a contract sum of Kshs.105,365,412. The contract was expected to take seventy-eight (78) weeks which was extended to one hundred and sixty-seven (167) weeks and the revised completion date estimated to be 26 February, 2017. However, review of project records provided revealed that the contractor had abandoned the site without completion of the project and without any handing over. Further, the project had pending works including; paving, storm water drainage, landscaping, access road and parking, fencing and borehole.

In addition, on 05 February, 2018 the contractor forwarded a claim of Kshs.59,239,669 over and above the contract sum bringing the total cost of the project to Kshs.164,605,081 representing a 56% variation of the original contract sum. Although the matter is under arbitration, the process has not been concluded and the project remains incomplete.

Consequently, the State Department may not have realized value for money from the project while the stalled building continues to deteriorate.

160. Stalled Construction of Police Station at Balambala in Garissa County

The State Department entered into a contract for the construction of Balambala Police Station at an initial contract sum of Kshs.148,562,371 which was revised to Kshs.179,719,530. The project commencement date was 14 May, 2012 with a contract period of twenty-four (24) weeks. Examination of the project records revealed that although the project was expected to be completed within twenty-four (24) weeks, it was yet to be completed as at the time of the audit in December, 2021 (nine years later).

Consequently, the incomplete building continued to deteriorate and value for money may not be realized.

161. Stalled Construction of Nyanza South Headquarters - Migori County

Audit inspection of the State Department's projects in Suna East Sub County in Migori County in the month of November, 2021 revealed a stalled project for the construction of Nyanza South Headquarters. The project stalled in 1991 and since then the office block has remained incomplete and as time passes, its structural soundness may deteriorate. Examination of documents provided for audit indicated that the original contract sum for the project was Kshs.609,471,291 and a variation order of Kshs.92,064,030 resulting in a revised contract sum of Kshs.701,536,030. However, details of the payments made to date in respect of the stalled project and certificates issued by works officers supporting the payments were not provided for audit. It was therefore not possible to confirm the total amount paid for the project to date and no explanation was provided for the stalling of the project.

Consequently, the public may not have obtained value from the funds already spent on the project.

162. Irregular Procurement - Rehabilitation and Extension of Homabay County Commissioner's Residence

On 7 May, 2020, the State department of Interior entered into a contract for rehabilitation and extension of Homabay County Commissioner's residence at a contract sum of Kshs.11,500,000. Physical verification of the project carried out in November, 2021 revealed that the rehabilitation was completed and the project handed over. However, review of the project documents indicates that the 5% performance security bond was not secured as required by the contract conditions. Further, there was a contract variation amounting to Kshs.6,496,916 representing 56.4% of the contract sum raising the total project cost to Kshs.17,996,916. No Evaluation Committee's recommendation on the variation was provided for audit verification.

In addition, the variation was beyond the twenty five percent (25%) ceiling set under Paragraph 139(6) of the Public Procurement and Asset Disposal Act, 2015 and hence would have required a separate tendering.

163. Stalled Construction of Magunga District Headquarters – Homabay County

The State Department of Interior entered into a contract for the construction of Magunga District Headquarters offices to accommodate the District Commissioner and other government offices on 15 March, 2013 at a contract sum of Kshs.8,541,416. An interim payment certificate No.1 dated 24 April, 2013 amounting to Kshs.3,182,280 was raised and subsequently submitted by the contractor less retention money of Kshs.404,304. However, review of the project records and physical inspection carried out in November, 2021 indicated that no works had been executed or certified for payment since 2013, with the project having stalled.

Further, no evidence of budget provision for completion of the project has been done over the years despite a request made on 17 May, 2018 by Suba Sub County Works Officer to the Deputy County Commissioner in Suba South Sub County. The letter included a cost estimate for the works amounting to Kshs.12,864,444 required to complete the

construction. No explanation was provided for the stalling of the project for over eight (8) years.

Consequently, the State Department may not have realized value for money from the stalled project.

164. Un-Occupied School of Leadership in Kiganjo Police College

The State Department of Interior entered into a contract for the construction of an administration block for the School of Leadership at the National Police College Main Campus Kiganjo at a total cost of Kshs.96,589,523 but the building is yet to be occupied. Review of the project documents indicates that the contactor has not handed over the project due non-payment of an outstanding amount of Kshs.27,500,000. Further, there was no budgetary provision for the office curtains, office and auditorium furniture, office equipment, dining hall furniture and equipment and kitchen equipment which were estimated to cost Kshs.22,000,000.

Non-payment of amounts due to the contractor may attract unnecessary penalties and interest raising the cost of the project. Further, the objective of the project may not have been achieved with the continued non-occupation of the building.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

165. Delay in Issuance of Passports

The Directorate of Immigration Service delivery charter indicates that issuance of a passports will require one to fourteen (1-14) days. However, audit inquiries and review of sampled applications indicated that the process was taking longer with some cases taking as long as six months after the applications and payments are made. For instance, applications done in the month of March 2022 were being booked for biometric capture in August 2022 in Nairobi - more than five months after application and payments.

Further, there were notable delays in the final printing of the passports after the biometrics had been taken with some cases lasting for more than six months. This implies that the Department took up to one year to process a passport against the fourteen days provided in the service delivery charter. Although Management explained the reasons for delay to be due to overstretched printer capacity, the actual waiting time for a passport is contrary to the Department's service charter.

166. Obsolete Visa Stickers in Store

The Directorate of Immigration started issuing e-visa in January, 2021 after a successful pilot phase. However, examination of the Department's records provided for audit indicated that several visa stickers of different types were still held in stock despite the fact that they have been rendered redundant. The details are as shown in the table below:

Item Description	Balance in Store as at 30 June, 2021	Balance in Store as at January, 2022
Single Journey Visa	667,900	667,900
Courtesy Visa Stickers	8,000	8,000
Transit Visa Stickers	46,900	46,900
Multiple Visa Stickers	346,850	346,850

No documentary evidence was provided on how the Department intends to dispose-off the visa stickers.

167. Kenya Police Service Stores

167.1 Manual Stores Systems

Physical verification at the Kenya Police Service central stores within Nairobi indicated that items were purchased centrally from the Headquarters and delivered before being distributed to the other stations throughout the country. It was however observed that the stores system of maintaining records was manual with a lot of paper work from one section to the next. It was also observed that stock taking could be cumbersome as the items were kept in various stores and hence the basic inventory principle of 'First in First Out' may not be applicable. Considering that the stores are busy with many outlets and dealing in different items, no explanation was provided for failure to automate the stores system in order to enhance controls and increase efficiency.

167.2 Obsolete Items in the Stores

Audit Inspection of the Kenya Police Service stores indicated that the Service had obsolete stock in the stores but did not provide the annual asset disposal plan. The inspection revealed bulky and outdated police uniform clothing material at the stores. The rolls of clothing materials were taking up a lot of storage space yet they were no longer in use.

168. Safety Concerns in Nyayo House Building

Audit review on records relating to management of Nyayo House building revealed that it does not have designated toilets and washrooms for persons with disabilities. The washrooms have half walls adjacent to the doors, which makes it difficult for persons with disabilities using wheelchairs to access services. The building also lacks accessibility ramp to make it easily accessible to persons with physical disabilities who may not be able to use the stairs especially and whenever there is power failures and lifts are not functioning.

Further, firefighting appliances available in the building have not been serviced and tested for a long time. Some of the fire exits/escape stairways have been sealed off or permanently locked making them fully inaccessible in case of an emergency. In addition, tree roots outside the building along the drainage lines have not been pruned or uprooted yet they can easily cause damage to the service lines and cause blockages.

REVENUE STATEMENTS - STATE DEPARTMENT FOR INTERIOR AND CITIZEN SERVICES

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

169. Long Outstanding Arrears of Revenue

As disclosed in Note 7 to the revenue statements, the statement of arrears of revenue as at 30 June, 2021 reflects arrears of Kshs.673,804,197 which includes an amount of Kshs.453,872,900 that had been outstanding for over two years as detailed below:

Aging Analysis - Revenue Arrears as at 30 June, 2021				
Description	**Between 1-2 Years**	**Between 2-3 Years**	**Over 3 Years**	**Total**
SGB-Security of Government Buildings	0	85,775,500	161,052,000	**246,827,500**
KPS-Kenya Police Service (Nairobi Area)		517,600	0	**517,600**
Certificate of Good Conduct (DCI)		0	206,527,800	**206,527,800**
Total		**86,293,100**	**367,579,800**	**453,872,900**

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

170. Wrong Billing for Integrated Population Registration System (IPRS) Services

As disclosed in Note 2 to the revenue statements, the statement of receipts and disbursements for the year ended 30 June, 2021 reflects actual receipts of Kshs.10,377,771,441 in respect of sale of goods and services out of which an amount of Kshs.119, 370,517 is indicated as verification fees.

Government Agencies were billed for the Integrated Population Registration System (IPRS) services during the year under review contrary to the exemption granted vide The National Treasury letter Ref. No. ZZ/MOF. 81/015 of 26 June, 2015. Further, the total amount billed for IPRS services including those from Government Agencies was recorded as verification fees and the amount transferred to the IPRS Float Bank Account which, holds advance payment by private entities awaiting authentication before transfer to Revenue Bank Account and onward transmission to the Central Bank. The IPRS billing system was not able to separate the amount billed for Government Agencies and those charged to private agencies. As a result, unearned revenue of undisclosed amount was mistakenly transferred from the float account to the revenue account and reported as verification fees in the statement of revenue.

Consequently, the accuracy of amount of Kshs.119, 370,517 reported as verification fees in the statements of revenue for year ended 30 June, 2021could not be confirmed.

171. Manual Collection of Revenue by Civil Registration Service Department

Examination of records on revenue collection from births and deaths by the Civil Registration Service revealed that the Service continued to use manual system in the collection and accounting for revenue. Further, data for various categories of certificates issued during the financial year 2020/2021 was not provided for audit review.

As a result, it was not possible to confirm the accuracy and completeness of the reported revenue of Kshs.118, 574,105 from registration of births and deaths for the year ended 30 June, 2021.

Other Matter

172. Budgetary Control and Performance

As disclosed in Notes 1,2 and 3 to the revenue statements, the State Department for Interior and Citizen Services had budgeted for receipts totalling Kshs.14,239,411,374 in the financial year 2020/2021. However, an amount of Kshs.10,547,501,530 was collected resulting in an under-collection of Kshs.3,691,909,844 or 26% of the budgeted amounts.

Under collection of revenue adversely affected Exchequer releases, budget execution and the overall performance of the government programmes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NATIONAL COHESION AND INTEGRATION COMMISSION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR CORRECTIONAL SERVICES - VOTE 1023

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

178. Inaccuracies in the Statement of Cash Flows

The statement of assets and liabilities reflects balances of Kshs.45,286,693 and Kshs.4,123,762,684 in respect of accounts receivables and accounts payables, respectively as at 30 June, 2021. A comparative analysis of balances reflected in the statement of assets and liabilities revealed that there were apparent increases of Kshs.30,586,018 and Kshs.3,999,809,517, respectively from the previous year's balances of Kshs.14,702,675 and Kshs.123,953,167. However, the statement of cash flows reflects an increase and a decrease of Kshs.31,176,069 and Kshs.3,296,042,415 for receivables and payables, respectively. The differences of Kshs.590,051 and Kshs.703,767,102 for receivables and payables, respectively between the two statements expected to tally have not been explained or reconciled.

In the circumstances, the accuracy of the increase and decrease of Kshs.31,176,069 and Kshs.3,296,042,415 for accounts receivables and accounts payables respectively reflected in the statement of cash flows for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

179. Collapsed Perimeter Wall at Shimo La Tewa Prison – Mombasa

The State Department for Correctional Services entered into a contract with a local contractor for the construction of a perimeter wall at Shimo La Tewa Prisons - Mombasa at a contract sum of Kshs.24,850,993 on 4 April, 2017 by use of restricted tender as approved by the Accounting Officer on 23 January, 2017. A letter of notification of award was issued to the contractor who accepted the offer on 3 April, 2017 with the contract signed on 4 April, 2017 contrary to Section 135(3) of the Public Procurement and Asset Disposal Act, 2015 which requires the contract to be signed within the period specified in the notification of award but not before fourteen days following the notification.

Further, although the scheduled contract period was for a duration of sixteen (16) weeks from 4 May, 2017, the actual construction works commenced on 21 April, 2017, and the works stalled on 23 December, 2017. It was later reported that on 24 July, 2018 at 1350 hours, 95 meters of the wall collapsed in the area between watch tower 2 and 3 as a result of which an officer manning the watch tower 2 at the time sustained injuries.

Although the construction works resumed later, the contractor abandoned the site when the works were at 60% complete, hence the project stalled. Records further indicated that the Prisons Department on several occasions raised concerns about the workmanship of

the contractor but no action was taken by the State Department for Correctional Services or the project manager. As a result of poor workmanship and delays, another 130 meters of the second perimeter wall on the southern side collapsed on 25 July, 2021 at 11.45 hours as a result of which the security of the inmates and staff at the facility was compromised. A site visit in October, 2021 confirmed that the collapsed wall was not reconstructed and the contractor was not on site. Detailed payments made to date were not provided for audit verification and Management has not provided adequate explanations for the anomalies noted.

Consequently, value for money from the expenditure in respect of the stalled project could not be ascertained.

180. Encroachment on Kitale Prison Land

Annex 2 to the financial statements on summary of fixed assets register reflects assets with historical total cost of Kshs.2,469,958,224. However, the balance excludes undetermined parcels of land spread all over the country whose details of value and ownership could not be determined. Records maintained by the State Department revealed that Legal Notice No.359 of 1943 and Legal Notice No.721 of 1961 established Kitale Main Prison and Kitale Medium Prison in a parcel of land measuring approximately 3000 acres and 159.01 acres respectively.

However, a field inspection carried out in October, 2021 at both Kitale Main and Medium Prison established that out of a total of 3159.01 prison land, approximately 2,321.09 acres of the Kitale Main Prison farm land had been alienated and allocated to private individuals, among them senior government officials. Upon request by the State Department, the National Land Commission (NLC) through a letter dated 13 September, 2018, confirmed that Gazette Notice No.359, declared the plot in contention as prison land with effect from 1 April, 1943. The illegal alienation of prison's land has been a subject of litigation. However, the State Department for Correctional Services did not provide a detailed schedule of the land in dispute.

In the circumstances, the completeness, ownership and security of the State Department's assets of Kshs.2,469,958,224 as at 30 June, 2021 could not be confirmed.

181. Leased and Grounded Ambulances

A field inspection conducted in October, 2021 revealed that, several leased ambulance vehicles deployed to various stations were grounded due to various mechanical problems. It was noted that the dealer takes unnecessarily long to respond to requests for repairing/replacing the vehicle spare parts after being notified by the Prison's Management resulting in inconveniences to the stations in case of an emergency.

The Principal Secretary State Department for Correctional Services wrote a letter to the Chief Executive Officer, URYSIA Kenya Ltd raising concerns on non-maintenance of Kenya Prisons ambulances. The Management of URYSIA Kenya Ltd did not address the issues. Further, the State Department did not pursue the matter thereafter resulting to lack of critical ambulance services in most Prisons despite the existence of a valid lease agreement between The National Treasury and URYSIA Peugeot Company.

In the circumstances, the inefficiencies may affect service delivery due to the loss in the use of the contracted services.

182. Excessive Stocks of Uniform Material (Cloth) in Store

The Prisons Department procured green barathea ceremonial fabric in the year 2016 at a cost of Kshs.19,125,000. Audit verification conducted on 10 September, 2021 revealed that, fabric worth Kshs.15,674,212 representing 82 % of the total value of the material procured were still in stock and only fabric worth Kshs.3,450,787 had been issued for the intended purpose.

The continued storage of the excessive fabric may lead to losses from obsolescence and exposure to vagaries of weather.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR DEVOLUTION - VOTE 1032

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

184. Compensation of Employees

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.291,548,253 out of which an amount of Kshs.178,484,023 and Kshs.113,064,231 paid as basic salaries and part of personal allowances, respectively. However, examination of payments made through the Integrated Personnel Payroll Database (IPPD) system indicates that an amount of Kshs.163,104,904 and Kshs.128,019,802 were paid as basic salaries and other personal allowances resulting to a difference of Kshs.15,379,119 and Kshs.14,955,571 respectively.

Consequently, the accuracy of compensation of employees' balance of Kshs.291,548,253 reflected in the statement of receipts and payments for the year ended 30 June, 2021 could not be confirmed.

185. Use of Goods and Services

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.877,989,107. Examination of records revealed the following:

185.1 Refund of Ineligible Expenditure

The balance includes an amount of Kshs.760,645,302 in respect of other operating expenses, which further includes an amount of Kshs.388,689,253 as refund to the World Bank, being project funds found to have been ineligible after World Bank review. The amount was meant for financing Western Kenya Community Driven Development and Flood Mitigation Project under Credit No.4287-KE.

An in-depth review by World Bank report submitted in March, 2017 to the Government revealed potentially ineligible expenditure amounting to Kshs.388,689,257 affecting sixty-one (61) contracts evidencing probable fraud through submission of forged documents, such as bid securities, performance bonds, National Construction Agency registration documents, tax compliance as well as falsified prior working experience. A further nineteen (19) contracts had significant red flags of fraud and corruption, while fifty-four (54) contracts exhibited red flags of fraud but with significant gaps in the available evidence.

Management has not explained how the ineligibility occurred and what action it has taken to ensure the culprits face consequences or how it intends to recover the amounts.

185.2 Unsupported Expenditure

Further, the balance of Kshs.877,989,107 constitutes an amount of Kshs.12,021,546 under domestic travel and subsistence out of which a balance of Kshs.1,301,000 could not be confirmed as payment vouchers and other supporting documentation were not provided for audit review.

In the circumstances, the propriety of the expenditure of Kshs.389,990,253 included in use of goods and services balance of Kshs.877,989,107 for the year ended 30 June, 2021 could not be confirmed.

186. Unsupported Transfers to Other Government Entities

The statement of receipts and payments reflects a balance of Kshs.7,434,223,946 in respect of transfers to other Government entities which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.4,600,000,000 being Kenya Devolution Support Programme transfers to thirty-eight (38) counties as level 2 investment grants following achievement of disbursement linked indicators, meeting the minimum access conditions and also minimum performance conditions. However, only five (5) counties confirmed having received the funds totalling to Kshs.689,429,163, leaving a total of Kshs.3,910,570,837 from thirty-three (33) counties not confirmed. Further, the balance includes an amount of Kshs.2,115,000,000 which was transferred directly to the counties by The National Treasury for the Kenya Devolution Support Program and which was not supported with returns from the recipients to confirm receipt of the funds.

Consequently, the propriety and accuracy of the transfers to other Government entities expenditure of Kshs.6,025,570,837 included under transfers to other Government entities balance of Kshs.7,434,223,946 for the year ended 30 June, 2021 could not be confirmed.

187. Unsupported Acquisition of Assets

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.10,335,141 in respect of acquisition of assets out of which an expenditure of Kshs.7,649,441 was not supported with verifiable audit evidence.

Consequently, the accuracy and completeness of the expenditures amounting to Kshs.7,649,441 included under acquisition of assets balance of Kshs.10,335,141 for the year ended 30 June, 2021 could not be confirmed.

188. Inaccuracies in Cash and Cash Equivalents

As disclosed in Note 8A to the financial statements, the statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.204,845,006. The balance includes bank balance of Kshs.202,959,524 which further includes project account balance of Kshs.7,424,401. However, review of records indicated that the opening balance for Instruments for Devolution Advice and Support (IDEAS) Project Account is reflected as Kshs.13,595,445 while the cash book reflected an amount of Kshs.13,124,323 resulting to an unexplained difference of Kshs.471,122. Further, the bank reconciliation

statement for deposit account with a balance of Kshs.13,561,548 was not provided for audit review.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.204,845,006 as at 30 June, 2021 could not be confirmed.

189. Unaccounted for District Suspense Account

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.59,820,046 which, as disclosed in Note 9 to the financial statements, constitutes salary advances and district suspense account balance of Kshs.165,226 and Kshs.59,654,820, respectively. However, the latter relates to Authority to Incur Expenditures (AIEs) issued to various County Commissioners for the transportation of relief food to the beneficiaries to the Sub-county level. The amounts could not be confirmed as no documents in form of returns were provided for audit review, to explain the requisition process, evidence of receipt by the respective recipients and the usage.

Under the circumstances, the accuracy and existence of the reported accounts receivables balance of Kshs.59,820,046 as at 30 June, 2021 could not be ascertained.

190. Unsupported Accounts Balances

The statement of assets and liabilities reflects account payables balance of Kshs.20,985,949 which, as reflected in Note 10 to the financial statements, is made up of deposits and IDEAS balances of Kshs.13,561,548 and Kshs.7,424,401, respectively. However, there were no details and breakdown provided to support the balance of Kshs.13,561,548.

Consequently, the accuracy and validity of the accounts payables balance of Kshs.13,561,548 as at 30 June, 2021 could not be confirmed.

191. Inaccuracies in Pending Bills

Note 16.1 and Note 16.2 – other important disclosures in the financial statements reflects pending bills totalling to Kshs.385,782,680 which comprise of Kshs.47,513,967 and Kshs.338,268,713 in respect of pending accounts payables and other pending payables, respectively. However, the opening balance for other pending payables of Kshs.338,268,713 differs with the balance of Kshs.3,268,178,016 reflected in the audited financial statements for the previous year by Kshs.2,929,909,303 which had not been reconciled. Further, Management did not provide documents to support the amount stated in the financial statements by a schedule showing how the prior year's pending bills were paid and their current status or provide an explanation for the non-payment of the pending bills.

Consequently, the accuracy and validity of pending bills totalling to Kshs.385,782,680 could not be ascertained.

Other Matter

192. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref:AG.4/16/2 Vol.3(72) dated 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

193. Irregular Payment of Demurrage Charges

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects use of goods and services balance of Kshs.877,989,107 which includes an amount of Kshs.760,645,302 in respect of other operating expenses. The balance includes an amount of Kshs.75,560,800 which was paid through the Government Clearing Agency for onward payment to a company as demurrage charges arising from long delay in returning empty containers that had been used to deliver relief food supplies from the Government of the People's Republic of China and which could have been avoided had proper planning measures been put in place.

Consequently, the value for money for the expenditure of Kshs.75,560,800 paid for demurrage charges could not be confirmed.

194. Non-Compliance with the Public Procurement and Asset Disposal Act, 2015

The statement of receipts and payments reflects use of goods and services balance of Kshs.877,989,107 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.3,049,735 in respect of routine maintenance - vehicles and other transport equipment which further includes an amount of Kshs.600,000 issued to an officer as standing imprest. Examination of supporting documents revealed use of imprest to make purchases that did not meet the thresholds for low-value procurements through carrying out procurement work that should ordinarily could have been done by procurement professionals and for activities which had not been included in the approved procurement plan.This was contrary to Section 107(a) of the Public Procurement and Asset Disposal Act, 2015 which provides that items procured on low value method are those items that are not procured on a regular or frequent basis and are not covered in framework agreement.

Consequently, Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

195. Lack of Fixed Assets Register

Annex 3 - Summary of fixed assets register in the financial statements reflects assets with a cumulative historical cost of Kshs.64,116,320 as at 30 June, 2021, However, the Department did not maintain a fixed assets register as required under Regulation 143 of the Public Finance Management (National Government) Regulations, 2015 and The National Treasury Guidelines as per Circular No. 5/2020 dated 25 February, 2020, which required all public entities to maintain a comprehensive register to protect public assets.

Consequently, the existence of an effective assets management system capable of safeguarding and ensuring proper custody of the assets could not be established.

196. Lack of Audit Committee and Public Finance Management Standing Committee

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

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

DONOR FUNDED PROJECT

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

198. Budgetary Control and Performance

During the year under review the Instruments for Devolution Advice and Support Project had an expenditure budget of Kshs.396,485,699 against an actual expenditure of Kshs.244,554,990 resulting in net under expenditure of Kshs.151,930,709 (or 38%) as summarized below:

Details	Budget (Kshs.)	Actual (Kshs.)	(Excess)/Shortfall (Kshs.)	(Excess)/Shortfall %
Purchase of Goods and Services	15,759,760	3,111,044	12,648,716	80%
Transfer to Other Government Entities	370,725,939	238,383,946	132,341,993	36%
Compensation of Employees	10,000,000	3,060,000	6,940,000	69%
Total	**396,485,699**	**244,554,990**	**151,930,709**	**38%**

From the analysis above, it is evident that the Programme under spent on their budget by Kshs.151,930,709 (38%) this may have a negative impact on implementation of planned activities and service delivery to stakeholders. There is need for proper planning to avoid instances of idle funds.

199. Unresolved Prior Year Issues

The Project's audited financial statements for the year ended 30 June, 2020 reflected several unsatisfactory matters that were highlighted there in. However, contrary to the reporting requirement set by the Public Sector Accounting Standards Board, the Management has not disclosed the progress made in resolving the prior year matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

201. Internal Audit Committee

According to Regulation 174(1) of Public Finance Management Regulations, 2015 each national government entity is supposed to establish an Audit Committee to perform various roles which includes among others the understanding and assessing the overall risks the entity is facing and reviewing the adequacy of internal controls that management has put in place regarding financial control, accounting systems and reporting. However, during the period under review, the project did not have an Audit Committee as required by law.

In the absence of an Audit Committee, effective oversight, risk assessment and governance could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

203. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects Kshs.278,653,337 and Kshs.189,029,067 in respect to amounts received and cumulative amounts paid to date respectively. The funding summary on page 'v' to the financial statements reflects Kshs.278,636,457 and Kshs.184,165,097 resulting in unreconciled variances of Kshs.16,880 and Kshs.4,863,970 respectively.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

Other Matter

204. Budgetary Control and Performance

During the year under review, the Kenya Symbiocity Programme had an expenditure budget of Kshs.157,120,299 against an actual expenditure of Kshs.64,089,152 resulting in under expenditure of Kshs.93,031,147. It is evident that Kshs.93,031,147 (or 59%) of the budget was not spent on the Programme resulting in negative impact of planned activities and service delivery to stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

205. Irregular Procurement of Consultancy Services

Note 3 to the financial statements reflects Kshs.57,346,802 in respect to purchase of goods and services which includes change project consultancy expense amounting to Kshs.55,479,798 that also includes payment of Kshs.320,000 to consultancy services company for environmental and social impact assessment (ESIA) in Mbita Town, Homabay County paid before the implementation of Kenya Symbiocity Programme.

However, the the procurement of Consultancy Services for ESIA was undertaken through request for quotation contrary to Section 116(1)(b) of the Public Procurement and Assets Disposal Act, 2015 on procurement of professional services which is predominately intellectual or advisory in nature. Further, there were no technical proposals submitted by

bidders and the entity did not undertake technical evaluation of bids, an indication that there was no basis for award of these works to the consultancy services company.

In the circumstances, it is not possible to confirm that the value for money was obtained in an expenditure totalling Kshs.320,000 for the year ended 30 June, 2021.

206. Procurement of Working Tools and Stationeries in Kisumu County

Note 3 to the financial statements reflects Kshs.57,346,802 in respect to purchase of goods and services which includes an amount of Kshs.55,479,798 relating to change project – consultancy that further includes payment of Kshs.187,240 through payment voucher No. 072 dated 2 February, 2021 in respect of a limited company for supply and delivery of assorted working tools and stationeries in Kisumu County. Although three (3) bidders responded to request for quotation, the tax compliance certificate for a bidder was invalid as it had expired, and therefore, an award was based on two (2) bids.

In the circumstances, it is not possible to confirm that the value for money was obtained in payment of Kshs.187,240 incurred on purchase of assorted working tools for the year ended 30 June, 2021.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

208. As required by the financing agreement between the Swedish International Development Cooperation Agency and the Government of Kenya dated 9 April, 2015, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Programme's financial statements are in agreement with the accounting records and returns.

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

209. Unsupported Grants and Transfers to Other Government Entities

The statement of receipts and payments reflects an amount of Kshs.5,067,335,408 relating to transfers to other government entities out of which only a total amount of Kshs.4,975,568,408 which constitute of Kshs.4,067,568,408 to the National Drought Management Authority and Kshs.908,000,000 to Kenya Development Response to Displacement Impact Programme (KDRDIP) could be confirmed. The balance of Kshs.91,767,000 transferred and received by the National Drought Management Authority was not supported.

Consequently, the propriety, accuracy, completeness and occurrence of Kshs.91,767,000 transferred to the National Drought Management Authority in the year ended 30 June, 2021 could not be ascertained.

210. Accounts Payables – Deposits

The statement of assets and liabilities reflects a balance of Kshs.10,654,930 relating to accounts payables- deposits where the same has been disclosed in Note 8 to the financial statements as being retention monies for contracts undertaken and complete. Although the breakdown of Kshs.10,654,930 has been provided in Appendix 5 to the financial statements, details of the constructions undertaken and their contracts that form the basis of the settlement were not provided for audit verification. In addition, it is not clear why the retention amounts have remained unpaid despite the long period that have lapsed since they were held some dating back to March, 2014.

Consequently, the accuracy and validity of the accounts payables- retentions balance of Kshs.10,654,930 as at 30 June, 2021 could not be confirmed.

Other Matter

211. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.8,736,173,586 and Kshs.7,797,801,775 respectively resulting to an under-funding of Kshs.938,371,811 or 11% of the budget. Similarly, the Department expended Kshs.7,797,351,637 against an approved budget of Kshs.8,736,173,586 resulting to an under-expenditure of Kshs.938,821,949 or 11% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

212. Pending Bills

The pending bills amount of Kshs.34,253,871 as at 30 June, 2021 comprise of Kshs.29,258,465 outstanding in the current financial year 2020/2021 and Kshs.4,995,406 outstanding from prior years which were not settled in the year under review. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge to that year's budget provision signaling poor budgetary performance.

213. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning circular.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECT

KENYA DEVELOPMENT RESPONSE TO DISPLACEMENT IMPACTS PROJECT (IDA CREDIT NO.6021-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

216. Cash and Cash Equivalents

216.1 Sub-Counties' Projects Bank Accounts

The statement of financial assets as at 30 June, 2021 reflects Kshs.145,125,454 in respect of cash and cash equivalents which excluded Kshs.1,357,901,780 held in various project implementing groups' bank accounts across the five implementing Sub -Counties which were not utilized as at 30 June, 2021 as per their returns and as disclosed below:

Component One Disbursements			
	Disbursement (Kshs.)	**Amount Utilized (Kshs.)**	**Balance as at 30 June, 2021 (Kshs.)**
Daadab	262,846,931	81,020,077	181,826,854
Fafi	219,986,292	56,229,803	163,756,489
Lagdera	166,527,163	35,170,726	131,356,437
Component Two Disbursements			
	Disbursement (Kshs.)	**Amount Utilized (Kshs.)**	**Balance as at 30 June, 2021 (Kshs.)**
Daadab	148,362,100	7,195,402	141,166,698
Fafi	139,500,000	74,868,000	64,632,000
Lagdera	100,530,198	2,219,275	98,310,923
Component Three Disbursements			
	Disbursement (Kshs.)	**Amount Utilized (Kshs.)**	**Balance as at 30 June, 2021 (Kshs.)**
Daadab	157,500,000	77,934,651.	79,565,349
Lagdera	99,000,000	47,460,500	51,539,500
Wajir South	364,549,563	0	364,549,563
Turkana West	81,197,966	0	81,197,966
Total	**1,740,000,213**	**382,098,433**	**1,357,901,780**

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.145,125,454 as at 30 June, 2021 could not be confirmed.

216.2 Unpresented Cheques

The statement of financial assets reflects cash and cash equivalents balance of Kshs.145,125,454 and an annexure of unpresented cheques totalling Kshs.887,120,153 for the four bank accounts in three regional stations as analyzed below as at 30 June, 2021;

Account Name	Account Number	Cheque Numbers	Amount (Kshs.)
Turkana Grant	1273370635	various	6,000,000
Garissa Credit	1238357954	various	801,465,940
Turkana Credit	1238459889	various	75,925,456
CBK account Credit	1000462264	various	3,728,757
Total			**887,120,153**

However, the unpresented cheques for Turkana grant and Garissa credit totalling to Kshs.807,465,940 were raised in the name of the regions whereby the details of the specific payees or groups were not provided for audit review. Further, the dates when the specific cheques were raised during the year under review were also not provided for audit review. It was therefore not possible to establish the identity of stale cheques.

In the circumstances, the propriety and validity of the payment totalling Kshs.807,465,940 for unpresented cheques and accuracy of cash and cash equivalents totalling Kshs.145,125,454 as at 30 June, 2021 could not be confirmed.

217. Inaccuracies in the Financial Statements

217.1 Statement of Receipts and Payments

The statement of receipts and payments reflects total cumulative receipts to-date of Kshs.4,687,251,535 while the project information and overall performance - source of funds at Note 1.7 to the financial statements shows amount received to-date of Kshs.4,019,788,004 giving an unexplained variance of Kshs.667,463,531.

217.2 Special Account Statement

The special deposit account movement schedule at Note 7(A) to the financial statements reflects A/c No.1000567278 (for Grant No. TF0A7762) and A/c No.1000462264 (for Credit No.6021-KE). The two disclosed account numbers differ with respective special accounts statements Nos.1000411384 and 1000353988 at Appendix 7 to the financial statements. However, no explanation was provided to explain the source of the difference. Further, the special account statement annexed to the financial statements reflects donor amounts withdrawn totalling Kshs.3,311,256,594 (USD.30,363,813), while the statement of receipts and payments reflects loan from external development partners

of Kshs.3,308,061,239. The difference of Kshs.3,195,355 was not explained or supported.

In the circumstances, the accuracy, validity and completeness of the financial statements could not be confirmed for the year ended 30 June, 2021.

Other Matter

218. Budgetary Control and Performance

The statement of comparison of budget and actuals amount as at 30 June, 2021 reflects total payments final budget of Kshs.3,521,930,282 against actual expenditure amount of Kshs.3,289,030,366, giving a budget utilization of 93%. Further audit review of the expenditures incurred indicated that there were budget under-absorption on specific items as detailed below:

Budget Absorption

Audit Components	Current Year Final Budget (Kshs.)	Actual Expenditure (Kshs.)	Variance (Kshs.)	% Absorption of Actual Funds
Basic Wages	481,886,056	332,277,303	149,608,753	69%
Hospitality, Supplies and Services	35,000,000	19,464,219	15,535,781	56%
Fuel, Oil and Lubricants	25,000,000	15,407,740	9,592,260	62%
Other Operating Expenses	290,500,000	156,828,713	133,671,287	54%
Routine Maintenance. Other Assets	329,000,000	259,701,258	69,298,742	79%
Purchase of Vehicles	30,000,000	24,365,001	5,634,999	81%
Total	**1,191,386,056**	**808,044,234**	**383,341,822**	**68%**

The overall absorption of 68% on the above listed items means that, the citizens did not get the value for money due to the delayed implementation of projects.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

219. Withholding Tax and Retention Fees

Examination of payment vouchers reveals that withholding tax and retention fees were not deducted from some contractors that were paid a total of Kshs.82,941,270. However, no explanation was provided for failure to deduct Kshs.4,976,476 and Kshs.8,294,127 in respect of withholding tax and retention fees respectively.

Consequently, the Management was in breach of the law.

220. Works Procurement Project Files

A review of project files having details of the projects works done showed that the projects' files for works amounting to Kshs.48,545,210 did not have contractor's mandatory requirements at the time of award which includes tax compliance certificates, National Construction Authority (NCA) registration certificates, tender evaluation minutes as required by the Public Procurement and Asset Disposal Act, (2015) Section 68(2 (d) (iii) which states that the records of a procurement process shall include the proceedings of the opening of tenders, evaluation and comparison of the tender proposals or quotations including the evaluation criteria used as prescribed.

Consequently, the Management was in breach of the law.

221. Management of Information System

The project management, on behalf of KDRDIP, entered into a contract which agreement on 25 March, 2019 with a consultancy services company to design, develop, install, operationalize and capacity build KDRDIP staff on Management Information System (MIS) at a contract price of Kshs.29,156,005 with a contract expiry date of 30 September, 2021.

The contract's terms of reference contained in Appendix A of the contract which provides in Section 13, under terms of payments, that 50% of the contract amount, being 80% cumulatively, shall be paid against acceptance by the client of all deliverables including among others, a working system and training of users. As at the time of audit in October, 2021, and considering that the 80% of the contract amount of Kshs.29,156,005 had been paid by 30 June, 2020, the system could not provide expected reports and information, especially financial information which continued to be relayed/ provided in manual form.

Under the circumstances, it was not possible to confirm that the value for money was obtained from an expenditure totalling Kshs.29,156,005 paid during the year ended 30 June, 2021.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

222. Internal Audit and Audit Committee

The State Department hosting the project does not have an established audit committee and an approved internal audit charter and although the internal audit work plan for the financial year 2020/2021 had been prepared it was not implemented. This is in contravention of the Public Finance Management (National Government) Regulations, 2015, of Regulation 160(1) which provides that an internal auditor shall review and evaluate budgetary performance, financial management, transparency and accountability mechanisms and processes in national government entities towards providing independent assurance that the Project's risk management, governance and internal control processes are operating effectively.

In the circumstances, the effectiveness of the internal controls, risk management and overall governance for the project could not be confirmed for the year ended 30 June, 2021.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MINISTRY OF DEFENCE - VOTE 1041

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

225. Contingent Liabilities

As disclosed in Note 15.2 to the financial statements, the Ministry of Defence had contingent liabilities totalling Kshs.2,536,677,187 as at 30 June, 2021, an increase of Kshs.1,115,539,542 or 79% from the previous year's balance of Kshs.1,421,137,645. The contingent liabilities relate to fifty-nine (59) court cases still pending in various courts. The balance of Kshs.2,536,677,187 is still outstanding, subject to an outcome of court determination of the fifty-nine (59) civil cases.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

226. There were no material issues relating to lawfulness and effectivensss in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATEMENTS OF REVENUE - MINISTRY OF DEFENCE

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MINISTRY OF FOREIGN AFFAIRS - VOTE 1052

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

231. Cash and Cash Equivalents

As disclosed in Notes 10A and 10B to the financial statements, the statement of assets and liabilities as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.1,345,509,377. However, the cash book balances for the Headquarters recurrent vote and some Missions varies with the ledger balances supporting the financial statements as indicated below:

	Cash Book Balance (Kshs.)	Ledger Balance (Kshs.)	Variance (Kshs.)
Los Angeles	143,328	108,898	34,430
Washington	44,908	3,353,710	(3,308,802)
Headquarter's Recurrent Vote	51,168	26,900	24,268

As a result of the above unexplained and unreconciled variances, the accuracy of the cash and cash equivalents balance of Kshs.1,345,509,377 as at 30 June, 2021 could not be confirmed.

Other Matter

232. Pending Bills

Note 17 to the financial statements reflects pending accounts payable of Kshs.264,979,240 as at 30 June, 2021. The bills were not paid during the year under review but were instead carried forward to the financial year 2021/2022. Failure to settle bills during the year to which they relate distorts the budget implementation of the subsequent year as the outstanding bills form a first charge on resources available.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

233. Overdrawing of Deposits Cash Book and Irregular Charge of Expenditure

During the financial year 2018/2019, the Ministry received contributions amounting to Kshs.746,577,947 from various stakeholders in support of Sustainable Blue Economy Conference (SBEC). The amount was received and paid into the Ministry's deposits bank account. In that year, an amount of Kshs.487,681,149 was spent on SBEC activities leaving a balance of Kshs.258,896,798. In the financial year 2019/2020, an amount of

Kshs.319,661,265 was also spent toward the SBEC activities thereby overdrawing the deposits cash book by Kshs.60,764,467.

The deposits cash book remained overdrawn by Kshs.60,764,467 until the financial year 2020/2021 when the Ministry refunded the full amount to the deposits account by irregularly charging the expenditure in respect of SBEC activities to recurrent vote under compensation of employees Kshs.48,850,000 and use of goods and services Kshs.11,896,467. However, there were no budgetary provisions for SBEC activities in the financial year 2020/2021. The expenditure was, therefore, incurred in contravention of Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015, which requires the Accounting Officer to ensure that public funds entrusted to his care are properly safeguarded and are applied only for the purposes for which they were intended and appropriated by the National Assembly.

The Management was, therefore, in breach of the law.

234. Government Properties

Audit inspection of some of the Kenyan Missions abroad in November, 2021 revealed several unsatisfactory matters in relation to use, maintenance, security and management of government properties as indicated below.

234.1 Failure to Insure Government Properties in New York

The Government of Kenya owns five properties in New York. One of the properties is housing the chancery and the consulate while the other four are residential properties. However, the properties did not have any insurance cover to mitigate against losses in case of disaster. The foregoing omission is contrary to Section 79(2)(c) of the Public Finance Management Act, 2012 which requires a public officer, within his area of responsibility, to ensure that adequate arrangements are made for the proper use, custody, safeguarding and maintenance of public property including application of best efforts to prevent any damage from being done to the financial interests of the national government.

234.2 Kenya House - New York

The property in New York sits on approximately two (2) acres of land and has a residential building known as Kenya House – New York. The property is the designated official residence of the Kenyan Ambassador to the United Nations in New York. The house has been vacant for over ten (10) years despite being the designated official residence while the Ambassador lives on a leased property for which the Government is paying an annual rent of Kshs.23,310,000. In addition, the Mission incurs annual maintenance expenses of Kshs.120,000 and an estimated annual utility cost of Kshs.868,289 on the unoccupied property.

As a result, the Government has been incurring avoidable expenses or losses totalling approximately Kshs.24,298,289 per annum due to failure to ensure that the official residence is occupied by the Ambassador.

234.3 Washington DC

The Kenya Government owns five properties in Washington DC as indicated below:

	Occupant	Nature
1	Embassy Office - Chancery	Non-Residential
2	Ambassador's Residence	Residential
3	Vacant	Residential
4	Finance Attaché	Residential
5	Vacant	Residential

The Kenya Mission in Washington DC has eleven (11) home-based staff. The Ambassador and the Finance Attaché are officially housed while the Deputy Chief of Mission is living in his own house. The other eight (8) members of staff are housed in leased premises where the Mission pays a monthly rent ranging between US $3,100 (Kshs.310,000) and US $3,750 (Kshs.375,000) per month for each house.

The two vacant residential houses are six bedroomed house which has remained unoccupied for three (3) months and a three bedroomed house which has been un-occupied for more than one year. In addition, the Mission incurs approximated expenditure of US $ 88,926.89 (Kshs.8,892,689) per annum on utility and cleaning of the compounds.

Had the vacant properties been fully utilized, the Government would have saved a total of Kshs.13,842,689 comprising of rent of Kshs.3,720,000 per annum being paid for one of the local staff who should have occupied the three bed roomed house and rent for three months of Kshs.1,230,000 paid for the Deputy Ambassador had he occupied the six bedroomed house and expenditure of Kshs.8,892,689 on utility and cleaning of the compounds.

234.4 Purchase of Chancery – Geneva

The Kenyan Mission in Geneva entered into an agreement with Pi Morillon SA in the year 2020 for purchase of land at Swiss CHF 4, 641,765 (Kshs.547,728,270) and building at Swiss CHF 11,208,235 (Kshs.1,322,571,730). The valuation report done by the Ministry of Lands and Physical Planning dated 5 April, 2019 had the following wrong details regarding the property:

Description	Valuation Report	Actual Position
Title Number	Plot No. 5785, Mission 5	Plot No. 5816, Mission 6
Size of Land	1500 Square Metres	2,150 Square Metres
Services Quoted	(i).Gas Pipeline (ii).Twenty-four hour security	None existence of the services on the ground
Land	Plot on a level ground	Plot is on a hilly ground

Description	Valuation Report	Actual Position
Plot Boundaries	Marked with masonry wall fence	No masonry wall fence
Proposed Construction	Five double storey house	One single storey house
Market value	Sales comparable to valuation	No document for the market value

In addition, the address of the Chancery was not indicated in the valuation report. In view of the errors noted in the valuation report in relation to the actual position observed, the accuracy and reliability of the report could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR VOCATIONAL AND TECHNICAL TRAINING - VOTE 1064

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

236. Unreconciled Bank Balances

The statement of assets and liabilities as detailed in Note 10A as at 30 June, 2021 reflects bank balances of Kshs.167,630,436. As previously reported, the comparative bank balance of Kshs.187,133,948 had various project bank balances which differed with the balances reflected in the respective financial statements as follows:

Project	Bank Balance as per the Financial Statements of the State Department (Kshs.)	Bank Balance as per the Financial Statements of the Project (Kshs.)	Variance (Kshs.)
ADB	3,354,258	Nil	3,354,258
KIDDP	26,342,444	26,159,554	182,890
EASTRIP	72,009,480	71,945,910	63,570
Total			**3,600,718**

The closing balance therefore included unexplained and unreconciled opening balance variance of Kshs.3,600,718.

Further, the bank reconciliation statement for Account Number 1000302577 had payments in cash book not in bank statement of Kshs.375,555,436. Included in the balance are payments to staff amounting Kshs.90,146,668 paid between 26 and 30 June, 2021 all of which have not been included in the outstanding imprest though there was no evidence the activities were undertaken before the year end.

In the circumstance, the accuracy and completeness of the bank balance of Kshs.167,630,436 could not be confirmed.

237. Misclassification of Transactions in the Ledger

The supporting ledgers provided for audit revealed the following misclassification of expenses.

Account Name	Amount (Kshs.)	Correct General Account
Communication	1,018,560	Printing, Advertising
Training	170,000	Hospitality
Rentals of Produced Assets	1,815,333	Utilities
Total	**3,003,893**	

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

238. Unreconciled Compensation of Employees

The statement of receipts and payments reflects compensation of employees of Kshs.6,174,004,258 which is at variance with the amount reported in the Integrated Payroll and Personnel Database (IPPD) summary of Kshs.6,171,887,634 resulting in an unreconciled and unexplained variance of Kshs.2,116,624. Further, included in the compensation of employees amount of Kshs.6,174,004,258 is Kshs.5,063,658 paid as overtime allowance to staff and Kshs.8,851,948 paid in respect of leave commutation by staff which was not supported with the necessary approvals and justification. Additionally, the compensation of employees amount of Kshs.6,174,004,258 includes payments totalling Kshs.11,871,140 that have been described as salary reimbursements for which no supporting document or explanations were provided for audit review.

In the circumstances, the accuracy and completeness of the compensation of employees of Kshs.6,174,004,258 could not be confirmed.

239. Use of Goods and Services

The statement of receipts and payments and Note 6 to the financial statements reflects use of goods and services amount of Kshs.1,465,900,314. However, the following anomalies were observed.

239.1 Unsupported Utilities, Supplies and Services

Note 6 to the financial statements reflects utilities, supplies and services payments amounting to Kshs.5,925,183. However, an amount of Kshs.3,240,260 related to District expenditure was not supported by respective utility bills and proof of actual payments. Further, the supporting ledger includes an amount of Kshs.1,009,810 that was described as correction of electricity expenditure charged in wrong account which was not supported by duly approved journal vouchers. No explanation was rendered in support of the adjustment.

Under the circumstances, accuracy and completeness of utilities, supplies and services expenditure of Kshs.4,250,070 could not be confirmed.

239.2 Unsupported Rental of Produced Assets

Note 6 to the financial statements reflects rental of produced assets of Kshs.39,442,747 which includes Kshs.2,056,560 in respect of rental payments for District offices that was not supported by lease agreements for the respective District offices.

Under the circumstances, accuracy and completeness of rental of produced assets expenditure of Kshs.2,056,560 could not be confirmed.

239.3 Misclassification and Unsupported Training Expenses

Note 6 to the financial statements reflects training expenses of Kshs.59,725,113. Included in this amount are allowances to staff amounting to Kshs.14,963,448 which do not relate to training activities. Management did not provide supporting evidence and authority for the reallocation of funds. This was contrary to Section 43 of Public Finance Management Act, 2012. In addition, the training expenses includes AIEs issued on 28 June, 2021 to various Districts amounting to Kshs.943,380 that had not been surrendered as at 30 June, 2021 though fully expensed in the financial statements.

Under the circumstances, the accuracy and completeness of the allowances and AIEs amounting to Kshs.15,906,828 in respect of training expenses could not be confirmed.

239.4 Unsupported Specialized Materials and Services Expenditure

Note 6 to the financial statements reflects payments in respect of specialized materials and services amount of Kshs.1,150,718,245. Included in this amount are payments for two projects amounting to Kshs.1,143,096,785 in respect of direct payments made to an international supplier by financing bank for supply of goods that were purportedly delivered to various TVET institutions. However, the expenditure was not supported by a financing agreement even though Management indicates there was one signed on 5 September, 2013 and an addendum on 5 May, 2016 and there has been no audited accountability statements for the projects since inception. Further, the project activities have not been supported by approved work plans and procurement plans.

In addition, the payments for specialized material and services included imprest surrenders by staff in respect of travel allowances amounting to Kshs.4,240,200 that could not be matched to any activities related to the procurement of specialized materials and services and the surrender documents to support the travels were not provided for audit review.

Under the circumstances, accuracy, completeness, and validity of specialized materials and services expenditure of Kshs.1,150,718,245 could not be confirmed.

240. Unconfirmed Transfers to Other Government Units - Current Grants

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects transfers to other Government units of Kshs.11,858,364,762 which includes current grants of Kshs.8,777,167,048. Included in this amount are payments made on 30 June, 2021 amounting to Kshs.28,301,560 in respect of verification of trainees' enrolment data in technical institutions. However, no details of the Institutions where the amounts were transferred to were provided. In addition, the expenditure has not been supported by a work plan, budgetary allocation, institutions to be visited and a report after the verification exercise and proof of actual travel to verify the trainees.

In the circumstance, the validity of the trainees' expenditure of Kshs.28,301,560 for the year ended 30 June, 2021 could not be confirmed.

241. Unconfirmed Transfer to Other Government Units - Capital Grants

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects transfers to other Government units of Kshs.11,858,364,762. Included in this amount is Kshs.3,081,197,714 in respect of transfers to other levels of Government - capital grants. The amount further includes Kshs.2,710,510,124 disbursed during the year to institutions to undertake various projects for construction of Technical and Vocational Colleges throughout the country. However, Management did not provide evidence in support of receipt of the funds by implementing institutions.

In addition, the amounts were expensed at the point of disbursement. The receiving institutions did not prepare accountability statements expenditure summaries, progress certificates to support payments and project progress status report in support the utilization of the funds.

In the circumstances, the accuracy, completeness and validity of the capital disbursements amount of Kshs.2,710,510,124 could not be confirmed.

242. Unreconciled Transfer to Other Government Units - Appropriations-In-Aid

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects transfers to other Government units amount of Kshs.11,858,364,762. Included in this amount are current grants of Kshs.8,777,167,048. The current grant included Appropriation-In-Aid received amounting to Kshs.1,404,367,307 which differ with the amount disclosed as other revenues receipts under the statement of receipts and payments of Kshs.2,336,089,461 resulting to an unexplained and unreconciled variance of Kshs.931,722,154.

In the circumstances, the accuracy and completeness of the Appropriation-In-Aid of Kshs.2,336,089,461 for the year ended 30 June, 2021 could not be confirmed.

243. Unsupported Acquisition of Assets - Construction of Buildings

The statement of receipts and payments and as disclosed in Note 9 to the financial statements reflects acquisition of assets of Kshs.750,041,645. Included in this amount are payments in respect of construction of buildings amounting to Kshs.730,165,945. The payments further include an amount of Kshs.722,131,333 in respect of contractors undertaking constructions at various Technical Training Institutions. The payments did not have supporting documents in form of expenditure summaries, procurement procedures and project periodic architect's valuation certificates provided for audit verification.

In the circumstance, the validity of the expenditure of Kshs.722,131,333 on construction of buildings could not be confirmed.

244. Unsupported Proceeds from Foreign Borrowings

The statement of receipts and payments reflects proceeds from foreign borrowings of Kshs.1,868,679,733. Included in this amount is the Kenya China Projects amount of Kshs.1,054,551,634 which related to payments made directly to the suppliers by the

lending Bank. However, the Management did not provide in support of the payments, and inspection and acceptance reports for the goods or services rendered.

In the circumstance, the accuracy and completeness of proceeds from foreign borrowings of Kshs.1,054,551,634 could not be confirmed.

245. Over Disbursement of Capitation due to use of Unverified Data

Review of records by the Kenya Universities and Colleges Central Placement Service revealed that the student enrolment was 182,388. Analysis of the data revealed that twenty-seven (27) were non-citizens, 18,307 did not provide index numbers and 2,726 were duplicates leading to 161,328 validated students. However, enrolment numbers provided by the Service were not used for disbursement purposes resulting to over disbursement of Kshs.28,005,000. Management did not provide explanations on why reconciliation of student data was not done.

In the circumstance, the accuracy and completeness of the disbursements of Kshs.28,005,000 as capitation could not be confirmed as a proper charge to public funds.

246. Disbursement of Capitations to Institutions during the Lockdown Period

The statement of receipts and payments and as disclosed in Note 7 to the financial statements reflects transfers to other Government units of Kshs.11,858,364,762. Included in this amount are transfers to National Government entities-current grants of Kshs.8,777,167,048 which further includes an amount of Kshs.2,528,002,500 disbursed during Covid-19 lockdown when students were not in session.

In the circumstance, the disbursements of Kshs.2,528,002,500 was not a proper charge to public funds.

Other Matter

247. Budgetary Control and Performance

The State Department had an approved receipts budget of Kshs.24,686,934,728 against actual receipts of Kshs.20,327,644,262 resulting to an under funding of Kshs.4,358,290,466 or 18%. Similarly, the State Department had an approved expenditure budget of Kshs.24,686,934,728 against an actual expenditure of Kshs.20,312,283,149 resulting to under absorption of Kshs.4,373,651,579 or 18%.

The Management attributed the under-funding and the under-absorption to delayed exchequer releases. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

248. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several paragraphs were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and

Governance. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

249. Management of Imprests

The State Department issued imprests totalling Kshs.15,192,007 to staff before surrendering the previous ones. This is contrary to Regulation 93(8) of the Public Finance Management (National Government) Regulations, 2015 which provides that an accounting officer or AIE holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

The Management of the State Department was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAM (KIDDP)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

252. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects a final budget of Kshs.34,694,945 against an actual of Kshs.16,321,108 resulting to an under expenditure of Kshs.18,373,837 or 53%. In addition, the budget of Kshs.34,694, 945 was higher than the available funds which amounted to Kshs.26,159,554, yet there was no evidence of funding being provided by GOK to cover the excess budget.

In the circumstance, the citizens have not received services as planned as a result of the slow implementation of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

255. As required by the Agreement in the Form of Exchange of Letters – Kenya Italy Debt for Development Program, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief,

were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Program's financial statements are in agreement with the accounting records and returns.

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PROMOTION OF YOUTH EMPLOYMENT AND VOCATIONAL TRAINING IN KENYA PROJECT, LOAN REFERENCE: BMZ NO.2016 67 211 & BMZ NO.2016 65 298 AND PROJECT GRANT REFERENCE NO.1930 05 527

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

264. There were no material issues noted during the audited of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

265. Procurement and Payment for Consultancy Services

The State Department for Vocational Technical Training contracted consultancy services and paid of Kshs.29,955,681 during the year under review. However, the State Department requested for assistance from KfW in undertaking procurement of consultant on 22 August, 2017 and then advertised for the consultant on 29 August, 2017. This was done before the project financier was identified.

Further, a tender Agent based in Germany was engaged on an unidentified date to undertake the evaluation on behalf of was the State Department. The terms of engagement of the Tender Agent including the contract, procurement process, appointment, remuneration if any and the contractual obligations were not provided for audit review. The engagement with KfW to assist in the procurement of the consultant was on 22 August, 2017 which was more than two years before the signing of the Financing Agreement on 21 February, 2020.

The notification of award was made on 17 July, 2018 to the successful consultant based in Germany and the contract was signed on 9 September, 2020 which was more than two years after notification of award. The contract was signed between the State Department and a locally incorporated company that was not part of the bidding consortium and which was not the one notified of the award. In addition, the payments were made to the local Company who did the invoicing even though they were not party to the contract and there was no apparent contractual obligation.

Under the circumstances, the compliance with Public Procurement and Disposal of Asset Act, 2015 could not be confirmed since the evaluation was done by a third party whose procurement, appointment and terms of engagement including any contractual obligations were not supported for audit verification. Further, the validity of contract with local Company and the payments made in respect of the contract could not be ascertained as the local Company was not part of the consortium at bidding for the service.

266. Exclusion of Consultant from Paying Taxes

The Contract for provision of consultancy services between Kenyan registered the local consultant and the State Department of Vocational and Technical Training signed on 9 September, 2020 at clause 2.4 obligated the State Department to obtain exemption from taxes, duties, levies and other charges that are legally prescribed in the Country. The State Department requested for tax exemption from The National Treasury on behalf of the Contractor on 30 August, 2021 which was yet to be granted. In their response for exemption, on 10 September, 2021, The National Treasury on 10 September, 2021 requested by State Department to apply for exemption indicating the consultancy fee for which the exemption is being sought. No evidence has been provided in support of the application or the granting of the exemption by the relevant authorities.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

269. Acquisition of Assets

Note 8 to the financial statement reflects an amount of Kshs.21,118,019 in respect to acquisition of non-financial assets. Included in this figure is an amount of Kshs.15,210,000 relating to purchase of vehicles and other transport equipment. This relates to procurement of two motor vehicles for the project use, registration numbers KCT 789Y (Toyota Hilux, double cabin) and KCT 850Y (Nissan patrol) at a cost of Kshs.8,650,000 and Kshs.6,560,000 respectively which were delivered and received by the project management. However, at the time of the audit in October, 2021 vehicle KCT 850Y (Nissan patrol) logbook had not been received, fourteen (14) months after the receipt of the motor vehicles.

In the circumstances, the certainty and ownership of Kshs.6,560,000 incurred on acquisition of non-financial assets as at 30 June, 2021 could not be confirmed.

Other Matter

270. Budgetary Control and Performance

270.1 Revenue Analysis

The Project final approved budget for the year ended 30 June, 2021 reflected receipts of Kshs.116,000,000 while the actual receipt was Kshs.115,000,000 resulting in an under collection of Kshs.1,000,000. The Project failed to meet its target receipt by Kshs.1,000,000 which may be an indication of improper planning on its budget making process. There is need for the project to re-look at its budget making process with a view to planning a realistic budget to achieve its intended objectives.

270.2 Expenditure Analysis.

The Project statement of comparison of budget and actual amounts: recurrent and development for the year ended 30 June, 2021 reflects an approved expenditure budget of Kshs.116,000,000 and an actual expenditure of Kshs.89,143,885 resulting to an under expenditure of Kshs.26,856,115. The under spending of the budget by Kshs.26,856,115 represents equivalent services budgeted for but not delivered to the residents of Kenya. There is need, therefore, for the Management to relook at its budgeting mechanism with a view to focusing on priority areas which will improve service delivery to the residents of Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

275. Budgetary Control and Performance

275.1 Budget Performance

During the year under review, the project had a final budget of Kshs.299,233,337 to implement various activities out of which only Kshs.89,549,031 was expended resulting to under absorption of Kshs.209,684,306 or approximately 70% of the approved budget.

Although the Management attributes the under absorption to Covid-19 which slowed down the activities of the project, the Management has not provided measures being put in place to ensure that the planned activities that were not implemented are taken care of so that the project achieves its objectives as planned.

275.2 Unauthorised Expenditure - Lack of an Approved Annual Workplan & Budget

During the year under review, the Management implemented the project without an approved annual work plan. The documents provided during the audit to support the workplan approvals indicated that the Board of Management signed off the Annual Work plan for 2020/2021 financial year on 9 September, 2021 which was more than two months after the end of financial year and after the implementation had been undertaken for the whole year. Further, as at the time of this audit in October, 2021, the same plan had not been approved by the National Project Steering Committee as required by Section I B of Schedule 2 of the Financing Agreement. Although the Management has explained that the delay in signing of the annual workplan was due to the delay in the constitution of the National Steering Committee, there is no evidence that the activities to be implemented were agreed on between the Kisumu National Polytechnic and the Financier as required by Section IB (2) of Schedule 2 of the Financing Agreement.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR UNIVERSITY EDUCATION AND RESEARCH - VOTE 1065

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

282. Cash and Cash Equivalents – Unsupported Payments to Staff

The statement of financial assets and liabilities reflects a balance of Kshs.151,634,556 under cash and cash equivalents. However, the bank reconciliation statement as at 30 June, 2021 reflects payments in the cash book not in bank statement amounting to Kshs.75,585,300 which includes payments to various officers made on 30 June, 2021 amounting to Kshs.7,202,480. However, the amounts have been directly expensed although it should have been included in the outstanding imprest. The activities in respect of payments were not supported by the approved work plan and no details were provided for audit review indicating when the activities being paid for were undertaken.

Further, included in the amount of Kshs.7,202,480 were payments totalling Kshs.1,827,180 being claims paid to staff for various official duties undertaken. However, the payments were not supported by approvals for officers to spend own money and submit reimbursement claims. Consequently, the validity of the payments in cash book not in bank statement amounting to Kshs.7,202,480 could not be confirmed.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.151,634,556 as at 30 June, 2021 could not be confirmed.

283. Unsupported Payments on Rentals of Produced Assets

The statement of receipts and payments reflects an expenditure of Kshs.171,886,718 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.46,069,098 in respect of rental of produced assets. The schedule in support of the expenditure includes an amount of Kshs.29,149,081 relating to payment of rent arrears for office space and service charge at Teleposta Towers. However, there was no signed lease agreements to support the amounts paid.

Further, a rent demand invoice dated 7 January, 2021 reflected an amount of Kshs.30,844,081 comprising of outstanding amounts of Kshs.27,409,081 and Kshs.3,435,000 in respect of rent and service charge respectively, which differs with the reported amount of Kshs.29,149,081 resulting to unexplained and unreconciled variance of Kshs.1,650,000.

Consequently, the accuracy, authenticity, occurrence, and rights and obligations of the payment made by the Management in respect of rental of produced assets amounting to Kshs.29,149,081 for the year ended 30 June, 2021 could not be confirmed.

284. Unauthorized Motor Vehicle Repairs

The statement of receipts and payments reflects an expenditure of Kshs.171,886,718 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.7,672,305 in respect of routine maintenance-vehicles and other transport equipment. The latter balance includes payments of Kshs.1,612,518 and Kshs.636,200 that relate to services that were delivered in the prior years. However, the paid bills were not included in the previous year pending bills and were therefore not part of the 2020/2021 budget. The Management did not provide supporting documentation for approval of the additional budget or reallocation in compliance with the Public Finance Management Act, 2012

Under the circumstances, the regularity of the expenditure of Kshs.2,248,718 included in routine maintenance-vehicle and other transport equipment for the year ended 30 June, 2021 could not be confirmed.

285. Unconfirmed Transfers to Private Universities

The statement of receipts and payments reflects an expenditure of Kshs.70,296,430,177 under transfers to other Government units which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.2,729,791,600 in respect of transfers to private Universities for 59,368 government sponsored students. Further, the transfers includes amounts of Kshs.28,511,777 and Kshs.48,859,704 disbursed to two (2) Universities based at Kisumu County and Machakos County, respectively. However, confirmations from the two (2) beneficiary institutions reflected amounts of Kshs.27,681,294 and Kshs.56,510,098 respectively, resulting to an unreconciled total variance of Kshs.6,819,910.

Under the circumstances, the accuracy and completeness of transfers to private Universities of Kshs.2,729,791,600 for the year ended 30 June, 2021 could not be confirmed.

286. Capital Grants to Government Agencies

286.1 Unsupported Disbursements

The statement of receipts and payments reflects transfers to other Government units of Kshs.70,296,430,177 which, as disclosed in Note 6 to the financial statements, includes Kshs.2,561,890,710 in respect to capital grants to Government Agencies. During the year under review, a total of Kshs.2,315,075,027 was disbursed to Universities for various projects. However, the disbursements to the projects were not supported by expenditure summaries, valuation certificates and project status report to indicate progress of the projects. Further, monitoring and evaluation reports carried out by the State Department on the implementation of the projects by the Universities were not provided for audit review.

In the circumstances, the accuracy, validity and propriety in utilization of capital disbursements totalling Kshs.2,315,075,027 for the year ended 30 June, 2021 could not be confirmed.

286.2 Wasteful and Unauthorized Legal Costs

The statement of receipts and payments reflects transfers to other Government units of Kshs.70,296,430,177 which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.2,561,890,710 in respect to capital grants to Government Agencies. Included in the latter balance is a payment of Kshs.2,563,452 to the State Law Office for onward transmission to an advocate in respect of accrued interest for a court judgement on case number 240 of 2015 in which the State Department defaulted in awarded payment. However, there was no evidence of inclusion of the costs in the budget for the financial year under review or justification of charging the payment under capital grants. Further, the payment had not been included as a pending bill in the financial statements for earlier years thus its validity could not be established.

In the circumstances, the accuracy and regularity of the expenditure of Kshs.2,563,452 legal fees for the year ended 30 June, 2021 could not be confirmed.

287. Use of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.171,886,718 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes an amount of Kshs.3,828,346 in respect of foreign travel and subsistence. However, the entire amount Kshs.3,828,346 related to domestic travel and allowances paid to staff for non-foreign travel activities. Further, the expenditure of Kshs.171,886,718 under use of goods and services includes an amount of Kshs.6,646,753 relating to hospitality supplies and services which includes an amount of Kshs.1,898,900 paid as allowances to officers for undertaking their daily duties.

Under the circumstances, the accuracy and propriety of the expenditure totalling Kshs.5,727,246 could not be confirmed.

288. Other Grants and Transfers – Irregular Payment of Allowances

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects other grant and transfers amounting to Kshs.252,156,072 which relates to scholarships awarded by the State Department. However, the amount includes payments amounting to Kshs.7,692,235 paid as allowances for other activities that are not scholarships.

Under the circumstances, the accuracy and validity of other grants and transfers amounting to Kshs.7,692,235 could not be confirmed.

Other Matter

289. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined indicates that the State Department budgeted for receipts amounting to Kshs.92,198,406,430. However, actual receipts amounted to Kshs.83,061,859,870 resulting in a shortfall of Kshs.9,136,546,560 or 10% of the budgeted amount. The shortfall was mainly attributed to low realization of the budgeted AIA which had a shortfall Kshs.8,778,039,893. Similarly,

the State Department had budgeted to spend a total of Kshs.92,198,406,430. However, actual payments amounted to Kshs.83,058,727,533 resulting in an under expenditure of Kshs.9,139,678,897 or 10%. The under expenditure mainly occurred under use of goods and services. The shortfall and under absorption implies that the State Department's planned activities were not realized in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

290. Compensation of Employees

290.1 Irregular Payment of Special Duty Allowance

The statement of receipts and payments reflects an expenditure of Kshs.209,477,209 under compensation of employees which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.68,378,859 being personal allowances paid as part of salary. Included in personal allowance paid as part of salary is an amount of Kshs.1,264,120 paid as special duty allowance to twenty-four (24) officers between February and June, 2021. However, thirteen (13) of the twenty-four (24) officers were paid the special duty allowance for six months starting March, 2020. This is contrary to Section C.15 of the Public Service Human Resource Policies and Procedures Manual, 2016, which states that the payment of special duty allowance will not be payable to an officer for more than six (6) months.

Under the circumstance, the regularity of special duty allowance of Kshs.1,264,120 for the year ended 30 June, 2021 could not be confirmed.

290.2 Entertainment Allowance

The expenditure of Kshs.68,378,859 in respect of personal allowances paid as part of salary includes an amount of Kshs.172,800 paid to two (2) officers' in job group "R" and" S" as entertainment allowance. This is contrary to Paragraph C.12 of the Public Service Human Resource Policies and Procedures Manual, 2016 which states that entertainment allowance is payable to officers in job group "T"," U"," and V". Further, the payment of the entertainment allowance was not approved by the Salaries and Remuneration Commission (SRC).

Under the circumstances, the State Department is in breach of the Human Resource Policies and Procedure.

290.3 Unapproved Positions in the Establishment

Review of the staff establishment records provided for audit review, indicated that the State Department had a staff strength of 163 officers placed in the 70 different designations/positions. However, a comparison with the Public Service Commission approved establishment for the State Department revealed that 31 designations/positions held by 131 officers were not approved by the Public Service Commission. This is contrary to Paragraph 5.0 of the Public Service Commission, circular referenced

PSC/SEC/93/37/Vol. IV/37 dated 30 July, 2018 which states that the Commission should establish and abolish offices in the public service. Proposals on review of the staff establishment should all be approved by the Commission in consultation with the Authorized Officer.

Under the circumstances, the salaries and benefits paid to the 131 officers for the period they occupied those unauthorized positions did not constitute a proper charge to public funds.

291. Proposed Construction of Design and Manufacturing Block at Dedan Kimathi University of Technology

The statement of receipts and payments reflects transfers to other Government units of Kshs.70,296,430,177 which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.2,561,890,710 in respect to capital grants to Government Agencies. Included in the latter balance is an amount of Kshs.90,000,000 paid to a contractor implementing the Project. The project duration was twenty-four (24) months commencing on 5 July, 2020 and ending on 5 July, 2022. However, only one certificate for work done of Kshs.113,881,398 or about 12.25% has been approved an indication that the project has delayed and its completion by 5 July, 2022 is doubtful. The project delay has also denied services to the intended users.

292. Delayed Completion of Projects

Review of records revealed that sixty-one (61) Projects with a cost of Kshs.56,505,466,339 were being funded by the State Department. The planned completion dates for six (6) projects was 30 June, 2019, eighteen (18) projects had a completion date of 30 June, 2020 while nine (9) projects had a completion date of 30 June, 2021. However, all the thirty-three (33) projects with a cumulative expenditure of Kshs.7,524,206,477 had not been completed by December, 2021.

Under the circumstances, the intended users have not obtained any benefits from the projects.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

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

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

294. Inaccuracies in the Financial Statements

Review of financial statements presented for audit for the year ended 30 June, 2021 under the Project information and overall performance for the current year contradicts the previous year's information as it shows the cumulative receipts have declined from 28,184,468 unit of accounts to 27,270,803 unit of accounts yet the statement of receipts and payments reflects receipts of Kshs.61,795,785 that should have increased the cumulative receipts in donor currency.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

295. Defects and Delays in Delivery of Equipment to Various Universities

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.61,795,785 under acquisition of non-financial assets which includes an amount of Kshs.47,697,805 relating to purchase of specialized plant, equipment and machinery. As previously reported, the Project entered into supply contracts with various vendors for supply of specialized science and engineering equipment to selected public universities. Under the terms of the contracts, the vendors were to receive advance payments of 20% of their respective contract values upon submission of bank guarantees of equivalent amounts. A further 60% of the contract sum was to be paid after the equipment was shipped and relevant documents submitted to Management. The remaining 20% was to be paid upon receipt and acceptance of the items supplied.

As at 30 June, 2021, the Project's cumulative expenditure from 2013/2014 financial year on procurement of specialized plant, equipment and machinery totaled Kshs.2,617,434,820 from. However, records provided for audit revealed that the project was expected to end by 30 June, 2021 and that equipment totalling Kshs.112,598,346 was rejected by the respective Inspection and Acceptance Committees. The Management explained that the State Department finalized the status of delivery and acceptance of equipment and wrote to the Attorney General in July and August, 2021 seeking for an advisory on payment of any outstanding balances due to the suppliers, refund of advance guarantees recovered and levying of liquidated damages from any

payments to the suppliers. The State Department is awaiting the final advisory on the mode of recovery of the liquidated damages from the Office of the Attorney General.

In view of the defective and unfulfilled supplies, it is not possible to confirm the accuracy of the cumulative expenditure of Kshs.2,617,434,820 reported under purchase of specialized plant, equipment and machinery as at 30 June, 2021. In addition, the Project may not have been completed by the expected date of 30 June, 2021 delaying service delivery to the citizens.

Other Matter

296. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects similar figures for final budgeted and actual expenditure on comparable basis of Kshs.256,634,610 and Kshs.73,165,955 respectively resulting to under collection and under-expenditure of Kshs.183,468,655 or 71% of the budget for the year.

Consequently, the project activities may not have been implemented as planned delaying service delivery to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

ESTABLISHMENT OF KENYA ADVANCED INSTITUTE OF SCIENCE AND TECHNOLOGY (KAIST) PROJECT NO. KEN-4

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

300. Acquisition of Asset

The Project's financial records show that the project has been ongoing for four (4) years since the signing of the loan agreement on 28 December, 2017 and accumulated expenditure amounting to Kshs.1,843,831,137. However, site visit made on 7 October, 2021 revealed that there is nothing tangible on the ground in terms of construction or any form of activity. Further, it was noted that despite there being no evidence of activities on the ground, the financial records reflected buildings and structures valued at Kshs.461,135,997.

Notwithstanding the delay in implementing for the Project the Government of Kenya as per the requirement of Article 1 Section 1.02 on general terms and conditions of the loan agreement, ought to have made four (4) semi-annual consecutive repayments of the loan on February, 2020, August, 2020, February, 2021, and August, 2021. It is evident that there is interest being charged on loan even though there is no tangible benefit therefrom money received by the Project. Although the Management indicated that the Contractor has taken over the site, subsequent to the auditors visit on 7 October 2021, no site handover report was provided to support the commencement.

301. Purchase of Goods and Services

The statement of receipts and payments and Note 3 of the financial statements reflect purchase of goods and services amounting to Kshs.77,779,821. However, consultancy services paid from the Project funds amounting to Kshs.24,135,000 related to construction of physical science laboratories phase 1 which is a different Project. Further, the fuel and lubricants expenditure amounting to Kshs.8,151,530 charged to project expenditures yet the motor vehicles were used by the Ministry officials. In addition, the routine maintenance of other assets amounting to Kshs.3,368,275 was charged to the Project yet it owns no assets. Also, the domestic travel cost of Kshs.24,661,068 could not be linked to Project activities.

Consequently, the accuracy and validity of payment in respect to purchase of goods and services amounting to Kshs.77,779,821 for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

302. Project Motor Vehicles

The Project Management unit procured two high-end vehicles with a total value of Kshs.25,030,030 for use by the project in executing project activities. However, the

vehicles were not used for project activities but were used by Ministry's officials for non-project activities. This is contrary to Public Finance Management Act, 2012 section 72.(1)(3) which states that, the accounting officer for a National Government entity shall not loan or transfer assets to any person or organization or permit any person or organization to use assets for purposes other than carrying out the functions of the entity, except in accordance with an Act of Parliament enacted pursuant to Article 227 of the Constitution.

Further, the use of the motor vehicles also contravenes Regulation 139.(1) Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer of a national government entity shall take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats losses, wastage and misuse and movement and conditions of assets can be tracked;

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

304. As required by Economic Development Cooperation Fund Loan Agreement No.KEN-4 I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

EASTERN AND SOUTHERN AFRICA HIGHER EDUCATION CENTERS OF EXCELLENCE (ACE II) PROJECT (CREDIT NO. 5798-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

306. Loss of Project Vehicle

As previously reported, and as disclosed in Annex 2- the Summary of Fixed Assets to the financial statements reflects a balance of Kshs.26,165,933 in respect of acquisition of non-financial assets on page 25, out of which Kshs.22,180,900 relates to purchase of vehicles and other transport equipment. Available information indicates that the Management acquired a Project vehicle - Toyota Fortuner Registration No. GK B193V at a cost of Kshs.8,355,900 in May, 2019. However, physical verification and motor vehicle records revealed that the vehicle was missing. The Project Management explained that the vehicle was stolen, within days after purchase, in a carjacking incident and this was reported to the police.

In the circumstances, the Accounting Officer may not have put adequate measures to safeguard Project assets and consequently the citizens will not derive value from this vehicle.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

309. As required International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best

of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR UNIVERSITY EDUCATION

AFRICA CENTER OF EXCELLENCE IN SUSTAINABLE USE OF INSECTS AS FOOD AND FEEDS PROJECT (IDA CREDIT NO. 5798-KE) – JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

311. Budgetary Control and Performance

During the year under review, the project had an approved budget of Kshs.140,745,572 and actual receipts of Kshs.205,306,488 to implement various activities. Out of the receipts, an amount of Kshs.97,352,344 or approximately 47% of the total receipts was expended resulting to under absorption of Kshs.107,954,144 or approximately 69% of the approved expenditure.

The Management attributed the under absorption to low enrolment of foreign students, late accreditation of courses due to Covid-19 restrictions which slowed down the activities of the Project, delayed procurement of equipment and delays in receipt of other foreign grants. The low absorption of funds clearly indicates some of the planned project activities were not implemented and this would lead to delayed project implementation. The Management indicated that the project shall be implemented as planned through a non-funded extension of the project of one year. However, no documentary evidence was provided in support of the request or approval for the extension.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

AFRICA CENTRE OF EXCELLENCE (ACE II) IN PHYTOCHEMICALS, TEXTILES AND RENEWABLE ENERGY (PTRE) PROJECT (IDA CREDIT NO. 5798-KE) – MOI UNIVERSITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

316. Budgetary Control and Performance

The Africa Centre of Excellence in Phytochemicals, Textiles and Renewable Energy (PTRE) Project budgeted to receive and spend a total of Kshs.347,524,796 in implementation of Phytochemicals, Textiles and Renewable Energy (PTRE) projects during the financial year ended 30 June, 2021. However, budget utilization during the year was as follows:

Receipts /Payments	Budget Kshs.	Actual Kshs.	Difference Kshs.	Utilization %
Total Receipts	347,524,796	167,920,595	179,604,201	48%
Total Payments	347,524,796	151,099,847	196,424,949	43%

The under absorption is an indication that not all planned projects and programmes were implemented by the Africa Centre of Excellence as planned in the financial year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

317. Single Sourcing for Accreditation Services

The statement of receipts and payments reflects purchase of goods and services of Kshs.105,798,067 which include education capacity and development impact expenses of Kshs.6,919,398 as disclosed under Note 11.4 to the financial statements. Included in the education capacity and development impact expenses of Kshs.6,919,398, is a payment of Kshs.1,063,078 to a firm to carry out accreditation of two programs, PhD in Textile Engineering and PhD in Energy Studies vide Tender Number MU/RFP/02/2019-2020 dated 7 January, 2020. However, perusal of the tender file availed for audit showed that, although five tender documents were sent out, only one bidder responded and the project management went ahead to evaluate the only bidder, instead of cancelling the advertisement and making another advert for at least three bidders to respond in order to procure the service at a competitive price.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR EARLY LEARNING AND BASIC EDUCATION – VOTE 1066

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

319. Subsidies

As disclosed in Note 7 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2021 reflects subsidies to Public Corporations of Kshs.59,541,584,343. The following anomalies were noted in respect of disbursement to schools;

319.1 The subsidies to Public Corporations include subsidies to 9,024 Secondary Schools amounting to Kshs.36,739,481,231. However, the data on the number of students per school and county at any time of disbursement could not be verified. The reason for non-verification was due to inability to access the student enrollment data in the National Education Management Information System (NEMIS) as a result of restrictions by the Management. The failure to grant access to the system contravenes Section 9(e)(i) of the Public Audit Act, 2015 which states that without prejudice to the powers given under the Constitution and this Act and for the purposes of carrying out his or her duties effectively, the Auditor-General, or an officer authorized for the purpose of this Act, shall have powers of unrestricted access to (i) all books, records, returns, reports, electronic or otherwise and other documents of entities listed under Article 229(4) of the Constitution; (ii) any property or premises used or held by State Organs or public entities covered by Article 229(4) of the Constitution and subject to audit under this Act. It was therefore not possible to validate the data used for disbursement of subsidies to schools.

319.2 The Management disbursed a total of Kshs.57,029,236,841 as subsidy for free day secondary school. However, although the Management of the schools receiving subsidy funds are required to upload an acknowledgement receipt in the system as evidence of receipt of funds in the school's bank account, none of the listed schools raised an acknowledgment receipt in the system. Further, the disbursement schedule included payments amounting to Kshs.137,084,111 made to 225 secondary schools whose bank account numbers format differed significantly from the format of bank accounts for banks supported by the national banking system. In addition, there were no confirmation receipts from the benefiting schools. It was therefore not possible to confirm whether the schools bank account numbers were correctly captured and the concerned schools received the funds.

319.3 The capitation disbursement report provided for audit verification included an amount of Kshs.8,284,401 that was disbursed to schools that had the same bank accounts numbers even though the names and sub county of the schools were

different indicating an error in the funds transmission. The anomaly was not explained and there was no evidence of refunds provided to indicate correction of the error.

319.4 The Management disbursed amount totalling Kshs.638,435,316 to secondary schools in October, 2020. The amount comprised of disbursements to 3,808 schools in respect of operation account and 3,810 schools in respect of tuition account. Although the Management explained the amounts were as a result of some schools that had not received their earlier capitation monies for reasons that they had not updated form one admissions data in the NEMIS system together with unexplained loss of data in the system, the basis of identification of the beneficiary schools was not supported by any documentation in form of claims from the benefiting schools or evidenced by any duly approved Management report or exception report from the system to indicate that the benefiting schools had not received the earlier disbursement.

Further, a sample of the school included in the list receiving this disbursement had been included in the schools that had received their regular disbursement on time and therefore the payment was a duplication. The Management did not provide explanation for the anomaly.

In addition, payments made to 31 schools were made to bank account whose format did not conform to the national banking system of coding and although the Management of the schools receiving capitation funds are required to upload an acknowledgement receipt in the system, as evidence of receipt of funds in the school's bank account, none of the listed schools raised an acknowledgment receipt in the system.

319.5 The subsidies to Public Corporations include an amount of Kshs.22,140,000 paid to 82 secondary schools in the Arid and Semi-Arid Land (ASAL) areas each receiving Kshs.270,000. Management explained that the money was meant for the support of the needy students in the ASALs. However, no documentation was provided to support the basis of identification of the needy schools. Further, no policy guidelines or directives were provided to support the commitment and payment of these funds by the Ministry. In addition, there was no acknowledgement of receipt of these funds from the benefiting schools.

In the circumstances, the accuracy and validity of subsidies to Public Corporations of Kshs.59,541,584,343 could not be confirmed.

320. Transfers to Other Government Units

The statement of receipts and payments reflects transfers to other Government units of Kshs.26,249,256,281. The following observations were noted with regard to these transfers.

320.1 During the year under review the Management disbursed a total of Kshs.834,403,799 to 1,933 schools which shared the same Teachers Service

Commission school identification numbers even though the name of the school and the resident sub counties were different. The Management did not explain the cause of the anomaly.

320.2 The transfers to other Government units balance includes Kshs.7,759,910,950 disbursed to primary schools. The guidelines for disbursement includes a condition that the school holds a uniquely identifiable bank account in a reputable bank. However, it was observed that disbursement totalling Kshs.2,690,020 were made to 12 primary schools that shared the same bank account numbers in NEMIS system implying there could have been duplication in disbursement. No explanation for this discrepancy has been made.

320.3 During the year under review, the special needs schools were paid an amount of Kshs.684,722,561. However, the enrolment data used reflected variances in the number of students used as a basis for computation of the disbursement. The disbursement for the period January to March, 2021 was Kshs.98,049,371 comprising of two disbursements. The first disbursement was in respect of 17,508 pupils which amounted to Kshs.56,773,571 while the enrollment for top-ups or second disbursement was based on 17,946 pupils and amounted to Kshs.41,275,800. The variance of 438 pupils has neither been explained nor reconciled.

320.4 The balance includes transfers to foreign missions amounting to Kshs.305,691,659. However, no documentation was provided to support the transactions arising from the foreign stations except unsupported statement of expenditures amounting to Kshs.261,601,128.

320.5 Transfers to other Government Units include transfer to National Government entities amounting to Kshs.19,692,518,327 which further include recurrent and capital grants to thirty-two (32) Primary Teachers Training Colleges and four (4) Diploma Teachers Training Colleges amounting to Kshs.394,686,400 and Kshs.70,200,000 respectively. However, the colleges have not confirmed receipts of these transfers in any way. Further, no accountability statements for these transfers by the Colleges have been provided to confirm that the funds were applied for the intended purpose in line with the approved budget. The Colleges have never prepared financial statements for audit as required by Public Audit Act, 2015.

In the circumstances, the accuracy and validity of transfers for Government Units of Kshs.26,249,256,281 could not be confirmed.

321. Receivables - Outstanding Imprest and Clearance Accounts

As disclosed in Note 12 to the financial statements, the statement of financial assets and liabilities reflects account receivables - outstanding imprest and clearance accounts balance of Kshs.154,469,857. The following observations were noted:

321.1 The balance includes Kshs.44,090,531 in respect to eight education offices outside the country. However, the amounts due from these offices were not supported by

bank reconciliation, cash books and bank statements. Further, although the foreign missions had unquantified balances brought forward from the previous year, the amounts have not been accounted for in the movement to arrive at the current year closing balances.

321.2 Accounts receivables balance also includes balance from Teachers Service Commission of Kshs.9,537,963. However, the reported balance differs with the corresponding balance in the Teachers Service Commission's financial statements balance of Kshs.45,738,914 leading an unexplained variance of Kshs.36,200,951.

Under the circumstances, the accuracy and existence of accounts receivables balance of Kshs.154, 469, 857 as at 30 June, 2021 could not be ascertained.

322. Compensation of Employees

The statement of receipts and payments reflects an expenditure of Kshs.3,732,621,411 incurred on compensation of employees while data from the Human Resource Department and IPPD indicates expenditures of Kshs.3,503,860,093 with a resultant variance of Kshs.228,761,318.

The reconciliation between the two sets of balances revealed an expenditure of Kshs.125,783,113 paid by foreign offices in respect of temporary employees which was not supported. Further, the reconciliation revealed payment to adult education teachers amounting to Kshs.12,813,569 that was also not supported.

Under the circumstances, the accuracy and validity of the compensation of employees expenditure totalling Kshs.3,732,621,411 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

323. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.97,156,731,800 and Kshs.96,589,049,499 respectively, resulting in under receipts of Kshs.567,682,301 or 0.5% of the budget. Similarly, the State Department spent Kshs.94,541,008,850 out of the approved expenditure budget of Kshs.97,156,731,800 resulting in under expenditure of Kshs.2,615,722,950 or 3% of the budget. The under receipt of the budgeted funds and under-expenditure constrained execution of planned activities and delivery of services by the State Department.

324. Pending Bills

Note 19.1 and Note 19.2 to the financial statements indicates that the State Department had pending bills totalling Kshs.6,313,285 as at 30 June, 2021. Management did not explain why the bills were not settled during the year. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

325. Delayed Exchequer Releases

Exchequer issues totalling Kshs.1,219,201,876 were received in the bank account of the State Department during the month of June, 2021 as detailed below:

Date Funds Received in the Bank Account	Amount (Kshs.)
03 June, 2021	336,212,338
14 June, 2021	471,910,800
21 June, 2021	15,015,749
24 June, 2021	396,062,987
Total	**1,219,201,876**

The delay in Exchequer releases may have resulted in low absorption of the budget thus negatively affecting timely implementation of the program of the State Department and provision of services to the public.

326. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

327. Procurement of Computers

During the year, a total of Kshs.199,920,000 was paid to a firm for supply and delivery of 2,040 computers to two hundred (200) secondary schools in all the 47 Counties. The following anomalies were observed:

i. The Management used an expired framework contract from the State Department of Information, Communication and Technology dated 07 October, 2018 which expired on 07 November, 2019.

ii. There were no minutes of the committee adopting the use of procurement process of another entity.

iii. There was no executed supply contract or agreement between the State Department and the supplier to actualize the supply. This contravenes Section 135(1) of Public Procurement and Asset Disposal Act, 2015.

iv. The Local Purchase Order was issued on 03 September, 2020 with a validity period of 30 days. The supply was however made on 25 May, 2021 which was more than eight months after the expiry of LPO validity. There was no evidence of extension of LPO validity. This contravenes Section 139(1) and (2) Public Procurement and Asset Disposal Act, 2015.

v. The 2,040 computers were delivered to the State Department's store and distributed to 200 secondary schools across the forty-seven (47) Counties. However, the basis of identification and selection of the benefiting schools was not documented and provided for audit review.

Consequently, the Management was in breach of the law.

328. Un-Procedural Acquisition and Payments of Desks

The statement of receipts and payments reflects an expenditure on transfer to other Government units of Kshs.26,249,256,281. The balance includes an expenditure of Kshs.1,897,135,000 received from The National Treasury to fund schools' infrastructure on protocols set up by the Ministry of Health on social distancing due to the Covid-19 pandemic, and to stimulate the economy by providing job opportunities to the local artisans. To achieve these, the State Department engaged artisans from all the counties in selected schools to supply seventy (70) desks and fifty (50) lockers to primary and secondary schools respectively, for each school selected.

The following observations were made:

i. Details on how the needs assessment was identified was not provided and, social distancing in secondary schools could not have been achieved through an increased number of lockers without the corresponding increase in the number of classrooms or student's population.

ii. Procurement records to ascertain value for money, quality of the supplies, how uniform prices were arrived at in all Counties and competition among the artisans were not provided for audit review.

iii. A total of Kshs.10,214,400 was paid to staff from the State Department Headquarters as daily subsistence allowances to monitor the distribution of the desks and lockers to their respective destinations in all Counties notwithstanding that the State Department has established offices in all the Counties and the staff in these offices could have been used with minimal or no costs. This expenditure of Kshs.10,214,400 was therefore against Section 79(2b) of the Public Finance Management Act, 2012 which states that a public officer employed in a National Government state organ or public entity should ensure that resources within the officer's area of responsibility are used in a way that is lawful and authorized and is effective, efficient, economical and transparent.

iv. Authority to Incur Expenditures (AIEs) totalling Kshs.1,897,135,000 dated 01 October, 2020 were sent to all forty-seven (47) counties but funding was not effected and instead, actual payments were centralized at the Head Office using a Safaricom application not prescribed by The National Treasury. No explanation was provided for using a private application instead of using IFMIS being the national payment system as per the Public Financial Management Act, 2012.

Under the circumstances, the Management was therefore in breach of law.

329. Use of Expired Contract-Service of Lifts in Jogoo House

As disclosed in Note 6 to the financial statements, the State Department spent a total of Kshs.22,011,337 on routine maintenance - other assets. The State Department had entered into a three (3) year contract with a firm for Kshs.4,284,720 beginning 01 July, 2017 and ending 30 June, 2020. However, after the expiry of the contract on 30 June, 2020, no new contract was entered into or extension granted. The State Department continued to pay the firm from 01 July, 2020 to 30 April, 2021 without any contract and therefore an amount of Kshs.1,734,822 was paid irregularly.

Under the circumstances, the regularity of Kshs.1,734,822 paid as routine maintenance other assets for the year ended 30 June, 2021 could not be confirmed.

330. Use of Expired Lease Agreements

As disclosed in Note 6 to the financial statements, the State Department incurred an expenditure of Kshs.158,824,241 in respect to rentals of produced goods which includes an amount of Kshs.30,198,837 in respect to the payment of rental facilities, service charge and parking fees for offices of the State Department of Basic Education. However, payments totalling Kshs.5,368,886 for rent, service charge and parking and Kshs.1,736,495 for rates, all totalling Kshs.7,105,381, were made on the basis of an expired lease agreement with the Kenya Reinsurance Corporation that had lapsed on 28 February, 2021.

Under the circumstances, the regularity of Kshs.7,105,381 paid as rental facilities, service charge and parking for the year ended 30 June, 2021 could not be confirmed.

331. Transfers to Other Government Units

The statement of receipts and payments reflects an expenditure of Kshs.26,249,256,281 in respect of transfers to other Government units which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.4,256,588,506 relating to Capital Grants to Government Agencies and other levels of Government. The amount includes disbursement of infrastructure grants in form of Economic Stimulus funds to secondary schools amounting to Kshs.1,504,057,600.

The following anomalies were noted;

i. There was no documented basis on how the amount of funds for each of the recipient was determined to justify the disbursements from receiving schools, Bill of Quantities duly approved by County Works Officer and approved plan of the facility to be funded.

ii. The disbursements to 15 National schools amounting to Kshs.185,000,000, were not supported by official applications and approved budget for the schools.

iii. The disbursement of infrastructure grants of Kshs.287,557,600 to 113 National schools and Kshs.1,031,500,000 to 480 schools under Extra-County and Sub-County categories were not supported by official applications from the receiving

school, Bill of Quantities duly approved by county works officer and duly approved plans of the facility to be funded except for six that submitted the application only.

iv. Two (2) schools that submitted applications for funding had requested Kshs.6,141,272 and Kshs.4,172,056 respectively but they were awarded Kshs.10,000,000 each. There was no justification for the enhanced disbursement as no approved Bills of Quantities and building plans were provided by the applicant.

The award of infrastructure funds to schools without application letters, justification and accountability documents was in breach of the State Department disbursement guidelines that advocates for fairness, equitability and accountability.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

332. Lack of Audit Committee

The term of the Audit Committee came to an end in October, 2020 and a new Audit Committee was not appointed hence rendering limited oversight and governance over the ministerial activities. The financial statements were also not reviewed and approved by the Committee before being submitted for audit.

In the circumstance, oversight and effectiveness of internal controls in the State Department could not be confirmed.

DONOR FUNDED PROJECTS

KENYA PRIMARY EDUCATION DEVELOPMENT PROJECT (GRANT NO. TFO18863)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

333. Purchase of Goods and Services- Consultancy Services

Note 12.4 to the financial statements includes an amount of Kshs.37,600,000 in respect of consultancy. The amount includes payments amounting to Kshs.6,300,000 made to a consultant at a rate of Kshs.525,000 per month. However, the contract provided in support of the payments, signed on 2 November, 2017, was for a period of four months and for a lumpsum payment of Kshs.3,997,350 and hence not valid to support the payments. No evidence was provided to support the basis of payment of Kshs.525,000 per month.

In the circumstances, the accuracy of purchase of goods and services as at 30 June, 2021 could not be ascertained.

Emphasis of Matter

334. Unreconciled Special Account Statement

The statement of receipt and payments for the year ended 30 June, 2021 reflects proceeds from domestic and foreign grants totalling to Kshs.764,770,270 as further disclosed under Note 12.2 of the financial statements. However, the corresponding account balance reflected in the special account statement as at 30 June, 2021 amount to Kshs.732,441,683 resulting to an unexplained variance of Kshs.32,328,587.

Other Matter

335. Budgetary Control and Performance

The Project's final budget for the year under review totalled Kshs.1,175,000,000 and actual expenditure totalled Kshs.766,078,770 resulting to an under-expenditure of Kshs.408,921,230, equivalent to 35% of the budget. The under-absorption of the approved budget meant that many of the Project's activities planned for the year were not implemented. As a result, attainment of the Project's goals may not be possible.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

338. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs.1,077,215. However, the bank reconciliation statement as at 30 June, 2021 reflected payments in bank statements not recorded in cash book amounting to Kshs.503,350 in respect of outward payment and whose nature has not been disclosed.

In view of the above, the completeness and accuracy of the cash and cash equivalents of Kshs.1,077,215 reflected in the statement of financial assets as at 30 June, 2021 could not be confirmed.

339. Accumulated Surplus

The statement of receipts and payments reflect an accumulated surplus of Kshs.325,249,171 while the statement of financial assets reflects a net assets balance of Kshs.1,077,215. The two balance should always be equal for the project. No reconciliation has been provided for audit verification to explain the variance.

Under the circumstances, the accuracy of the financial statements as at 30 June, 2021 could not be confirmed.

Other Matter

340. Prior Year Matters

Several issues were raised in the audit report of the previous year. However, Management has not resolved the issues nor given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circulars.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

342. Lack of Key Programme Information

As previously reported, Management did not avail the design report, implementation manual, GoK/UNICEF policies, annual work plan and activities report for audit review. In the forgoing, it has not been possible to ascertain if the Programme met the expectations of the citizens as outlined in the GoK/UNICEF Country Programme Action Plan, 2014 - 2016.

SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (CREDIT NO.6138 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

343. Unreconciled Proceeds from External Development Partners

The special account statements for the year ended 30 June, 2020 reflected proceeds from external development partners of Kshs.350,207,487. However, the statement of receipt and payments for the year reflected proceeds from loans from external development partners totalling Kshs.345,520,825 resulting to an unreconcilled variance of Kshs.4,686,662 between the two set of records.

Other Matter

344. Project Performance

During the year under review, the external development partners released Kshs.2,508,632,985 while only Kshs.842,462,321 was utilized resulting to an under absorption of Kshs.1,666,170,664 or 66.42%. This implies some of the Project activities were not implemented and therefore the planned objectives of the Project may not have been achieved. Further, the Project duration was for a period of six (6) years from 2017 to 2023 and therefore as of time of audit 71% of the Project timeline had lapsed yet the critical infrastructural works was yet to start. This would negatively impact on the achievement of Project goals.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

345. Suspended Infrastructural Works Procurement

The Ministry of Education is implementing the Kenya Secondary Education Quality Improvement Project with support from the World Bank. The Project runs for 6 years from 7 December, 2017. The Project's Development Objective is to improve student learning in secondary education and transition from primary to secondary education, in the targeted areas. The targeted beneficiaries are 7,852 public primary and 2,147 secondary schools from 110 sub-counties across 30 counties that are educationally and economically disadvantaged. This Project entails improving the quality of teaching in targeted areas, in increase in pupil's retention in upper primary school and transition to secondary school in targeted areas, facilitate system reform support and overall project management, coordination, monitoring and evaluation. The chronology of events, procedures and eventual suspension of the implementation is as detailed below:

Review of the project procurement process revealed the that the evaluation of the bids was done after 83 days of closure and opening of the bids. This contravened Section 80(6) of the Public Procurement and Asset Disposal Act, 2015 which stipulates that evaluation must be done within 30 days of the opening the tender. Further, the Evaluation Committee made corrections and amendments to some of the bids which was in contravention of Section 82 of the Public Procurement and Asset Disposal Act, 2015 which prohibits corrections of errors and amendment by a Tender Evaluation Committee. In addition, two of the Evaluation Committee Members registered discontent to the amendments of bids and declined to sign the evaluation report but the report was finalized without addressing the dissenting views. Further, the procurement process had directly utilized Kshs.6,260,000 and unqualified manhours before the stoppage of the contracting process. There is risk in potential loss of the amounts should the project be repeated.

Further, as at 30 November, 2021, the contracts were yet to be signed consequent upon which the projects risk cost overruns (monetary and otherwise) as a result of contracts taking too long before they are signed. The risk includes expiry of the bids (the quoted

prices- Bills of Quantities) which had a validity timeline of 180 days; expiry of the bid securities which were for one year period; the possibility of the tender being declared to be a mis-procurement by the World Bank; legal tussles between the contractors and the Government, section 45.4 of the bids documents states; "Until a formal contract is prepared and executed, the letter of acceptance shall constitute a biding contract". (Letters of acceptance were sent to the beneficiaries on 18 December, 2020); costs of processing the tenders, that include Advertisement/Addendums Kshs.716,832, Tender evaluation Kshs.5,543,800 totalling to Kshs.6,260,632 may end up being sunk costs; and claims arising from contractors for failure to obtain contracts on time in order to start implementation. To date the contracts with service providers have not been signed and the infrastructure components remain unimplemented.

In the circumstance, I could not confirm whether the project achieved value for money on the funds disbursed during the year.

346. Non-Compliance with Budget

The approved Project's total budget for the year ended 30 June, 2021 was Kshs.611,669,353 against which expenditure totalling Kshs.1,432,603,439 was incurred resulting to over-expenditure of Kshs.820,934,086 or 234% of the budget. Management has not disclosed the source of the additional funds or the reason for the over-expenditure, and has not provided documentations in support of authorization of the additional budget. No approvals in line with Public Finance Management Act, 2012 for additional budget were availed for audit review and therefore the legality of the expenditure could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA GPE COVID-19 LEARNING CONTINUITY IN BASIC EDUCATION PROJECT GPE GRANT NUMBER TFB 3336

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

STATE DEPARTMENT FOR POST TRAINING AND SKILLS DEVELOPMENT – VOTE 1068

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

353. Pending Bills

Note 13 to the financial statement reflects pending bills totalling Ksh.1,070,500 as at 30 June, 2021. Management has not explained why the bills were not settled during the year when they occurred and the State Department is at risk of incurring additional significant interest and penalties with continued delay in making payments. Failure to settle bills during the year to which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MINISTRY OF HEALTH – VOTE 1081

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

356. Inaccuracies in the Financial Statements

356.1 Misclassification of Expenditure

Review of the financial statements indicates that an amount of Kshs.3,370,487,640 shown in the table below was misclassified;

Item	Where Classified	Correct Classification	Amount (Kshs.)
Direct Purchase of Goods and Services	Grants and Transfers to Other Government Agencies	Use of Goods and Services	2,703,332,518
Overpaid Salary Recoveries	Receipts	Receivables - Decrease	10,151,132
Research, Covid-19 Response, Allowances and Other Supplies	Acquisition of Assets	Use of Goods and Services	424,774,914
Social Security Benefits	Compensation of Employees	Transfer to Other Government Agencies	25,000,000
Living Allowance for MOH Doctors in Cuba	Compensation of Employees	Training Expenses	20,901,888
Payment of Allowances to Employees	Rentals of Produced Assets	Compensation of Employee	5,385,000
Disbursement of Capital Grants to Kenya Medical Supplies Authority	Purchase of Specialized Plant, Equipment and Machinery	Grants and Transfers to Other Government Entities	180,942,188
Total			**3,370,487,640**

Management has not given justification or explanations of the misclassifications.

356.2 Financial Statements and Vote Book Variances

The statement of receipts and payments reflects total payments of Kshs.92,999,398,612 while vote book revealed Kshs.92,865,306,603 resulting to unreconciled variance of Kshs.134,092,009. In addition, included in the vote book expenditure of

Kshs.92,865,306,603 is unexplained negative Kshs.36,847,803 narrated as payments of Basic Salary for Civil Service which understates expenditure in the vote book.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

357. Omitted Rental and Disposal of Assets Income

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects other revenues of Kshs.3,520,703,654. However, this amount excludes an amount of Kshs.14,695,110 in respect of rental income recovered from housed employees through the payrolls and another amount of Kshs.5,672,500 being receipts from disposal of thirty-eight (38) vehicles.

Consequently, the accuracy and completeness of other revenues of Kshs.20,367,610 for the year ended 30 June, 2021 could not confirmed.

358. Cash and Cash Equivalents

As disclosed in Note 12A to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.919,612,980. Examination of records revealed the following unsatisfactory matters:

358.1 Undisclosed Bank Balances

The bank balance excludes an amount of Kshs.844,649,218 in respect of three (3) bank accounts under Kenya Italy Debt for Development (KIDDP) Kshs.30,112,829, Ministry of Health Equalization Fund Kshs.583,596,178 and Tobacco Control Fund Kshs.230,940,211. In addition, these bank balances have not been reported separately in the respective Fund's financial statements.

358.2 Customer Retention Money

The customer deposit bank account with a balance of Kshs.141,913,154 was used to make payments of Kshs.82,957,521 being transfers to other government agencies and Kshs.13,430,757 for salary payments. These payments do not relate to customer deposits and should not have been paid from the retention money account

In the circumstances, the accuracy and completeness of cash and cash equivalents balance of Kshs.919,612,980 as at 30 June, 2021 could not be confirmed.

359. Unreconciled Compensation of Employees

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects compensation of employees amount of Kshs.13,325,664,987, while analysis of the IPPD and manual payrolls revealed Kshs.13,517,682,185 resulting to unexplained nor reconciled variance of Kshs.192,017,198. Further, compensation of employees

includes Kshs.141,592,062 described as "June, 2021 Uncaptured Salary" that remained unexplained.

In the circumstances, the accuracy and completeness of compensation of employees' balance of Kshs.13,325,664,987 for the year ended 30 June, 2021 could not be confirmed.

360. Unreconciled Scholarships and Other Educational Benefits

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects transfers to other government units balance of Kshs.66,946,401,966 out of which Kshs.38,883,795 was transfers to the Ministry of Health office in Geneva. The office is classified as Semi-Autonomous Government Agency (SAGA) yet it is not self-reporting. However, analysis of bank statements revealed disbursements of Kshs.41,998,224 resulting to unexplained nor reconciled variance of Kshs.3,114,429.

In the circumstances, the propriety, accuracy and completeness of transfers to other government units balance of Kshs.38,883,795 for the year ended 30 June, 2021 could not be confirmed.

361. Unsupported Expenditure on Drug Rehabilitation Centre

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.296,066,798 in respect of purchase of specialized plant, equipment and machinery. Included in the amount is an amount of Kshs.17,700,000 being payment for drug rehabilitation center at Coast General Hospital. However, the corresponding Bill of Quantities, tender evaluation report and contract were not provided for audit review. Further, the attached interim certificate did not quantify the preliminaries and work done.

In the circumstances, the propriety of Kshs.17,700,000 payment for drug rehabilitation center at Coast General Hospital for the year ended 30 June, 2021 could not be confirmed.

362. Unsupported Contract Variation

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects construction of buildings balance of Kshs.332,010,654. Included in the construction of building expenditure is an amount of Kshs.71,501,307 paid for the construction of bunkers and supporting supra structures to house linear accelerators in Nakuru, Garissa and Mombasa. The contractor was paid an amount of Kshs.56,230,711 in 2018/2019 and Kshs.314,301,957 in 2019/2020 bringing total payments to Kshs.442,033,975 as at 30 June, 2021. The initial contract sum was Kshs.356,000,479 but on 05 June, 2020 it was varied by Kshs.29,061,067 and on 30 September, 2020 by Kshs.57,820,544. However, variation was not supported by request for contract variation by the contractor and bid documents were not provided for audit.

In the circumstances, the propriety, accuracy and completeness of the construction of building expenditure totalling Kshs.57,820,544 for the year ended 30 June, 2021 could not be confirmed.

363. Unsupported GAVI Vaccines

As disclosed in Note 7 to the financial statements the statement of receipts and payments reflects a balance of Kshs.10,217,138,555 in respect of use of goods and services which includes specialized materials and services of Kshs.1,875,001,340. Included in the expenditure is Kshs.300,000,000 being payment for the procurement of vaccines to meet the GAVI co-financing agreement requirements. It was noted that this budget item had been capped as a procurement and required approval from The National Treasury for any transfers to be made. However, a request made by the Ministry seeking this exemption was not responded to, implying no approval was granted.

In the circumstances, the propriety of Kshs.300,000,000 being payment for the procurement of vaccines to meet the GAVI co-financing requirement for the year ended 30 June, 2021 could not be confirmed.

364. Unsupported Medical Drugs Drawing Rights

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,875,001,340 on specialized materials and services. The amount includes Kshs.51,000,000 being transfers to Kenya Medical Supplies Authority (KEMSA) to enable the Hospitals to get drawing rights for drugs on need basis. However, a ledger for this arrangement indicating the opening balance, disbursements to KEMSA for the year, number of drugs drawn in the year and outstanding balance was not provided for audit review. Only an Authority to Incur Expenditure (AIE) was attached to the payment voucher.

In the circumstances, the accuracy, propriety and completeness of Kshs.51,000,000 transfers for the year ended 30 June, 2021 could not be confirmed.

365. Unsupported Legal Charges

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.1,875,001,340 on specialized materials and services. The amount includes an amount of Kshs.11,349,544 paid to Solicitor General for case number 626 of 2017. However, the expenditure is not supported by the Attorney General advisory on the same and Court ruling details were also not attached to the voucher.

In the circumstances, the propriety, accuracy and completeness of Kshs.11,349,544 legal charges for the year ended 30 June, 2021 could not be confirmed.

366. Unauthorised Expenditure on Purchase of Specialized Plant, Equipment and Machinery

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.296,066,798 on purchase of specialized plant,

equipment and machinery. The Ministry paid Kshs.9,000,000 for supply and delivery of HPV DNA sample collection kits whose budget was Kshs.5,000,000 resulting to over expenditure of Kshs.4,000,000. Further, seven dental accessories with a budget of Kshs.239,000 were purchased at Kshs.1,965,324 resulting to over payment of Kshs.1,726,934. In addition, cancer equipment and consumables budgeted for Kshs.20,341,000 were purchased at Kshs.37,560,231 resulting to over payment of Kshs.17,219,231.

In the circumstances, the propriety of Kshs.22,946,165 over expenditure on purchase of specialized plant, equipment and machinery for the year ended 30 June, 2021 could not be confirmed.

367. Undisclosed Project Costs

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects construction of buildings of Kshs.332,010,654 out of which Kshs.101,085,000 was for construction works in four (4) medical training colleges. However, these projects were not budgeted under the Kenya Medical Training College as the implementing government agency but were budgeted separately and paid directly to the individual colleges. Further details of these projects including procurement process, total project cost, payment vouchers, project duration and the project implementation status were not provided for audit review.

Consequently, propriety of the expenditure of Kshs.101,085,000 for the year ended 30 June, 2021 could not be confirmed.

Emphasis of Matter

368. Budget Execution

The summary statement of appropriation: recurrent and development reflects final budget of Kshs.121,748,688,866. However, the following observations were made;

368.1 Budgetary Control and Performance

As reflected in the summary statement of appropriation: recurrent and development combined, the Ministry's actual receipts amounted to Kshs.93,850,411,784 against budgeted receipts of Kshs.121,748,688,866 resulting into a shortfall of Kshs.27,898,277,082 (or 23%). The Ministry's actual expenditure was limited to the receipts realized. The under-funding affected the planned activities and may have impacted negatively on the service delivery to the public.

368.2 Over Expenditure on Budgeted Items

Included in the total expenditure of Kshs.92,999,398,612 is Kshs.5,688,186,817 in respect to forty-nine (49) expenditure items whose budget amounted to Kshs.3,401,184,419 resulting to over expenditure of Kshs.2,287,002,398. This contravenes Regulation 52(1)(b) of the Public Finance Management (National Government) Regulations, 2015.

369. Exchequer Release Not Supported by Appropriations-In-Aid

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects grants and transfers to other government entities of Kshs.66,946,401,966 out of which Kshs.14,753,450,055 is exchequer support to eight (8) Semi-Autonomous Government Agencies with Nil Appropriations-In-Aid. However, this support was provided without determining the revenue raising measures of these Institutions contrary to Paragraph 37 of the National Treasury Circular No.16/2020 dated 26 August, 2020.

370. Non-Payment of Pending Bills

As disclosed under Note 20 to the financial statements, pending bills totalling to Kshs.41,789,113,924 were not settled during the year but were instead carried forward to financial year 2021/2022. Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

My opinion is not modified in respect to the above matters.

Other Matter

371. Terminated Loan Agreements

The Ministry signed two (2) loan agreements with Arab Bank for Economic Development in Africa for the construction of Wajir and Rongai hospitals of Kshs.1,250,000,000 with the Ministry expected to provide additional funding of Kshs.550,000,000 all totalling Kshs.1,800,000,000. The Wajir hospital start date was 07 January, 2012 ending on 13 August, 2021 while that of Rongai was to start on 09 March, 2013 ending on 9 March, 2021. However, the payments that have been made to date revealed that both projects had not commenced as at 30 June, 2021. Management indicated that the loan agreements had been cancelled but details of the loan, repayment terms, reasons and consequences of the cancellation were not provided. This is despite the Ministry allocating Kshs.640,000,000 towards the projects which have remained unutilized.

372. Signing of Agreement Without Budgetary Allocation

The Ministry entered into a 'Commitment Undertaking' on 26 May, 2021 to procure ten million (10,000,000) doses of Johnson and Johnson vaccine at a price of USD.10 per dose totalling to USD.100,000,000 (Kshs.10,967,000,000). However, only a budgetary allocation of Kshs.7,613,217,632 had been approved resulting to over commitment of Kshs.3,353,782,368. At the time of the audit in December, 2021 the country had received 23,279,820 vaccines with only 1,552,800 vaccines being purchased from Johnson and Johnson and balance of 21,727,020 being donations.

Under the circumstances, it is not clear whether the commitment undertaken was beneficial to the government.

373. Unresolved Prior Year Audit Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref. AG.4/16/2 Vol.3(72) dated 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

374. Failure to Prepare Financial Statements

The following financial statements were not prepared and presented for audit as required by the respective laws.

Financial Statements	Amount (Kshs.) Bank Balance 30 June, 2021	Applicable Law
Tobacco Control Fund	230,940,211	Section 8(3)(a) and (b) of the Tobacco Control Act, 2007 requires the officer administering the Fund to cause to be kept proper books of account and other books and records in relation to the Fund as well as to all the various activities and undertakings of the Fund and submit the same to the Auditor-General in respect of each financial year.
Kenya Health Human Resource Advisory Council	62,216,554	Section 43(3) of the Health Act, 2017 states that the Council shall, within three months from the end of the financial year to which the accounts relate, submit to the Auditor-General the accounts of the Council together with a statement of income and expenditure during the year; a statement of the assets and liabilities of the Authority as of the last day of that year; a cash flow statement for the financial year; and any other statements and accounts that may be necessary to fully disclose the financial position of the Authority.
Kenya Health Professions	52,127,276	Section 59(3) of the Health Act, 2017 states that the Board shall, within three months from the end of the financial year to which the

Financial Statements	Amount (Kshs.) Bank Balance 30 June, 2021	Applicable Law
Oversight Authority		accounts relate, submit to the Auditor-General the accounts of the Authority together with a statement of income and expenditure during the year; a statement of the assets and liabilities of the Authority as of the last day of that year; a cash flow statement for the financial year; and any other statements and accounts that may be necessary to fully disclose the financial position of the Authority.
Construction of a Cancer Centre in Kisii Level 5 Hospital	9,993,800	Section 4.01 of the loan agreement requires the borrower to keep separate accounts for the project and have them audited by the Auditor-General or an independent auditor appointed by the Auditor-General. However, no financial statements in respect of this project were prepared contrary to the loan agreement
Total	**124,337,630**	

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

375. Capacity Building Training on Mental Health Champions

As disclosed in Note 8 to the financial statements, the statement of receipts and payments reflects current grants Government agencies and other levels of Government of Kshs.42,998,971,347 which includes Kshs.20,000,000 for psychological support to health workers. This amount was meant to cushion frontline health care workers in all forty-seven (47) counties during the Covid-19 pandemic for a period of three (3) months with effect from April, 2020. However, the amount was paid on 30 June, 2021 to Kenya Medical Training College to implement the program about one year after the validity period. Further, the program activities entailed holding brief sessions with counsellors daily, having a dedicated line with tele-counselling for health workers, psychological support to families of health workers who turn positive of Covid-19, expansion of psychological support to cover all employees and citizenry and to develop targeted messages on Covid-19 to reach all citizenry through mass and social media. However, there was no evidence that the Institution utilized the funds to undertake the stated activities in all forty-seven (47) counties. This contravenes paragraph 4.2.2 (iii) of the Guidelines of Managing Training in the Public Service, 2017.

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

376. Emergency Medical Treatment Fund

Note 9 to the financial statements reflects emergency relief and refugee assistance of Kshs.1,595,904,537. However, the Ministry has not established an emergency medical treatment fund to provide for unforeseen situations. In addition, the Ministry did not have policy guidelines, maintenance standards and coordination mechanisms for provision of emergency healthcare in the event of unforeseen calamity. This is contrary to Section 15(1)(x) of the Health Act, 2017.

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

377. Unjustified Use of Restricted Tendering

As disclosed under Note 11 to the financial statements the statement of receipts and payments reflects acquisition of assets balance of Kshs.886,174,137 out of which Kshs.33,016,760 is refurbishment of buildings. The amount includes Kshs.14,074,730 for office renovations at Afya House paid to two (2) contractors. Management used restricted tendering to procure refurbishment works awarded at Kshs.38,316,644. However, the nature of the works did not meet the conditions set for use of restricted tendering under Section 102 of the Public Procurement and Asset Disposal Act, 2015 and no explanations were given for not using open tendering.

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

378. Compensation of Employees

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.13,325,664,987 whose audit revealed the following observations:

378.1 Unremitted NSSF Contributions

Records availed for audit revealed that the Management failed to deduct and remit National Social Security Fund contributions amounting to Kshs.4,808,600. This is contrary to Section 19(1) and Section 20(1) of the National Social Security Fund, 2013.

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

378.2 Unremitted Pension Contributions

Analysis of the payrolls revealed that pension contribution amounting to Kshs.16,678,328 for seven hundred and three (703) employees below the age of 45 years who were engaged on permanent and pensionable terms was not deducted and remitted. Therefore, Management had not fully implemented the Defined Contribution Scheme as directed by the Head of Public Service through circular Ref. No. PO/CAB.1/8A dated 20 November, 2020.

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

379. Delayed Construction of a Cancer Centre in Kisii Level 5 Hospital

As disclosed in Note 11 to the financial statements, the statement of receipts and payments reflects construction of buildings of Kshs.332,010,654 out of which Kshs.9,993,800 was for the construction of a Cancer Centre at Kisii Level 5 Hospital. The project was through a loan agreement signed on 03 June, 2015 between the Republic of Kenya (Borrower) and Arab Bank for Economic Development in Africa (BADEA) of USD.10,000,000 with the government expected to provide additional funding of USD.2,800,000 totalling to USD.12,800,000 (or Kshs.1,280,000,000). The project duration was six (6) years from 10 August, 2016 to 10 August, 2022. However, as at 30 June, 2021 about five (5) years after the start date, the project was less than 1% complete with only Kshs.9,993,800 having been spent. Total loan amount disbursed since the inception of the project has also not been stated.

In the circumstances, continued funding from the donor is not guaranteed and the project is likely to stall.

380. Demurrage Charges

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects Kshs.1,875,001,340 on specialized materials. The amount includes Kshs.30,444,254 being demurrage charges incurred due to delay in port clearance, Kshs.7,091,793 was payment to transporters while Kshs.2,171,587 related to other service providers on medical donations.

In the circumstances, the value for money on donations and avoidable demurrage charges for the year ended 30 June, 2021 could not be confirmed.

381. Mathari National Teaching and Referral Hospital (MNTRH)

381.1 Encroachment

The Ministry owns a parcel of land No.42/13/97/3 which houses Mathari Teaching and Referral Hospital measuring approximately 34.3 hectares. Physical verification revealed the land was partially fenced by Nairobi Metropolitan Services (NMS). However, no documentary evidence was provided to support this explanation. It was observed that an undisclosed developer has erected a temporary fence on the unfenced portion of the land.

381.2 Relocation of the Hospital

Available records indicate the hospital will be relocated to new location in Ngong, Kajiado County where a Modern Neuropsychiatric National Teaching and Referral Hospital will be established at a cost of Kshs.5,000,000,000 over a two-year period. According to the proposal, the parcel of land measuring 34.3 hectares will be exchanged by a new parcel of land in Ngong measuring 81.69 hectares. However, the terms of the exchange have not been spelt out clearly stating whether the parcel will remain in the custody of the Ministry and consideration of land values for the two (2) parcels that are being exchanged.

381.3 Renovation Works

Physical verification in the month of December, 2021 revealed ongoing renovation works at the hospital valued at Kshs.74,178,392. However, the rationale of the ongoing renovation works despite the planned relocation after two years could not be confirmed.

381.4 Missing Title Deed

The Ministry is not in possession of title deed for the parcel of land that the hospital sits on instead only allotment letter was provided to confirm ownership.

In the circumstances, the value of money and ownership of the land could not be established.

381.5 Outstanding NHIF Dues

A scrutiny of the records held by the Hospital revealed that the Hospital has accumulated over Kshs.135 Million since 2016-2019 which is owed to the National Hospital Insurance Fund (NHIF).

381.6 Dilapidated Sections of Administration Block

Some sections of the hospital building have ceiling boards worn out and loosely hanging and walls are broken posing danger to staff occupying the respective offices.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

382. Compensation of Employees

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects compensation of employees' balance of Kshs.13,325,664,987 whose audit revealed the following observations:

382.1 Weakness in Processing of Manual Payroll

Analysis of compensation of employees revealed payment of Kshs.4,171,978,129 that was processed through manual payrolls (Excel). However, there were twenty (20) duplicate identification numbers, twelve (12) duplicate bank accounts shared by twenty-six (26) employees and two hundred and sixty-eight (268) staff were remunerated both as Universal Health Care (UHC) contract staff and UHC contract intern.

382.2 Weakness in Processing of Integrated Payroll and Personnel Database (IPPD) Payroll

Analysis of IPPD payrolls revealed that one hundred and ninety-two (192) duplicate bank accounts and six hundred and ninety-three (693) employees were earning below a third of their basic pay.

382.3 Transition from Manual to IPPD Payroll

In the year under review, the Ministry operated manual payroll from July, 2020 to December, 2020 for eight thousand six hundred and twenty-two (8,622) Universal Health Care (UHC) staff on a three (3) year contract. However, two hundred and two (202) UHC interns and two hundred and forty-eight (248) registered clinical officers were not assigned payroll numbers on transiting to IPPD.

Consequently, the checks during transition from manual to IPPD payrolls were weak.

383. Lack of Training Needs Assessment

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects use of goods and services of which includes Kshs.465,121,890 on training expenses out of which Kshs.214,211,848 is for tuition fees and allowances for employees. However, these trainings were conducted without a training needs assessment identifying performance gaps and linking the trainings to closing such gaps. This is contrary to Paragraph 3.0 of the guidelines to managing training in public service 2017 which states that "As per the Human Resource Development policy and other Human Resource Management & Development guidelines in the public service, planning for training shall be guided by the outcome of training needs assessment and shall be designed in line with identified performance gaps linking training to closing of such gaps. Training will be planned to upgrade core competencies, knowledge, skills and attitudes of public servants, with the aim of enhancing service delivery."

In the circumstances, trainings may not be aligned to performance gaps.

384. Summary of Fixed Assets

Annex 4 to the financial statements for the year ended 30 June, 2021 reflects summary of fixed assets register historical cost of Kshs.2,198,541,403 (2020 – Kshs.1,312,367,266). The following observations were made;

384.1 Fixed Assets Register

The Ministry did not maintain a fixed asset register to record the assets acquired and no valuation was done for the existing assets. Therefore, the balances and nature of the fixed assets disclosed were not supported with sufficient purchase details, unique identification numbers (title documents numbers).

384.2 Residential Housing Units

The summary of fixed asset register includes land and building of Kshs.516,616,229. However, this balance excludes two hundred and thirty-five (235) housing units at Mathari Teaching and Referral Hospitals whose values has not been disclosed.

384.3 Logbooks not in Custody of the Ministry

The summary of fixed asset register reflects transport equipment balance of Kshs.36,544,320. Available records indicate a list of two hundred and seventy-four (274)

vehicles. However, only forty-eight (48) logbooks were provided for audit resulting to a difference of two hundred and twenty-six (226) that were not in the custody of the Ministry.

384.4 Undisclosed Land and Buildings

Annex 4 to the financial statements for the year ended 30 June, 2021 reflects land and building balance of Kshs.516,616,299. The Ministry has various parcels of land across the country including land on the ongoing construction of Cancer Centres in Mombasa, Nakuru and Garissa. However, a list of these parcels of land, buildings and ownership documents have not been provided. Further excluded from this balance is land and buildings along Cathedral Road where the Ministry of Health Headquarters is located.

In the circumstances, the existence of an effective mechanism to safeguard the assets could not be established.

385. Mathari National Teaching and Referral Hospital (MNTRH)

385.1 Motor Vehicle Records

A review of motor vehicle records held by the Ministry of Health (MOH) and the Mathari National Teaching and Referral Hospital revealed that there were some discrepancies regarding the description of the motor vehicles as is stated below; -

Item Records	MOH Records	MNTRH
GK B 704U	Toyota Double Cab	Van
GK A 233U	Nissan Navara	Van
Tractor	GK A795U	GK A 785U

In the circumstances, the ownership of two (2) vans at MNTRH could not be confirmed.

385.2 Transition of the Hospital to a State Corporation

Legal Notice 165 of 21 August, 2020 established Mathari National and Teaching Referral Hospital (MNTRH) as a state corporation classifying it as a level 6 hospital. The notice is yet to be fully operationalized since there is no substantive Chief Executive Officer, staff at the hospital are from the Ministry, payroll and other operations like budget approval are still being controlled by the Ministry.

385.3 Forensic Department

The hospital's largest population is from Forensic Department/Maximum Security Unit (MSU) which accounts for 30% and deals with in-patient that are law offenders hospitalised for an average of two (2) years. However, for the last seven (7) years the hospital has not received amount of Kshs.868,501,000 from the Prisons Department to cater for these patients. There is no signed memorandum of understanding between the Prisons Department and the hospital on the financing arrangements.

To this extent, the hospital is being stretched financially and may not offer the services as envisioned.

386. Governance Structure

The Note 6 to the financial statements reflects basic salaries permanent employees of Kshs.1,433,608,063 out of which Kshs.39,683,292 relates to payment of salaries to four (4) key management personnel under job group 'U'. The positions of these officers are between the office of the Director General and the Principal Secretary but their reporting channels have not been included in the organizational structure neither have their designations disclosed in the financial statements under fiduciary management.

In addition, the key entity information and Management section to the financial statements indicates seven (7) directorates while the organizational structure indicates six (6) resulting to a variance of one (1). Also, there are four (4) acting officers at senior Management level for more than six (6) months. This contravenes Public Service Human Resources guidelines. Furthermore, effective decision making may be hampered due to not holding positions in substantive manner.

DONOR FUNDED PROJECTS

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING PROJECT (EAPHLN) - CREDIT NO.5616-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

388. Project Closure

Review of the financing agreement indicated that the Project was expected to come to an end on 30 September, 2020. However, the Project account had not been closed as the time of audit without any explanations. Failure to close the project contravenes Section 74(6)(c) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall ensure that whenever projects are completed, the project assets including buildings, plant, vehicles, furniture, fittings and equipment are properly recorded and handed over to the accounting officer in accordance with the financing agreement.

Consequently, the project was in breach of the law.

389. Preparation and Presentation of CR. No. 4732(KEMSA) and CR. No.5616 (MOH) Financial Statements

The financing agreement of the East Africa Public Health Laboratory Networking (EAPHLN) Project Credit No. 4732 KE between Republic of Kenya and International Development Association was signed on 05 July, 2010. In 2015 additional Subsidiary Financing Agreement for the East Africa Public Health Laboratory Networking Project Credit No.5616-KE was signed on 10 November, 2015. The Management prepared two (2) sets of financial statements under these financing agreements. However, the financing agreement signed on 10 November, 2015 stated under Appendix section I paragraph 21 on definitions, that "original financing agreement means the financing agreement for the East Africa Public Health Laboratory Networking Project between the recipient and the association, (Credit No. 4732 KE)" and also under section 5.01 of credit No. 4732-states the additional condition of effectiveness consists of the Subsidiary Agreement.

Consequently, the Management has not provided explanations for preparing the two separate sets of financial statements for the same project contrary to the position of the agreements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

391. As required by Financing Agreement Credit No.5616-KE dated 10 November, 2015, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

KENYA HEALTH SECTOR SUPPORT (EMMS/KEMSA COMPONENT) PROJECT (IDA CREDIT NO.4771 AND CREDIT NO.50340 - KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

392. Unresolved Prior Years Audit Matters - Receivables

The statement of financial assets and liabilities reflects Nil receivables balance as at 30 June, 2021 (2020 – Kshs.2,380,000). However, as previously reported, the receivables balance of Kshs.2,380,000 as at 30 June, 2020 relates to a double payment that was made to a company and for which no refund had been made as at 30 June, 2021.

In the circumstances, the accuracy and full recoverability of Kshs.2,380,000 and Nil receivables balance as at 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

393. Closure of Project Account

The Project effectiveness date was on 30 September, 2010 with expected end date of 31 December, 2016 which was extended to 30 June, 2018. However, the Management did not avail any evidence of either a formal request to the International Development Association (IDA) for Project extension beyond 30 June, 2018 or the Project closure report for audit review.

Consequently, any transactions from the Project account contravene financing agreement section iv part B (2) on withdrawal conditions; which states that the closing date in respect of the original credit, first additional credit and the second additional credit is December 31, 2016 (extended to 30 June, 2018).

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

395. As required by Financing Agreement dated 30 September, 2010 between International Development Association and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the

best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

HEALTH SECTOR SUPPORT PROJECT – SWAp SECRETARIAT (IDA CR. NO. 4771-KE AND CR. NO.5367-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

396. Cash and Cash Equivalents

The statement of financial assets reflects bank balance of Kshs.289,178,320 (2020 - Kshs.289,178,800) as disclosed under Note 9.7A to the financial statements. Review of correspondences revealed that the National Treasury requested the World Bank to cancel the undisbursed balances under Kenya Health Support Project estimated at USD.4,628,182.31 vide letter reference EA/FA 63/76/06/ 'E' (92) of 25 June, 2018. On 20 February, 2019, the Word Bank indicated that final transactions were processed on 13 February, 2019 and therefore credit account IDA 5367-KE was closed. The management has not explained the source of the bank balance whether from GOK or donor funding. In addition, the utilization of funds held in the bank account could not also be ascertained.

Under the circumstances, the accuracy, validity and completeness of bank balance of Kshs.289,178,320 as at 30 June, 2021 could not be confirmed.

397. Variance on Loan from External Development

The statement of receipts and payments reflects cumulative loan from external development partners to date of Kshs.6,586,234,016 while the project information and overall performance under 1.7 funding summary reflects amounts received to date of Kshs.5,722,527,962 resulting to unreconciled variance of Kshs.863,706,054.

Consequently, the accuracy and completeness of the above balances included in the financial statements for the year ended 30 June, 2021 as prepared and presented could not be confirmed.

Emphasis of Matter

398 Failure to Utilize Full Funding

The project had an approved budget of Kshs.6,167,872,262 as funding from co-financiers. The funding summary reflects amounts received of Kshs.5,722,527,962 resulting to undrawn balance of Kshs.445,344,300 as at 30 June, 2021.

Consequently, there is no explanation as to why the project was not able to utilize these funds to achieve its planned objectives for the year ended 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

399. Closure of the Project Account

The Project effectiveness date was on 30 September, 2010 with expected end date of 31 December, 2016 which was extended to 30 June, 2018. The project held a bank balance of Kshs.289,178,320 as at 30 June, 2021 and incurred expenditure of Kshs.170,560 in the year under review. However, the Management did not provide any evidence of formal request to the International Development Association (IDA) for Project extension beyond 30 June, 2018.

Consequently, any transactions from the Project account contravene financing agreement section iv part B (2) on withdrawal conditions; withdrawal period which states that the closing date in respect of the original credit, first additional credit and the second additional credit is December 31, 2016 (extended to 30 June, 2018).

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

401. As required by Financing Agreements dated 10 February, 2012 and 21 January, 2014, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit, further adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

EAST AFRICA'S CENTRE OF EXCELLENCE FOR SKILLS AND TERTIARY EDUCATION IN BIOMEDICAL SCIENCES – PHASE 1 (LOAN NO.2100150031997) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

403. Unutilized Balance

The project information and overall performance under funding summary at Note 1.7 to financial statements reflects total commitment of Kshs.3,674,000,000 and amount received to date (30 June, 2021) of Kshs.1,355,657,845 resulting to a difference of Kshs.2,318,342,155. Meaning the Project has attained 37% performance level with project end date indicated as 31 December, 2022. However, the Management has not provided evidence of project extension and amounts of Kshs.2,318,342,155 due from the donor may not be received.

Under the circumstances, the primary objective of focusing on public health problems affecting the country, including infectious diseases, use of scientific evidence for policy formulation and program implementation may not be realized in light of the unutilized funds which could reduce the ability of Project and the Ministry of Health to attract donor support.

404. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final payments budget of Kshs.950,000,000 and variance (under expenditure) of Kshs.336,755,885 (or 36%). This underutilization is an indication of failure to implement the planned programmes for the year, thus negatively impacting planned Project's objectives and service delivery.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

407. As required by Financing Agreement dated 17 December, 2014 between African Development Fund and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND TUBERCULOSIS GRANT PROGRAMME (GRANT NO.KEN-T-TNT-854 AND KEN-T-TNT-1548)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

409. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects final expenditure budget of Kshs.587,000,000 and actual expenditure of Kshs.446,779,164 resulting to underutilization figure of Kshs.140,220,836 (or 24%). Failure to achieve the set targets may negatively impact on the objective of accelerating reduction of tuberculosis, leprosy and lung disease burden through provision of people-centered, universally accessible and affordable quality services in Kenya.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

410. Long Outstanding Imprests

The statement of financial assets reflects accounts receivable-imprest and advances balance of Kshs.3,238,374 (2020 – Kshs.3,164,169) as disclosed under Note 8 to the financial statements. As previously reported, the total imprest and advances of Kshs.3,238,374 some dating back to 2012/2013 financial year were overdue as at 30 June, 2021.This is contrary to Regulation 93(5) of the Public Finance Management Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within 7 working days after returning to duty station. Further, Regulation 93(6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, it has not been possible to ascertain the recoverability of the imprest and advances balance of Kshs.3,238,374 as at 30 June, 2021 and the Management is therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

412. As required by Grant Agreements No. KEN-T-TNT-854 dated 1 October, 2015, and KEN-T-TNT-1548 dated 15 December, 2017, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

GLOBAL FUND MALARIA CONTROL PROGRAMME GRANT/CREDIT NO. KEN-M-TNT-1546 AND ROUND 10 KEN-011-G13-M

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

414. Unsupported Basic Wages of Temporary Employees

The statement of receipts and payment reflects compensation of employees of Kshs.18,709,029 (2020 – Kshs.17,655,038) as disclosed under Note 11.4 to the financial statements. Included in the amount is Kshs.14,169,476 on basic wages of temporary employees. However, the employment contracts of the employees expired in 2016 and have not been renewed. This is contrary to Section 9(2) of the Employment Act, 2007, which states that an employer who is a party to a written contract of service shall be responsible for causing the contract to be drawn up stating particulars of employment and that the contract is consented to by the employee.

To this extent, the Project Management was in breach of the law.

415. Irregular Domestic Travel Expenditure

The statement of receipts and payments reflects purchase of goods and services balance of Kshs.1,553,228,083 (2020 – Kshs.373,861,508) as disclosed under Note 11.5 to the financial statements. Included in this figure is Kshs.830,648,881 in respect to domestic travel and subsistence, the management however did not use imprest system but claims were made contrary to Regulation 91(2) of the Public Finance Management Act (National Government) Regulations, 2015 which states that the officer authorized to hold and operate an imprest shall make a formal application for the imprest through an imprest warrant. In addition, management did not provide donor correspondences indicating their preference to use this method.

To this extent, the Project Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

416. Incomplete Fixed Assets Register

Analysis of the fixed asset register revealed that the Project acquired assets three (3) motor vehicles, two (2) UPS servers, twenty (20) UPS power backup, a microwave, a laser printer, fifty-five (55) laptop bags, sixty-five (65) laptops, power adaptors, five (5) desktop computers, two (2) drawer fire proof safe and a bulk filling storage cabinet. However, details of dates of acquisition, unique identification numbers, purchase prices of the assets were not indicated in the asset register. Further, annexure on summary of fixed assets was not included in the financial statement as required by the 2020-2021 Public Sector Accounting Standards Board (PSASB) reporting template.

Consequently, the internal control expected from a well-maintained fixed assets register was missing and therefore the existence and ownership of fixed assets could not be confirmed as at 30 June, 2021.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

417. As required by Financing Agreement dated 15 December 2017, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

KENYA HEALTH SECTOR SUPPORT PROJECT - HEALTH SECTOR SERVICES FUND (GRANT NO.4771-KE AND TF-16027)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

418. Unsupported Bank Balances and Transfers to Counties

The statement of financial assets and liabilities reflects restated opening bank balances of Kshs.1,247,228 instead of Kshs.659,122,495 reflected in the audited financial statements for the year ended 30 June, 2020. However, as had been reported in the previous year and as disclosed at the footnote of the statement of financial assets and liabilities for the year ended 30 June, 2021, the amount totalling Kshs.657,875,226 was transferred and utilized by the Counties. The Management did not provide evidence such as expenditure returns to support the project transfer of Kshs.657,875,226 to the Counties in financial year 2013/2014. Also, the corresponding funds' acknowledgement receipts were not provided for audit review.

Consequently, the propriety, accuracy and validity of Kshs.657,875,226 transfers to the Counties and bank balances of Kshs.1,247,228 as at 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

419. Closure of the Project Account

The Project commenced on 30 September, 2010 and ended on 30 June, 2018. However, the Project account had not been closed as at 30 June, 2021. Consequently, any transactions from the Project account contravene Section IV (B2) of schedule 2 to the Financing Agreement which states that the closing date in respect of the original credit, first additional credit, the second additional credit and extension of closing date to 30 June, 2018.

However, to date the project account has not been closed and no explanation has been provided for failing to close the project account as per the financing agreements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

421. As required by Financing Agreement dated 21 January, 2014 between International Development Association and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

SUPPORT OF THE HEALTH FINANCING STRATEGY - OUTPUT BASED APPROACH (OBA) PROGRAMME (CREDIT NO. 201065853)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

423. Undrawn Balances

The programme information and overall performance reflects undrawn balance of Euro.4,392,740 equivalent to Kshs.457,530,933 under the funding summary on page 5. Also, the statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.479,228 which is likely to be refunded to the donor since the programme's end date was 30 October, 2017. There is no evidence that the Management have sought for approval for the extension of the programme upon expiry.

In the circumstances, the Programme may not have realized its set goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

424. Closure of the Programme Account

The Programme commenced on 07 October, 2011 and ended on 31 October, 2017. However, the Programme account has not been closed to date without any explanations. Consequently, any transactions from the Programme account contravenes Article 2 of the Financing Agreement section 2.2 which states that KfW (German Development Bank) shall have the right to refuse to make disbursements after December, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

426. As required by Financing Agreement dated 07 October, 2011, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

SUPPORT OF THE HEALTH CARE FINANCING STRATEGY – REPRODUCTIVE HEALTH - OUTPUT BASED APPROACH PROJECT (CREDIT BMZ NO. KENYA 201065853)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

428. Irregular Legal Fees Expenditure

The statement of receipts and payments reflects purchase of goods and services balance of Kshs.703,993 (2020 – Kshs.287,032) as disclosed at Note 6 to the financial statements. Included under the expenditure is special material and services of Kshs.667,484 explained to be legal expenses. However, the procurement documents to engage the law firm including the contract, advertisements shortlisting, minutes, evaluation report and prequalification list were not provided for audit verification. This is contrary to Section 44(2) of the Public Procurement and Asset Disposal Act, 2015 which requires Accounting Officer (d) to ensure proper documentation of procurement proceedings and safe custody of all procurement records in accordance with the Act and

(g) to ensure the procurement and asset disposal process of the public entity shall comply with this Act.

To this extent, the Management was in breach of the law.

429. Closure of the Programme Account

The project commenced in November, 2005 and ended in January, 2017. However, as at 30 June, 2021 the project account had not been closed and no extension has been granted. Therefore, the expenditure from the project account are continuously being incurred without approval from the donor. This is contrary to Article 2 of the Financing Agreement section 2.2 which states that KfW shall have the right to refuse to make disbursements after December, 2015.

To this extent, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

431. As required by Financing Agreement dated 07 October, 2011, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

TRANSFORMING HEALTH SYSTEMS FOR UNIVERSAL CARE (THS-UC) PROJECT GRANT IDA CREDIT NO.5836-KE, TFOA2561, TFOA2792 AND CR. P152394

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

432. Variance of Donor Receipts

The special account statement reflects total amount withdrawn from Central Bank of Kenya Project bank account of Kshs.4,317,236,086 (equivalent to USD 39,749,221) while the actual total amount reflected in the Project statement of receipts and payments as receipts controlled by entity, payments by third parties and direct payments for the year

under review is Kshs.4,648,461,098 resulting to an unexplained overstatement of donor receipts of Kshs.331,225,012.

In the circumstances, the accuracy and completeness of the donor receipts amount of Kshs.4,648,461,098 could not be confirmed for the year ended 30 June, 2021.

Other Matter

433. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budget of Kshs.5,327,429,185 and actual expenditure on comparable basis of Kshs.4,997,431,168 resulting to utilization variance of Kshs.329,998,017 (or 6%). Also, the receipts under performance of Kshs.678,968,088 (or 13%) is an indication of possible weakness in meeting donor conditions and enforcement of controls.

Under the circumstances, the primary objective of improving utilization and quality of primary health care services with a focus on reproductive, maternal, newborn, child and adolescent health (RMNCAH) services may not be realized in light of the budget underperformance.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

434. Specialized Materials and Services – Transfers to KEMSA

The statement of receipts and payments reflects purchase of goods and services of Kshs.567,417,122 (2020 – Kshs.715,840,584) as disclosed under Note 11.4 to the financial statements. Included under the expenditure is Kshs.283,539,315 on specialized materials and services out of which Kshs.275,875,084 were transferred to Kenya Medical Supplies Authority. The following unsatisfactory matters were noted:

434.1 Emergency Procurement of Ventilators and Masks

Included in the unpaid bills of Kshs.190,793,450 was Kshs.59,000,000 for Covid-19 ventilators and masks that were procured using retrospective direct procurement but there was no evidence of contract negotiation and award after the delivery of the Covid-19 ventilators and masks. Therefore, the supplier may have been single sourced contrary to Section 69 (2) Public Procurement and Assets Disposal Act, 2015. In addition, physical verification on 24 September, 2021 revealed that out of the twenty (20) ventilators, thirteen (13) of them valued at Kshs.33,800,000 were still at the KEMSA warehouses, seventeen (17) months after emergency procurement to mitigate the effects of Covid-19. Management has not explained failure to distribute these ventilators.

In the circumstances the undistributed, essential and high demand ventilators, value for money may not have been realized and the Project management was in breach of the law.

434.2 Cost Variance on Purchase Price of Masks

Included in transfers to KEMSA is Kshs.16,420,000 for four (4) suppliers of masks. The audit noted that specifications for the masks were same but one (1) supplied at unit price of Kshs.250 while the three (3) at unit price of Kshs.700 representing 64.3% difference. The supplies were inspected and accepted on 16 April, 2020. In addition, there was no evidence of carrying out market survey, this is contrary to Regulation 33(3) of the Public Procurement and Asset Disposal Regulations, 2020, which states that the role of the procurement function shall be to carry out market surveys to inform the placing of orders or adjudication by the relevant awarding authority.

To this extent, the price of masks from the three (3) suppliers may have been exaggerated and Management was in breach of the law.

435. Family Planning Commodities

The statement of receipts and payments reflects at Note 11.6 to the financial statements transfers to other government entities of Kshs.3,939,588,116. The amount represents transfers to counties. Audit verification in sampled counties revealed that funds were utilized to purchase family planning commodities including Depot Medroxyprogesterone Acetate Inj-150mg, Implant (2-ROD), intra-uterine contraceptive device (IUCD) Copper T among others. Some of these commodities were distributed to private facilities and were not inscribed "GOK and NOT FOR SALE", making it difficult to monitor. The financing agreement dated 4th July, 2016 provides implementing agencies to be Ministry of Health (MOH), the County Governments, the Country's Civil Registration Services (CRS) and Kenya Medical Training College (KMTC)and not the private facilities.

Under the circumstances implementation through private facilities is in breach of provisions of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

437. As required by Financing Agreement dated 4 July, 2016, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

GLOBAL FUND HIV AIDS PROGRAM GRANT NO. KEN-H-TNT GA 1547

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

438. Bank Balance

The statement of financial assets reflects a bank balance of Kshs.439,828,460 (2020 – Kshs.420,811,123) as disclosed under Note 5A to the financial statements. Included in the bank reconciliation statements are payments in bank statements not yet recorded in cash book of Kshs.617,800. However, the payments were made without preparing payment vouchers which contravenes Regulation 99(3) of the Public Finance Management (National Government) Regulations, 2015 which states that every entry in the accounts shall be supported by a voucher or other approved document gazetted by the Cabinet Secretary containing the full details, clear narrations and particulars of the item or items to which it relates.

Under the circumstances, the accuracy and completeness of bank balance of Kshs.439,828,460 as at 30 June, 2021 could not be confirmed.

439. Unsupported Cash and Cash Equivalents

The statement of financial assets reflects a bank balance of Kshs.485,257,615 (2020 – Kshs.421,185,310) as disclosed under Note 5A and 5B to the financial statements. The prior year balance is made up of bank balance of Kshs.420,811,123 and cash balance (Mpesa balance) of Kshs.374,187. As previously reported, the reconciliation statement supporting the bank balance indicated payments in bank statement not in the cash book totalling Kshs.619,500 and payments in cash book not in bank statement of Kshs.2,206,420 and whose clearance status had not been disclosed at the time of conclusion of the audit in October, 2020. In addition, the Mpesa balance of Kshs.374,187 included an opening balance of Kshs.15,000,000 whose supporting documents by way of Mpesa confirmation certificate was not provided for audit review.

Consequently, the accuracy and completeness of the cash and cash equivalents balance of Kshs.421,185,310 reflected in the statement of financial assets as at 30 June, 2020 could not be confirmed

Other Matter

440. Budgetary Control and Performance

440.1 Project Performance

The project information and overall performance under funding summary Note 1.7 reflects donor commitment of Kshs.2,606,284,072 and cumulative amount to date (30 June, 2021) of Kshs.2,256,454,835 resulting to undrawn balance of Kshs.349,829,237. In addition to this undrawn balance, the Project reported cash and cash equivalent of Kshs.485,257,615 bringing the total utilised funds to Kshs.835,086,852 which was

supposed to be refunded to the donor as at the project end date, 30 June, 2021. This is contrary to Section 10.3 (3) of the Global Fund Grant Regulations (2014) which requires that 'within seven months of such expiry or early termination, return to the Global Fund any undrawn grant funds that have not been expended by the Grantee.

Under the circumstances, the planned project activities may not have been achieved and the objectives of the Project to reduce new infections by 75% and to reduce AIDS related mortality by 25% by the year 2021 may not be realized.

441. Variation in Donor Commitments

The project information and overall performance section reflects donor commitment of Kshs.2,606,284,072 (USD.25,303,729). However, budget analysis for the implementation period of forty-two (42) months from 1 January, 2018 to 30 June, 2021 revealed an allocation of Kshs.2,662,994,445 (USD.25,854,315) resulting to under disclosure variance of Kshs.56,710,373 (USD.550, 586) which was not explained or reconciled.

The variance of Kshs.56,710,373 may affect the implementation of the Project's objective of reducing new infections by 75% and to reduce AIDS related mortality by 25% by the year 2021.

442. Irregular Value Added Tax Payments

The statement of receipts and payments reflects purchase of goods and services of Kshs.283,322,452 (2020 - Kshs.438,097,261) as disclosed under Note 4 to the financial statements. As previously reported, the balance of Kshs.438,097,261 includes Kshs.38,208,319 for printing, advertising and information supplies and services out of which Kshs.4,577,869 was Value Added Tax (VAT) paid to suppliers. This is contrary to Section 3.5(1) of the Global Fund Guidelines which categorizes use of grant funds to pay for VAT as non-allowable expense.

To this extent, the Project Management was in breach of the Grant regulations.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

443. Unaccounted for Imprest

The statement of financial assets reflects accounts receivables of Kshs.330,000 (2020 - Kshs.1,312,660) as disclosed under Note 6 to the financial statements. However, the amount has been long outstanding and overdue since financial year 2019/2020. This is contrary to Regulation 93(5) of the Public Finance Management (National Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the same within seven (7) working days after returning to the duty station. Further, Regulation 93(6) provides that in the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank rate.

Consequently, the Project Management was in breach of the law.

444. Non-Compliance to Procurement Procedures

The statement of receipts and payments reflects purchase of goods and services of Kshs.283,322,452 (2020 - Kshs.438,097,261) as disclosed under Note 4 to the financial statements. Included in the amount is Kshs.20,411,659 expenditure on hospitality supplies and services whose analysis of payment vouchers revealed services of Kshs.249,199 from three (3) suppliers evaluated on the basis of only two (2) quotations for each. This is contrary to Section 106 (2)(d) of Public Procurement and Asset Disposal Act, 2015 which states that at least three persons shall submit their quotations prior to evaluation.

Consequently, the Project Management was in breach of the law.

445. Fixed Assets

Audit of the fixed assets including review of the fixed asset register revealed the following unsatisfactory matters;

446. Unutilized Assets

The fixed asset register includes eight hundred and seventy-five (875) different categories of medical equipment out of which four (4) chemistry analysers, four (4) haematology analysers and five (5) immunoassay analyser are spread across different health facilities in the country. However, asset verification exercise done in the month of October, 2021 revealed that these assets have not been put into use.

Under the circumstances, proper needs assessment may not have been performed and the public may be continuously being denied essential services associated with their usage.

447. Stolen Assets

Included in the asset register are six (6) motorcycles and one (1) laptop which were indicated in the asset register and asset verification report to have been stolen. There was no evidence that the Management had replaced them and no Police abstracts were provided to confirm the reporting of the stolen items. This contravenes section 6.4 (2) of the Global Fund Grant Regulations (2014) which requires all lost, stolen or damaged assets be replaced with similar assets of the same quantity and quality at the entity's expense.

To this extent, the Project Management was in breach of the grant regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

448. Purchase of Goods and Services

The statement of receipts and payments reflects purchase of goods and services of Kshs.283,322,452 (2020 - Kshs.438,097,261) as disclosed under Note 4 to the financial statements. The purchase of goods and services includes Kshs.48,143,723 on printing, advertising and information supplies out of which Kshs.17,801,455 was payment to a company that was issued with five (5) local purchase orders (LPO) on 10 March, 2020 although the deliveries were made after the validity period of 90 days.

Under the circumstances, controls on enforcement of contract deliverables was weak.

449. Assets Register

Examination of the fixed assets register revealed twenty (20) vehicles, forty-three (43) motor cycles, ninety-eight (98) laptop computers, two hundred and fifty (250) desktop computers, eight hundred and seventy-five (875) different categories of medical equipment, twelve (12) different categories of electronics, various furniture items and various applications systems. These assets have not been disclosed in the annual report and financial statements under annexes (summary of fixed assets). The register did not include details on purchase prices and the dates of purchase. Physical verification in October, 2021 revealed assets were not tagged and motor vehicles not branded making it difficult to differentiate assets financed by global fund.

To this extent, controls over maintenance of asset register are weak.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

450. As required by Grant Agreement No. KEN-H-TNT GA 1547 dated 01 January, 2018, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

UNITED NATIONS POPULATION FUND (UNFPA) 9TH COUNTRY PROGRAMME FOR KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

451. Unsupported Printing and Stationery

The statement of receipts and payments reflects purchase of goods and services at Kshs.13,537,890 (2020 – Kshs.3,588,140) as disclosed under Note 10.5 to the financial statements. Included in the balance is Kshs.10,434,500 in respect to printing and stationery explained to be printing of Covid-19 job aids, RH policy, care guidelines for HCW and RMNH screening forms. However, a list of supporting documents for distribution of these items to counties indicating the name of the counties, officers involved, work ticket for the vehicles used, signed issue (S11) and receipt (S13) vouchers were not provided for audit.

Consequently, the propriety, accuracy and completeness of printing and stationery balance of Kshs.10,434,500 for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

454. As required by Financing Agreement dated 03 June, 2020, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

COVID-19 EMERGENCY RESPONSE PROJECT GRANT/CREDIT NO.6598-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

455. Inaccuracies in Financial Statements

The financial statement for the year ended 30 June, 2021 submitted for audit contained the following presentation and disclosure errors.

455.1 The statement of cash flow did not include the receipts from operating activities hence it was not prepared as per the financial template provided by Public Sector Accounting Standards Board;

455.2 The statement of cash flow reflects nil balance for change in imprest and advances. However, the statement of financial assets shows change in imprest and advances of Kshs.4,584,175;

455.3 The statement of comparative budget and actual amounts reflects budget utilization difference under total payments of Kshs.2,910,972,564 while casting revealed Kshs.2,906,388,389 resulting to unexplained nor reconciled variance of Kshs.4,584,175.

455.4 The statement of cash flows reflects cash and cash equivalents at end of the year of Kshs.714,744,494 while casting revealed Kshs.710,160,318 resulting to unexplained nor reconciled variance of Kshs.4,584,175.

Under the circumstances, the financial statements do not comply with the reporting template issued by Public Sector Accounting Standards Board.

456. Salary Payments

As disclosed in Note 11.2 to the financial statements, the statement of receipts and payments reflects compensation of employees of Kshs.94,892,917 and nil expenditure for financial year ended 30 June, 2020. Included in the amount is salary payments of Kshs.59,174,166 whose verification revealed that some staff were paid gross monthly allowance of Kshs.75,000 and others paid Kshs.100,000. However, the basis of arriving at these rates was not provided or supported by Salaries and Remuneration Commission guidelines.

Under the circumstances, the accuracy, completeness and validity of salary payments of Kshs.59,174,166 for the year ended 30 June, 2021 could not be confirmed.

457. Cash and Cash Equivalents

As disclosed in Note 11.7 to the financial statements the statement of financial assets reflects bank balance of Kshs.714,744,943 (2020 - Kshs.1,322,627,947). Included in the

bank balance are unpresented cheques of Kshs.361,679,019 out of which Kshs.1,253,687 were stale cheques that had not been reversed in the cash book while the receipts in the cash book not recorded in bank statements totaled Kshs.3,247,042 out of which an amount of Kshs.945,000 described as an overcast of closing balances was not explained nor supported.

Under the circumstances, the accuracy and completeness of bank balance of Kshs.714,744,943 as at 30 June, 2021 could not be confirmed.

Other Matter

458. Unutilized Balance

I draw attention to paragraph 1.7 of the project information and overall performance under funding summary in the financial statements which reflects total commitment of Kshs.5,662,652,356 and total receipts of Kshs.2,518,534,796 resulting to undrawn balance of Kshs.3,144,117,560. Failure to utilize the funds could affect prevention, detection, and response to the threat posed by Covid-19 and public health preparedness with focus now shifting to vaccination.

459. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflect a final budget of Kshs.4,310,268,200 and actual expenditure on comparable basis of Kshs.1,403,879,811 resulting into underutilization of Kshs.2,906,388,389. The receipts realized under performance of Kshs.429,110,409 (or 35%) which could be indicative of possible weakness in meeting donor conditions and enforcement of controls. In addition, the approved budget was not provided as authority to undertake activities for year under review. This is contrary to financing agreement Part B 2(a) which states that the recipient shall no later than thirty (30) days after the effective date, prepare and furnish to the Association a proposed work plan and budget for project implementation.

Under the circumstances, the project may not meet the key objective which is to prevent, detect, and respond to the threat posed by Covid-19 and strengthen national systems for public health preparedness.

My opinion is not modified in respect to the above matters.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

460. Procurement of Printing Supplies and Services

As disclosed in Note 11.3 to financial statements the statement of receipts and payments reflects purchase of goods and services of Kshs.350,380,640 (2020 - Kshs.42,625,987). Included in the expenditure is printing, advertising and information supplies & services expenditure of Kshs.11,708,990. However, these items were not included in the annual procurement plan and there was no evidence of competitive procurement processes. This

contravenes Regulation 71(1) of the Public Procurement and Asset Disposal Regulations, 2020 which states that pursuant to Section 73 of the Act, the head of the user department shall initiate the procurement process through a requisition as per the approved procurement plan.

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

461. Procurement of Other Machinery & Equipment

As disclosed in Note 11.4 to the financial statements the statement of receipts and payments reflects acquisition of non-financial assets of Kshs.158,264,472. The expenditure includes Kshs.148,444,200 on purchase of other machinery & equipment out of which assets worth Kshs.57,941,000 were not included in the annual procurement plan, delivered after the purchase order expiry date and received without evidence of inspection and acceptance. Also, the assets were not taken on charge in store ledger or entered in the fixed asset register.

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

462. Procurement of Hospitality Supplies and Services

As disclosed in note 11.3 to financial statements the statement of receipts and payments reflects purchase of goods and services of Kshs.350,380,640. The amount includes Kshs.17,268,580 paid on hospitality supplies and services. Review of payment vouchers and supporting documentation revealed local purchase orders with a value of Kshs.12,560,580 for provision of conference facilities were issued after the delivery of the services.

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

463. Procurement of Abbot Real Time SARS COVS Testing Kits

As disclosed in Note 11.6 to the financial statements the statement of receipts and payments reflects other grants and transfers and payments of Kshs.719,412,182. The amounts includes Kshs.384,226,829 for supply and delivery of Abbot Real Time SARS COVS Testing Kits that were procured from the manufacturer. It was observed that notification for award and letter of acceptance were both dated 17 June, 2020. However, the Local Purchase Order had earlier been issued on 13 May, 2020 while the contract was signed on 23 June, 2020 while the goods were received on 17 June, 2020.

In the circumstances, the Management did not adhere to the procurement process.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

464. Purchase of ICT Material

As disclosed in Note 11.4 to the financial statements the statement of receipts and payments reflects acquisition of non-financial assets of Kshs.158,264,472 (2020 –

Kshs.109,190,111). The expenditure includes purchase of ICT material of Kshs.6,469,272. However, these items were not included in the assets register and ICT assets worth Kshs.5,171,900 purchased in financial year 2019-2020 were omitted from the summary of fixed assets in 2019/2020 as well as opening balance in the 2020-2021.

In the circumstances, the controls over custody and safeguarding of ICT assets are weak.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

465. As required by Financing Agreement dated 03 April, 2020, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF HEALTH

KENYA HEALTH SECTOR PROGRAMME SUPPORT III (DANIDA REF. 104.KENYA.810.300 – GRANT) – COUNTY GOVERNMENT OF KISII

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

467. Budgetary Control and Performance

The Kenya Health Sector Programme Support III under County Government of Kisii received exchequer totalling Kshs.104,559,200 during the year under review against an approved budget of Kshs.196,122,958, resulting in a shortfall of Kshs.91,563,757or 47%. Further, the Programme had an approved expenditure budget of Kshs.196,122,958 for 2020/2021 financial year but the actual expenditure amounted to Kshs.71,115,562 and thus resulting in an under-expenditure of Kshs.124,978,614 or 64%. The shortfall in revenue by Kshs.91,563,757 or 47% and the under-expenditure of Kshs.124,978,614 or 64% of the budgeted amount implies that the overall goals and objectives of the Programme were not achieved as intended and planned during the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

HEALTH SECTOR SUPPORT PROJECT (CREDIT NO.4771-KE) - KENYA MEDICAL SUPPLIES AUTHORITY (KEMSA)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

470. Interest Payable to DANIDA

The statement of financial position reflects trade and other payables from exchange transactions of Kshs.38,224,311 (2020 – Kshs.38,009,352) as disclosed under Note 6 to the financial statements. Management attributed this to be 9% share of interest earned from financial year 2012/2013 to 2020/2021 payable to DANIDA. However, the sharing of 9% earned interest with DANIDA is not supported by the financing agreement or any approved document.

Consequently, the accuracy, completeness and validity of trade and other payables of Kshs.38,224,311 as at 30 June, 2021 could not be confirmed.

471. Purchase of Assets Equipment and Consumables

The statement of financial performance reflects nil balance on purchase of assets, equipment and consumables against a comparative balance of Kshs.25,046,348. However, as previously reported the supporting schedule for this expenditure reflected Kshs.641,309,540 resulting to a variance of Kshs.616,263,192 which was offset against deferred income without justification.

In the circumstances, the accuracy and validity of nil balance on purchase of assets, equipment and consumables for the year ended 30 June, 2021 and comparative balance of Kshs.25,046,348 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

472. Unresolved Prior Year Matters

472.1 Non-Compliance with Public Procurement and Assets Disposal Act, 2015

As previously reported, the Kenya Medical Supplies Authority (KEMSA) procured 45,500 dispensing plastic resealable envelopes at a cost of Kshs.28,665,000 through tender No.KEMSA/DP03/2019-2021 and pharmaceutical items amounting to Kshs.94,962,092 through tender No.KEMSA/DP15/2018-2020 using direct procurement method. According to the Management, the use of the direct procurement method was aimed at mitigating against stock outs of critical items needed by the counties and that the identified supplier was a not for profit Faith-Based Organization. However, the reasons for using direct procurement method do not satisfy the conditions provided in Section 103(1)(2) of the Public Procurement and Asset Disposal Act, 2015.

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

472.2 Delay in Delivery of Goods

As previously reported, review of procurement contracts entered into between the Authority and suppliers revealed instances of delay in delivery of goods for periods of 2-6 months by six suppliers with total orders of Kshs.19,718,531. The delay in delivery of goods if not addressed could adversely affect timely realization of the project objectives.

472.3 Variation of Contract Price

As previously reported, the contract for supply of chlorhexidine gluconate solution 5% was awarded to a supplier as per framework contract dated 18 October, 2018. The initial quantity was 16,573 units at Kshs.684.50 per unit translating to Kshs.11,344,218. Purchase order No. 819731 and 819732 were issued for supply of 7,500 units and 9,073 units respectively. The supplier delivered only 7,500 units but in the subsequent call off, the supplier agreed to supply additional quantity of 11,070 units at the price of Kshs.684.50. The Authority revised unit price from Kshs.684.50 to Kshs.787.17 based on the 12 November, 2019 supplier request for 15% price variation citing increase in global price of raw materials and fluctuation of foreign exchange rates. Subsequently, the Authority cancelled purchase order No. 819732 for the 9,073 units and issued purchase order No.824031 for 11,070 units at Kshs.787.17 each. This resulted to additional cost of Kshs.931,524 for 9,073 units had they been supplied at Kshs.684.50 each.

In view of the above, the public may not have realized value for money in respect of the varied contract that resulted in additional cost of Kshs.931,524.

472.4 Delay in Distribution of Equipment

As previously reported, the statement of comprehensive income for the year ended 30 June, 2019 reflected purchase of assets, equipment and consumables amounting to

Kshs.400,099,529 out of which equipment valued at Kshs.3,051,499 was still at KEMSA warehouses and had not been distributed for installation and commissioning despite the suppliers having been fully paid. A review of the matter in financial year 2020/2021 indicated that equipment valued at Kshs.511,111 had still not been distributed for installation and commissioning as at 30 June, 2021.

Consequently, the public may not have realized value for money in respect of the undistributed equipment valued at Kshs.511,111 as at 30 June, 2021.

473. Project Closure and Unutilized Funds

The statement of financial position reflects cash and cash equivalents of Kshs.40,655,003 (2020 - Kshs.38,275,254). The project commenced in 21 January, 2014 and ended on 31 December, 2016 but extended to 30 June, 2018. However, no further extension was granted and therefore the expenditures from the project are continuously being incurred without approval from the donor.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

475. As required by Financing Agreement dated 21 January, 2014 International Development Association and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

GLOBAL FUND HIV/AIDS PROJECT GRANT NUMBER KEN-H-TNT-1547– NATIONAL AIDS CONTROL COUNCIL

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

477. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final expenditure budget of Kshs.466,631,023 and actual budget on comparable basis of Kshs.307,576,174 resulting to budget underutilization of Kshs.159,054,849 (or 34%). Failure to achieve the set targets may negatively impact on the strategic goals of reduction of HIV infections by 75%, reduction of AIDS related mortality by 25%, reduction of stigma and discrimination by 50% and increase in domestic financing of HIV response to 50% which may not be realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

478. Irregular Tax on Global Funds

The statement of receipts and payments reflects purchase of goods and services of Kshs.307,576,174 as disclosed under Note 11.4 to financial statements. The amount includes bank charges of Kshs.1,823,510 out which Kshs.229,033 is excise duty. However, charging of excise duty is contrary to article 3.5(1) of the Global Fund grant regulations (2014) which states that for each program, the Grant funds are made available by the Global Fund for the purposes of implementing respective program activities, and the Grant Agreement and the purchase and/or import of any goods or services using the Grant funds shall be exempt from relevant taxation applicable in the host country, including, but not limited to, (a) customs duties, import duties, taxes or fiscal charges of equal effect levied or otherwise imposed on the health products imported into the host country under the Grant Agreement or any related sub-recipient or supplier contract, and (b) the value-added tax levied or otherwise imposed on the purchases of goods and services using Grant funds.

To this extent the Management was in breach of Global Fund Regulations, 2014.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

480. As required by Financing Agreement dated 15 December, 2017, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

EAST AFRICA PUBLIC HEALTH LABORATORY NETWORKING (EAPHLN) PROJECT CREDIT NO.4732 – KE – KENYA MEDICAL SUPPLIES AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

481. Interest Expense

The statement of financial performance reflects interest expense of Kshs.11,343,918 as disclosed under Note 4 to the financial statements. The Management attributes the interest expense of Kshs.11,343,918 to interest income earned on the bank balances for the period 2012 to 2019 which was being refunded to the National Treasury. However, the computation and the treatment of the interest income over the project period could not be established. The recognition therefore contravenes IPSAS 9(33) which states revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized when (a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and (b) the amount of the revenue can be measured reliably; and IPSAS 9(34)(a) which states that interest should be recognized on a time proportion basis that takes into account the effective yield on the asset.

Under the circumstances, the propriety, accuracy and completeness of interest expense of Kshs.11,343,918 for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

482. Project Closure

A review of the financing agreement indicates that the Project was expected to come to an end on 30 September, 2020. However, the Project account has not been closed to date without any explanations. Failure to close the project contravenes Regulation 74(6)(c) of the Public Finance Management (National Government) Regulations, 2015 which states that an accounting officer of a national government entity shall ensure that whenever projects are completed, the project assets including buildings, plant, vehicles, furniture, fittings and equipment are properly recorded and handed over to the accounting officer in accordance with the financing agreement.

Consequently, the Project Management was in breach of the law.

483. Preparation and Presentation of CR. No.4732(KEMSA) and CR. No.5616 (MOH) Financial Statements

The financing agreement of the East Africa Public Health Laboratory Networking (EAPHLN) Project Credit No.4732 KE between Republic of Kenya and International Development Association was signed on 05 July, 2010. In 2015 additional Subsidiary Financing Agreement for the East Africa Public Health Laboratory Networking Project Credit No.5616-KE was signed on 10 November, 2015. The Management prepared two (2) sets of financial statements under these financing agreements. However, the financing agreement signed on 10 November, 2015 stated under Appendix Section I Paragraph 21 on definitions, that "original financing agreement means the financing agreement for the East Africa Public Health Laboratory Networking Project between the recipient and the association, (Credit No.4732 KE)" and also under Section 5.01 of credit No.4732 - states the additional condition of effectiveness consists of the Subsidiary Agreement.

Consequently, the Management has not provided explanations for preparing the two separate sets of financial statements for the same project contrary to the position of the agreements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

485. As required by Financing Agreement Credit No.4732 - KE dated 05 July, 2010, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements are in agreement with the accounting records and returns.

A CASE STUDY ON INTEGRATED DELIVERY OF SELECTED NON-COMMUNICABLE DISEASES IN KENYA (PHGF GRANT NO. TFOA5636) - MOI TEACHING AND REFERRAL HOSPITAL

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

486. Unsupported Amendments to the Revised Financial Statements

The financial statements submitted for audit on 27 September, 2021 reflect total receipts and total payments of Kshs.58,579,636 and Kshs.112,537,682 while the revised financial statements submitted on 19 November, 2021 reflect total receipts and total payments of Kshs.58,586,926 and Kshs.56,962,659 respectively. However, the amendments have not been supported by any approved journal vouchers. Further, the statement of receipts and payments, the statement of financial assets and the statement of cash flows for the year ended 30 June, 2021 reflect a column headed 2020-2021 restated which is not provided for under paragraph 47 of the International Public Sector Accounting Standards No.3 – Accounting Policies, changes in accounting estimates and errors.

Consequently, the validity, accuracy and completeness of the amendments of the financial statements for the financial year 2020/2021 submitted for audit could not be confirmed.

487. Cash and Cash Equivalents

The statement of financial assets as at 30 June, 2021 reflects a cash and cash equivalents balance totalling Kshs.76,856,172 and as disclosed in Note 12.1 to the financial statements. However, no distinct cash book was maintained for the Project's bank account in the year under review. The operations were instead accounted for in the cash book for a project named Academic Model Providing Access to Healthcare (AMPATH) and which served several other projects implemented by the Hospital. Analysis of the Project's receipts and expenditures for the year under review reflected in the AMPATH cash book did not tally with the cash and bank balance totalling Kshs.76,856,172, reported in the Project's statement of financial position as at 30 June, 2021. In addition, Note 12.1 supporting cash and bank balance includes a balance of US$ 500,000 held in Special Deposits Account No.1000354518, held at Central Bank of Kenya which had not been released to the project account and was disclosed under Special Deposits Accounts Movement Schedule. The special account supporting documents were not provided for audit verification.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.76,856,172 as at 30 June, 2021 could not be confirmed.

Other Matter

488. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects approved budgeted receipts funded by proceeds from domestic and foreign grants and budgeted expenditure totalling Kshs.105,300,013, respectively for the year under review. Records examined indicated that the Project Management incurred expenditure totalling Kshs.56,962,659 or 54% of the budget, resulting in an under-expenditure of Kshs.48,337,354 or 46% of the budget. As a result, some of the Project's activities/programmes planned for the year were not implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

489. Audit Fees

Annex 3(A) to the financial statements discloses pending bills of Kshs.93,030,320 which excludes external audit fees provided for under both the financing agreement as stipulated at article III at 3.01 and 3.02. Although the management has explained through undated, unsigned Financial Management Implementation Support and Supervision Report - December 2019, that the item should not be budgeted for since the service would be provided by the Office of the Auditor General, the validity and legality of this argument could not be confirmed.

490. Compensation of Employees

The statement of receipts and payments for the year ended 30 June, 2021 reflects compensation of employees' figure of Kshs.34,293,071 which includes Kshs.2,339,679 paid as leave allowances to contracted staff in the month of January, 2021.However, the contract documents do not include leave allowances as part of packages to the Project staffs. In addition, section 5.1.3 of the AMPATH Human Resources Policies and Procedures Manual states that annual salary increments will be done as per contract. Further, salaries paid to the same staff were reviewed upwards for six months from beginning of November to July, contrary to the contract terms which didn't provide for salary reviews for the contract period.

Consequently, the Project Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR INFRASTRUCTURE – VOTE 1091

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

493. Budgetary Control and Performance

During the year under review, actual receipts for the State Department amounted to Kshs.187,394,597,013 against an approved receipts budget amount of Kshs.200,530,786,903 resulting to a shortfall in receipts of Kshs.13,136,189,890. In addition, the State Department under-spent its overall budget amount by Kshs.13,228,100,925 which mainly occurred under the components related to use of goods and services at Kshs.822,414,945, social security benefits at Kshs.520,529 and acquisition of assets at Kshs.8,141,846,118.

The State Department's goals and objectives for the year may not have been achieved as some planned programs were not undertaken which impacted negatively on service delivery to the citizens.

494. Loss of Asset

As previously reported, the summary of fixed assets register at Annex 1 reflects other machinery and equipment balance of Kshs.175,384,079 as at 30 June, 2021. Included in the balance is an amount of Kshs.6,538,892 being the value of motor vehicle GKB 211J belonging to the Kenya Institute of Highways and Building Technology (KIHBT) that was reported stolen on 3 July, 2020. Although the case was reported at Makadara DCIO and the matter is said to be under investigation, the vehicle had not been recovered as at the time of audit.

In the circumstances, the accuracy of the balance of Kshs.175,384,079 reflected under other machinery and equipment could not be confirmed.

495. Lack of Fixed Assets Register

Annex 1 on summary of fixed assets register reflects total assets valued at Kshs.24,091,984,653 as at 30 June, 2021. Management however did not provide a fixed assets register as at 30 June, 2021 to support the figure listed in the financial statements.

In the circumstances, the accuracy of fixed assets balance of Kshs.24,091,984,653 as at 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

496. Human Resource Management-Lack of Annual Recruitment Plan and Over Establishment in Some Cadres

During the year under review, the State Department recruited twenty-nine (29) new members of staff. However, no annual recruitment plan was provided for audit to justify the need for recruitment. In addition, the newly recruited staff had not been included in the Integrated Payroll and Personnel Database (IPPD) system by the time of audit in November, 2021. Further, the State Department exceeded the approved staff establishment in various cadres by 129 staff. No justifiable explanation was provided for the overstatement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DONOR FUNDED PROJECTS

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

498. Cash and Cash Equivalents

Review of the cash and cash equivalents balance as at 30 June, 2021, revealed the following anomalies:

498.1 Variance Between Financial Statements and Cash Book

As disclosed in Note 4 to the financial statements, the statement of financial assets reflects a bank balance of Kshs.50,065,126 which differs with the cash book balance of Kshs.48,081,317 as at 30 June, 2021 resulting to an unexplained variance of Kshs.1,983,809. Further, bank reconciliation statement for June, 2021 reflected a bank balance of Kshs.50,065,126 which differed with Kshs.51,522,285 shown in the certificate of bank balance leading to an unexplained variance of Kshs.1,457,158.

498.2 Payments in Cash Book not in Bank Statements

The bank reconciliation statement as at 30 June, 2021 reflects an amount of Kshs.674,023 in respect of payments in cash book not in bank statement which includes two payments made to the Kenya Revenue Authority (KRA) totalling Kshs.302,785 dating back to the year 2017 and another payment to an Officer of the project of Kshs.241,183 paid in 2019. These payments were all stale as at 30 June, 2021 and should have been written back into the cash book. In addition, the bank reconciliation statements includes entries totalling Kshs.130,055 described as cash book overcasts which should have been adjusted in the cash book instead of being captured as reconciling items.

498.3 Receipts in Bank Statements not in Cash Book

The bank reconciliation statement as at 30 June, 2021 reflects receipts in bank statements not in cash book of Kshs.1,439,059. Included in the amount is an entry of Kshs.620,400 dating back to 2017 which was not explained. The balance also includes two amounts described as local cash deposit bulk of Kshs.18,659 and Kshs.800,000 dated 25 November, 2018 and 24 January, 2020 respectively. The nature of these receipts and reasons for their posting in the cash book was not provided.

498.4 Payments in Bank Statements not in Cash Book

The bank reconciliation statement as at 30 June, 2021 reflects payments of Kshs.129,273 in bank statements not in cash book which comprise of two items dating back to 2019. No supporting documents or explanation were provided for these long outstanding payments.

In the circumstances, it was not possible to confirm that cash and cash equivalents balance of Kshs.50,065,126 as at 30 June, 2021 was fairly stated.

499. Special Account Reconciliation

The statement of receipts and payments reflects Kshs.211,861,456 in respect of total receipts for the year which includes Kshs.77,128,596 (USD 704,984) as loan from development partners (controlled by the entity) representing amounts drawn from the special account maintained at the Central Bank of Kenya. However, review of the special account statements and the accompanying reconciliation revealed that a total of Kshs.77,207,250 (USD 919,638.13) was drawn to fund Project activities during the year leading to an unreconciled variance of Kshs.78,654 (USD 214,654).

Consequently, it has not been possible to confirm the fair statement of the Kshs.77,128,596 reported as loan receipts from development partners (controlled by the entity) during the year ended 30 June, 2021.

Other Matter

500. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.693,352,000 and Kshs.211,861,456 respectively, resulting in under-funding of Kshs.481,490,544 equivalent to 70% of the approved budget. Similarly, the project expended Kshs.198,911,274 against an actual receipt of Kshs.211,861,456 resulting to under-expenditure of Kshs.12,950,182 or 6% of the approved budget.

Failure to receive the budgeted funding and the resultant under-expenditure implies that some of the planned project activities were not implemented thereby denying effective services to the citizens.

501. Long Outstanding Inter-Project Borrowings

Notes 5 and 6 to the financial statements reflects amounts of Kshs.1,336,335 and Kshs.4,167,891 in respect of advances and accounts payable for Kenya Transport Sector Support Program (KTSSP) and National Urban Transport Improvement Project (NUTRIP) respectively which remained unchanged from the previous financial year. Management has explained that the amounts relate to inter-project borrowings and that the two projects have since been closed. However, no efforts have been demonstrated towards clearing of the balances arising from inter-project borrowings.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

506. Unsupported Budget Amounts

The statement of comparative budget and actual amounts reflects a final budget of Kshs.196,822,567 against actual total expenditure of Kshs.55,851,455. However, the Project management did not provide the approved detailed budget for the Project.

It was therefore not clear how the budget figures in the statement of comparative budget and actual amounts for the Project were arrived at.

507. Project Implementation-Low Absorption Rate

Section 1.8 of the annual report and financial statements on funding summary shows that the Project duration is 5 years or 60 months from 2018 to 2024, with an approved budget of EUR 9,280,000 equivalent to Kshs.1,086,168,320. As at 30 June, 2021, the Project had received EUR 1,802,658.68, equivalent to Kshs.196, 822,567 or 18% of total budgeted funds, with lapsed Project duration of 30 months equivalent to 50% of the total Project duration. Further, out of the total amount received as at 30 June, 2021, only Kshs.48,830,761 had been spent on project activities representing a 25% absorption rate. In view of the above, the Project is clearly behind schedule and it is unlikely that the set timelines will be achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

508. Lack of a Fixed Assets Register

Annex 2 – Summary of Fixed Assets Register, reflects a balance of Kshs.5,589,325 as the closing cost of the Project's fixed assets as at 30 June, 2021. However, contrary to Regulation 143(1) of the Public Finance Management Regulations, 2015, the Project Management did not avail a register of assets for audit purposes.

In the circumstances, Management was in breach of the law and the accuracy and existence of the total fixed assets balance of Kshs.5,589,325 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND NO. 5410-KE)

Basis for Qualified Opinion

511. Accuracy of the Financial Statements

The statement of receipts and payments for the year ended 30 June, 2021 reflects Nil transactions for receipts and payments in the year, however, and even though the Management confirmed that the project came to an end in 2019, available information indicates that an amount of Kshs.8,001,161 was paid to a local Company on 21 October, 2020 in respect of an outstanding bill after closure of the project and was settled through GoK development budget.

In the circumstances, the accuracy of the Nil figure reported in the statement of receipts and payments for the year ended 30 June, 2021 could not be confirmed.

Other Matter

512. Project Closure Report

The project information and overall performance for the year ended 30 June, 2021 indicates that the project was started on 24 August, 2011 and was to end on 31 December, 2019. However, a project closure report had not been prepared and submitted for audit review two years after the closure period of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

513. Late Submission of Financial Statements

The Management submitted the Project's financial statements for audit on 16 November, 2021 contrary to the provisions of the Public Audit Act, 2015 Section 47(1) which states that 'the financial statements required under the Constitution, the Public Finance Management Act, 2012 (No.18 of 2012) and any other legislation, shall be submitted to the Auditor-General within three months after the end of the fiscal year to which the accounts relate.'

The Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

517. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.80,000,000 and Kshs.19,678,155 respectively resulting to a shortfall of Kshs.60,321,845 or 75% of the budget. In addition, out of the Kshs.19,678,155 received, only Kshs.4,090,058 was utilized leaving the balance of Kshs.15,588,097 unspent. The underfunding and failure to utilize the realized funds may lead to the project's activities not being fully implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

518. Lack of Approved Annual Work Plan for the Project

Section 1(E) of the financing agreement requires the implementing entity to prepare and furnish International Development Association (IDA) with a consolidated work plan and budget for the project not later than 31 March of each fiscal year beginning in the year 2021. It further provides that, the consolidated work plan/budget shall contain all activities

proposed to be implemented under the project and the related financing. However, management did not present for audit the consolidated work plan/budget approved for implementation by the Association.

In the circumstances, Management did not fully comply with the terms of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

520. As required by International Development Association and financing agreement for Credit No. 6768-KE I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE STATE DEPARTMENT FOR INFRASTRUCTURE

SUPPORT TO ROAD SECTOR POLICY: 10TH EDF RURAL ROADS REHABILITATION PROJECT IN KENYA (AGREEMENT NO. KE/FED/023-571) – KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

522. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects an approved receipts budget of Kshs.404,900,000 against actual amount of Kshs.147,809,147 resulting in a

shortfall in receipts of Kshs.257,090,853. Similarly, overall, the Project under-spent its budget amount by Kshs.185,351,341. The under expenditure mainly occurred under the components related to consultancy at Kshs.104,836,892 and road works at Kshs.80,422,071 and operating costs at Kshs.92,379.

In view of the above under expenditure, the Project's targets and objectives for the year under review may not have been achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

523. Abandoned Works

523.1 Lot 1: Kyeni – Kathanjure - Karurumo Road Works

The contract for construction of Lot 1 in respect of Kyeni-Kathanjure-Karurumo Road was awarded to a Contractor on 5 October, 2015. The contract sum was Kshs.231,570,571 covering 10.2 km. The project completion date was revised to19 December, 2017 (An additional 216 days), leading to delayed project implementation. However, the project was abandoned and subsequently terminated on 8 June, 2021. As at the time of termination, the Contractor had been paid accumulated payments amounting to Kshs.172,117,546 being 74% of the contract price. Records provided in respect of the Project indicate that a no objection letter was done to EU, to allow a negotiated procedure to procure new contractors for the works following the early termination of the contractor. There was no evidence whether a new contractor had been procured as at the time of the audit.

523.2 Lot 2: Chuka- Kaanwa -Kareni Road

Kaanwa-Kareni Road Project was awarded to a contractor on 5 October, 2015. The contract sum was Kshs.537,264,086 covering 28 km. Records provided for audit indicate that the contractor has been paid accumulated payments amounting to Kshs.231,022,802 being 42% of the contract price as at 30 June, 2021. The project initial completion period was two (2) years but a revised completion date of 10 June, 2019 was agreed upon. However, the project was abandoned and subsequently terminated with effect from 8 June, 2021. Information provided indicate that a no objection was done to Financier to allow use of negotiated procedure to procure new contractors for the works following the early termination of the contract. There was no evidence as to whether a new contractor had been procured as at the time of the audit.

523.3 Lot 5: Katuaa-Kee-Nunguni Road (20.5 km)-Makueni County

The Authority awarded tender to a local contractor for construction of 20.5 Km Katuaa-Kee-Nunguni Road in Makueni County at a contract sum of Kshs.362,001,255. Physical verification on the road works conducted in October, 2021 indicated that the contractor had completed 9.7 Km of 20.5 Km road to asphalt concrete which is 47 of the contract

having been paid a total of Kshs.255,314,503 equivalent to 70% of the contract sum. The project is therefore behind schedule and the funds are almost exhausted as the revised contract period had elapsed.

In addition, physical verification of the road indicated that there are cracks on some sections of the road, approximately 1 Km which could be attributed to poor workmanship or failed asphalt concrete mix. It was also noted that trial section of about 200M failed near Kee Market and the section had not been done by the time of verification. The asphalt concrete surfacing was not continuous as there were gaps in some sections of the road and the contractor was not on site and no work was going on. Money on these Projects have not been achieved.

In review of foregoing, value for money on these roads have not been achieved.

524. Vacation of Site by the Consultant

Review of Project's documents indicated that consultancy and supervisory services provider vacated the site as per letter Ref No:KeRRA/03/5/VOL.1/(2497). The letter emphasized that this was due to exhaustion of funds despite the fact that the works had not been concluded as some were still outstanding.

This situation could adversely impact on the quality of work done by the contractors.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NUNO-MODOGASHE ROAD PROJECT – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

528. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.100,000,000 and Kshs.1,492,600 respectively resulting to under-funding of Kshs.98,507,400 or 99% of the budget. Further as disclosed in the project information under Note 1.7 on funding summary, the donors committed an amount of Kshs.6,773,847,400 for utilization under the project but as at the close of the project only Kshs.4,207,863,488 was utilized resulting to an undrawn amount of Kshs.2,565,983,912. Similarly, the Project expended Kshs.1,492,600 against an approved budget of Kshs.100,000,000 resulting to under-expenditure of Kshs.98,507,400 or 99% of the budget. Failure to fund the activities of the Project may lead to Project objectives not being met.

529. Pending Bills

According to Note 11.6 to the financial statements, the Project had pending accounts payable of Kshs.575,470,814 (2020:Kshs.575,470,814) as at 30 June, 2021. Although Management had explained that the bills were awaiting submission of payment certificates from the contractor, the bills had not been settled at the close of the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENOL-SAGANA-MARUA HIGHWAY IMPROVEMENT PROJECT (P-KE-DBO-037) CREDIT Nos.5050200000901 AND 20020004504 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

533. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.42,161,578 as at 30 June, 2021. Although the Management has committed to liaise with the line Ministry and the National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

534. Lack of Project Budget

During the year under review, the Project had an approved budget of Kshs.3,654,552,708. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended. Consequently, it was not possible to conduct budget performance analysis on budgeted and actual amounts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

537. As required by African Development Fund (ADF), except for the effects of the matter described under Other Matter section of my report, I report based on my audit, that I have obtained all the information and explanations which, to the best of my

knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

NAIROBI OUTER RING ROAD IMPROVEMENT PROJECT NO. P-KE-DB0-020 – KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

539. Interest on Late Payments

Review of interim payment certificate (IPC) No.48 approved in December, 2020 revealed that an amount of Kshs.34,715,982 had been charged by the contractor as interest on delayed payments. This charge arose due failure by the Authority to settle contractor's dues within the timelines stipulated in the contract agreement and has no commensurate benefit to the citizens.

Interest on delayed payments is a nugatory cost which is avoidable and is not a proper charge to public resources.

540. Pending Bills

Note 6 to the financial statements reflects pending bills totalling Kshs.418,926,708 and as analyzed under Annex 3. Although this was a decrease from an amount of Kshs.710,123,917 reported in the previous year, the Project is at risk of incurring additional costs in form of interest and penalties for failure to settle project related costs as and when they fall due.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

543. As required by Financing Agreement Loan No. 2100150030144 and Grant No. 2100155026117, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

UPGRADING OF KIBWEZI-MUTOMO-KITUI ROAD PROJECT - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

544. Unsupported Expenditure

The statement of receipts and payments and Note 12.2 to the financial statements reflects an expenditure of Kshs.1,501,838,874 incurred in acquisition of non-financial assets paid by third parties during the year. However, no supporting documents were provided for audit to confirm the disbursements as required by Article 5(clause 5.3) of the buyer credit loan agreement.

In the absence of adequate relevant supporting documents, the accuracy, completeness and regularity of the expenditure of Kshs.1,501,838,874 could not be confirmed.

545. Interest on Delayed Payments

Review of interim payment certificate No.5b of 2 February, 2021 revealed that that the company that had been awarded the contract charged the employer interest on delayed payments amounting to 215,284,609 during the year and which should have been avoided since the Project had enough funding at the time.

The interest payments were therefore, an irregular charge to public funds.

546. Pending Bills

Annex 3 to the financial statements reflects a pending bills balance of Kshs.1,920,289,734 as at 30 June, 2021. However, review of pending bills analysis revealed the following anomalies;

i. An amount of Kshs.38,650,265 which was payable during the year from counterpart funds to Sinohydro Corporation Ltd under interim payment Certificate Number 8 was not paid.

ii. Payment of Kshs.219,018,169 was made by the Lender during the year for which no supporting documents were provided for audit review.

iii. An amount of Kshs.5,765,256 relating to lease of 11.74 acres of land to KeNHA by Kenya Forest Services in respect of wayleave for construction and maintenance of Kibwezi Road interchange was not disclosed in the financial statements.

In the circumstances, the completeness, accuracy and validity of the pending bills of Kshs.1,920,289,734 could not be confirmed.

Other Matter

547. Delayed Payments to Persons Affected by the Project

Annex 3 to the financial statements reflects a pending bills balance of Kshs,1,920,289,734 as at 30, June 2021. The balance includes an amount of Kshs.1,643,235,886 for acquisition of land from persons who were affected by the implementation of the project which had not been paid.

In the circumstances, the project risk losing funds through award of damages and interest in legal disputes with the affected persons.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DUALLING OF MAGONGO ROAD PHASE 2 PROJECT – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

550. Unsupported Receipts from Government Entities

Note 1 to the financial statements reflects Kshs.1,152,106,668 in respect to transfers from other Government entities. However, the supporting documents provided was in form of exchequer requisitions made during the year which amounted to Kshs.1,679,382,094 resulting into an unexplained difference of Kshs.527,275,426.

In the circumstances, the accuracy, completeness and validity of receipts from other Government units could not be confirmed.

551. Unreconciled Retentions Balance

The payables-deposits and retentions and as disclosed under Note 6 to the financial statements reflect a balance of Kshs.64,308,620 as at 30 June, 2021. However, review of the last contractor's interim payment certificate, No. 5 revealed that retentions totalling Kshs.72,999,481 had been deducted from contractor's payments leading to an unexplained variance of Kshs.8,690,861.

Consequently, it was not possible to confirm if payables- deposits and retentions balance of Kshs.64,308,602 as at 30 June, 2021 was fairly stated.

552. Unexplained Variance in Surplus for the Year

The statement of receipts and payments reflects surplus for the year of Kshs.31,261,628, whereas the statement of financial assets shows a surplus of Kshs.8,690,882 resulting into an unexplained variance of Kshs.22,570,746.

In the circumstances, the fair statement of surplus for the year could not be ascertained.

553. Misstated Fund Balance Brought Forward

The statement of financial assets reflects nil balance in respect to fund balance brought forward from the previous year. However, audited financial statements for 2020 financial year indicated that the Project reported a surplus of Kshs.41,737,874 which should have been disclosed as fund balance brought forward.

Consequently, the fund balance is not fairly stated in the financial statements.

Other Matter

554. Delay in Completion of the Project

The Project commenced on 1 May, 2018 with the expected completion date of 1 May, 2020 as the contract period was 24 months. The contractor was later granted 476 days extension of time which revised the expected completion date to 20 August, 2021. However, physical verification of the Project which was cconducted in 21 October, 2021 revealed that works were still ongoing with an overall progress approximated at 83%. In addition, it was noted that the Project supervision contract had been extended twice due to delay in completion, occasioning an increase in the awarded contract price from Kshs.97,236,900 to Kshs.126,312,917 representing an increase of Kshs.28,986,017 or about 30% of the original cost.

In view of the foregoing, delayed completion of the project has occasioned extra costs since it is not clear when the project will be completed.

555. Pending Bills

Note 12.1 under Other Important Disclosures reflects pending bills totalling Kshs.1,496,072,975 analysed in Annex 3A. The Management explained that it was liaising with the line Ministry and The National Treasury to obtain adequate budgetary allocation to secure exchequer releases for prompt payments of the pending bills in the subsequent financial year. However, the Project is at risk of incurring extra costs in interest and penalties due to continued delay in settling the outstanding bills.

556. Notice of Suspension of Works Due to Delayed Demolitions of Structures

On 21 October, 2021, the contractor issued a notice of suspension of works to their employees for a period of between three (3) and Six (6) months with effect from 23 November, 2021 due to delay in demolition of structures encroaching on the Project site which inhibited the continuation of work. Management did not explain efforts put in place to secure demolition of the structures to forestall suspension of work.

Suspension of works will lead to further delay in completion of the project and may also attract extra charges from the contractors.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KAPCHORWA-SUAM-KITALE AND ELDORET BYPASS ROADS (KENYA) PROJECT ID NO. P-Z1-DB0-183 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

560. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.999,981,672 as at 30 June, 2021. Although the Management has committed to liaise with the line ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

561. Lack of Project Detailed Budget

During the year under review, the Project had an approved budget of Kshs.1,825,212,548. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

Consequently, it was not possible to conduct budget performance analysis on budgeted and actual amounts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MOMBASA PORT AREA ROAD DEVELOPMENT PROJECT – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

565. Unsupported Expenditure

Note 4 to the financial statements reflects acquisition of non-financial assets expenditure of Kshs.686,105,936 relating to construction of roads. The expenditure was however, not supported with entries in the ledger, payment vouchers and interim payment certificates.

Consequently, the accuracy, completeness and propriety of the expenditure of Kshs.686,105,936 could not be confirmed.

566. Nugatory Expenditure

Included in the pending bills balance of Kshs.4,789,660,357 as recorded under Annex 3A is Kshs.19,959,349 relating to interest charged, which arose from delayed payments. The payment of interest on defrayment of delayed payments leads to loss of Government funds which could have been avoidable.

567. Unsupported Bank Balance

Note 5A to the financial statements reflects cash and cash equivalents balance of Kshs.82,691,214 as at 30 June, 2021. However, bank certificate provided for audit included other Projects' balances totalling to Kshs.214,265,448 as at 30 June, 2021 and which made it difficult to isolate the correct balance for the Project.

In the circumstances, it was not possible to confirm that cash and cash equivalents balance of Kshs.82,691,214 as 30 June, 2021 was fairly stated.

Other Matter

568. Delays in Land Compensation

Review of progress reports for the contract's packages 2 and 3 revealed delays in land compensation as a major cause of delay in project implementation with Kshs.3,673,011,232 out of the Kshs.5,708,116,715 as captured at Annex 3A on pending bills still outstanding. Delayed project implementation may lead to additional cost due to inflation and resultant interest payable to beneficiaries.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

569. Foreigners Engaged in the Project without Work Permits

The review of expatriate staffs' records revealed that they did not have valid work permits as required by Section 40 of the Kenya Citizenship and Immigration Act, 2011 on employment of foreigners. This is likely to pose security risk since the workers were not vetted as required and hence violation of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE II (MARSABIT-TURBI ROAD) ID NO. P-Z1-DBO-027 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

571. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a bank balance of Kshs.3,090,827 as at 30 June, 2021. As disclosed at Note 10.9A to the financial statements, the balance

was held at NIC Bank Account No.1000015004. However, Management did not provide bank reconciliation statement and the cash book to support the balance.

In the circumstances, it was not possible to confirm that cash and cash equivalents balance of Kshs.3,090,827 as at 30 June, 2021 was fairly stated.

Other Matter

572. Pending Bills

As disclosed under Note 11 and Annex 3A, the financial statements disclose pending bills balances of Kshs.62,165,683 against a bank balance of Kshs.3,090,827 as at 30 June, 2021. Management has not explained how these bills will be cleared since the Project has closed and may not attract further funding from the Development partner or the Kenya Government.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT PHASE III (TURBI - MOYALE) NO. P-ZI-DB0-095 LOAN NO. 2100150025546 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

577. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.17,533,871 as at 30 June, 2021 , the bills had not been paid at the end of the financial year and the project management has not liaised with the line Ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MOMBASA–MARIAKANI HIGHWAY PROJECT LOT 1 (MOMBASA-KWA JOMVU) LOAN NO. 2100150032743 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

581. Unsupported Transfers from Government Entities

Note 1 to the financial statements reflects Kshs.248,755,305 in respect to transfers from other Government entities. However, the supporting documents provided by way of exchequer requisitions and bank statements revealed that an amount of Kshs.302,681,906 was requested for the Project during the year under review but which could not be linked to actual receipts resulting to an unexplained variance of Kshs.53,926,601. It was therefore, not clear how the Management of the implementing Authority determined the receipts attributable to the Project.

In the circumstances, it has not been possible to confirm the completeness, accuracy and validity of Kshs.248,755,305 in respect to receipts from other Government entities.

582. Unreconciled Retention Funds

The statement of financial assets and liabilities and Note 6 to the financial statements reflects a balance of Kshs.15,033,144 in respect to retention funds controlled by the entity which, when added to the Kshs.418,033,205 reflected as retentions controlled by third parties under other important disclosures at Note 12.2, gives a combined figure of Kshs.433,066,349. However, examination of the last interim payment certificate No.29 of 28 May, 2021 revealed that, a total of Kshs.427,436,817 had been retained from the contractor's payments implying that there is an overstatement of the retentions balance by Kshs.5,629,532.

Consequently, the financial statements do not reflect the correct position on retentions as at 30 June, 2021.

583. Undisclosed Surpluses

The statement of financial assets and liabilities reflects nil amounts under both fund balance brought forward and surplus for the year. However, the statement of receipts and payments reflects Kshs.434,525 and Kshs.15,033,144 as surplus for the year and cumulative surpluses respectively which should have also been included in the statement of financial assets and liabilities.

In the circumstances, it was not possible to ascertain the fair statement of the financial position of the Project as at 30 June, 2021.

Other Matter

584. Delayed Project Completion

Kenya National Highways Authority entered into a 42 months contract for construction of Mombasa-Mariakani Project with Third Engineering Bureau of China in July, 2016 at a contract sum of Ksh.6,016,868,260. The works commenced on 4 February, 2017 with an initial contract period of 30 months and was later extended by 13 months to bring the revised completion date to 3 September, 2021. However, physical verification of the project site, which was carried out in October, 2021 after the lapse of revised completion date, revealed that works were still ongoing with overall progress approximated at 95%.

In the circumstances, implementation of the Project was behind schedule which may lead to costs escalation and delayed realization of expected benefits.

585. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.451,001,811 as at 30 June, 2021 and as analysed in Annex 3A. The balance represented an increase from a figure of Kshs.133,575,356 reported in 2020 financial year by Kshs.317,426,455. The Management explained that it was liaising with the line Ministry and The National Treasury to secure adequate budgetary allocation and exchequer releases to enable prompt payments of the pending bills in the subsequent financial year.

However, there is a risk of incurring additional significant costs in terms of interest and penalties due to continued delay in settlements of Project obligations.

586. Lack of Site Access Due to Legal Disputes

A physical verification of the Project carried out in 21 October, 2021 revealed that, works in a section of the road namely, Kwa - Jomvu interchange had stalled since the year 2016 due to two on-going Court cases. The first Court case No.157 of 2015 was filed by a local company which led to stoppage of construction of interchange reinforced earth wall, ramp, the main road and slip road while another Court case No.106 of 2015 was filed by another Investment Company which stopped demolition of a walling structures encroaching on the road reserve.

In the circumstances, completion of road works in the affected sections is doubtful which not only undermines realization of benefits from the Project but could also lead to additional costs in form of claims by the contractor due to lack of access to the construction site.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

EPC/TURNKEY CONSTRUCTION OF FIVE FOOTBRIDGES AND T-MALL FLYOVER IN MOMBASA AND LANGATA ROADS PROJECT LOAN CREDIT NO.KEN-01001-19 AND NO.KEN-02001-19 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

591. Change in Project's Initial Scope due to Conflict in Design and Overlap with Another Project

The initial scope of the project as per the commercial contract signed on 12 March, 2018 was for construction of five foot-bridges three of which were to be along Mombasa road and the remainder in Langata road. The footbridges which were to be constructed along Mombasa road were Mlolongo foot bridge-Mombasa road, Syokimau Estate Foot Bridge-Mombasa road and Syokimau Railway station foot Bridge-Mombasa road.

However, construction of the three (3) footbridges along Mombasa road was later deemed untenable due to what was said to be design conflicts with another project on the same

road for construction of Nairobi Expressway which came up in 2020. It was later agreed that the construction of the three footbridges be shifted from Mombasa road to Lang'ata road. According to a letter Ref: MOTIHUD&PW/A35.34 Vol. 1 from the Principal Secretary of the line Ministry to the Solicitor General dated 9 April, 2021, the relocation of the footbridges did not have any effect on the project contract sum as the reduced dimensions of the footbridges would compensate the contractors for the costs already incurred on the same. However, management did not provide detailed costings to support this conclusion. In addition, it was not clear why the two projects implemented by the same Authority ended up having overlapping/conflicting scope and why this was not foreseen.

The foregoing is indicative of weaknesses in project planning and implementation on the part of implementing Authority which could lead to delayed implementation and occasion wastage of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

IMPROVEMENT OF RURAL ROADS AND MARKET INFRASTRUCTURE IN WESTERN KENYA PROJECT CREDIT NO. BMZ 2007-65 123 (KFW) – KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

594. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.25,584,782 against the budget amount of Kshs.300,000,000 resulting to a shortfall in receipts of Kshs.274,415,218 or 91% of the approved budget. Further, actual expenditure for the year amounted to Kshs.13,262,130 against the final expenditure budget of Kshs.300,000,000 resulting to an under expenditure of Kshs.286,737,870 or 96% of the approved budget. The under expenditure of Kshs.286,737,870 is an indication that some planned programs were not undertaken

during the year which could impact negatively on the attainment of the overall Project's goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA - SOUTH SUDAN LINK ROAD PROJECT (REF. NO.202062065 AND BMZ NO.202083939) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

599. Slow Uptake of Loan Disbursements

Note 1.7 on the funding summary indicates that of the total funding requirement of Kshs.12,607,122,471 for the Project, Kshs.12,604,345,250 was to be received from KfW Frankfurt am Main ("KfW"). However, as at 30 June, 2021, only Kshs.25,108,356 had been drawn despite the Project having been in existence for four and half (4.5) years. It

was further noted that the implementing agency (Kenya National Highways Authority) entered into a sixty-six (66) months' consultancy contact with a consultant vide contract reference No. KeNHA/RD/Dev/2826/2019, dated 15 October, 2019 for design, finalization of safe guard documents, procurement support, construction supervision and contract administration. However, as at 30 June, 2021, the Project was at the road design phase and only 10% of the design phase had been executed.

In the circumstances, the Project is at risk of not being implemented due to continued delay on the draw down and in view of Section 3.2 of the Loan Agreement which gives right to the financier to decline disbursements after 31 December, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

TIMBOROA-ELDORET ROAD REHABILITATION PROJECT NO. P-KE-DB0-019 (LOAN NO. 2100150023344) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

604. Project Closure Report

As disclosed in the project information under Note 1.7 funding summary, the donor committed an amount of Kshs.4,215,044,349 for utilization under the project but as at the close of the project only Kshs.4,206,371,760 was utilized resulting to an unutilized amount of Kshs.8,672,589. Information provided for audit review indicate that this balance increased to Kshs.17,978,273 as at 30 June, 2021. However, no explanation has been provided as to why the unutilized funds have not been surrendered to the National Treasury considering the Project ended on 16 July, 2016.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT LOT I AND II (CREDIT NO. 2100150015544) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

609. Pending Bills

Note 11 to the financial statements reflects pending bills amounting to Kshs.428,623,554 as at 30 June, 2021. The Management has however attributed the delay in the discharge of the bills to delays in Exchequer releases and has committed to liaise with the line Ministry and The National Treasury for timely Exchequer releases for prompt payments in the subsequent financial year. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

610. Project Closure Report

The Project information in the financial statements provided for audit revealed that the project was to end on the 22 July, 2015. However, the project closure report was not availed for audit review, being more than six (6) years after the expiry of the closure period.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

613. As required by the African Development Fund (ADF), except for the matters described under Other Matter section of my report, I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

ROADS 2000 PHASE TWO PROJECT (AFD CREDIT NO. CKE 101201B, CREDIT NO. CKE 104601J AND CREDIT NO. CKE 109401 M) - KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

615. Pending Bills

As previously reported, Note 12 to the financial statements reflects pending bills of Kshs.30,273,407 as at 30 June, 2021. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

616. Variation of Contracts

Examination of payment records and other documents relating to road projects revealed that the Kiambu Regional Office implemented works with a total contractual sum of Kshs.273,413,609. The Regional Office however made total payments of Kshs.359,509,139 for the road works resulting to a variation of Kshs.86,095,530. No evidence was availed to show that the variations were approved. Further, the Nyathuna - Rironi Road project BQ provided for stone pitching of drainage for 500 meters at a cost of Kshs.1,500,000. It was however noted that stone pitching for 5,628.90 meters was done at a cost of Kshs.16,886,700. No explanation was given for the huge variations of the cost of stone pitching.

Further, the taking over certificate for Nyathuna - Rironi road indicated that the length of the road was 4.1km while the contract agreement had a length of 5.4 km. The difference of 1.3 km had not been explained as at the time of the audit. In addition, physical verification of Kirangari – Nyathuna road conducted on 8 November, 2021 revealed that the road had started developing potholes on various sections while the project is under defect liability period. Similarly, Kanunga – Banana road had no road markings and no traffic signs were provided for in the bill of quantities.

Under the circumstances, it has not been possible to ascertain whether value for money was realized for the projects implemented during the year under review.

617. Un-surrendered Retention Money for Nyeri Region

Examination of payment records and other documents revealed that retention money amounting to Kshs.17,656,316 was deducted from six (6) contractors during the financial year 2020/2021. The money was however, not deposited in the retention account number 1737850097 – 1001964972 held at NCBA Bank. Although Management have explained that the money was deposited in the operational account at Co-operative Bank, no bank statements were provided to support this.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MULTINATIONAL ARUSHA-HOLILI/TAVETA-VOI ROAD CORRIDOR DEVELOPMENT PROJECT PHASE I - LOAN NO.2100150028894 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

621. Pending Bills

Note 12 to the financial statements reflects pending bills amounting to Kshs.25,023,499 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation, timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

622. Project Closure Report

The Project information in the financial statements provided for audit revealed that the Project was to end on the 31 December, 2019. However, the Project closure report was not availed for audit review, being more than two years after the expiry of the closure.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

PORT REITZ/MOI INTERNATIONAL AIRPORT ACCESS (C110) ROAD (FIDIC EPC/TURNKEY BASED) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

627. Pending Bills on Land Compensation

Note 12 of the financial statements reflects pending bills on land compensation of Kshs.29,624,000. Documents provided for audit review revealed that the pending bill arose from unsettled land compensation of parcel bearing plot number MN/VI/3746

registered under Rainy Days Limited and Ms. Selame Transport Company Ltd. In addition, gazette notice No.1642 of 13 March, 2015 showed that 0.124 Ha of the land was to be acquired and was awarded a total of Kshs.36,636,580. (Rainy days Kshs.31,360,000 and Ms. Selame Transport Company Limited Kshs.5,276,580) who were fully compensated in the financial year 2016/2017. A corrigendum gazette notice No.774 further increased the acreage of the same land to be acquired from 0.124 Ha to 0.1287 Ha thus an additional land size of 0.0047 Ha. However, it was not clear how the additional land size was awarded Kshs.29,924,000 which is yet to be paid to the owner, Rainy days Limited. Further, claims that National Land Commission had incorrectly valued the land were not supported by any correspondences, therefore the pending bills figure is disputable.

628. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final revenue budget and actual on comparable basis of Kshs.5,000,000 and Kshs.358,136 respectively resulting to under-funding of Kshs.4,641,864 or 93% of the budget. Similarly, the Project expended Kshs.358,136 against an approved budget of Kshs.5,000,000 resulting to under-expenditure of Kshs.4,641,864 or 93% of the budget. Failure to fund the activities of the Project may lead to Project's objectives not being realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (IDA CREDIT NO. 4148-KE) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

632. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.46,964,093 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional costs by way of interest and penalties with the continued delay in making the payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

SIRARI CORRIDOR ACCESSIBILITY AND ROAD SAFETY IMPROVEMENT PROJECT: ISEBANIA-KISII-AHERO – (A1-ROAD REHABILITATION) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

636. Unsupported Expenditure in Construction of Roads

Note 11.5 to the financial statements reflects an expenditure of Kshs.1,226,712,604 on construction of roads. However, schedules provided in support of the expenditure

reflected an amount of Kshs.1,203,776,922, resulting to an unexplained difference of Kshs.22,935,682.

In the circumstances, the accuracy and completeness of the expenditure of Kshs.1,226,712,604 could not be confirmed.

637. Land Compensation

Annex 3A on the analysis of pending bills reflects payments totalling Kshs.56,976,393 as land compensation during the year. However, the opening balances of land compensation was Kshs.488,392,959 while the closing balance as at 30 June, 2021 was recorded at Kshs.388,492,283 implying that the correct payment for the year was Kshs.99,900,676, computed from the difference between the two balances resulting to an unexplained and unreconciled difference of Kshs.42,924,283. Further, the land compensation schedules from National Land Commission were not supported with documents such as official searches and land valuation reports to indicate ownership and value for compensation.

Consequently, the accuracy and completeness of expenditure on land compensation of Kshs.56,976,393 could not be ascertained.

638. Omitted Deficit for the Year

The statement of receipts and payments reflects a deficit balance of Kshs.9,179,514 as at 30 June, 2021. However, the statement of financial assets shows nil balance for the surplus/(deficit) for the year.

Consequently, statement of financial assets is misstated by Kshs.9,179,514 and does not reflect a true and fair financial position.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

639. There were no material issues relating to lawfulness and effectiveness in use of public resource.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

640. There were no material issues relating to internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

641. As required by Africa Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate

accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR DEVELOPMENT PROJECT NO. P-ZI-DBO-018 (ISIOLO/ MERILLE/MOYALE ROAD) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

642. Unsupported Cash and Cash Equivalents Balance

As reported in the previous year, the statement of financial assets and liabilities reflects Kshs.18,682,650 in respect of cash and cash equivalents held at an account with a local bank which was not supported with bank statements confirming transfer of the funds from the project bank account to the KeNHA main account on 16 October, 2014 after completion of the Project. Consequently, it has not been possible to confirm that the cash and cash equivalent balance of Ksh.18,682,650 as at 30 June, 2021 is fairly stated.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

647. Pending Bills

Note 12.1 to the financial statements reflects pending bills amounting to Kshs.4,101,454 as at 30, June, 2021. Although Management attributes the nonpayment to the consultant's failure to pay withholding taxes and provide compliance certificates, there is need to liaise with the consultant for the required information, and the line Ministry and National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year considering that the Programme was expected to end on 13 August, 2015.

648. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects equal final revenue budget and actual on comparable basis of Kshs.4,303,355 respectively and expended Kshs.5,356,613 resulting to an over expenditure of Kshs.1,053,258 or 24% of the budget. Failure by Management to observe the financial discipline may lead to the Programme not achieving desired objectives.

649. Programme Closure Report

As disclosed under Project information and overall performance 1.2, project information, the Project started on 26 November, 2010 and it was to close on 31 October, 2015. The Project closure report was not presented for audit review 6 (six) years after the closure period.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT CREDIT NO.4926-KE AND NO.5410-KE - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

653. Delays in Project Implementation

The Project lifespan was of six (6) years from 23 May, 2011 with an approved budget of Kshs.35,118,325,932 with actual amounts received of Kshs.29,495,071,705. As at 30 June, 2021 the physical progress based on outputs, outcome and impact indicated that some components were not complete and the Project completion was behind schedule. Delayed completion may lead to increased costs and the objectives of the Project may not be achieved.

Other Matter

654. Pending Bills

Note 12 to the financial statements reflects pending bills amounting to Kshs.2,301,615,924 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional significant interest costs and penalties with the continued delay in making payments.

655. Project Closure Report

The Project information in the financial statements provided for audit revealed that the Project was to end on the 31 December, 2019 However, the Project closure report was not availed for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

REGIONAL ROADS COMPONENT (MERILLE-MARSABIT ROAD) (KE/001/09) PROJECT LOAN AGREEMENT NO.KE/FED/2009/021-655 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

660. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.141,566,761 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant additional interest costs and penalties with the continued delay in making payments.

661. Project Closure Report

The project information in the financial statements provided for audit revealed that the project was to end on the 27 May, 2017 with total commitment by Donors of Kshs.14,460,676,495 received. However, the project closure report was not availed for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NAIROBI MISSING LINKS ROAD AND NON MOTORISED TRANSPORT FACILITIES (KE/001/09) EDFX - KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

666. Pending Bills

Note 12(1) under other important disclosures and Annex 3A to the financial statements reflects pending bills balance of Kshs.490,647,638 representing a reduction of

Kshs.75,000,000 from the Kshs.565,647,638 reported in 2019/2020 financial year. The pending bills expose the Authority to additional costs in form of interest and penalties due to failure to settle Project's obligations as per the terms and conditions of the signed contracts. It was further noted that included in the pending bills is a claim from the contractor of Kshs.224,866,530 submitted vide interim payment certificate (IPC) No. 40 of July, 2018 against which a notice to claim interest on delayed payment of Kshs.77,933,170 was issued vide a letter from the contractor to EU-Delegation dated 14 April, 2021. This implies that the risk of claim for interest on delayed payments has already crystalized.

Failure to settle project obligations as and when they fall due may lead to additional costs in form of interest and penalties which are avoidable.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

667. Unconstructed Section of Ring Road Parklands (M15A) Road Due to Encroachment

The initial scope of the Project as per the financing agreement and the signed contract between Kenya Urban Roads Authority (KURA) and a construction company included construction of Ring Road Parklands (M15A) which connects Limuru Road and Waiyaki Way. As per the Financing Agreement, the said road was 4KM in length and was designed as a dual carriage with open drains and non-motorized facilities.

However, a physical verification of the Project carried out on 5 October, 2021 revealed that the road was inaccessible to motorist as a section of about 300m was not constructed due to encroachment by members of an informal settlement. This notwithstanding, the contractors were discharged of their duties under the contract and the project taken over by the Authority on 20 March, 2021 after the end of defects and liabilities period. It was further noted that the remaining works under the 300m section were expunged from the initial scope through an addendum to the contract.

In view of the foregoing, value for money may not have been be realized from the resources utilized in construction of the above road which was not completed and is thus inaccessible to motorists.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NAIROBI SOUTHERN BYPASS PROJECT LOAN NO. CHINA EXIM BANK PBC NO. (2011) 32 TOTAL NO. (183), NO. 14203030520112115528 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

670. Pending Bills

Note 12.5 to the financial statements – other important disclosures, reflects a figure of Kshs.3,672,093,817 relating to pending accounts payables as at 30 June, 2021 an increase of Kshs.756,062,674 from the Kshs.2,916,031,143 outstanding as at 30 June, 2020. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring additional costs by way of interest and penalties with the continued delay in making the payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA NAIROBI-THIKA HIGHWAY IMPROVEMENT PROJECT (LOT 3) GOVERNMENT CONCESSIONAL LOAN AGREEMENT NO.(2009) 39 TOTAL NO.(290) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

675. Pending Bills

Note 12 to the financial statements reflects pending bills balances of Kshs.116,274,109 as at 30 June, 2021. As reported in the previous year, the balances relate to disputed claims that arose six years earlier but had not been disclosed as contingent liabilities over the prior periods. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

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

Conclusion

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

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT - IDA CREDIT NO. 5140 - KE – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

679. Pending Bills

Note 12 to the financial statements reflects pending accounts payables totalling Kshs.4,542,434,807 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and the National Treasury for timely provision of sufficient budgetary allocations to pay the debts in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties should the bills not be paid in due time.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

680. Accrued Interest as a Result of Delayed Payments

The Project had in the year under review accrued a total of Kshs.171,171,003 being interest due to delayed payment to a contractor. The accrued interest was in respect of works carried out between May, 2019 and August, 2020. The accrued interest of Kshs.171,171,003 constitute a nugatory expenditure on the Project.

681. Delay in Project Completion

The rehabilitation and capacity enhancement of James Gichuru Road Junction to Rironi Highway (A104) was initiated on 2 August, 2016 through an agreement between the Kenya National Highways Authority and a contractor for a contract sum of Kshs.16,366,586,563 inclusive of taxes and a contract period of 48 months. The contract period comprised of 36 months for completion and 12 months defects liability period. The works began on 4 August, 2017 and the original project completion date was to be on 3 August, 2020. However, the project activities were revised with new additional activities which entailed the following;

(i) Gitaru full clover interchange
(ii) Reconstruction of major bridges instead of widening.
(iii) Rironi bridge changed from 1 span to 2 spans.
(iv) Introduction of retaining walls in line with urban roads design philosophy.

Due to the above additional works, the project sum increased to Kshs.20,414,794,998 being 25% of original cost. The increased works as planned could not be executed due to delay in land acquisition and shifting of utilities. Though the land was finally acquired on 9 June, 2021, the work could not move on as expected since the financier (IDA) pulled out in 2018 leaving the project to be funded solely by Kenya Government.

As a result of the withdrawal of the funding, there has been delay in payment of works done resulting to delays in completion of the Project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT IDA CREDIT NO.3930-KE AND NO.4571-KE – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

684. Unsupported Receipts

The statement of receipts and payments reflects transfers from Government entities of Kshs.30,069,765 as at 30 June, 2021. The transfers were however not supported with bank statements and exchequer receipts.

In the circumstances, the accuracy and completeness of the transfers of Kshs.30,069,785 could not be confirmed.

685. Unsupported Refund of Retention Money

The statement of receipts and payments reflects non-financial assets expenditure of Kshs.189,393,143 being retention money refunded to a contractor during the year under review. The expenditure was however not supported with payment vouchers and bank statements.

Consequently, the accuracy and completeness of the expenditure of Kshs.189,393,143 could not be confirmed.

686. Unsupported Bank Balance

The statement of financial assets and liabilities reflects a bank balance of Kshs.69,055,856 as at 30 June, 2021. The balance was not supported with bank reconciliation statements, confirmation certificate and bank statements.

In the circumstances, the accuracy and completeness of the bank balance of Kshs.69,055,856 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

REGIONAL MOMBASA PORT ACCESS ROAD PROJECT (LOAN NO. 27459, CREDIT NO. 84010 AND GRANT NO. 202061919) – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

691. Unsupported Budget Amounts

The statement of comparative budget and actual amounts reflects Kshs.10,000,000 and Kshs.206,457,727 as the budget for purchase of goods and services and acquisition of non-financial assets respectively. However, these two amounts could not be traced in the approved budget under the budget line items of purchase of goods and services and acquisition of non-financial assets.

It was therefore not clear how the budget figures in the statement of comparative budget and actual amounts for the Project were arrived at.

692. Delay in Project Implementation

As previously reported, Note 1.7 to the annual report and financial statements on funding indicates the Project implementation period as 41 months commencing August, 2017 to December, 2020. The total Project commitment from Development Partners and counterpart funding from the Government of Kenya amount to Kshs.18,112,866,000. However as at 30 June, 2021, an amount of Kshs.464,053,893 (2.6%) had been drawn leaving a balance of Kshs.17,648,812,107 as undrawn balance.

Although Management has indicated that the procurement of the civil works contract has been done and awaiting the European Investment Bank's no objection, there is minimal progress in implementation of the Project, which increases the risk of the Project not realizing the envisaged objectives with the continued delay in implementation.

693. Pending Bills

Note 12.1 to the financial statements reflects pending accounts payable totalling Kshs.15,028,891 as at 30 June, 2021. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Failure to settle bills during the year in which they relate adversely affects the provisions for the subsequent year as they form the first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

UPGRADING OF "GILGIL MACHINERY" ROAD PROJECT– KENYA RURAL ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

698. Low Absorption of Project Funds

Sections 1.7 of the annual report under Project information and overall performance, indicates that the Project is to be implemented within a duration of six (6) years from 2016 to 2022, with a total expected funding of Kshs.1,500,000,000 equivalent to US$15,000,000. However, only Kshs.339,607,028 or 22.6% of the expected funding had been drawn as at 30 June, 2021, leaving a balance of Kshs.1,160,392,972 or 77.4% undrawn despite a time lapse of 83%.

Clearly, the project is behind schedule and the envisaged strategic goals may not be achieved within the expected timelines.

699. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects an approved receipt budget of Kshs.420,000,000 during the year against actual receipts amounting to Kshs.199,994,359 resulting to a shortfall in receipts of Kshs.220,005,641. Similarly, budgeted expenditure amounted to Kshs.420,000,000 against actual expenditure of Kshs.263,879,023 resulting in an overall under expenditure of Kshs.156,120,977, an indication that some planned activities were not undertaken during the year.

Consequently, the Project's goals and objectives during the year under review may not have been achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

DUALLING OF NAIROBI-DAGORETTI CORNER ROAD – PHASE 2 – KENYA URBAN ROADS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

702. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a bank balance of Kshs.33,685,562 as at 30 June, 2021. However, the balance was not supported with bank reconciliation statements, bank statements, cash books and bank confirmation certificates.

Consequently, the accuracy and completeness of the bank balance of Kshs.33,685,562 as at 30 June, 2021 could not be confirmed.

Other Matter

703. Unsupported Pending Bills

Annex 3 to the financial statements reflects outstanding pending bills of Kshs.90,165,198 as at 30 June, 2021 which was not supported with adequate relevant documents.

Consequently, the completeness and accuracy of the Kshs.90,165,198 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA NAIROBI WESTERN BYPASS PROJECT CHINA EXIM BANK GCL NO. (2017) 28 TOTAL, NO. (633) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

706. Unsupported Transfers from Government Entities

The statement of receipts and payments shows transfers from Government entities of Kshs.525,000,000 as at 30 June, 2021. The amount was however, not reflected in the cash book and the bank statements. Exchequer notifications were also not provided for audit review.

In the circumstances, the transfers from Government entities of Kshs.525,000,000 could not be confirmed.

707. Un-Supported Land Compensation

Note 11.4 to the financial statements reflects an expenditure of Kshs.520,416,300 on land compensation to Project Affected Persons (PAPs). However, the following anomalies were noted:

i. The identification of PAPs through searches at public land office and gazettement of these were not provided for audit review.

ii. Although Kshs.520,416,300 had been transferred to the National Land Commission for payment to the PAPs, the schedule of the beneficiaries was not provided for audit.

iii. Out of the total amount due to PAPs of Kshs.1,571,282,009 a balance of Kshs.1,050,865,709 was yet to be paid to the beneficiaries. There were no correspondences between the implementing Agency and National Lands Commission to indicate the progress of compensation process in order to have the Project completed on schedule.

iv. Review of Project progress report indicated that the road was later redesigned. However, a revised list of PAPs to be compensated was not provided.

v. A schedule forwarded to the Director General - Kenya National Highways Authority (KeNHA) by the Ag. Secretary/CEO of the National Land Commission contained parcels of land which did not have the names of the registered owners and for which compensation amounting to Kshs.83,357,966 was to be paid.

In the circumstances, the propriety of the expenditure of Kshs.520,416,300 on land compensation could not be ascertained.

708. Irregular Payment of Allowances

Note 11.3 to the financial statements reflects purchase of goods and services of Kshs.4,583,700 relating to domestic travel and subsistence. Review of the expenditure records on domestic travel and subsistence allowances revealed that an amount of Kshs.2,450,800 was issued to KeNHA staff on behalf of National Land Commission employees, being allowances paid during site visits to the project.

The expenditure was therefore irregularly incurred since National Land Commission employees should draw their allowances from the Commission.

Other Matter

709. Pending Bills

Note 12.1 to the financial statements reflects pending accounts payable of Kshs.3,926,892,951 as at 30 June, 2021. The balance includes Kshs.2,574,282,080

being balance brought forward from the previous year, out of which Kshs.4,628,287 is interest accrued due to delayed payment. Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the allocation for the subsequent year, as they form a first charge to that year. The Project has incurred nugatory expenses due to interest on delayed payments.

710. Failure to Prepare Itemized Budget

The project had an overall approved budget for the year. The itemized budget was, however, not provided for audit to show the amount approved for each of the project's components.

In the absence of itemized budget, funds may not be accounted for accurately leading to Project implementation challenges.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

711. Hindrance of Traffic Passage

During audit inspection conducted on 8 October, 2021 on the Project, it was noted that the contractor had not provided road traffic signs and lights for traffic diversion at Karura Kamurimo and the road users faced difficulties in identifying the diversion.

In the circumstances, road accidents may occur and users were being inconvenienced due to lack of proper road signage.

712. Failure to Erect Publicity Signboards and Non-Adherence to Contract

Audit inspections conducted on 8 October, 2021 revealed the absence of Projects publicity signboards throughout the stretch of the road under construction, yet funds had been allocated for erecting the signboards. Failure to erect publicity signboards may lead to disputes arising from failure to identify the Project with the employer.

In addition, the interchange at KM 00 was not constructed although the Project had progressed beyond KM 12 and this component was not among the Project's components that the contractor intended to implement.

In the circumstances, the Project may not have achieved the intended objectives of decongestion and smooth flow of traffic along the constructed road in the absence of an interchange.

713. Unlawful Employment of Foreigners in the Project

Review of records revealed that foreigners working on the Project did not have temporary work permits as required by Section 40 of the Kenya Citizenship and Immigration Act,

2011. The foreigners may not be qualified for the jobs since their particulars had not been verified by the Government of Kenya. Further, they may also pose security risk since they had not been subjected to the required clearance by the Immigration Department.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

714. Failure to Hold Site Meetings

Review of project documents revealed that site meetings did not take place during the year under review despite the fact that this is a requirement during project implementation.

In absence of site meetings, issues arising from the project implementation may not be addressed in time since forum for deliberations was lacking and the Project's success could face a risk in addressing important concerns.

715. Complaints by Some Plot Owners

The audit revealed the existence of a Letter dated 17 May, 2021 written by a local resident on his behalf and two other plot owners, addressed to the Director-General of Kenya National Highways Authority complaining that the design of the road along their plots in Kiambaa/Ruaka area denied them easy access to the road.

Complaints by plot owners is an indication of lack of public participation before the commencement of the Project resulting in redesign which may inconvenience some of the intended beneficiaries.

ARUSHA-NAMANGA-ATHI RIVER ROAD DEVELOPMENT PROJECT NO. P-Z1-DB0-040 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

717. Pending Bills

Note 12.1 to the financial statements discloses pending bills balances of Kshs.155,603,353 as at 30 June, 2021. Although Management has committed to liaise with the line Ministry and The National Treasury for adequate budgetary allocation and

timely Exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT-(IDA CR-5638) - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

721. Transfers from Government Entities

The statement of receipts and payments reflects transfers from Government entities of Kshs.1,091,589,491. However, the schedules provided in support of the balance showed Exchequer issues totalling to Kshs.35,436,554,614, thereby resulting to an unexplained variance of Kshs.34,344,965,123. The Management explained that all Exchequer funds are channelled into a single Exchequer account thus occasioning the disparity.

Further, the statement of comparative budget and actual amounts reflects transfers from Government entities final budget amount for the year of Kshs.803,268,455. However, the

approved supplementary budget for the 2020/2021 financial year shows an amount of Kshs.193,774,628 for the item, thus occasioning an unexplained difference of Kshs.609,493,827.

In the circumstance, the accuracy and completeness of the transfers from Government entities of Kshs.1,091,589,491 could not be confirmed.

722. Acquisition of Non-Financial Assets

Included in acquisition of non financial assets balance of Kshs.7,154,243,148 as at 30 June, 2021 is Kshs.144,816,276 in respect of acquisition of land which in turn included payment of Kshs.48,693,621 which lacked identification particulars of the persons compensated and details of parcels of land acquired. The payment records indicated the payee as National Land Commission but no schedules of beneficiaries with their particulars were provided.

Consequently, the propriety of the expenditure of Kshs.48,693,621 could not be confirmed.

723. Unreconciled Balances on Special Deposit Accounts

The special account statement shows an amount of USD 5,198,078 (equivalent Kshs 570,064,176) being withdrawal from the special account and transferred to the Project bank account. The statement of receipts and payments however, reflects an amount of Kshs.568,215,586 as transfer from external development partner to the project resulting in an unreconciled difference of Kshs.1,848,590.

In the circumstances, the difference of Kshs.1,848,590 in respect of external development partner could not be confirmed.

Other Matter

724. Outstanding Pending Bills

Note 12.1 to the financial statements shows pending bills amount of Kshs.1,540,700,413. Although Management had committed to liaising with the line Ministry and The National Treasury for adequate budgetary allocation and timely exchequer releases for prompt payments in the subsequent financial year, the Project is at risk of incurring significant interest costs and penalties and implementation of the Project may delay.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

725. Upgrading of Kainuk Bridge and Approach Roads

The Kainuk bridge was completed and handed over on 2 August, 2021 and was at defects liability period. However, the following anomalies were noted:

i. The snag list was to be done during defects liability period as per the contract agreement but no information on the progress and status on the snag list implementation was provided for audit review.

ii. The contractor was to carry out Corporate Social Responsibility (CSR) activities for the Project which had not been done despite the handover.

iii. The Project had accrued interest of Kshs.4,934,560 in delayed payments.

In the circumstances, the contractor may fail to implement all the components of the contract and the interest charged would amount to loss of public funds.

726. Lot 0: Upgrading of Loichangamatak-Lodwar Road 50KMs

The Project was undertaken by China Railways No.5 Engineering Group Co. Ltd and DOHWA Engineering Co. Ltd in a Joint Venture with GIBB Africa Ltd as contractor and consultants respectively. The contract sum was Kshs.6,782,439,479 for the contractor, Kshs.421,319,530 and USD 2,968,202 for local and foreign consultants. The contract period was thirty (30) months from 10 July, 2017 to 9 January, 2020 with a defects liability period of 12 months. The progress reports revealed that as at 30 September, 2021 out of certified amount of Kshs.5,098,761,761, a figure of Kshs.4,837,009,610 had been paid leaving a pending bill of Kshs.261,761,187. The Project time had elapsed by 50 months of the revised completion time with a financial progress of 79%.

However, the following unsatisfactory anomalies were noted:

i. There was a proposal to revise the contract sum to Kshs.7,619,688,236 being an increase of Kshs.837,248,757 (12%) and the variation had not been justified with additional scope of work.

ii. Payment to 43 Project Affected Persons (PAPs) in Lodwar town had not been done and there was delay in relocation of power lines and water pipes which have slowed the progress of the Project.

iii. Field inspection conducted on 21 October, 2021 revealed that the road was uneven in most of the sections and this was evident from the bumpy motion of the vehicle casting doubt on the life span of the road.

iv. Some sections of the road with culverts where the road was raised, and had sloppy sides, were not protected with stone pitching as required by the contract and may erode faster than expected.

Consequently, value for money may not be realized from this road upgrading Project.

727. Lot 1: Upgrading of Lodwar-Lokitaung Junction Road (80Km)

The Project was undertaken by China Engineering Bureau of China City Construction Group Company Limited and Egis International in association with Egis Kenya being the

contractor and consultant respectively. The contract sum was Kshs.8,334,773,795 for the contractor, Kshs.568,958,975 and Euro 1,589,113 for the consultants.

The contract period was for thirty-six (36) months from 15 August, 2017 to 14 August, 2020 with a defects liability period of 12 months. The revised cost was Kshs.10,393,303,476, an increase of Kshs.2,058,529,680 (25%) of the contract sum.

By 16 September, 2021, out of the certified amount of Kshs.9,961,308,050, a sum of Kshs.9,478,269,755 had been paid and hence a pending bill of Kshs.483,038,295 with time escalation of 41.5 months and physical progress at 99.81%.

There were however several unsatisfactory issues noted as listed below;

i. There was a contract variation amount of Kshs.2,058,529,680 (24.7% of the contract sum) which had not been explained through additional scope of work.

ii. There was delay in compensation of 7 Project Affected Persons (PAP) and land acquisition.

iii. Vandalism and destruction of road signage and survey beacons had occurred.

iv. The truck parking at KM 0+220 in Lodwar town was yet to be completed.

v. The status and progress of implementation of the snag list was not provided for audit review and hence it is not clear what was to be implemented.

vi. Vegetation had encroached on the road in some sections implying road maintenance was lacking.

In the circumstances, value for money may not be realized from the expenditure on road upgrading.

728. Lot 2: Upgrading of Lokitaung Junction-Kalobeiyei River Road Project 80KMs

The Project was undertaken by Chongqing International Construction Corporation with a contract sum of Kshs 8,454,759,874 for the contractor, USD 2,204,145 and Kshs 629,802,599 for the consultants. The project duration was for thirty-six months period starting from 1 August, 2017 to 31 July, 2020 with twelve (12) months defects liability period. The completion date was extended to 30 October, 2021 with estimated cost of Kshs.9,799,110,192.

At the time of audit in October, 2021, out of the certified amount of Kshs.8,196,243,591, a sum of Kshs.6,918,287,349 had been paid leaving a pending bill of Kshs.1,277,956,242 with time escalation of 100% and physical progress at 89%.

Physical verification of the Project conducted on 22 October, 2021 revealed the following unsatisfactory issues:

i. The work carried out had been assessed to be substandard and the contractor was instructed to repeat sections of the road which already had defects. The contractor was on site and redoing the sections affected.

ii. The road works were found to be behind schedule since only 89% was complete while full contract period had elapsed.

iii. The contract sum was revised from Kshs.8,454,759,874 to Kshs.9,799,110,192 representing an increase of Kshs.1,344,350,318 (13.7%?) with no explanation of extra scope of work.

Therefore, the intended benefits to the community may not have been achieved from the Project.

729. Lot 3: Upgrading of Kalobeiyei River-Nadapal/Nakodok Road Project 77.20KMs

The Project was undertaken by China Railways No.5 Engineering Group Co. Ltd. with a contract sum of Kshs.7,865,031,057 for the contractor, Kshs.423,582,250 and USD3,054,613 for the consultants. The contract period was thirty-six (36) months from 11 July, 2017 to 10 July, 2020 with a defects liability period of 12 months, but the completion date was later revised to 30 September, 2021.

Due to non-availability of land for road construction arising from security inaccessibility from Nadapal to Nakodok, the contract sum was revised to Kshs.7,803,895,829 representing a reduction by Kshs.61,135,228 for the unavailable land for 10.8 kilometers. The project milestones as at 22 October, 2021 were as follows;

Items	
Amount Certified	Kshs.4,903,907,998
Amount paid	Kshs.4,594,850,936
Pending bills	Kshs,309,057,063
Time elapsed	51.32 months - 94.91% of revised completion date of 30 September 2021
Physical Progress	84.75%
Overdue Payments	Kshs.229,749,945

The following anomalies were however noted during the audit exercise;

i. There was 10.8KM inaccessible from Nadapal to Nakadok which was not permitted by border guards of The Republic of South Sudan hence delaying implementation of the project.

ii. There was a delay in payment of (PAPs) and relocation of infrastructure, water and electricity at Lokichoggio town, which also affect project implementation.

iii. The work carried out had been assessed to be substandard and the contractor was instructed to repeat sections of the road which already had defects. The contractor was concurrently redoing the sections affected with the uncompleted work.

In the circumstances, value for money may not have been realized by the community on the expenditure incurred on the Project.

730. Lot 4: Upgrading of Lokichar-Loichangamatak Road 40KMs

The Project was being undertaken by China State Engineering Corporation Limited and Intercontinental Consultants & Technocrats Pvt Limited being the contractor and consultants respectively. The contract sum was Kshs.5,800,819,125 for the contractor, USD 3,650,253 and Kshs.162,128,560 for the consultants.

The contract period is thirty (30) months from 2 June, 2020 to 2 December, 2022 with a defects liabilty period of 12 months. Relocation of (PAPs) and water and electricity infrastructure had been delayed thus affecting project implementation. The progress reports revealed the following project milestones as at 31 August, 2021;

Items	
Amount Certified	Kshs.1,793,232,907
Amount Paid	Kshs.1,411,926,834
Pending Bills	Kshs.381,306,074
Time Elapsed	50%
Physical Progress	31%
Overdue Payments	Kshs.55,734,840

The following unsatisfactory issues were noted the time of audit:

i. The project was behind schedule since time lapsed was 50% and work completion was only at 31%. The project may not be completed on time for the beneficiaries to enjoy the services.

ii. The diversions for the road were not well maintained by levelling, watering dusty areas and having road signs thus denying road users convenient use of the road, yet the amount allocated for maintenance of diversions had not been utilized.

iii. The employer may incur additional cost due to delay in relocation of PAPs, electricity and water infrastructure along the road corridor.

Consequently, the intended benefits to the community may not be achieved by the Project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MOMBASA GATE BRIDGE CONSTRUCTION PROJECT LOAN AGREEMENT NO.KE-P34 - KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

733. Unsupported Transfer from Government Entities

The statement of receipts and payments reflects transfers from Government entities amount of Kshs.4,422,361 as disclosed in Note 1 to the financial statements. However, this amount was not supported by way of Exchequer requisitions, Exchequer notifications and bank statements.

In the circumstances, it has not been possible to ascertain the authenticity, completeness and accuracy of receipts from other Government entities of Kshs.4,422,361.

Other Matter

734. Delay in Commencement of the Project

The financing agreement for construction of Mombasa Gate Bridge Project was signed on 5 December, 2019. However, by the time of audit in October, 2021, which was almost two years after signing of the financing agreement, the Project was yet to commence. It was also noted that the contract for provision of consultancy services for tender assistance and construction assistance was signed on 31 August, 2021 but there was no evidence to show that the consultancy services had commenced. Further, management did not present for audit, implementation timelines showing schedule of activities such as procurement of contractors and commencement works.

In view of the foregoing, commencement of the Project has been delayed which casts doubt on the ability of the Authority to implement the same within the timelines stipulated in the financing agreement.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

BAGAMOYO-HOROHORO-LUNGA LUNGA-MALINDI ROAD PROJECT (PHASE I) ID NO: P-ZI-DBO-129 – KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

737. Purchase of Goods and Services

Note 11.3 to the financial statements reflects expenditure of Kshs.19,749,555 incurred under training. The payments were made to various institutions for bursaries to students. Management did not however, provide supporting documents such as application forms and committee minutes to show how the beneficiaries of the bursaries were identified.

In the circumstances, the propriety of Kshs.19,749,555 could not be confirmed.

Other Matter

738. Lack of Project Detailed Budget

During the year under review, the Project had an approved budget of Kshs.100,000,000. However, Management did not provide an itemized budget showing the detailed budget items for which the expenditure was intended.

Consequently, it was not possible to conduct budget performance analysis on budgeted and actual amounts.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

STATE DEPARTMENT FOR TRANSPORT – VOTE 1092

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

742. Acquisition of Assets

The statement of receipts and payments reflects acquisition of assets expenditure of Kshs.35,635,975,932 which includes a payment of Kshs.11,027,888 for refurbishments works carried out on Public Works Building and Kshs.4,800,000 for roof maintenance works carried out on Transcom House. However, tender documents and bill of quantities for the two works were not provided for audit review. Further, Inspection and Acceptance Committee minutes were also not provided.

In the circumstances, it was not possible to confirm the competitiveness and fairness in the award of the contract as well as the value for money on the expenditure of Kshs.15,827,888 incurred on the two projects. Further, the validity of expenditure of Kshs.15,827,888 could not be confirmed.

Other Matter

743. Budgetary Control and Performance

During the year under review, actual receipts for the State Department amounted to Kshs.63,585,779,287 against a budgeted amount of Kshs.74,241,046,749 resulting to a shortfall in receipts of Kshs.10,655,267,462. In addition, the State Department under-spent its overall budget amount by Kshs.10,655,543,139. The under expenditure mainly occurred under the components related to use of goods and services at Kshs.43,997,722, and acquisition of assets at Kshs.9,687,018,222.

Failure to fully absorb the budget may affect some planned programs which affects service delivery to the citizens.

744. Pending Bills

Note 15.1 to the financial statements reflects pending bills balance of Kshs.55,873,513. Management has not explained why the bills were not settled during the year they occurred. The Department is at risk of incurring significant interest costs and penalties due to continued delay in payment. Further, review of documents in support of the pending bills revealed that the balance included an amount of Kshs.36,000,000 and Kshs.5,597,500 payable to a contractor and a consultant in respect of construction of Transport Data Centre whose contract sum was Kshs.130,739,261. However, to date the contractor has been paid Kshs.120,252,245 leaving an outstanding bill of Kshs.10,487,016 and not Kshs.36,000,000 indicated in the list, hence casting doubt on the validity of the disclosed balances.

Failure to settle bills in the year to which they relate adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

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

DONOR FUNDED PROJECTS

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO.5140 KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

747. Unutilized Donor Grant

As disclosed in the Project information under Note 1.7 of the funding summary, IDA had committed an amount of Kshs.1,152,400,000 for utilization under the Project but as at the close of the Project only Kshs.935,649,481 was utilized resulting to an undrawn amount of Kshs.216,750,519. Information provided for audit review reflects USD.207,468,633 as amount cancelled as of 21 December, 2018 due to poor performance of the Project. However, no reconciliation between the amount cancelled and undrawn amounts reflected in the financial statements was provided for audit review.

In the circumstances, the accuracy and validity of the donor grant received of Kshs.935,649,481 disbursed as at 30 June, 2021 could not be ascertained.

748. Unreconciled Donor Amount

The project information and overall performance under Note 1.7 funding summary, reflects amount received to-date of US Dollars.9,263,856 while the special account report of National Urban Transport Improvement Project (SDT) IDA Loan No. Credit No.5140-KE DA-C for the year ended 30 June, 2021 reflects amount advanced by IDA to the project amounting to USD.2,240,354 as at 30 June, 2021. Although USD.9,263,856 reflected as donor commitment in the financial statement was explained as cumulative disbursements to the various authorities under the State Departments (Kenya Civil Aviation, Kenya Railway Corporation and Kenya Airports Authority) the reason for capturing grants relating to other entities was not provided and the variance of USD.7,023,502 was similarly not reconciled or supported. In addition, the financial statements did not include the Project's special accounts reconciliation statements as per the financial reporting template prescribed by the Public Sector Accounting Standards Board (PSASB).

In the circumstances, the actual grant advanced has been misstated.

749. Lack of Updated Fixed Assets Register

Annex 2 to the financial statements contains a summary of fixed asset register for the Project with a balance of Kshs.406,811,939. Included in this balance are office equipment, furniture and fittings and vehicles and other transport equipment worth

Kshs.70,207,070 and Kshs.145,276,985 respectively. However, the assets register provided for audit review reflected assets totalling Kshs.23,608,500 resulting to a balance of Kshs.383,203,439 unaccounted assets.

In the circumstances, acquisition of non-financial assets cumulative balance of Kshs.406,811,939 reflected in the statement of receipts and payments could not be confirmed.

Other Matter

750. Project Closure Report

The Project information and funding summary reflected at Note 1.2 and Note 1.7 respectively indicates that the Project's duration was six years from 3 August, 2012 to 31 December, 2018. However, Management did not provide completion certificates, hand-over minutes and the project completion report for audit review. In the absence of these reports and minutes, it is not possible to ascertain whether the project activities came to a close and the existence and ownership of the assets acquired under the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT IDA CREDIT NO. 4148-KE AND CREDIT NO. 4977-KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

754. Unresolved Prior Year Matter - Construction of Transport Data Centre

As reported previously, the State Department for Transport entered into an agreement with a local firm on 30 September, 2014 for supply, installation, testing and commissioning of a Transport Data Centre, networking, software and hardware at a cost of Kshs.130,739,261. The State Department for Transport further entered into another agreement with a local University firm for consultancy services for the establishment of the Transport Data Repository Centre Resolution at a contract sum of Kshs.22,390,000. The consultancy services included designing of the Transport Data Repository Centre System; preparation of bid documents for supply and installation; supervision and capacity building of staff to man the data centre. The consultancy agreement dated 4 July, 2012 was to run for a period of sixty-four (64) weeks with ending date of 25 September, 2013.

Review of the Project revealed that the contract agreement had expired, and the contractor and the consultant had been paid Kshs.120,252,245 and Kshs.16,792,500 representing 92% and 75% of the contract sums respectively. Further, Note 12.1 to the financial statements reflects a contingent liability of Kshs.36 Million relating to the establishment of the Data Centre and supervision of the consultancy services. However, adequate supporting documents for the liability and approval for the variation of the contracts as required under Section 139 of the Public Procurement and Asset Disposal Act, 2015 were not provided for audit.

Under the circumstances, it was not possible to ascertain the fairness of the contingent liability and whether the State Department obtained value for the total amount of Kshs.137,044,745 paid to the contractor and the consultant.

755. Project Closure Report

Review of the project information and funding summary reflected at section 1.2 and 1.7 of project information and overall performance indicate that the project duration was for 9 years from 5 April, 2006 to 30 September, 2015. However, Management did not provide completion certificates, handover minutes and project completion reports for audit review. In the absence of these reports, it was not possible to ascertain whether the project was closed and the status of the assets acquired under the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

EAST AFRICA TRADE AND TRANSPORT FACILITATION PROJECT (MOT/KRC COMPONENT) CREDIT NO.4148-KE AND CREDIT NO. 4977-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

760. Pending Bills

Note 12.1 to the financial statements reflects pending accounts payable balance of Kshs.1,517,967,848 as at 30 June, 2021 which relates to Value Added Tax (VAT) refunds on the project whose refund is contingent on verification and certification by the Kenya Revenue Authority and the Kenya Railways Corporation. As previously reported, Management has not provided reasons for the delay in undertaking the verification and certification of the refunds even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

761. Project Closure Report

Review of the project information and funding summary reflected at Note 1.2 and Note 1.6 indicates that the project duration was for 9 years from 5 April, 2006 to 30 September, 2015. However, Management did not provide completion certificates, handover minutes and project completion report for audit review. In the absence of these

reports, it was not possible to ascertain whether the project was closed or the status of the assets acquired under the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT CREDIT NO. 4571-KE AND 3930-KE (MOT COMPONENT)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

766. Project Closure Report

The Project funding summary reflected at Note 1.5 and the Project extension indicates that the Project was to end on 31 December, 2015. Although the bank balance of Kshs.18,311,165 was transferred to The National Treasury Exchequer Account on 12 August, 2021 and the management has provided the donor's implementation completion and results report dated 29 June, 2016, the completion certificates, handover minutes and the current project completion report have not been provided for audit review.

In the absence of these reports and minutes, it is not possible to ascertain whether the Project was closed and the status of the assets totalling Kshs.61,753,308 acquired under the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

769. As required by World Bank and the Financing Agreement Credit No. 3930-KE/4571-KE dated 8 May, 2009 I report based on my audit, that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT-IDA CREDIT NO.6768KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR TRANSPORT

NATIONAL URBAN TRANSPORT IMPROVEMENT PROJECT CREDIT NO. IDA 5140-KE (KRC COMPONENT) – KENYA RAILWAYS CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

775. Pending Bills

Annex 3 to the financial statements reflects pending bills amounting to Kshs.3,900,000 as at 30 June, 2021. Although this is a commendable improvement from the 2019/2020 balance of Kshs.40,804,058, the Project is at risk of incurring additional interest costs and penalties with the continued delay in settling payments.

776. Low Absorption of Project Funds

As previously reported, sections 1.2 and 1.7 of the annual report under Project information and overall performance, indicates that the Project was to be implemented within a duration of six (6) years from 2012 to 2018, with a total expected Donor's credit of

Kshs.1,071,552,600 equivalent to US$11,930,000. However, only Kshs.117,813,333 or 11% of the expected credit had been received from the Donor as at 30 June, 2021, leaving a balance of Kshs.953,739,267 or 89% undrawn. Similarly, out of the expected receipts of Kshs.332,324,000 from the Government of Kenya, only a sum of Kshs.109,337,077 has been received leaving a balance of Kshs.222,996,923 or 67% undrawn by 31 December, 2019 when the Project formally closed.

Under the circumstances, the Project's strategic goals may not be achieved within the expected timelines.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA AVIATION MODERNIZATION PROJECT (PREPARATION ADVANCE NO. V0440) - KENYA AIRPORTS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

781. Pending Bills

As disclosed under Note 11.9 to the financial statements, the Project had pending payables balance of Kshs.15,244,000 as at 30 June, 2021. Although Management has indicated that the outstanding claim was due to late submission of invoice by the Consultant, the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

782. Consultancy Services for Rehabilitation of Jomo Kenyatta International Airport (JKIA) Terminal 1B, C and D Building

Consultancy services for rehabilitation of JKIA Terminal 1B, C and D Building commenced on 10 April, 2017 with expected end date of 30 November, 2020 and an approved budget of Kshs.517,000,000. The consultancy service was completed, and the designs handed over to the Authority on 21 June, 2019. However, as at the time of audit in October, 2021, the Authority had not provided evidence showing measures taken to have the designs implemented.

Consequently, value for money may not have been achieved in view of delay in implementation of the designs.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA TRANSPORT SECTOR SUPPORT PROJECT (IDA CREDIT NO. 4926-KE AND 5410-KE) - KENYA CIVIL AVIATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

MULTINATIONAL LAKE VICTORIA MARITIME COMMUNICATIONS AND TRANSPORT PROJECT (ADF LOAN NO.2100150036247) - KENYA MARITIME AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

789. Unsupported Bank Reconciliation Items

The statement of financial assets as at 30 June, 2021 reflects under cash and cash equivalents bank balances of Kshs.61,911,199. The supporting bank reconciliation

statement as at 30 June, 2021 included unpresented cheques amounting to Kshs.1,319,084. However, bank statements showing when the unpresented cheques were cleared were not provided for audit review. In addition, the bank reconciliation statement as at 30 June, 2021 included un-posted payments totalling Kshs.1,064,620 which were not supported by any verifiable documents.

Consequently, the accuracy and completeness of bank balances of Kshs.61,911,199 as at 30 June, 2021 was not confirmed.

Other Matter

790. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final total budgeted receipts and actual on comparable basis of Kshs.169,000,000 and Kshs.69,000,000, respectively resulting in an under-funding of Kshs.100,000,000 or 59.17% of the budget. The underfunding affected the planned activities and hampered service delivery. Further, out of the total receipts realized of Kshs.69,000,000 only an amount of Kshs.14,109,260 was absorbed, resulting in an overall under absorption of Kshs.54,890,740 or 79.55%.

According to Annex I to the financial statements, the under-utilization of funds was caused by delayed finalization of mid-term review to pave way for purchase of boats with loan proceeds and lengthy approval process of land for Safety and Rescue Centre.

791. Non-Implementation of Project Components

As reported under the Summary of Overall Project Performance, the slow pace of the Project activities implementation in the financial years 2019/2020 and 2020/2021 was due to delayed mid-term review of the Project aimed at addressing the contentious areas in the Project Appraisal Report. The records indicate that the partner states could not agree on the Project scoping and joint funding for the construction of the Regional Maritime Coordination Centre (RMRCC) in Mwanza and Fisheries Training Institute (FTI) laboratory in Entebbe.

Further, available information indicates that the implementing agencies had funds disbursement challenges due to disagreements among them. These resulted from erroneous assumption of an existing Kisumu Regional Maritime Rescue Coordination Center (MRCC), perceived unfair and skewed distribution of the Project, deviation from the original objective of the Project, bureaucracies arising from the Regional nature of the Project and disputes over creation of permanent positions through the Project even after its closure. The possible effect of these challenges is increase in operational costs to the participating States.

792. Un-Implemented Project Activities

The Project Management had not implemented thirty (30) activities planned at cost of Kshs.863,526,471.14 as at 30 June, 2021. These include project scoping, specification and description that were to pave way for other activities which had not been executed

contrary to the schedule provided under Section B9 of the Technical Annexures to the Project Financing Agreement on Project Preparation and Supervision. The Annexures indicate that the listed Project activities were to be implemented over a period of four years ending 30 June, 2021.

In addition, a mid-term review of the Project done from June, 2020 by a team from the African Development Bank classified the Project as 'Qualifying for Cancellation' as per Letter Ref. AfDB/RDGE/LTR/2020/07/121 dated 28 July, 2020. A review of the summary of the Project performance work plan and budget for the financial year 2019/2020 and 2020/2021 shows that none of the activities approved in the work plan were accomplished, except for the recruitment of a Project Coordinator.

As a result of delayed mid-term review of the Project implementation, the objectives for which it was started may not be achieved.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

793. Opening Bank Account Without Approval from The National Treasury

As previously reported, Kenya Maritime Authority opened and operates Multi-National Lake Victoria Maritime Communications and Transport Project bank account at Kenya Commercial Bank (Kilindini Branch). Although Management has explained that it received a written ratification for the opened bank account during the 2020/2021 financial year, no documentary evidence was provided for audit verification to confirm that approval by The National Treasury was obtained for opening and operating the bank account as required under Section 28(1) of the Public Finance Management Act, 2012.

794. Pre-Payment for Geo-Technical Survey

The Project paid an amount of Kshs.7,638,000 to the State Department of Public Works for geotechnical survey vide voucher numbers PV2021/01602 and PV2021/01601 dated 6 April, 2021. A scrutiny of documents presented for audit revealed that these payments were made before the State Department of Public Works had performed the exercise.

A letter from the Principal Secretary, State Department of Public Works, Ref:SD/D 14/G/VOL.V/69 dated 20 January, 2021 to the Management indicated that the amount of Kshs.7,638,000 was to facilitate the undertaking of the survey. It was stated in the letter that the State Department did not have readily available funds to undertake an exercise of the magnitude the Project had requested. As such, the services would require the client to facilitate the State Department to cater for travel and subsistence costs for the field officers, hire of equipment and laboratory services for testing the samples.

However, as at the time of the audit in the month of September, 2021, there was no documentary evidence that the service had been rendered.

795. Excess and Unbudgeted Project Commitment Charge

Article III and Section 3.03 of the Loan Agreement between the Republic of Kenya and Africa Development Fund for Project ID NO.P-Z1-GBO-031, Loan Number 2100150036247 dated 9 January, 2017 provides that, "the borrower shall pay a commitment charge at the rate of one half of one percent per annum on the undisbursed portion of the loan, which shall begin to accrue one hundred and twenty (120) days after the date of the signature of the agreement". The computed Project commitment charges as at the date of the audit amounted to Kshs.10,559,929 as indicated in the table below:

Year	Budgeted %	Budgeted Loan Amount (Kshs.)	Commitment Fee as per the Budget (Kshs.)	Disbursed Loan Amount (Kshs.)	Commitment Fee as per the Actual Disbursement (Kshs.)	Additional Commitment Fee (Kshs.)
1	31.7	167,886,243	1,808,616	2,637,584	2,427,377	618,761
2	41.6	220,317,594	707,029	0	2,857,383	2,150,354
3	14.7	77,852,611	317,766	0	2,637,584	2,319,818
4	12.0	63,553,152	0	0	2,637,584	2,637,584
		529,609,600	**2,833,411**	**2,637,584**	**10,559,929**	**7,726,517**

This is against the planned commitment charge of Kshs.2,833,411, indicating additional cost of Kshs.7,726,517. Analysis of the Project financial information also revealed that the additional commitment charge was not factored in the expenditure budget.

796. Un-Procedural Issuance of Imprests

During the year under review, an amount of Kshs.5,613,881 was paid as daily subsistence allowance to various officers who are not employees of Kenya Maritime Authority to undertake the Project activities. Further, out of this amount, imprests totalling Kshs.3,194,922 were issued to the officers without imprest warrants, contrary to regulation 91(2) of the Public Finance Management (National Government Regulations), 2015 which requires an officer authorized to hold and operate an imprest to make formal application for the imprest through an imprest warrant.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

797. Lack of a Framework for National Policy Steering Committee and National Technical Committee

Article V, Section 5.02(a) of the Loan Agreement between the Republic of Kenya and Africa Development Fund provides that, "the Borrower shall, within three (3) months of entry into force of this Loan Agreement, provide evidence in form and substance acceptable to the Fund, confirming; the establishment of the National Policy Steering Committee (NPSC) for overall policy, ensuring alignment with the national development

strategies, constant review, approving work plans and budgets at national level with terms of reference and composition acceptable to the Fund.

However, the Project did not have an established and documented operational framework for the National Policy Steering Committee (NPSC) and the National and Technical Committee (NTC). The Committees' operational environment was not defined in terms of budget, administrative location, calendar of events and minutes of deliberations. Further, there was no evidence of strategic policies and procedures including budget guidelines established for Project implementation.

The Management has explained that the Project has a National Policy Steering Committee (NPSC) established as per the Regulatory Framework specified in the East African Community where the Project falls under and which has met several times. However, minutes of the meetings have not been provided for audit review.

SAFE ROADS/USALAMA BARABARANI PROGRAMME (EU GRANT NO. KE/FED/037-778) - NATIONAL TRANSPORT AND SAFETY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

799. Project's Performance and Sustainability

Article 3 of the signed grant contract for the Safe Roads/Usalama Barabarani Programme specifies total eligible costs of the project as EUR 5,375,000 (an equivalent of Kshs.676,135,096). The grant is limited to 80% of the total eligible cost and the Government of Kenya (GOK) is, therefore, required to contribute counterpart funds equivalent to 20% of the total cost, that is, EUR 1,075,000 (equivalent to Kshs.135,227,019). However, as at 30 June, 2021, the total amount received as GOK counterpart financing was Kshs.5,368,263, representing 3.97% of the expected contribution.

The cause of delay in release of the counterpart funding is disclosed under project information and overall performance as lack of a budget line under the State Department for Interior and Citizen Services. However, it has not been explained why The National Treasury failed to ensure a provision for counterpart funds in the budget of the responsible State Department after signing the agreement with the development partner. Although the Management has explained that The National Treasury has made a provision for

counterpart funding in the budget estimates for 2022/2023 financial year, no evidence has been provided to support this assertion.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT (IDA CREDIT NO. 6768 KE) – NATIONAL TRANSPORT AND SAFETY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

804. Lack of Internal Audit Reports

During the year under review, the Project was not audited by the internal audit department as provided for in the Project's Appraisal Document Annex 1 Paragraph 14. The

management has, however, explained that the internal audit has been planned for in 2021/2022 audit cycle.

HORN OF AFRICA GATEWAY DEVELOPMENT PROJECT LOAN NO.6768-KE– KENYA NATIONAL HIGHWAYS AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

806. Unsupported Budget Amounts

The approved budget provided for audit shows that the Project's total budget which was classified under accommodation allowance and tuition fees allowance was Kshs.105,001,521. However, the statement of comparative budget and actual amounts reflects a final budget after adjustments for the combined components of purchase of goods and services, research, studies, project preparation and supervision and miscellaneous charges of Kshs.760,000,000.

In the circumstances, it was not possible to trace the latter amount to the approved budget under the budget line items of purchase of goods and services, research, studies, project preparation and supervision and miscellaneous charges.

807. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total budgeted receipts of Kshs.760,000,000 against actual receipts of Kshs.290,853,551 thereby resulting in an under-collection of Kshs.469,146,449 or 62% of the budgeted receipts. Further, the statement reflects total budgeted expenditure of Kshs.760,000,000 against actual payments of Kshs.140,941,956 resulting in an under-expenditure of Kshs.619,058,044 or 81% of the budgeted expenditure.

The under-collection of receipts and under-expenditure is an indication that the Project may not have achieved the planned objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

808. Lack of an Asset Register

Annex 3 to the financial statements – summary of fixed assets, reflects a balance of Kshs.603,292,589 as the closing cost of the road asset. However, contrary to Section

143(1) of the Public Finance Management Regulations, 2015 the Project's Management did not maintain a register of assets.

In the circumstances, the accuracy and completeness of the fixed asset balance of Kshs.603,292,589 as at 30 June, 2021 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

STATE DEPARTMENT FOR SHIPPING AND MARITIME – VOTE 1093

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

812. Pending Bills

Annex 1 to the financial statements reflects pending bills of Kshs.8,666,783 as at 30 June, 2021. Management did not provide reasons for non-payment of the bills which exposes the State Department to the risk of incurring significant interest costs and penalties due to the continued delay in making payments. Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent year to which they have to be settled as a first charge.

813. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects final receipts budget and actual on comparable basis of Kshs.2,496,757,055 and Kshs.2,165,628,636 respectively, resulting to an under-funding of Kshs.331,128,419 or 13% of the budget. Similarly, the State Department spent a total of Kshs.2,162,639,709 against an approved budget of Kshs.2,496,757,055 resulting to an under-expenditure of Kshs.334,117,346 or 13% of the approved budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

814. Non-Compliance with the National Cohesion and Integration Act, 2008

During the year under review, the State Department had sixty-seven (67) employees out of whom twenty-four (24) or 36 % of the total number were members of the same community. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which states that, "all public offices shall seek to represent the diversity of the people of Kenya in employment of staff and that no public institution shall have more than one third of its staff establishment from the same ethnic community".

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

815. Audit Committee

During the year under review, the State Department nominated five (5) members to the Audit Committee. However, available information indicates that the Committee met only once contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations which states that the Audit Committee shall meet at least once in every three months.

In the circumstances, the effectiveness of the Audit Committee for the year ended 30 June, 2021 could not be confirmed.

STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT – VOTE 1094

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

817. Interest on Delayed Settlement of Award

During the year under review, the State Department made payments totalling to Kshs.136,953,343 to the Office of the Attorney General for on-ward transfer to a claimant in respect of an award for principal and accrued interest computed on an amount of Kshs.100,000,000 arising from case No. HC ELC NO.476 of 2012. The payment was effected in two tranches of Kshs.103,907,285 and Kshs.33,046,058 on 10 July, 2019 and 21 April, 2020 respectively. The payment was final and catered for the principal and the interest accrued from 13 March, 2015 to 31 December, 2019. However, review of documents indicated that the claimant issued an additional demand note of Kshs.24,212,628 to the State Department as additional interest accrued for six (6) months due to failure by the Attorney General to transmit the awarded amount in time.

Consequently, the State Department is likely to incur additional expenditure of Kshs.24,212,628 that could have been avoided and hence lack of value for money on the additional expenditure.

818. Contingent Liabilities

Note 16.2 to the financial statements reflects a contingent liability of Kshs.402,494,393 relating to a contractor. The liability arose from an arbitral award to the contractor on the matter of arbitration between the contractor and the then Ministry of Local Government. The arbitral award was for two (2) contracts under the Nakuru Town Roads Project contract no. PKA/16A of Kshs.100,726,453 and PKG/16A of Kshs.301,767,941 outstanding since 31 October, 2017 and 3 June, 2018 respectively. Although the State Department had paid Kshs.305,999,999 as at 30 June, 2021, the two (2) arbitral awards had accumulated additional compound interest of Kshs.283,504,982 and additional cost of Kshs.5,390,215 both totalling to Kshs.288,895,197. The additional amount of Kshs.288,895,197 represents an avoidable expenditure for which no value for money was obtained.

819. Uncollected Revenue from Government Houses

As previously reported, the total number of Government houses across the forty-seven (47) Counties stood at fifty-six thousand eight hundred and ninety-two (56,892) with an expected monthly rental income of Kshs.127,048,750 resulting into an annual rent potential of Kshs.1,524,585,000 assuming full occupancy. Rent collections on Government houses for the financial year amounted to Kshs.873,395,571 leading to an under performance of Kshs.651,198,429 of the full potential. Further, for the Government houses occupied by the County Governments' staff, deductions made through the respective payrolls were not remitted in full to the State Department.

Consequently, rent income due to the State Department was not collected in accordance with Regulation 43(c) of the Public Finance Management (National Government) Regulations, 2015 which requires an Accounting Officer to ensure that all Appropriations-In-Aid due to a national government entity are collected and properly accounted for in accordance with the relevant laws, rules and regulations.

820. Boarded Houses

Examination of records on boarded houses countrywide revealed that several houses were either encroached, condemned or demolished, transferred to other entities, or converted to office for commercial use. The State Department does not have an updated inventory of all houses countrywide which could be used to approximate the rent receivable from Government houses. In the absence of updated records, the extent of unrealized revenue from such boarded houses could not be confirmed.

821. Abandoned Projects

As previously reported, the construction of one hundred (100) housing units at Emali Administration Police Training Camp at a cost of Kshs.136,705,536 had been abandoned at 85% completion stage. Management has not provided any evidence of efforts towards resumption of the works.

Under the circumstances, it has not been possible to confirm whether value for money will be realized from the public funds committed to the project.

822. Gaps in Government Residential Houses Register

As previously reported, according to the inventory of Government houses provided for audit review, the Government had a total of 56,892 houses categorized into institutional, police and pool houses. The houses were further categorized into low, medium and high grades. However, the register maintained by the State Department did not contain key information such as the dates of occupancy and vacancy, occupants' details and reason for non-occupancy.

Failure to maintain a comprehensive register makes it difficult to keep track of Government houses and tenants in relation to occupancy, vacancy of the houses, houses with rent arrears and their respective maintenance costs. This is contrary to Regulation

139(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer of a national government entity should take full responsibility and ensure that proper control systems exist for assets and that preventative mechanisms are in place to eliminate theft, security threats, losses, wastage and misuse.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

823. Digitization of Estate Management

The management of government houses and collection of rent is largely manual as it is yet to be digitized. The benefits that accrue with digitization such as ability to establish expectation on rental income from the individual Ministries, Departments, Agencies or Counties, invoicing, rent collections, booking of revenue, reconciliations and maintenance of houses have not been realized. These gaps in the manual system may lead to undetected loss of revenue.

DONOR FUNDED PROJECTS

KENYA INFORMAL SETTLEMENT IMPROVEMENT PROJECT NO. P113542

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

825. Special Account Reconciliation

The statement of receipts and payments reflects nil proceeds from domestic and foreign grants as disclosed under Note 2 to the financial statements. However, and as previously reported, this excludes amounts withdrawn but yet claimed of USD12,609,173 equivalent to Kshs.1,295,554,554 as at 30 June, 2021 reflected in the Projects special account statement. The amount represents cumulative funds transfers to the Project bank account, but whose expenditure returns had not been submitted to The National Treasury by the close of the financial year.

My opinion is however not modified on the effects of the above matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

828. As required by the International Development Association (IDA), except for the matter under emphasis of matter, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief,

were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

NAIROBI METROPOLITAN SERVICES IMPROVEMENT PROJECT (IDA CREDIT NO.5102-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

830. Pending Bills

Note 12 .1 to the financial statements on pending accounts payable reflects pending bills balance of Kshs.20,300,335 as at 30 June, 2021. The balance comprises of Kshs.769,723 under construction of civil works and Kshs.19,530,612 under supply services which remained unpaid as at 30 June, 2021. Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent year to which they form the first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

833. As required by International Development Agency (IDA) and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of

the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

KENYA URBAN SUPPORT PROGRAM (IDA CREDIT NO.6134 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

835. Pending Bills

Note 12.1 to the financial statements reflects pending accounts payables of Kshs.2,567,156 as at 30 June, 2021. Management did not give reasons for non-payment of the bills, which exposes the Project to the risk of incurring significant interest costs and penalties due to the continued delay in making payments. Further, failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be the first charge.

836. Delayed Counterpart Funding

The statement of receipts and payments reflects a grant of Kshs.358,811,292 received from International Development Association and Kshs.102,998,907 counterpart funding from the Government of Kenya. The total cumulative counterpart funding from the Government of Kenya as at 30 June, 2021 stood at Kshs.182,873,288 representing 9% of the total counterpart financing projection. With the expected closing date of the project set at 31 July, 2023, it is doubtful that the counterpart financing balance of Kshs.1,885,126,712 or 91% will be disbursed to the project activities before closure date. Delays by the Government in releasing counterpart funds impacts negatively on project implementation and development for the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

837. Projects Implementation Status

837.1 Proposed Construction of Parking Lots and Installation of Solar Powered Street Lights (Turkana County)

The County Government of Turkana entered into a contract agreement vide contract No.TCG/LEH&UM/120/2019-2020 with a local contractor on 26 January, 2021 for the construction of parking lots and installation of solar powered street lights at a contract

sum of Kshs.94,428,477 for a one-year duration. According to a progress report prepared in October, 2021, 46% of works was complete with a cumulative expenditure of Kshs.41,639,876 equivalent to 44% of the contract sum, with only two months remaining to the end of the contract. Review of the performance bond revealed that the contractor provided one for Kshs.1,888,570 which was valid from 10 October, 2020 up to and including 28 April, 2021 instead of the required Kshs.9,025,000 an indication that the performance bond provided was less by Kshs.7,136,430. As at the time of the audit in November, 2021, the performance bond had not been renewed.

In view of the foregoing, the delayed implementation of the project works is likely to affect service delivery to the residents of Turkana County. Further, there could be loss of public funds should the contractor fail to complete the project as expected, in view of the expired performance bond.

837.2 Construction of Kaloleni Community Centre (Kisumu County)

The County Government of Kisumu entered into a contract agreement vide contract No.CGK/COK/KUSP/W/2019-2020/03-3, with a local contractor on 7 August, 2020. The works were for the construction of Kaloleni Community Centre for a period of one year at a contract sum of Kshs.151,468,960. During the year under review, the contractor was paid Kshs.28,853,508 on 23 September, 2020 as payment for interim certificate No. 1. However, a physical verification of the project in October 2021, revealed that the works were behind schedule at estimated completion of 37% while the contract period had exceeded the completion date of 6 August, 2021 by about 2 months.

In view of the foregoing, the delayed implementation of the project works are likely to adversely affect service delivery to the residents of Kisumu County.

837.3 Supply, Delivery, Installation, Commissioning and Testing of an Incinerator at TB Manyatta-Wajir Town. (Wajir Municipality)

The County Government of Wajir entered into an agreement with a local contractor vide contract No.WCG/OT/MUNI/05/2019-2020, for the supply, delivery, installation, commissioning and testing of an incinerator at TB Manyatta-Wajir Town at a contract sum of Kshs.14,234,910 for a duration of three (3) months starting 30 November, 2019. As at the time of the audit verification exercise in November, 2021, total payment of Kshs.13,089,939 or about 92% of the contract sum had been paid to the contractor. According to the project status report dated 19 June, 2021, significant work on the ground had been completed. However, the incinerator had not been tested since the required three-phase power line had not been installed. Further, a resident of the County moved to the High Court at Garissa and filed petition No. 4 challenging the project's implementation on grounds that it was harmful to the residents surrounding the proposed site of the incinerator. The matter was heard and the Court found that the setting up of the incinerator possesses potential harm to the residents.

In the circumstances, the residents of Wajir County may not get value for funds already invested on the Project.

837.4 Construction of Central Fire Station and Fire Management System (Kisumu Municipality)

The County Government of Kisumu entered into a contract agreement vide contract CGK/COK/KUSP/W/2018-2019/01 with a local contractor on 3 April, 2019 at a contract sum of Kshs.255,022,996. The works were for the construction of a Central Fire Station and a Fire Management System for a period of one year. During the year under review, the contractor was paid Kshs.66,593,454. However, a site audit verification carried out in the month of November 2021, indicated that the works had stalled at 76% completion and the contractor was not on site. This is despite the expected completion date of 3 April, 2020 having been surpassed by more than one year.

No reason was provided for failure to complete the Central Fire Station and Fire Management System according to schedule.

837.5 Construction of a Fire Station and Structural Improvement to Uhuru Garden (Kericho Municipality)

The County Government of Kericho entered into a contract agreement vide contract No.CGK/KUSP/LHPP/003/2018/19 with a local contractor on 23 May, 2019 at a contract sum of Kshs.46,942,144. The works were for the construction of a fire station and improvement and beautification of Uhuru Gardens within Kericho town for a period of one year. During the year under review, the contractor had been paid Kshs.7,743,570. According to the contract, the procured works which included the supply of a firefighting truck at a cost of Kshs.14,000,000 were to be completed by 29 August, 2020. However, a project site visit in the month of November, 2021 established that the project works had stalled and the contractor had abandoned the site. However, completion of an Art and Performance Center at Uhuru Gardens, completion of toilet block at Uhuru Gardens, painting of fire station with three coats of bituminous paint and procurement of the fire-fighting truck works were still outstanding.

Although the contract period was subsequently extended to 31 December, 2021 vide a letter dated 10 July, 2021, it remains doubtful whether the outstanding works will be completed within the revised timeline therefore casting doubt whether value for money on this project will be achieved.

837.6 Construction of Qorahey Market in the Township Sub County (Garissa Municipality)

The County Government of Garissa awarded a contract for the Construction of Qorahey Market in the Township Sub-County to a local contractor at a contract sum of Kshs.83,959,580. The works commenced on 23 September, 2019 (as per the work program) and the completion date was indicated as 15 June, 2021 which was later revised

to 15 September, 2021. As at the time of the audit in November, 2021, a total of Kshs.74,841,042 out of Kshs.83,959,580 representing 89% of the contract sum had been paid to the contractor.

Further, a site visit to the project on 29 October, 2021 revealed that the works had stalled with parapet walling and plaster to the main market hall, installation of doors, floor screed in open market hall, electrical and major mechanical installation works including supply of water and paint works and eaves filling with masonry works, storm water drainange, control and dustbin cubicles works outstanding. It was also noted that the performance bond for the contract had expired and it had not been renewed as required of the Contractor.

Failure to deliver the project as expected may have an impact on service delivery to the residents of Garissa County. Further, the expired performance bond exposes the Project to possibility of loss should the contractor fail to deliver the project as per the contract terms.

837.7 Delay in Operationalization of Homabay Municipal Market (Homabay Municipality)

The County Government of Homabay entered into two contract agreements, vide contract No.HBC/HBM/KUSP/001/2018-2019 on 27 May, 2019 for the construction of Homabay Municipal Market at a contact sum of Kshs.117,983,729 and contract No.HBC/HBMB/KUSP/TOO1/2020-2021 on 14 October, 2020 for proposed civil, electrical and mechanical works at a contract sum of Kshs.49,875,800, both totalling to Kshs.167,859,529.

A site verification carried out in the month of November, 2021, revealed that, although the market works had been completed, the contractor had not handed over the project to the County Government, seven months after the last payment. As a result, the market had not been operationalized, thus delaying service delivery to the residents of Homabay County.

837.8 Upgrading to Bitumen Standards of B3 Chebirir - Bomet University Road - (Bomet Municipality)

The construction works for the Chebirir - Bomet University Road were awarded to a local contractor at a contract sum of Kshs.67,163,280. As at the time of the audit verification exercise, a total of Kshs.64,240,612 had been paid to the contractor. However, physical inspection undertaken in October 2021 revealed that the road works had not been done to completion as was expected. However, the drainage works was not duly completed and loose soil along the edges of the road/on walkways had not been compacted. Further, culverts on access points along the road had not been duly fixed as per the Bills of Quantities.

This cast doubt on whether there was value for money on this Project.

837.9 Upgrading to Bitumen Standards of Galbet Township Access Road (Garissa Municipality)

The County Government of Garissa entered into a contract No.CGG/KUSP/T/006/2019-2020 with a local contractor on 29 July, 2020 for the upgrading to bitumen standards of Galbet Township access road, at a contract price of Kshs.81,825,853. The contract was to be completed in six (6) months starting 1 October, 2020.

The following unsatisfactory observations were noted during the audit verification exercise carried out in October 2021: -

837.9.1 Undelivered Motor Vehicle

Physical verification exercise carried out on 29 October, 2021 established that a motor vehicle, 4-wheel drive fully loaded double cabin pick-up of diesel engine capacity 2800 cc, used during the implementation of the project had not been delivered to the Municipality as at the time of audit yet it had been factored in the project.

837.9.2 Project Status and Quality of Work

The monthly progress report for August, 2021 revealed that the progress of permanent works stood at 98%. The report also showed that as at August, 2021 payments totalling Kshs.56,586,346, or 61% of the contract sum, had been certified and paid. During the audit verification exercise, it was noted that the drainage works on the road had not been done to the standard requirements and was filled with silt, which may result to flooding of the carriage way during the rainy season.

In addition, the contractor was required to provide a bank performance bond of 10% of the contract sum within seven (7) days. However, the performance bond provided was valid from October, 2020 to January, 2021 (only 3 months) while the contract period was for six (6) months. Management have not explained why the performance bond was not renewed to reflect the full term of the contract and hence likelihood of risk exposure should the contractor fail to complete the project.

837.10 Proposed Construction of Multi Storey Business Complex (Kitale Municipality)

837.10.1 Delay in Commencement of Works and Advance Payment to Contractor

The County Government of Trans Nzoia entered into a contract agreement vide contract CGTN-CP/T012/2017-2018 with a local contractor for the construction of a multi storey business complex on 25 June, 2018 at a contract sum of Kshs.874,280,383.

However, the following anomalies were noted regarding the project:

- Review of project documents revealed that there was delay in commencement of works given that it was awarded to the contractor on 7 June, 2018 but later commenced on 10 June, 2019 which is about 12 months later.

- Review of project payment details revealed that the contractor was paid an advance payment lumpsum amount of Kshs.174,856,076 or 20% of the contract sum on 26 June, 2019. This was contrary to the contract terms which stated that one half of the advance requested should be certified by the engineer following presentation by the contractor of an invoice for the same as well as presentation of an irrevocable and unconditional performance guarantee. Further, the second half of the advance was to be payable after commencement date after it had been certified by the engineer, following the presentation by the contractor of an invoice for the same, and when the engineerwas able to certify that the contractor had mobilized sufficient personnel and equipment to commence works according to the programme. Further, advance payment was agreed at 20% of contract sum with 10% of advance payment to be paid prior to commencement of works but to be certified by an Engineer and the other 10% of advance payment to be paid after commencement of works, and certified by an Engineer. However, Management paid the full 20% of the advance payment prior to the commencement of works and did not follow the provisions of the contract terms.

- The tender documents provided for audit review stated that the minimum amount of interim payment certificate was 5% of the accepted contract amount, this being Kshs.43,714,019. Review of the project interim payment certificates revealed that interim payment certificate No.03 amounted to Kshs.21,171,163 and interim payment certificate No.04 amounted to Kshs.37,588,622 which is less than the minimum amount required by Kshs.22,542,856 and Kshs.6,125,397 respectively.

Delayed implementation in project works is likely to affect service delivery to the residents of Trans Nzoia County.

837.10.2 Payment of Retention Money Before Completion of the Project - (Kitale Municipality)

During the audit it was noted that the contractor was paid an amount of Kshs.87,453,123 being the net of interim payment certificate No. 2 valued at Kshs.102,553,197 on 20 April, 2020. It was further noted that Kshs.10,255,320 was deducted from the above payment being 10% retention fee. However, this retention fee was paid to the contractor on 24 July, 2020 after 3 months. It was not clear why the contractor was paid the retention fee before full completion of the project. This is contrary to Section 151(2)(h) of the Public Procurement and Asset Disposal Act, 2015 which states that for the purpose of managing complex and specialized procurement contracts, the contract implementation team shall be responsible for ensuring that the contract is complete, prior to closing the contract file including all handover procedures, transfers of title if need be and that the final retention payment has been made.

837.11 Upgrading of Iftin-Waberi Access Road (Garissa Municipality)

Garissa Municipality entered into a contract agreement with a local construction company on 29 July, 2020 under contract No.CGG/KUSP/T/005/2019-2020 for the upgrading to bitumen standard of Waberi Iftin Access Road at a contract sum of Kshs.82,424,588 which was to be completed in six (6) months starting 1 October, 2020. The project was certified complete on 1 March, 2021. However, an audit verification of the project carried out in November, 2021, established that total payments amounted to Kshs.83,008,777 resulting in an unexplained over-payment of Kshs.584,189.

No explanation, by way of an approved variation of the contract was provided for the overpayment, this is an indication that value for money on this project may not have been attained and the Management had not recovered the over-payment from the contractor.

837.12 Motor Vehicle in the Name of Contractor

The Project's vehicle, a pick-up registration No. KDA 494Z, four-wheel drive fully loaded double cabin of diesel engine, capacity 2800 cc and whose value in the bills of quantities was Kshs.3,150,000, was still registered under the contractors' name instead of being under the ownership of the County Government of Garissa, seven months (7) after the project was certified complete.

838. Delay in Disbursement of Project Funds from County Revenue Fund (CRF) Account to Projects' Special Purpose Account

838.1 Kericho Municipality

During the year under review, Kericho County Government received an amount of Kshs.66,394,492 being an Exchequer issue for the Kenya Urban Support Program. The amount was disbursed for the implementation of planned projects for the financial year 2020/2021 and was deposited in the County Revenue Fund account on 6 July, 2021. However, by the time of audit in November, 2021, about 4 months after the date of receipt, the amount was still being held in the County Revenue Fund account and had not been transferred to the Project's special purpose account, an indication that the planned objectives from this project may not have been realized.

838.2 Lodwar Municipality

During the year under review, Kshs.52,439,839 was disbursed to Turkana County under the Urban Development Grant (UDG) and was received in the County Revenue Fund Account. However, examination of the bank statements and the cash book for Lodwar Municipality indicated that Kshs.27,058,921 had been transferred from the CRF account and was received in the Urban Development Grants (UDG) Special Purpose Account leaving a balance of Kshs.25,380,918. This amount had not been transferred to the UDG account as at the time of audit in November, 2021.

838.3 Wajir Municipality

During the year under review, UDG disbursements to Wajir Municipality amounted to Kshs.51,866,063 which was received in the County Revenue Fund (CRF) account for Wajir County at the Central Bank of Kenya. Out of this amount, Kshs.24,462,565 had not yet been transferred to the UDG special purpose account as at the time of audit in November, 2021.

838.4 Garissa Municipality

Included in Annex 4 to the financial statements - Municipalities UDG receipts and expenditure reports, is an amount of Kshs.112,625,979 being disbursements to Garissa County for UDG funding. As at the time of the audit verification exercise in November, 2021, the funds had not been transferred to UDG Special Purpose Account.

No reason was provided by the project management for the failure to transfer the funds to the project account.

839. Over Expenditure/ Budget Over run-Construction of Roads in Industrial Area Site and Service Kabati (Naivasha Municipality)

The approved budget for the proposed construction of roads in industrial area Site and Service Kabati project within Naivasha Municipality was Kshs.188,075,500. However, the total contract sum paid by the Municipality was Kshs.199,413,566 resulting in an unauthorized and unexplained over-expenditure of Kshs.11,338,066.

840. Unapproved Inter-Account Borrowing by Counties and Municipalities

840.1 Garissa County

As previously reported, the Project's management borrowed Kshs.205,234,132 from the Kenya Urban Support Program (KUSP) account to the recurrent and development accounts for Garissa County, both held at the Central Bank of Kenya. Although the inter-account borrowings was later refunded to the KUSP account by the County, there was no authorization for the inter-account transfers between the Project account and the County Governments operations accounts.

Although the matter has been presented at the Senate, a determination is yet to be made. Further, Urban Institutional Grants (UIG) disbursement in the 2018/2019 financial year for Garissa County was Kshs.41,200,000 which was received in the UIG Special Purpose Account (SPA). It was noted that on 3 July, 2019 an amount of Kshs.41,000,000 was transferred from this account to the Urban Development Grant SPA (inter-account borrowing). Further, on 19 June, 2020, an amount of Kshs.41,200,000 was transferred from the UDG account to the UIG the account as a refund of the funds earlier credited. However, the extra funds of Kshs.200,000 transferred from to the UIG account had not been refunded by November, 2021. It was also noted that the closing bank balance for UIG account as at 30 June, 2021 was Kshs.1,561, an indication that the extra funds had already been spent.

No authority was provided for the inter-account borrowing. Further, no reason has been provided for the unauthorized spending of UDG Kshs.200,000 in UIG account.

840.2 Trans Nzoia County

Review of the bank statements for UIG funds disbursed to Trans Nzoia County revealed that a total amount of Kshs.58,129,859 had been spent as at May, 2020. This amount was above the Kshs.50,000,000 budgeted for Urban Institutional Grant activities. This is an indication that there was an unapproved over-expenditure on the UIG funds of Kshs.8,129,859 for the County. The over expenditure of Kshs.8,129,859 from UIG account affects funds that could have been utilized for other planned projects under UDG.

It was also noted that over the four years the programme has been in existence, a total of Kshs.37,915,400 had been borrowed from the Urban Development Grant (UDG) Account to fund UIG activities without approval. Out of this amount, only Kshs.29,434,840 has been refunded to the UDG account leaving a balance of Kshs.8,480,560 pending. It was noted that the UIG account balance as at 30 June, 2021 was Kshs.459,060 and therefore the possibility of making the refund of Kshs.8,480,560 was doubtful.

The above unauthorized borrowings are contrary to Regulation 53(1) of the Public Finance Management (County Governments) Regulations, 2015 which states 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 purposes other than those activities. Further, sub-section 2 provides that a public officer who makes a payment contrary to paragraph (1) commits an offence under the Act.

841. Unsupported RTGS Payment (Lodwar Municipality)

Urban Development Grant (UDG) funds amounting to Kshs.95,023,200 were disbursed to Urban Institutional Grant (UIG) account for Lodwar Municipality on 22 January, 2019. However, there was a payment of Kshs.1,994,000 to a local contractor from this account on 19 June, 2019 before the balance of Kshs.93,029,200 was refunded to the UDG account on 11 June, 2020. The payment in question was however, not supported with requisite documentation and it was not possible to confirm under which item it was classified since it was neither posted in the UDG or the UIG account cash book, and only appeared in the UIG account bank statement as an RTGS payment.

Although Management have explained that the payment was in respect of imprest drawn in favor of an officer, no supporting evidence were provided to support the expenditure.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT

KISUMU URBAN PROJECT (PROJECT ADVANCE ACCOUNT) - CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

844. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance of Kshs.296,972,400 as at 30 June, 2021. However, during the year under review, management recorded expenditure of Kshs.531,951,971 out of the opening cash balance of Kshs.822,287,913 which should have left a balance of Kshs.290,335,942. This therefore results to a variance of Kshs.6,636,458, which has not been explained or reconciled.

Further, the cash and cash equivalents balance of Kshs.296,972,400 as at 30 June, 2021 is at variance with the calculated balance of Kshs.296,882,076 resulting to a variance of Kshs.90,324 which was not explained or reconciled. In addition, the statement of cash flows reflects a balance of cash and cash equivalents at the end of the year of Kshs.351,234,781 while the statement of financial position reflects a balance of Kshs.296,972,400 resulting to a variance of Kshs.54,262,381 which was not been explained or reconciled.

In the circumstances, the accuracy and validity of the cash and cash equivalents balance of Kshs.296,972,400 as at 30 June, 2021 cannot be confirmed.

845. Unsupported Prior Year Adjustment

The statement of financial assets and Note 7 to the financial statements reflects prior year adjustment balance of Kshs.16,244,664 as at 30 June, 2021 indicated to be an adjustment of the misstatement in the financial statements for 2019/2020. However, the

details of the misstatement and the supporting documentation in respect of the adjustment were not provided for audit review. Further, the statement of cashflows also reflects prior year adjustment of Kshs.16,244,664 which has neither been explained or supported.

Consequently, the accuracy of the financial statements as at 30 June, 2021 could not be confirmed.

846. Amounts Withdrawn and Not Claimed

According to The National Treasury's special accounts, the amounts withdrawn but not claimed in respect to the Project amounted to EUR19,822,470.32 as at 30 June, 2021 which is indicated as amounts transferred to the local project bank account but whose expenditure returns had not been submitted to The National Treasury as at 30 June, 2021. However, the financial statements together with the records maintained by the Project management does not indicate the amounts withdrawn and not claimed.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

Other Matter

847. Budget Performance and Lack of Approved Budget

The statement of receipts and payments reflects total payments amount of Kshs.531,951,971. However, according to the statement of comparative budget and actual amounts, the expenses were not budgeted for during the year under review and no reason was provided for incurring expenditure without an approved budget and annual work plan as required, as indicated below:

Payments	Final Budget Kshs.	Actual Expenditure Kshs.	Over Kshs.
Purchase of goods and services	0	241,359,653	241,359,653
Acquisition of non-financial assets	0	290,592,318	290,592,318
Total	**0**	**531,951,971**	**531,951,971**

Although, the Project did not record any receipts during the year under review, no budget adjustment and approval was done to allow utilization of the brought forward cash and cash equivalents balance of Kshs.822,287,913. The expenditure for the year amounting to Kshs.531,951,971 was therefore unauthorized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

848. Non- Registration of Heavy-Duty Refuse Compactor

The purchase of goods and services amount of Kshs.241,359,653 includes supplies amount of Kshs.57,392,964, which in turn includes Kshs.48,990,000 paid in respect of purchase of heavy duty refuse compactor equipment in July, 2020. However, ownership documents in respect of the machine were not provided for audit verification. In addition, the equipment does not have a registration number and is not recorded in the assets register.

In the circumstances, the ownership and tracking of the equipment be ascertained.

849. Upgrade of Otonglo Market

The acquisition of non-financial assets amount of Kshs.290,592,318 includes two payments totalling Kshs.29,151,034.75 made to a contractor for the upgrade of Otonglo market in respect of contract agreement number CCK/KUP/W/4/2018/037 dated 30 December, 2020 for a contract sum of Ksh.79,468,296. According to the contract, the works were expected to be completed by 30 October 2021. However, at the time of audit in October, 2021, the project was at a completion level of 75% as per the progress report. Further, the performance Security provided by the contractor from Sidian Bank had expired on 13 July, 2021 and there was no evidence that the same had been extended.

Physical verification of the project in October, 2021 revealed that although the contractor was still on site, the works were far from completion. The contractor attributed the delay to the Kenya Railways Corporation demolition Company's construction site and extreme weather conditions. However, there was no evidence that the contractor had requested for extension of the completion date.

Under the circumstances, there is likelihood of project delivery delays which may impact on project costs.

850. Proposed Completion of Low Volume Access Roads- (Kemri-Otonglo-Tiengere-Rota Road)

The acquisition of non-financial assets amount of Kshs.290,592,318 includes two payments totalling Kshs.18,257,954.17 paid to a contractor in respect of completion of 5.5 kilometres of low volume access roads (Kemri-Otonglo-Tiengere-Rota road) at a contract sum of Ksh.63,687,970. The contract duration was eight (8) months with effect from 7 December, 2018 to 7 August, 2019. As at the time of audit in October 2021, the project was indicated to be at 60% completion based on the status report project of July, 2021.

Physical verification of the project in October, 2021 revealed that the contractor was not on site and the project was still incomplete due to what was said to be failure of the concrete beams to meet the tests carried out. The Management did not provide explanation on the action being taken to have the project completed. The contractor requested for extension of the contract period to 31 December, 2019 through letter reference number KUP/LOWVOLUME140819(1) dated 10 August, 2019. However, there was no evidence that the request was accepted. Further, the performance security bond that the contractor provided from M/s Rafiki Microfinance Bank was valid up to 28 July, 2019 and there was no evidence provided to show that the contractor renewed the bond. In addition, the mandatory of the risk insurance expired on 27 January, 2020 and there was no evidence of renewal.

In the circumstances, value for money in respect of Kshs.18,257,954 paid towards the project was not achieved.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KISUMU URBAN PROJECT (CASH EXPENDITURE FUND)-CKE 1035.01.G - COUNTY GOVERNMENT OF KISUMU

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

853. Statement of Financial Assets

The statement of financial assets reflects total financial assets balance of Kshs.196,589 as at 30 June, 2021 while the funding section casts to an amount of Kshs.8,129 though reported as Kshs.196,589, resulting in a variance of Kshs.188,460 which has not been reconciled or explained. Further, the statement of receipts and payments reflects a cumulative deficit balance of Kshs.7,604,142 while the reported cash balance for

statement of financial assets is Kshs.8,089 resulting to an unexplained variance of Kshs.7,612,231.

Consequently, the accuracy and validity of the prior year adjustment balance of Kshs.188,460 as at 30 June, 2021 could not be confirmed.

854. Trial Balance

The financial statements as at 30 June, 2021 were not supported by a trial balance. There was also no ledger to support the basis of preparation of the financial statements. In addition, the opening balances reflect a net finance position that does not agree with the audited financial statements.

Consequently, the accuracy of the financial statements for the year ended 30 June, 2021 could not be ascertained.

855. Statement of Cash Flows

The statement of cashflows reflects cash and cash equivalents at the end of the year balance of Kshs.923,118 while the statement of assets reflects cash and cash equivalent balance of Kshs.8,089 as at 30 June, 2021 resulting in a variance of Kshs.915,029 which has not been explained or reconciled.

Consequently, the accuracy of the statement of cashflow for the year ended 30 June, 2021 could not be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

856. Lack of Approved Budget and Workplan

During the year under review, the Project recorded expenditure of Kshs.6,265,106 on purchase of goods and services. However, the management did not avail an approved budget and workplan for 2020/2021 as required by law and financing agreement.

857. Unauthorised Payments

During the year under review, the project recorded payments amounting to Kshs.6,265,106 on purchase of goods and services against nil budget giving rise to unauthorised expenditure of Kshs.6,265,106. No reason was however provided for operating without an approved budget. In the circumstances, the expenditure of Kshs.6,265,106 is unauthorised. Although the Management has explained that the expenditure of Kshs.6,265,106 on purchase of goods and services related to surrender of imprests relating to prior years, no further justification has been provided.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

858. Because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

859. As required by Financing Agreement, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have not been kept and the Project's financial statements are not in agreement with the accounting records and returns.

KENYA URBAN SUPPORT PROGRAM - KISII MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

861. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects final receipts budget and actual on comparable basis of Kshs.172,853,800 and Kshs.126,137,642 respectively, resulting in an underfunding of Kshs.46,716,158 or 27% of the budget. Similarly, the Program spent Kshs.81,189,176 out of the approved expenditure budget of Kshs.197,397,118, resulting in under expenditure of Kshs.116,207,942 or 59% of the budget. The budget under-funding and under-expenditure may impact negatively on delivery of services to the residents of Kisii Municipality.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

STATE DEPARTMENT FOR PUBLIC WORKS – VOTE 1095

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

864. Pending Bills

Note 15.16.1 to the financial statements reflects pending bills totalling to Kshs.830,444,586 as at 30 June, 2021. However, the analysis reflects a balance brought forward from prior year of Kshs.693,538,593 while the audited financial statements for the year ended 30 June, 2020 had no pending bills as such the difference of Kshs.693,538,593 could not be supported. Further, additions during the year under review reflects Kshs.656,965,526 out of which Kshs.652,243,853 has been supported by the pending bills analysis schedule while Kshs.4,721,673 remained unsupported.

In addition, the pending bills balance includes an amount of Kshs.76,222,269 relating to interest and penalties on delayed payments charged by contractors and suppliers. This represents an additional charge to public funds as a result of budget constraints and failure to make payments once they fall due. Failure to settle pending bills in the year which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year as they form the first charge.

In the circumstances, the authenticity of the pending bills reported balance of Kshs.830,444,586 as at 30 June, 2021 could not be confirmed.

Other Matter

865. Long Outstanding Accounts Payable – Retention Money and Other Deposits

The statement of assets and liabilities as at 30 June, 2021 reflects a balance of Kshs.587,676,280 under accounts payable – deposits as disclosed in Note 15.16.3 to the financial statements. Examination of the schedule provided in support of the balance revealed that balances totalling to Kshs.380,597,279 have been held as retention/deposit for a long period some dating back to the period between 2000 and 2016. The long outstanding deposits implies that projects have not been completed which impact on service delivery to the citizens.

866. Late Exchequer Releases

The statement of receipts and payments for the year ended 30 June, 2021 reflects actual Exchequer receipts of Kshs.2,924,112,346 out of which Kshs.154,262,656 was received late in June and July, 2021 as analyzed below;

Date Received	Amount (Kshs.)
25 June, 2021	78,696,326
2 July ,2021	12,876,330
6 July, 2021	62,690,000
Total	**154,262,656**

The late disbursement of Exchequer releases by The National Treasury could lead to accumulation of pending bills due to late payment of amounts outstanding as at the end of the financial year and also affects implementation of planned programs for the year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

867. Termination of Contracts and Related Costs

867.1 Rehabilitation of Mtangawanda Jetty

The contract for the rehabilitation of Mtangawanda Jetty was awarded to a contractor at a contract sum of Kshs.72,468,735. The completion date was initially 17 February, 2020 and was revised to 16 June, 2020 and further revised to 12 August, 2020. However, the contractor did not execute the contract within the second revised completion date and is reported to have deserted from the site in October, 2020 a clear indication that the contractor had no capacity to deliver the project.

The employer issued a notice of termination on 27 November, 2020 and after it became apparent that the contractor was not willing to resume work, the contract was terminated on 1 March, 2021. As at the time of audit in November 2021, Kshs.50,685,400 had been paid to the contractor with Kshs.5,631,711 held as retention amount. The final account had not been prepared to ascertain the costs and all expenses incurred by the employer, the work done, materials on site and inventory/materials in line with the provisions of the contract. Further, the contract was terminated when the project was at 97% completion and the completion cost was estimated to be Kshs.11,000,000. However, if another contract is awarded, the cost is likely to increase due to fluctuations and preliminary costs involved.

Consequently, the value for money on the amount already paid may not be achieved since the project has continued to suffer defects and dilapidation.

867.2 Construction of Ndau Sea Wall

The contract for the construction of Ndau Sea wall was awarded to a contractor at a contract sum of Kshs.365,103,794. The contract period was revised three (3) times with the latest revised completion date of 6 July, 2017. The contractor did not complete the construction within the third revised completion date and is reported to have stopped working on the site in June, 2018.

The employer issued a notice of termination on 7 February, 2019 but the contractor promised to complete the project. Another notice to terminate the contract was issued on 25 July, 2019 which the contractor sought a restraining order from the High Court (Case No.189 of 2019). The case was later dismissed by the Court and consequently the contract was terminated on 16 June, 2021. It is however, not clear whether there was subsequent approval of extension of time between the third revised completion date of 6 July, 2017 and date of notice of termination on 7 February, 2019. Further, at the time the contractor stopped working on site, the project was at 87% completion with Kshs.284,504,648 paid to the contractor. However, some of the incomplete sections have since been subjected to aggressive sea wave forces leading to progressive failure.

In addition, with the termination of the contract the estimated completion cost was Kshs.80,000,000 with Kshs.31,611,627 and Kshs.4,700,000 recoverable from the contractor as retention money and liquidated damages respectively.

Under the circumstances, value for money paid to the contractor may not be achieved due to increased costs in terms of reconstruction costs, preliminary costs and fluctuations in price and quantities when a new contract is awarded will be incurred.

868. Management of Projects Implemented by the State Department

868.1 Voi Pool Housing Project

The Voi Pool Housing project was awarded to a contractor at a contract sum of Kshs.747,290,699 for a contract period of one hundred and four (104) weeks commencing 01 December, 2012. The estimated completion date of 30 November, 2014 was later revised to 31 December, 2019. As at the time of the audit in October, 2021, an amount of Kshs.434,028,886 had been certified for payment with the project being 40% complete. The contract sum was revised to Kshs.1,202,694,850 according to the project status report of December, 2019. However, the contract variation by Kshs.455,404,151 or 60% of the contract sum is contrary to Section 139(4)(c) and (d) of the Public Procurement and Asset Disposal Act, 2015 which limits the price variation to 20% of the contract sum. Further, approval for the variation of the price was not provided for audit review.

In addition, review of the Interim Payment Certificate No.17 certified for payment of Kshs.434,028,886 include additional costs incurred on the project such as, extended preliminaries cost as a result of extended completion time (from 104 weeks to 336 weeks) amounting to Kshs.13,973,077, fluctuations on builders work and materials of Kshs.25,518,108 and interest on delayed payments to certificates No. 1 to 17 of Kshs.20,536,241. The payment certificate also includes unsupported reimbursements to the contractor of Kshs.7,333,111.

As at 30 June, 2021 the works progress was at 65% with the elapsed period being 336 weeks or 323% of the initial completion period of 104 weeks. This is an indication that the project was significantly behind schedule.

Consequently, value for money paid to the contractor may not be achieved due to delays in project implementation and associated costs.

868.2 Proposed Completion of Mathare Nyayo Hospital

The proposed completion of Mathare Nyayo Hospital project was awarded to a contractor at a contract sum of Kshs.1,212,414,732 with the anticipated completion date being 26 August, 2015. However, the completion date was revised severally with the latest revised completion date being 31 December, 2020. As at 30 June, 2021 the work progress was at 70% with the elapsed period being more than 275% of the initial completion date indicating that the project was significantly behind schedule resulting to delayed delivery of service.

Further, review of Interim Payment Certificate No. 34 certified for payment indicates that a total of Kshs.132,321,751 had been certified for payment. The amount includes additional costs of fluctuation in labour and materials amounting to Kshs.46,169,430, interest on delayed payments of Kshs.37,852,236.96 and claims for direct loss and expenses due to changes introduced by the employer of Kshs.48,300,085. The costs are avoidable and could be attributed to the delay in project completion.

In the circumstance, value for money paid to the contractor may not be achieved due delay in project execution and related associated costs.

868.3 Proposed Completion of Migori District Headquarters (Phase 1)

The proposed completion of Migori District Headquarters Phase I project, was awarded to a contractor at a contract sum of Kshs.609,471,291 for a duration of 104 weeks starting 31 July, 2009 and was expected to be completed on 29 July, 2011. Available information indicates that there was a variation order of Kshs.92,064,030 to the contract sum resulting to a revised contract sum of Kshs.701,535,321. As at the time of audit, works valued at Kshs.685,283,825 had been certified for payment with Kshs.539,010,127 already paid.

The following observations were made: -

(i) Review of the January, 2021 project status report provided for audit verification revealed that the project had stalled. The contractor had abandoned the site and the project management recommended for termination through mutual winding up.

(ii) An unreferenced letter dated 29 June, 2020 by the main contractor indicated concurrence to mutual winding up of the contract. Certificate of partial completion was issued on 15 December, 2020 and the certificate of making good defects dated 10 June, 2021. However, the final account showing contractual costs and expenses and the eventual payment thereof was not provided for audit review.

(iii) The project incurred additional costs amounting to Kshs.69,703,571 due to various delays as evidenced by payment certificate No.40 and certified for payment by the project manager as detailed below: -

Item	Amount-Certificate No. 40 Dated 25 February, 2020 (Kshs.)
Contractual Claims No. 4 (Admin Costs)	25,411,244
Interest on Delayed Payments (Cert. 8-15)	8,826,194
Revision of Rates	30,236,129
Claim for Escalation of Rates for Electrical Works	5,230,004
Total	**69,703,571**

(iv) The contractor vide an unreferenced letter dated 29 June, 2020 raised key issues relating to project management such as failure/ delay in convening monthly contract/ project management meetings as required under clause 18 of the contract which affected project monitoring leading to delays and consequently escalation of costs.

(v) The project was significantly behind schedule as the percentage of completion as at June, 2021 was at 80%. The office block had outstanding works, the administration block was 35% complete and the refurbishment works had not been carried out with more than 315% of time having elapsed.

In the circumstances, the value for money for amount paid to the contractor could not be confirmed due to delay in project execution and related associated costs.

868.4 Proposed Completion of Tharaka Nithi County Headquarters

The proposed completion of Tharaka Nithi County Headquarters was awarded to a contractor at a contract sum of Kshs.458,239,186 and the initial expected completion date was 27 June, 2018. However, the contract completion date was revised to 31 December, 2020. As at the time of audit in October, 2021, works valued at Kshs.297,236,217 had been certified for payment. Review of progress report indicates that the project is significantly behind schedule as the percentage of completion as at 30 June, 2021 is 65% with more than 118% of time elapsed. Further, payment certificate No.15 amounting to Kshs.28,729,803 and certified for payment includes an expenditure of Kshs.1,800,000 and Kshs.1,033,824 reported as project managers expenses and Environmental Impact Assessment (EIA) report, respectively which were not supported with requisite documentation. In addition, the project incurred additional expenditure amounting to Kshs.28,729,803 related to extended preliminaries, fluctuations and interest on delayed payments all of which are associated with delay in project completion.

In the circumstances, the value for money for amount paid to the contractor could not be confirmed due to delay in project execution and related associated costs.

868.5 Proposed Headquarters for Nyandarua County at OlKalou

The proposed Nyandarua County Headquarters at Olkalou project was awarded to a contractor at a contract sum of Kshs.617,644,564 for a duration of 104 weeks beginning 16 March, 2017 and ending on 16 March, 2019. The contract was terminated on 16 March, 2019 (Initial completion date) for failure to perform as per the engagement contract terms with contractor having achieved 19% completion status. The contractor went to Court and sought an injunction to the tendering process of a new contract that

had been restarted by the County Government of Nyandarua. In June, 2020 the termination was lifted by the employer and the initial contractor agreed to resume works and complete the project by July, 2021 which was not achieved. However, through an arbitration process and an addendum dated 01 July, 2021, the contractor transferred the assigned works to another contractor at agreed amount of Kshs.24,900,855 with no further claims. The following anomalies were however observed;

(i) There is no evidence that the project management team attempted to warn and possibly terminate the services of the contractor earlier than 16 March, 2019, which was the initial project completion date, when 19% of works had been delivered.

(ii) At the time of termination, payments amounting to Kshs.101,623,125 had already been made to the contractor including an amount of Kshs.13,078,306 meant for installation of lifts. However, it was not possible to install lifts given that the project had stalled at the foundation level.

(iii) The project is significantly behind schedule (40% complete) as a result of engaging a contractor who could not deliver as per the contract engagement terms and this has cost the public in terms of delayed delivery of services.

(iv) It was also noted that there were additional charges related to the project totalling Kshs.22,187,3558 relating to fluctuations of builders work and materials, interest on delayed payments and contractual claims which were occasioned by delays in project implementation and which were certified for payment .

In the circumstances, the value for money for amount paid to the contractor could not be confirmed due to delay in project execution and related associated costs.

868.6 Proposed Construction of Isiolo County Headquarters

The proposed construction of Isiolo County Headquarters was awarded to a contractor at a revised contract sum of Kshs.556,905,703 from initial contract sum of Kshs.870,706,011 with completion date of 30 August, 2021. Review of progress report as at 30 June, 2021 revealed physical progress of 35% with more than 109% of time having elapsed, an indication of slow progress in project implementation. Further, the contractor raised an extension of time claim from 30 August, 2021 to 30 August, 2022 whose approval was not provided for audit review. In addition, at the time of audit, works valued at Kshs.102,300,195 representing 18% of the contract sum had been certified for payment. Included in the amount was Kshs.2,972,179 relating to interest on delayed payments which forms an extra charge to public funds.

In the circumstances, the value for money for amount paid to the contractor could not be confirmed due to delay in project execution and related associated costs.

869. Other Projects Behind Schedule

During the audit, the following projects were observed to have slow progress and were behind schedule as at 30 June, 2021.

No.	Project	Contract Period (Weeks)	Time Elapsed (Weeks)	% of Time Elapsed	% of Work Done
1.	Ntungi Primary School Ruguzu - Kanyuru Footbridge	24	72	300	94
2.	Keera - West Mugirango Footbridge	24	56	233	98
3.	Nyamakoroto - Karantini (36m Span) Footbridge	24	56	233	98
4.	Rikenye - Embaro Footbridge	24	56	233	98
5.	Reconstruction of Mokowe Jetty and Associated Works	130	141	108	79

The State Department has however, not demonstrated action taken towards claiming for liquidated damages for the delayed performance of the five (5) projects. This is contrary to Section 140(b) of the Public Procurement and Asset Disposal Act, 2015 which states that the contractor shall be liable to liquidated damages for delayed performance.

Consequently, delay in completion of projects exposes the public to loss on value for money for the expenditure incurred on the five (5) projects.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

870. Audit Committee and Internal Audit

During the year under review, the State Department nominated five members to the Audit Committee via letter ref MOT&I/P/HRM/052 VOL.1/76 dated 6 November, 2019. Available information indicate that the Committee met only once on 22 December, 2020 contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which states that the Audit Committee shall meet at least once in every three months.

Further, the internal audit plan for the year and the approved internal audit reports were not provided for audit review. In addition, the Internal Audit Department had only two (2) staff as at 30 June, 2021 against an establishment of twenty-seven (27) officers an indication that the Department is grossly under-staffed.

In the circumstances, the effectiveness of the Audit Committee and the Internal Audit Function could not be confirmed.

871. Controls Over Motor Vehicles

Review of motor vehicles records revealed that the State Department is in possession of two (2) motor vehicles that had been grounded for a long time and which the Department had recommended for disposal. However, at the time of the audit in October, 2021 the recommendation had not been implemented and the motor vehicles continue to

depreciate in value due to poor conditions of maintenance. Further, ownership of eight (8) motor vehicles could not be confirmed as their respective log books were not provided for audit review.

In the circumstances, the effectiveness of internal control over management of motor vehicles could not be confirmed for the year ended 30 June, 2021.

MINISTRY OF ENVIRONMENT AND FORESTRY – VOTE 1108

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

872. Inaccuracies in Transfers to Other Government Entities

As disclosed in Note 15 to the financial statements, the statement of receipts and payments reflects Kshs.11,072,441,399 as transfers to other government entities which includes other capital transfers and transfers and subsidies totalling to Kshs.1,497,951,770. However, confirmation of recurrent transfers to National Environment Management Authority (NEMA) revealed variances as shown in the table below:

Item	Financial Statements Amount (Kshs.)	Amount as Per Ledger (Kshs.)	Amount Confirmed by Entity (Kshs.)
Recurrent Transfer	107,999,288	171,499,288	133,000,000
Total	**107,999,288**	**171,499,288**	**133,000,000**

Consequently, it has not been possible to confirm the propriety of recurrent transfers to NEMA totalling to Kshs.107,999,288.

873. Compensation of Employees

As disclosed in Note 12 to the financial statements, the statement of receipts and payments reflects compensation of employees of Kshs.1,088,307,850, which includes an amount of Kshs.496,633,745 in respect of personal allowances paid as part of salary. A review of the payroll and IPPD data revealed that, the Ministry paid various allowances totalling to Kshs.228,105,416 as detailed below:

Type of Allowance	Total Payments (Kshs.)
Safety Allowance	80,916,343
Shift Allowance	49,821,230
Adversity Allowance	62,774,378
Aviation Support Allowance	11,015,226
Aviation Allowance	22,964,699
Special Legal Allowance	613,548
Total	**228,105,424**

However, no evidence was provided to confirm that the allowances were approved by the Salaries and Renumerations Commission.

Consequently, the accuracy and validity of personal allowances figure of Kshs.496,633,745 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

874. Budgetary Control and Performance

During the year under review, the Ministry had a low absorption rate of the approved budget in the following items as shown below:

Expenditure Item	Approved Budget (Kshs.)	Actual Expenditure (Kshs.)	Under Expenditure (Kshs.)
Use of Goods and Services	317,657,503	282,175,648	35,481,855
Transfers to Other Government Units	12,304,531,327	11,072,441,399	1,232,089,928
Social Security Benefits	16,400,000	12,248,752	4,151,248
Acquisition of Assets	234,473,474	129,193,931	105,279,543
Total	**12,873,062,304**	**11,496,059,730**	**1,377,002,574**

Consequently, due to the deficit in revenue and late exchequer releases, the Ministry did not achieve its planned objectives for the year under review.

875. Use of Outdated Equipment and Technology

Audit inspection at the Kenya Metrological Department in November, 2021 revealed that automatic rain gauge and sunshine recorder were not functional at the Dagoretti Corner Station. It was not clear how the Department captures data for the affected parameters for the station's reporting area.

Further, the audit revealed that the Department has not fully installed modern digital equipment and technology and relies on old manual systems for weather reporting.

The Management should consider overhauling the existing manual technology system and replace it with digital technology so as to enhance reliability and effectiveness of the processes of monitoring, capturing and timely dissemination of weather forecasts to stakeholders.

876. Unresolved Prior Year Issues

In the audit report of the previous year, several issues were raised in the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board and the National Treasury Circular Ref. AG.4/16/2 Vo.3(72) dated 30 June, 2021 on Revised Annual Reporting Template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

877. Pending Bills

Note 30.1 to the financial statements reflects pending bills totalling to Kshs.754,319,373 as at 30 June, 2021. As at the time of audit in November, 2021 only Kshs.29,365,951 or 4% of the total liability had been settled leaving Kshs.724,953,422 or 96% outstanding. This contravened The National Treasury Circular Ref DGIPE/A/1/80 dated 16 June, 2020 which directed that pending bills should form first charge of the 2020/2021 budget.

In addition, included in the pending bills of Kshs.754,319,373 is a claim of Kshs.624,578,750 by a firm, based on a court award. The award comprised of the principal amount of Kshs.379,500,000 and Kshs.245,078,750 being costs and interest at 12% from 30 October, 2015. Although The National Treasury approved part payment of Kshs.60 million to the petitioner, there was no evidence that the parties had agreed for instalment payment.

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

878. Digital Weather Instruments

During the period under audit, the Ministry contracted a firm to supply, deliver, test and commission digital weather instruments which comprised of 60 digital barometers, thermometers and humidity sensors, 60 digital weather monitoring and display processing system and 3 rugged laptops all at a total cost of Kshs.47,000,000.

However, physical verification performed in the month of November, 2021 revealed that equipment's delivered in April, 2021 were still in the store, seven (7) months after delivery. Information available indicates that the delay is due to lack of power UPS which must be installed alongside the equipment. It was not clearly explained why the procurement omitted such an essential component for the installation. Consequently, the value for money from the payment of Kshs.47,000,000 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

879. Lack of Risk Management Policy

The Ministry had a draft Risk Management Policy which had not been approved for use contrary to the Public Finance Management (National Government) Regulations, 2015. Regulation 165(1).

In absence of an approved Risk Management Policy, it is not clear how the Ministry identifies and mitigates emerging risks in its day-to-day operations.

DONOR FUNDED PROJECTS

INTEGRATED HEALTH & ENVIRONMENT OBSERVATORIES AND LEGAL AND INSTITUTIONAL STRENGTHENING FOR THE SOUND MANAGEMENT OF CHEMICALS IN AFRICA (NO. AFR/CHEMOBS PROJECT/C/07-2017)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA INSTITUTIONAL STRENGTHENING PROJECT PHASE XI (NO.UNEP/KEN/SEV/80/INS/63)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA GOLD MERCURY FREE ASGM PROJECT GRANT/PROJECT NO.GEF/UNDP/GOK-00108253

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

886. There were no material issues noted during the audit of the financial statements of the project.

Other Matter

887. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.30,019,000 against budgeted receipts of Kshs.50,000,000 resulting in a short fall of Kshs.19,981,000 or 40% of the total budget. In addition, actual expenditure for the year amounted to Kshs.21,984,572 against the final budgeted expenditure of Kshs.50,000,000 resulting to under absorption of Kshs.28,015,428 for which Management attributed to delay in constituting the project management unit and delay in consultancies and recruitment of staff.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

SOUND CHEMICALS MANAGEMENT MAINSTREAMING AND UPOPs REDUCTION IN KENYA PROJECT (GRANT NO. 99820)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

891. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.91,213,752 against budgeted receipts of Kshs.137,000,000 resulting in a short fall of Kshs.45,786,248 or 33 % of the total budget. Further, actual expenditure for the year amounted to Kshs.91,849,502 against the final budgeted expenditure of Kshs.137,000,000 resulting to under absorption of Kshs.45,150,498 for which the management attributed to IFMIS disruptions, non-responsive tenders and Covid-19 pandemic.

892. Pending Bills

Note 12(1) and (2) to the financial statements reflects pending bills amounting to Kshs.4,161,550 for supply of goods and services and a further Kshs.631,875 for unremitted statutory deductions relating to PAYE, NHIF and NSSF as at 30 June, 2021.

The project is at risk of incurring significant interest costs and penalties with the continued delay in payments.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

SYSTEM FOR LAND BASED EMISSIONS AND ESTIMATION IN KENYA (SLEEK) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

896. Pending Bills

Note 12.1 to the financial statements reflect pending accounts payables totalling Kshs.1,132,994 relating to unremitted taxes, statutory deductions and gratuity. This balance has been outstanding since year 2019/2020. Although the Management indicates that the bills will be settled during the current year, it is not clear why the bills were not settled during the year under review.

The project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

897. Undrawn External Assistance

Note 12.2 to the financial statements reflects undrawn external assistance of Kshs.21,699,441 with an indication that the project ended before the full amount of the grant was drawn. However, it is not clear, and the Management has not explained why they could not request for extension of the project in order to fully utilize all the projects allocated funds.

Consequently, the objectives of the project may not have been realized.

898. Fixed Asset Register

The fixed assets summary was missing in the financial statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT PHASE III (LVEMP III) PROJECT PREPARATORY ADVANCE NO. V1570 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

901. Sustainability of Phase III of the Project

As reported in the previous year, under the statement of receipts and payments, the project received Kshs.10,000,000 (2020 - Kshs.13,000,000) being the Government of Kenya counterpart funding. The International Development Agency (IDA) vide its letter dated 2 October, 2019 addressed to The National Treasury and the Ministry of Environment and Forestry had communicated its decision to stop the Project activities and funding as it reviews its regional integration strategy in Sub-Saharan Africa.

Consequently, the ability of the Project to continue to sustain its services is in doubt.

902. Inaccuracies in the Financial Statement

The statement of receipts and payments reflects adjusted cumulative figures in respect of payments whose adjustments as detailed below have not been explained.

Item	Initial Figure (Kshs.)	Adjusted Figure (Kshs.)	Variance (Kshs.)
Compensation of Employees	24,305,314	17,890,790	6,414,524
Use of Goods and Services	58,874,964	58,712,798	162,166
Total	**83,180,278**	**76,603,588**	**6,576,690**

Although the Management has explained that the adjustments were due to stale cheques not paid in cash book, no evidence has been provided in support of the adjustments. In addition, the adjusted accumulated deficit of Kshs.178,433 is not in agreement with the total financial assets balance of Kshs.278,464. The difference between the two sets of figures was not reconciled or explained.

Further, the statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects an approved receipts budget of Kshs.11,500,000 comprising of original budget of Kshs.10,000,000 being transfer from government entities and budget adjustment figure of Kshs.1,500,000 indicated as miscellaneous receipts. However, the statement of receipts and payments and Note 1 to the financial statements shows that the full budgetary allocation of Kshs.11,500,000 was transfers from government entities and there were no miscellaneous receipts.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June, 2021 could not be ascertained.

903. Pending Accounts Payables

The statement of receipts and payments and Note 8 to the financial statements reflect an amount of Kshs.8,908,000 in respect of acquisition of non-financial assets. The payment was said to be in respect of 10% final balance of hyacinth removing equipment which was purchased in 203/2014 financial year. However, the amount was not included in the pending bills as at the beginning of the year and was not in the budget allocation for 2020/2021. Further, the equipment was said to have been received in the financial year 2013/2014 yet the inspection and acceptance committee was said to have passed the equipment in December, 2019 while the supplier invoiced for the same in January, 2021.

Under the circumstances, the validity of the payment in respect of acquisition of asset amounting to Kshs.8,908,000 for the year ended 30 June, 2021 could not be confirmed.

904. Pending Bills

Notes 12.1 and 12.2 at page 30 of the financial statements reflects pending accounts payables totalling Kshs.17,019,569 as at 30 June, 2021 comprising of Kshs.2,487,569 and Kshs.14,532,000 due to suppliers of goods and services and staff respectively, all relating to 2019/2020 and earlier. However, Management has not provided any reason for non-payment of the bills or explained how the same are to be cleared given that the project is no longer funded by the donor. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year which they form a first charge.

Other Matter

905. Budgetary Control and Performance

The statement of comparative budget and actual amounts indicates that the project had an approved budget of Kshs.11,500,000 for the year ended 30 June, 2021 and recorded expenditure of Kshs.11,825,158 resulting to over-expenditure of Kshs.325,158 or

approximately 3% of the approved budget. There was no evidence provided in support of approvals for excess budget utilisation and as in the previous year, the Project did not receive any donor funding after IDA pulled out.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

NATIONAL ACTION PLAN ON ARTISANAL SMALL – SCALE GOLD MINING NO. AFR/NAP ASGM PROJECT/C/10-2016

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

910. Unreconciled Receipts

The statement of receipts and payments and the bank statement of the Project for the year ended 30 June, 2021 reflects Kshs.4,973,610 as receipts from Donor. However, the reconciliation statement of the Projects special account No.1000395958 maintained at

the Central Bank of Kenya reflects US $ 30,000 equivalent of Kshs.3,259,020 as the amount withdrawn to fund the Projects activities during the year. The resultant difference of Kshs.1,714,590 has not been explained.

Other Matter

911. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects approved final receipt budget of Kshs.5,029,369 as proceeds from domestic and foreign grants against actual receipts of Kshs.4,973,610 resulting in a short fall of Kshs.55,759 or 1%. The statement also reflects a final expenditure budget of Kshs.5,029,369 against actual expenditure of Kshs.4,378,800 resulting in under-utilization of Kshs.650,569 or 13%. The underutilization of Kshs.650,569 is an indication that the activities planned by project management for the financial year under audit were not fully undertaken.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

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

GREEN GROWTH AND EMPLOYMENT THEMATIC PROGRAMME (GGETP) – DANISH EMBASSY FILE NO.2015

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

915. Budgetary Control and Performance

The statement of comparative of budget and actual amounts reflects a final budget receipts of Kshs.135,000,000 as proceeds from domestic and foreign grants against actual receipts of Kshs.70,500,000 resulting in a short fall of Kshs.64,500,000 or 48%.

Similarly the statement reflects final expenditure budget of Kshs.135,000,000 against actual expenditure of Kshs.54,561,123 on purchase of goods and services resulting in under expenditure of Kshs.80,438,877 or 60%. The under expenditure of Kshs.80,438,877 due to late disbursement of funds affected delivery of services for the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

KENYA SPECIAL PROJECT FOR BRSM AND SAICM

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

918. There were no material issues noted in the audit of the financial statements of the Project.

Other Matter

919. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.10,230,195 against budgeted receipts of Kshs.15,000,000 resulting in a short fall of Kshs.4,769,805 or 32% of the total budget. In addition, actual expenditure for the year amounted to Kshs.7,434,660 against the final budgeted expenditure of Kshs.15,000,000 resulting to under absorption of Kshs.7,565,340 for which Management attributed to late disbursement of funds and delayed procurement processes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF ENVIRONMENT AND FORESTRY

GREEN ZONES DEVELOPMENT SUPPORT PROJECT PHASE II (CREDIT NO.P.KE-AAD-005) – KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

923. Budgetary Control and Performance

The summary statement of comparative budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.740,000,000 and Kshs.546,023,789 respectively resulting to an under-funding of Kshs.193,976,211 or 26% of the budget. Similarly, the Fund spent Kshs.547,619,479 against an approved budget of Kshs.740,000,000 resulting to an under-expenditure of Kshs.192,380,521 or 26% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

924. Over Expenditure on Motor Vehicle Insurance

Note 5 to the financial statements reflects purchase of goods and services expenditure of Kshs.424,336,276 which includes motor vehicle insurance figure of Kshs.20,181,077 whereas the approved budget for motor vehicles insurance is Kshs.13,500,000 resulting to over expenditure of Kshs.6,681,077. This is contrary to Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 that stipulates an Accounting Officer shall ensure that public funds entrusted to their care are properly safeguarded and are applied for purposes for only which they were intended and appropriated by the National Assembly.

Although the Management indicated that Kshs.5,723,905 was payment relating to pending bills from the previous year insurance expense, the same had not been taken into consideration when preparing budget for the year under audit. Failure to budget for pending bills may adversely affect the subsequent year's budgeted programmes and lead to reallocation of funds. It could also imply that the financial statements did not reflect fairly the operations of the project for the year under audit. Further, the Management is therefore in breach of the regulations.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

KENYA WATER TOWER PROJECT – KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

927. Failure to Close Project

Kenya Water Towers Project was suspended by the donor in January, 2018 and later terminated in November, 2020. In a letter Ref. DENR/EMC/6/1 dated 18 November, 2020 addressed to various implementing Agencies of this project, the Principal Secretary in the Ministry of Environment and Forestry communicated the Programme termination to various implementing agencies citing the lapse of the contracting deadline of 24 September, 2020 as per the financing agreement Ref No.KE/FED/024-208 and European Union Ref. Ares (2020) s5824518 dated 21 October, 2020. However, as at the time of audit, official closure of the project had not been done more than three (3) years after the suspension, which is a going concern.

928. Unsupported Receipts

The financial statement for Kenya Water Towers Project has been prepared in accordance with the cash basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS). However, the statement of receipts and payments for the year ended 30 June, 2021, indicate a receipt of Kshs.1,375,991. However, the project bank statements did not reflect the receipt of this amount. It is not clear how the project expended an amount not available.

Consequently, the completeness of the statement of receipts and payments for the year ended 30 June, 2021 could not be confirmed.

Emphasis of Matter

929. Material Uncertainty Related to Sustainability of Services

As previously reported, the Project was suspended in January, 2018 by the Donor, European Union, citing violation of the rights of the people living in forests by Kenya Forest Service while implementing the Project in one of the Kenya Water Towers. As the Project was being implemented in Cheregany, an incident in relation to violation of human rights of Sengwer community who inhabited the Embobut Forest and who claimed the land to be their ancestral land occurred. Further, the United Nation Committee on the Elimination of Racial Discrimination, expressed concern about reports on evictions in Embobut Forest. The Committee called on Kenya to acknowledge the rights of the Sengwer, Endorois, Ogiek and all other indigenous peoples.

In addition, continued habitation of the communities in the affected forest may adversely affect the ecosystem and projected value for money may not be realized by the earmarked communities. As at the time of audit, the suspension had not been lifted. It was concluded that Kenya ought to carry out effective consultations between relevant parties and

communities likely to be affected by the Project with a view to obtaining prior and informed consent from the indigenous communities before implementing future projects. A material uncertainty exists with regard to sustainability of services as no funding has been forthcoming and the implementation of the Project to its conclusion is doubtful.

My opinion is not modified in respect of these matters.

Other Matter

930. Budgetary Control and Performance

The summary statement of comparative budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.5,000,000 and Kshs.1,366,879 respectively resulting to an under-funding of Kshs.3,633,121 or 73% of the budget. Similarly, the Fund spent Kshs.1,375,991 against an approved budget of Kshs.5,000,000 resulting to an under-expenditure of Kshs.3,624,000 or 72% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

NORTHERN KENYA CONSERVATION PROJECT CREDIT NO. CKE 1036 01 H– KENYA WILDLIFE SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

934. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflect final receipts of Kshs.276,100,000 and Kshs.255,000,915 respectively resulting to an under-funding of Kshs.21,099,085 or 8% of the budget. Similarly, the Project expended Kshs.222,422,788 against an approved budget of Kshs.276,100,000 resulting to under-expenditure of Kshs.53,677,212 or 19% of the budget.

The under-collection of receipts of Kshs.21,099,085 was contributed by an under-collection of Kshs.22,500,000 or 75% from Government counterpart funding. It is not clear why the Management failed to follow-up on The National Treasury to release the counterpart funding as budgeted. The under expenditure is an indication of non-implementation of planned activities, a situation which may have negatively affected citizens of Marsabit County.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

936. Risk Management Policy

During the year under review, the project did not have a risk management policy, therefore the Management did not perform formal risk assessments on all key financial risk areas such as revenue, expenditure and fraud.

Consequently, the risk levels of the key financial areas of the project could not be confirmed.

937. Disaster Recovery Policy

During the year under review, the project operated without a disaster recovery plan in place. Therefore, the project's preparedness to recover loss data, information or any other important resource of the project in the circumstances there was a disaster could not be confirmed.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

CAPACITY DEVELOPMENT PROJECT FOR SUSTAINABLE FOREST MANAGEMENT IN KENYA (CADEP GRANT NO.22) - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

939. **Unsupported Direct Purchase of Goods and Services**

The statement of receipts and payments reflects direct purchase of goods and services of Kshs.282,000,000 under Note 10.4 to the financial statements. However, the documents in support of the direct purchase of goods and service were not provided for audit.

Consequently, the validity and accuracy of the expenditure on direct purchase of goods and services of Kshs.282,000,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

INTERNATIONAL PARTNERSHIP PROGRAMME – FOREST 2020 PROJECT - KENYA FOREST SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

942. Failure to Close or Extend Project

Note 1.7 and Note 1.8 to the financial statements reflects funding summary and summary of overall project performance respectively. The Project was for a duration of 4 years from 2016 to 2020 and the project had no budgeted activities in 2020/2021 financial year. Despite the absence of budget provision, the Project incurred Bank charges of Kshs.4,929 thereby incurring a deficit of Kshs.4,929. The Management has not explained why the project has not been closed or extended, more than one year after the duration of the Project lapsed. This is contrary to Section 15 of the Grant Agreement which states that the Agreement 'shall apply from the date of the Agreement and remain in full force and effect until 31 March, 2020 and may be extended for a further period of two (2) years thereafter on written agreement between the parties in advance of the expiry of the initial term'.

However, as at the time of audit, official closure or extension of the Project had not been done more than one (1) year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GREEN GROWTH AND EMPLOYMENT THEMATIC PROGRAMME (CR NO:2015-39789) - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

946. Pending Bills

The Donor issued a six (6) months no cost extension ending on 30 June, 2021. However, as at November, 2021, two (2) pending bills amounting to Kshs.3,068,775 had not been settled. The delay in settlement of the bills may lead to additional costs in terms of interests and penalties.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

INTEGRATED PROGRAMME TO BUILD RESILIENCE TO CLIMATE CHANGE AND ADAPTIVE CAPACITY OF VULNERABLE COMMUNITIES IN KENYA - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

950. Low Absorption Rate

Review of the Financing Agreement revealed that the Project closing date of 30 June, 2020 was extended to 31 December, 2021 at no cost. Further, the statement of receipts and payments indicates that the Project spent Kshs.107,291,206 in the year under review. The resultant balance of Kshs.15,160,927 represents unutilized project funds being 12.4% of the total project funding of Kshs.122,452,133.

However, as at the time of the audit in October, 2021, several project activities had not started casting doubt on the ability of the Management to complete the pending activities.

Other Matter

951. Budget Overrun on Management Fee

According to the approved projects budget, management fees by implementing agency is set at 8.5% of the project cost which is reflected as US$ 720,326.63 @ 105 or Kshs.75,634,296. However, a total of Kshs.72,366,504 was spent on administration of the project being 96% of the total allocation while the project stands at 57% on implementation.

It is not clear how the Management will administer the remaining project activities with a budget of less than Kshs.3,500,000 for project administration.

952. Projects Not Started

Information available indicates that sixteen (16) project activities equivalent to Kshs.236,922,300 (US$2,369,223) were yet to be implemented with less than 3 months to the end of the project. This is an indication of poor project implementation mechanism.

In the circumstances, vulnerable communities did not realize any value for these Projects not started.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

953. Approval to Implement Projects

The statement of receipts and payments reflects Kshs.93,720,691 in respect of acquisition of non-financial assets. The payments relate to various contractors procured and engaged by NEMA to undertake projects at a total contract cost of Kshs.217,607,994. This is contrary to the Financing Agreement where at NEMA as an implementing entity, received funds from Adaptation Fund and disbursed the funds to executing entities such

as Kenya Forestry Research Institute (KEFRI), Coast Development Authority (CDA) and Tana and Athi Rivers Development Authority (TARDA) for project implementation.

The Management noted that this decision was backed by the NEMA's Board Resolutions and on the need to centralize procurement. However, no evidence was provided to demonstrate that Adaption Fund Board approved for NEMA to directly implement the project activities in line with paragraph 2 of the programme's implementation guidelines of October, 2017 which states that, "execution services will only be provided by implementing entities on an exceptional basis and at the written request by the recipient country, involving designated authorities in the process, and providing rationale for such a request".

In the circumstances, Management was in breach of the terms of the Financing Agreement.

954. Variation of Smallholder Irrigation Project

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.93,720,691 is payments of Kshs.68,065,050 for the construction of Small-holder Irrigation Project in Thome, Laikipia County. The contract was awarded to a local company at a contract price of Kshs.60,546,432 on 24 December, 2019.However, verification of the final payment certificate dated 30 June, 2021 revealed that the contractor was to receive a total of Kshs.68,065,050 being Kshs.7,518,618 above the original contract price.

A contract variation order was issued on 21 December, 2020 which was in contravention of Section 139 (3) of the Public Procurement and Asset Disposal Act, 2015 which states that no contract price shall be varied upwards within twelve months from the date of the signing of the contract.

Consequently, the Project management was in breach of the procurement law.

955. Project Verifications

During the year under review, a total of nineteen (19) projects were sampled and verified in Homa-Bay, Kajiado, Laikipia, Kisumu, Machakos, Kwale, and Taita-Taveta Counties. A total of 7 projects with a budget cost of Kshs.33,334,049 had not started, while 7 projects with a budget cost of Kshs.66,481,241 were ongoing and 5 projects with a budget cost of Kshs.87,472,840 were fully complete. There is need for the project management to fast-track the implementation process and ensure that completed projects are handed over formally to the beneficiaries.

In the circumstances, the achievement of the objectives for the projects not started and those ongoing could not be confirmed.

956. Uncompleted Civil Works

Included in the statement of receipts and payments under acquisition of assets figure of Kshs.93,720,691 is an amount of Kshs.3,375,562 paid as construction for civil works

which included small holder irrigation schemes, and drilling and installation of boreholes. However, physical verification of project sites in the month of October 2021 revealed that the works had not been completed despite payments having been made as shown below;

Item	Details	Estimated cost (Kshs.)
Solar Panels	8 Panels at Oldorko and Leshugu not delivered.	120,000
Concrete Posts	350 Posts not supplied to various sites.	420,000
Construction of Fish cooling plant	Fish cooling plant at Ndiwa not done.	1,043,102
Construction of Water Pan	One (1) water pan of 5000 m^3 done as opposed to 2 pans in Thome, Laikipia.	1,792,460
Total		**3,375,562**

Consequently, value for money and achievement of the objectives of the projects could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GCF PROJECT PREPARATION FACILITY: "DEVOLVED CLIMATE CHANGE GOVERNANCE TO STRENGTHEN RESILIENCE OF COMMUNITIES' IN TARGET COUNTIES" - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

959. Budgetary Control and Performance

The summary statement of comparative budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs. 34,265,538 respectively. However, the

Project spent Kshs. 2,877,553 against an approved budget of Kshs.34,265,538 resulting to an under-expenditure of Kshs. 31,387,985 or 92% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

960. Failure to Open Project Bank Account

The project Management did not open a separate bank account as required by Section 74(1) where the Public Finance Management Regulations, 2015 states that for the purpose of disbursement of project funds, there shall be opened and maintained a project account for every project at Central Bank of Kenya unless it is exempted by the Cabinet Secretary, in writing, into which all funds shall be kept. The Act further states that, such an account shall be known by the name of the project for which it is opened, and each project shall maintain only one bank account. The Management did not obtain authority to open a project account but deposited the project funds in an existing project account for Adaptation Fund A/c No.1218639164 contrary to the requirements of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

GCF READINESS AND PREPARATORY SUPPORT: "NEMA CAPACITY STRENGTHENING PROGRAMME TOWARDS ACCESSING CLIMATE FINANCE FROM GREEN CLIMATE FUND" - NATIONAL ENVIRONMENT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

963. Low Absorption of Project Funds

The annual report for the year under review indicates that the Project has been in operation for two (2) years, in which the project is expected to end on 25 December, 2021. However, as at 30 June, 2021, the Project had only absorbed Kshs.5,758,927 out of the total 1st Tranche funding amount of Kshs.25,669,350 (USD258,636) translating to 22% of the funding.

Further, Paragraph 4.3 of the Disbursement Schedule of the Cooperation Agreement between the United Nations Office for Project Services (UNOPS) and the Government of Kenya required the Project to utilize 70% of the 1st Tranche before UNOPS would disburse USD 152,424 in the 2nd Tranche. In this regard therefore the Project timelines may lapse without the funds being fully disbursed and utilized as per the Cooperation Agreement.

964. Budgetary Control and Performance

The summary statement of comparative budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.22,636,464 respectively. However, the Project spent Kshs.2,726,041 against an approved budget of Kshs.22,636,464 resulting to an under-expenditure of Kshs.19,910,423 or 88% of the budget. The underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

965. Anomalies in Tenders Awarded

965.1 Tender Number NEMA/RFP/034/2019/2020 - (RFP) to Develop Environmental and Social Management Systems (ESMS)

Examination of Tender number NEMA/RFP/034/2019/2020 - (RFP) to develop Environmental and Social Management Systems (ESMS) revealed that the request for proposal was advertised in My Gov Newspaper on 10 March, 2020. The blank bid document downloaded from (www.nema.go.ke), the tender opening minutes, the tender evaluation report and the professional opinion indicated that all the proposals should have been submitted not later than 26th June, 2020 at 2:00 pm. The consultancy firm which was awarded the tender, submitted the proposal on 3 July, 2020, seven (7) days after the deadline and closing of submissions. Bids were opened on 3 July, 2020 and evaluation done from 21st to 24th July, 2020.

Management however did not provide any re- advertisement, instead it availed for audit an email dated 19 June, 2020 done by the supply chain office to the bidders who had

shown interest before. It was observed that this email was done four (4) days before an addendum dated 23 June, 2020 was issued. Further, the addendum availed for audit was invalid since it had not been approved by the Accounting Officer.

Consequently, the regularity of the contract awarded could not be confirmed.

965.2 Tender No: NEMA/RFP/035/2019/2020 - Consultancy Services for Technical Assistance Grant on Environmental and Social Policy for Adaptation Fund Program in Kenya

Examination of tender number NEMA/RFP/035/2019/2020 revealed that a request for proposal was advertised on My Gov Newspaper on 10 March, 2020. The blank bid document downloaded from (www.nema.go.ke), the tender opening minutes, the tender evaluation report and the professional opinion indicated that all the proposals should have been submitted not later than 26th June 2020 at 2:00 pm. The consultancy firm who was awarded the tender, submitted the proposal on 3 July, 2020, seven (7) days after the deadline and closing of submissions. Bids were opened on 3 July, 2020 and evaluation done from 21st to 24th July, 2020.

Management however did not provide any re-advertisement, instead it availed for audit an email dated 19 June, 2020 done by the supply chain assistant to the bidders who had shown interest before. It was observed that this email was done four (4) days before an addendum dated 23 June, 2020 was issued. Further, the addendum availed for audit was invalid since it had not been approved by the Accounting Officer.

Consequently, the regularity of the contract awarded, could not be confirmed.

966. Comingling of Project Funds

As previously reported, the Management did not open a separate Programme bank account but instead the Project funds are deposited in the Project Integrated Programme to Build Resilience to Climate Change and Adaptive Capacity of Vulnerable Communities in Kenya's bank account No.1218639164. It was not possible to isolate transactions between the two projects considering that the money is fungible.

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

Consequently, Management was in breach of the regulation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

MINISTRY OF WATER, SANITATION AND IRRIGATION – VOTE 1109

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

968. Variances between the Financial Statements and Confirmations from Other Government Agencies

The statement of receipts and payments reflects transfers to other government units amounting to Kshs.59,624,597,538. However, third party confirmations from the entities which received funding during the year under review differed with the transfers reflected in the financial statements as summarized below:

Account Name	Balance as per Financial Statements (Kshs.)	Confirmations from 3rd Parties (Kshs.)	Variance (Kshs.)
Recurrent Account	4,944,866,851	4,764,895,499	179,971,352
Development Account	34,811,135,995	29,224,867,439	5,586,268,556
AIA	19,853,569,403	15,529,398,589	4,324,170,814
Total	**59,609,572,249**	**49,440,618,900**	**10,090,410,722**

Consequently, the accuracy and completeness of the transfers to other government units of Kshs.59,624,597,538 could not be confirmed.

969. Pending Bills

Note 18.1 to the financial statements reflect pending bills of Kshs.78,530,845 which were not paid during the year under review but were instead carried forward to the financial year 2021/2022. Failure to settle pending bills in the year to which they relate adversely affects the subsequent year's provisions, since the bills form a first charge to that year's budget provisions.

969.1 Unreported Pending Bills

Note 18.1 to the financial statements on pending accounts payables reflects pending bills totalling to Kshs.78,530,845. Review of pending bills analysis provided for audit verification reflects that the Ministry had pending bills amounting to Kshs.84,160,272 as at 30 June, 2021. The difference of pending bills amounting to Kshs.5,629,427 was not disclosed in the financial statements for the year ended 30 June, 2021. Further, no ageing analysis for these pending bills was provided for audit verification.

969.2 Unsupported Pending Bills

Included in the pending accounts payables balance of Kshs.78,530,845 are pending bills totalling to Kshs.8,230,052 which were not supported with the relevant documents such as invoices numbers, local purchase orders/local service orders, nature of goods supplied/services offered and delivery notes.

969.3 Outstanding Compensation Claims and Legal Fees

Included in the pending accounts payables balance of Kshs.78,530,845 as at 30 June, 2021 is an amount of Kshs.42,468,829 which relates to long outstanding compensation claims and legal fees. The Management did not explain why the claims and legal fees were not settled. Non-payment of these compensation claims, and legal fees may attract litigations, interest and penalty charges.

Consequently, it was not possible to ascertain the accuracy and validity of the pending bills balance of Kshs.78,530,845 as at 30 June, 2021.

Other Matter

970. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflects budgeted receipts of Kshs.81,801,206,416 against actual receipts of Kshs.67,731,063,442 resulting to an underfunding of Kshs.14,070,142,974 or 17%. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.67,716,189,645 and Kshs.81,801,206,416 respectively, resulting to an under-expenditure of Kshs.14,085,016,771 or 17% of the budget.

Although Management attributed the underfunding to lack of Exchequer releases from The National Treasury and lengthy procurement process, the Ministry may not have implemented all the planned activities, impacting negatively on delivery of services to the public.

971. Delay in Exchequer Releases

Review of records maintained by the Ministry in relation to Exchequer Releases revealed that the Ministry received Kshs.14,135,364,038 as Exchequer releases from The National Treasury in the months of June and July, 2021. A total of Kshs.10,608,459,196 or 75% of development Exchequer releases were received in the subsequent year 2021/2022, as detailed below;

No.	Date	Reference No.	Vote	Amount (Kshs.)
1.	22 June, 2021	FT21173RZL11	Recurrent	255,816,670
2.	29 June, 2021	FT21180PNYT6	Recurrent	330,254,186
3.	14 June, 2021	FT21165YGFGY	Development	1,209,067,587

No.	Date	Reference No.	Vote	Amount (Kshs.)
4.	21 June, 2021	FT21172LR9XH	Development	103,552,318
5.	24 June, 2021	FT211756SH57	Development	1,358,936,789
6.	25 June, 2021	FT21176SFBL4	Development	9,136,274
7.	29 June, 2021	FT21180B8BT6	Development	260,141,018
8.	02 July, 2021	FT21183KLKZZ	Development	8,482,699,383
9.	06 July, 2021	FT21187MF5MR	Development	2,125,759,813
			Total	**14,135,364,038**

The delay in Exchequer releases may have resulted in low absorption of the budget and this may have adversely affected the development programmes of the Ministry and provision of services to the public.

972. Unresolved Prior Years Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board and The National Treasury's Circular Ref: AG.4/16/2 Vol.3(72) dated 30 June, 2021 on Revised Annual Financial Reporting Template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

973. Unsatisfactory Implementation of Project - Sagana River Restoration Project

The Ministry awarded one tender reference number MWS/SRRP/IFB/001/2018-2019 to two International Firms in December, 2018 at a contract sum of Kshs.1,194,801,722 for restoration of Sagana River being fully funded by the Kenyan Government. The Project scope of works included construction of Sagana Diversion Weir, construction of two cascading 18-meter-high dams on Kahiti stream, laying of 12 km of 250 to 280 mm ha UPVC water transmission line, construction of one 2500m3 balanced tank, laying and testing of 17 km of 110 mmdia UPVC distribution line and construction of six (6 No.) distribution tanks of capacity 250m3 each.

The Ministry made an advance payment of Kshs.238,960,344 and a further payment of Kshs.78,938,659 vide payment voucher number 4338 on 15 April, 2020 and Kshs.7,893,866 vide payment voucher number 6055 dated 6 July, 2020 all totalling to Kshs.325,792,868. The Project was planned to take eighteen (18) months to be completed by July, 2020. However, audit inspection in the month of November, 2021 revealed that the project is far from completion.

In the circumstance, the value for money may not be realized due to the slow pace of implementation.

974. Lack of a Complete Fixed Asset Register and Ownership Documents

The fixed asset register of the Ministry as at 30 June, 2021 does not include the four (4) motor vehicles. Though the Management explanation was that these motor vehicles were borrowed from other institutions under the Ministry, no documentary evidence of the Institutions or log books have been provided for verification. This is contrary to Regulation 170(1) of the Public Procurement and Asset Disposal Regulations, 2020.

Further, verification of the Ministry's records revealed that vehicles previously owned by Water Appeals Board which were handed over to the Ministry were still bearing private registration numbers instead of Government of Kenya (GK) numbers. Further, Management has not provided the log books for four (4) vehicles: KBG 835C, KBG 984C, KBG 431C and KBG 834C. This is contrary to Section 72(1) and (2) of the Public Finance Management Act, 2012.

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

975. Irregular Disposal of Motor Vehicles

During the year under audit, the County Government of Migori informed the Ministry vide a letter reference CGM/PROC/GC/2021/VOL.1 and dated 17 February, 2021 that the County Government had disposed motor vehicles with registration numbers GKA 442K and GKA 524K. No evidence has been provided to prove that Management granted permission to the County Government of Migori to proceed with the disposal of the two motor vehicles. There is also no evidence that the vehicles were valued and reserve values set before the disposal took place. Further, there is no evidence that proceeds from the sale of the motor vehicles were remitted to the Ministry.

Consequently, regularity and value for money on the disposal of the two vehicles could not be confirmed.

976. Delayed Projects Completion

976.1 Kanini Irrigation Project Tharaka Nithi

The Ministry awarded tender ref: NMSI/ONT/003/2020-2021 to a construction firm at a contract price of Kshs.34,409,368 for the construction of Kanini Irrigation Project at Tharaka Nithi on 21 May, 2021. The contract duration was scheduled to take 6 months to end on 20 November, 2021. Audit inspection of this project in the month of November, 2021 revealed that the project was scheduled to take 6 months to be completed by 20 November, 2021, the audit progress report indicates that the project may be about 70% when it is supposed to have been completed. Further an amount totalling to Kshs.25,606,899 out of the total contract sum of Kshs.34,409,368 (approximately 74%) had already been paid to the contractor with a balance of Kshs.8,802,468.75 or 26% remaining.

976.2 Maragua Bulk Water Supply and Irrigation Project

The Ministry entered into a contract for the Maragua Bulk Water Supply and Irrigation Project on 14 February, 2020 at a contract price of Kshs.889,397,520. The expected construction period was eighteen (18) months to be completed by August, 2021. The scope of works included construction of a 14-meter-high composite dam, 8,000 m3 per day full water treatment plant at Gakoigo and supply and installation of all valves and fittings for the pipelines and other ancillary works. Review of the project records revealed that the construction of the water treatment plant of 8,000m3 per day capacity was supposed to be constructed on a land parcel owned by Nginda Coffee Farmer's Co-operative Society Limited. However, by the time of audit inspection of this project in the month of November, 2021, the project had not been completed three (3) months after the expiry of contract period.

In the circumstance, the delay in completion of the project may result in additional project costs not in the budget, and the Ministry may not achieve value for money from the projects.

977. Inconsistent Budgeting and Reporting of Projects

Review of the Ministry's budget and financial statements revealed inconsistencies on how the projects were budgeted for and reported in the financial statements. For instance, Thwake Multipurpose Development Project was budgeted for and reported under acquisition of goods while other similar projects were budgeted for and reported under transfers to other government agencies. In addition, a number of Headquarters' projects were budgeted under transfers to other government agencies, yet the amounts were not transferred to other government agencies.

As a result of the inconsistent budget procedures and reporting for similar projects, it may not be possible to obtain comparable project information from the Ministry's financial statements as presented.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

978. Ineffective Audit Committee

Review of the Internal Audit Function revealed that the Ministry's Audit Committee did not hold meetings during the year under review as required by the Public Finance Management Act, 2012. The Audit Committee forms a key component in the governance process by providing an independent expert to the Ministry by assessment of the activities of top Management, the quality of the risk management, financial reporting, financial management and reviewing the internal audit reports to the top management.

Further, the Audit Committee Members were appointed on 31 January, 2018 for a term of 3 years renewable for another term of three (3) years. By 31 January, 2021, the Audit Committee Members were eligible for reappointment. No evidence has been provided by

Management to confirm whether that these Members were reappointed for another term of three years and the calendar of activities of the Audit Committee during the financial year under audit was also not provided.

Consequently, the effectiveness and quality of the internal controls and risk management provided by the Audit Committee could not be confirmed.

DONOR FUNDED PROJECTS

UPPER TANA CATCHMENT NATURAL RESOURCES MANAGEMENT PROJECT (UTaNRMP) IFAD LOAN NO.1-867-KE; IFAD ADDITIONAL FINANCING LOAN NO. 2000002597-KE; AND SPANISH TRUST FUND LOAN NO. 1-E-8-KE

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

980. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year under review reflects total budgeted receipts of Kshs.800,000,000 and actual receipts of Kshs.694,367,152 resulting to a budget shortfall of Kshs.105,632,848 or 13%. Further, the statement reflects approved final budgeted expenditure of Kshs.800,000,000 and actual expenditures of Kshs.522,566,151 resulting to under absorption of Kshs.277,433,849 or 35%.

The under absorption of Kshs.277,433,849 or 35% and the budgeted but unrealized receipts of Kshs.105,632,848 or 13% may have negatively impacted on goods and service delivery to the intended beneficiary of the project. As a result, there is need for management of UTaNRMP to evaluate its budget making mechanism with a view to allocating resources to priority areas for higher positive impact and utilization of the budget.

However, the Management attributed under collection of revenue to delay in accessing first disbursement of the additional financing that was received late in the month of June 2021 and it made it difficult for the management to seek for replenishment to enable realize a 100% mobilization of the external financing. Further, the management attributed the underutilization of the budget to the effect of Covid-19 which made implementation of many activities involving community groups participation difficult due to the Ministry of Health Covid-19 protocols. Further, there was delay in finalizing procurement of wildlife electric control fence materials, which led to failure by the project to get and spend Kshs.100 million Appropriation-In-Aid (AIA) part of the budget.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

COASTAL REGION WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CREDIT NO. 5543-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

985. Low Absorption of Project Funds

The annual report for the year under review indicates that the Project has been in operation for six (6) years, which covers 99% of the project duration expected to end on 31 December, 2023. However, as at 30 June, 2021, the Project had only absorbed an amount of Kshs.4,091,202,153 out of the total loan amount of Kshs.20,000,000,000 (USD 200 million) translating to about 20% of the total funding. Further, during the year under review, the Project failed to utilize Kshs.927,817,239 or 55% of its annual budget. As a result of this underperformance, it is unlikely that the Project will utilize the whole loan

amount within the funding period, and its expected outputs and objectives may not be achieved.

986. Delayed Construction of Mwache Multipurpose Dam Project

As reported previously, the Ministry of Water, Sanitation and Irrigation awarded a contract for construction of Mwache dam on 21 March, 2019, but the commencement of the works delayed pending acquisition of land, compensation, relocation and livelihood restoration process. A review of progress made on the construction revealed that, during the year under review, the contractor was paid an advance payment amounting to Kshs.85,267,787, and a notice given to start construction of permanent dam works. The work was scheduled to commence on 1 November, 2021.

However, a site visit in October, 2021 revealed that the contractor had not mobilized the site and that implementation aimed at compensating the project-affected persons (PAPs) and acquiring the necessary land required for the Dam construction was yet to be finalized. The delay in commencement of works may result in additional Project costs.

987. Sustainability of Project's Livelihood Programme

The Project disbursed grants totalling Kshs.22,465,136 to sixty-two (62) community groups in Kwale County under the Livelihood Programme. The programme was to carry out a series of activities aimed at improving sustainable livelihood and sharing the Project's benefits in rural areas of the County.

The activities included establishment of tree nurseries, greenhouses and horticulture, dairy, poultry farming among other economic activities. However, as reported in the previous year, some beneficiary groups diverted funds to activities not stated in the Grant Agreement. A review of Project records in October 2021 revealed that out of Kshs.22,465,136 of Project grants for livelihoods, an amount of Kshs.19,161,440 had been accounted-for leaving a balance of Kshs.3,303,696. Due to the shortcomings, the livelihood programme activities may not be sustained.

988. Unresolved Prior Year Matter

988.1 Unrecovered Funds on Terminated Contract

As reported in the previous year, the Ministry of Water, Sanitation and Irrigation, through Coastal Region Water Security and Climate Resilience Project entered into a contract for construction of Rain Water Harvesting Facilities and Sanitation blocks, for schools in Kwale County Phase 2. This contract, which was signed on 22 October, 2018 was for a sum of Kshs.55,113,821. However, on 9 June, 2020, the contract was terminated with approximately 90% of the works pending and the contractor was paid an amount of Kshs.20,410,667 as advance and certified work done. A joint inspection team determined that the contractor was to pay the Ministry Kshs.27,752,838 as penalties on value of uncompleted work and unrecovered advances. A review of the progress made on the matter in November 2021 revealed that the amount was yet to be received by the Ministry.

Under the circumstances, the intended objectives may not be achieved and there may be loss of Project funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

989. Delay in Project Implementation

The Ministry of Water, Sanitation and Irrigation under the Coastal Region Water Security and Climate Resilience Project signed contract No. MOWS/KWSCRP-2/004/2017-2018 on 18 October, 2018 with a local construction company for rehabilitation and expansion of Kwale water supply and operation improvement works at a contract sum of Kshs.426,338,937 for a duration of eight (8) months. The construction works commenced on 29 October, 2020 and was expected to be completed by 28 June, 2021. However, an audit review of the project progress reports and fieldwork verification in October 2021 revealed that the overall work was at 25% completion level.

Although the contractor had been granted extension of time to 31 December, 2021, verification of some sub-components of the project revealed the following:

No.	Project Subcomponent	Description and Audit Observation
1	Kwale Town office	(i) Construction of 1 No. 500 meter cube tank not complete. (ii) Rehabilitation of existing concrete water tank not started. (iii) Rehabilitation of existing office had not started. The contractor was not on site and overall progress was 25%
2	Godoni	(i) Construction of1 No. 150 meter cubic elevated concrete tank on a 15-meter-high tower was no completed. (ii) Pipeline of 1.54 km completed, The contractor was not on site
3	Marere Water Works	Construction of 9,000m3 /day conventional water treatment works complete with chemical store and mixing buildings was complete. Handing over by the contractor had not been done.

No.	Project Subcomponent	Description and Audit Observation
4	Madabara 1	The overall project completion was about 25%. Construction of ground water tank 250m3 generator house, pump house and rehabilitation of existing pump house was incomplete. The contractor was not on site.

Because of the slow progress of works by the contractor, the project may not be complete within the contract period, and the likelihood of cost escalation is high.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

THWAKE MULTI-PURPOSE DEVELOPMENT PROGRAM PHASE 1 (AfDB LOAN NO. 210015002993, 2000200003351 AND NO. 5050200000501 AND AfDB GRANT NO. 2100155025973

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Other Matter

993. Unresolved Prior Year Audit Matters

The following prior year audit issues remained unresolved as at 30 June, 2021:

993.1 Funding and Continuity of the Program

As reported in the previous year, Phase I of the Program, which entails construction of a Dam and associated structures, is currently under implementation. As at 30 June, 2021, approximately 67% of the work had been completed and the programme of work indicated that the Dam will be completed by September, 2022.

The Program is divided into four phases with an estimated cost of Kshs.81.63 billion. Although the African Development Bank (AfDB) and the Government of Kenya (GOK) funding for the first phase of Kshs.42.365 billion has been approved, funding amounting to Kshs.39.845 billion in respect to the remaining three phases is yet to be secured, planned or sought from financiers.

Consequently, it is not clear how the three phases will be financed in the ensuing period towards the Program completion.

993.2 Water Pollution in Athi River

The Thwake Multi-Purpose Dam is expected to draw water from Athi River whose main tributary is Nairobi River. Studies carried out by various agencies indicate that the Nairobi River is heavily polluted with heavy metal and the water is unfit for human consumption. There was no evidence of efforts by the implementing agency to mitigate against the risk and ensure that the river will be free from pollutants and fit for human consumption before the expected completion of the Program in November, 2022.

Consequently, in the absence of any mitigation efforts to avert the pollution, the water and the food crops to be grown under irrigation in the proposed Dam may not be fit for human consumption and the Program's objective may not be achieved.

993.3 Contract Variation on Motor Vehicles

It was observed that Item No.1A.36 and 1A.37 b of the Bill of Quantities for the construction contract for Thwake Multi-Purpose Dam required the contractor to supply ten (10) Toyota Land Cruisers and fifteen (15) Toyota Hilux for the employer and engineer, at a cost of Kshs.135,817,768. However, review of the interim payment certificate no. 1 revealed that changes in specifications of the vehicles by the employer resulted to an upward cost variation by Kshs.37,604,672, representing a variation of 28% against the allowable threshold of 25%. There was no evidence that the changes in specifications were dully approved and no explanation on why the specifications were not included in the tender documents at the bidding stage. The variation was contrary to Section 139(1)(a) of the Public Procurement and Asset Disposal Act, 2015, which provides that an amendment or a variation to a contract resulting from a procurement proceeding is effective only if the variation or amendment has been approved in writing, by the respective tender awarding authority, within a procuring entity.

Consequently, the Management was in breach of the law.

993.4 Non-Construction of Temporary Site Offices

Item No. 1.A/1.30 of the Bill of Quantities for construction contract for the Dam required the contractor to design, construct and furnish temporary site offices for the Employer and Engineer, including air conditioning, office equipment, computers, printers, copiers, computer network, software, among others, all at a cost of Kshs.22,164,684. Review of Program documents revealed that the contactor provided furniture and other equipment at a cost of Kshs.19,994,419. However, there was no evidence that site offices were constructed as stipulated in the contract.

Field verification revealed that the contractor had opted for a lease of building for the Employer and Engineer. There was no evidence that the change was dully approved. In addition, it was not clear whether the balance of Kshs.2,170,265 on the item would cover the lease charges on the property for the construction period.

Consequently, the Program may incur cost overruns, arising from the changes thereby leading to wastage of public resources over the project period.

993.5 Delayed Development of Physical Hydraulic Model

Item No.1C.3 of the Dam construction contract provided for developing and running a physical hydraulic model as per the specifications at a cost of Kshs.30,000,000. Further, Section S1.38.3(3) of the contract specifications states that the contractor shall be prepared to finance the cost of the hydraulic model immediately upon signing of the contract and issuance of instruction to commence the work by the Engineer. This cost was to be reimbursed to the contractor through the interim payment certificates in accordance with the contract. A review of the Program documents revealed that the contractor was yet to procure the physical hydraulic model test which may cause possible delays in the concrete works for the main spillway. Further, field inspection at the Program's site revealed that the contractor had carried out substantial excavation works on the main spillway yet the design was yet to be tested.

Consequently, delays in development of the hydraulic model may result in delayed Program implementation.

994. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects that the Program received an amount of Kshs.6,790,422,462 against the approved budget of Kshs.7,744,000,000 resulting to a shortfall of Kshs.953,577,539 or 12% of the budgeted receipts. Similarly, the Project had budgeted to spend Kshs.7,744,000,000 but utilized an amount of Kshs.6,795,390,680 resulting into under expenditure of Kshs.948,609,320 or 12% of the budget. Management has attributed the under absorption to underfunding and IFMIS challenges that delayed the processing of payments. The under collection of revenue and under expenditure is an indication that some programmes and activities that had been planned for were not implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

995. Costly Price Adjustments

Contract for the construction of Thwake Muliti-Purpose Water Development Program was awarded to an international construction company at a contract sum of Kshs.36,971,346,445. Review of records revealed that payments totalling Kshs.21,968,674,282, have since been made to the contractor for certified works as at 30 June, 2021. However, included in these payments are claims totalling Kshs.1,181,442,511 on price/cost adjustment contained in Section 13.8 of the contract specifications which provides that the amounts payable to the contractor shall be adjusted for rises or falls in the cost of labour, goods and other inputs to the works, by addition or deduction of the amounts determined by the formulae prescribed in the contract and schedule of adjustment data for the expenditure items. However, the amount paid so far on certified works of Kshs.1,181,442,511 exceeds a provision of 2% price adjustment allowed in contract agreement of Kshs.569,140,366 by Kshs.612,302,145. Management has not given measures being taken to forestall further cost adjustments over the remaining contract period.

As a result of the price adjustments, the project may incur cost overruns leading to wastage of public resources over the project period.

996. Avoidable Interest on Delayed or Late Payments

The statement of receipts and payments reflects acquisition of non-financial assets of Kshs.6,564,071,254 which includes an amount of Kshs.100,903,372 in respect of interest charged on delayed payments to contractor on certified works. Review of the contractor interim payment certificates Nos.4,5,6 and 7 revealed interest claim on the project as a result of delayed/late payments totalling Kshs.294,237,085, out which an amount of Kshs.100,903,372 in respect of interim certificate number 4 had been paid during the year under review.

According to the available records, the interim certificates had been issued but the Program Management did not settle the claims on the due date, and interest was charged as stipulated in the contract agreement as tabulated below:

Interim Payment Certificate (IPC) No.	Interest Amount (Kshs.)
4	100,903,392
5	39,879,914
6	58,700,168
7	94,753,611
Total	**294,237,085**

Management attributed the delays to amendments to the public debt borrowing threshold from Kshs.6.3 trillion to current Kshs.9 trillion that affected the release of funds by the donor. The interest charged could have been avoided and is a wastage of public funds. Further, the unpaid interest in respect to interim certificates 5, 6 and 7 amounting to Kshs.193,333,693.25 was not disclosed and included in the list of pending bills for the Program as at 30 June, 2021.

Consequently, no value was obtained out of the public funds totalling Kshs.100,903,372 in respect of interest charges paid to the contractor during the year under review.

997. Failure to Revise Contract Sum Due to VAT Exemption on The Program

Contract for the construction of the Thwake Multi-Purpose Water Development Program was awarded in 2015 to an international construction company at a contract sum of Kshs.36,971,346,445 inclusive of 16% totalling Kshs.5,915,415,431. However, the parent Ministry of Water, Sanitation and Irrigation vide letter referenced TMWDP/FIN/GEN/150 dated 20 May, 2021 requested The National Treasury to exempt the Program from VAT which was subsequently granted by the Cabinet Secretary. However, it was noted that there was no addendum revising downward the original contract price by the VAT exempted to Kshs.31,055,931,014.

As a result, there is a risk of overpayment and possibility of future dispute about the amount payable to the contractor.

998. Failure to Adhere to Approved Annual Work Plan

During the year under review, the Project Management failed to adhere to the planned activities for the project as summarized in the table below:

Planned Activities	Planned Expected Outcome	Comments as at June, 2021	Comments as at November, 2021
(i) Continue with Civil works on Dam Axis, Approach channel, Discharge channel, 2 tunnels, Power house and Spillway	Civil works on Dam Axis, Approach channel, Discharge channel, 2 diversion tunnels, Powerhouse and Spillway done to 70%	Civil works at 58%.	Slow progress
(ii)Start construction of saddle and coffer dams	complete construction of saddle and coffer dams	Did not start. The major reasons being land acquisition and review of designs.	Has not started and one of the major reasons being land acquisition has not been resolved. This may lead to further delayed completion.

Management has not provided satisfactory explanation for the failure to implement the activities in the annual work plan.

As a result, the Project may not be completed within the contract period and may lead to cost escalation.

999. Failure to Drill Community Boreholes

The Thwake Multi-Purpose Water Development Program included drilling and equipping of six (6) community boreholes at a cost of Kshs.4,500,000 each under Corporate Social Responsibilities (CSR) projects in Kitui Rural, Makueni and Mbooni Constituencies. However, an inspection carried out in October, 2021 revealed that the boreholes are yet to be drilled. Further, construction of eight (8) health centers and renovation of forty-one (41) classrooms in various schools was complete but were not labelled or branded to distinguish from projects implemented by other government agencies.

It is not clear whether the community projects will be completed before the expiry of the contract period.

1000. Lump Sum Amount in Bill of Quantities for Access Roads

Review of interim certificates of payments showed that the Program Management made payments amounting to Kshs.361,136,677 for access roads construction. The amount comprised of Kshs.281,959,583 for the construction of the access roads within the project and an amount of Kshs.79,177,094 for the construction of the access bridge for the project. However, the bill of quantities and payments were lump sum without detailed and specific certified works and could not be verified.

As a result, it has not been possible to confirm that the public got value for money on the expenditure of Kshs.361,136,677 on the access roads and bridge.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1001. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1002. As required by the African Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Program's financial statements agree with the accounting records and returns.

KENYA ITALY DEBT FOR DEVELOPMENT PROGRAMME

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1003. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1004. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.62,200,000 and Kshs.51,033,946 respectively resulting to an under-funding of Kshs.11,166,054 or 18% of the budget. Similarly, the Project spent Kshs.54,182,711 against an approved budget of Kshs.62,200,000 resulting to an under-expenditure of Kshs.8,017,289 or 13% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1005. Long Outstanding Advance

The financial statements reflect an advance of Kshs.12,991,890, as disclosed in Note 8. This amount which as reported in the prior year, was advanced to the State Department of Water vide requisition letter reference MEWNR/ACCTS/233 of 17 September, 2014, and was meant to enable the State Department pay for an outstanding travel bill due to a service provider. The outstanding amount had not been refunded to the project by the close of the financial year under review, or even subsequently by the time of this audit in October, 2021, more than five years since the advance was made. The advance has not been utilized for the intended purpose of the Programme and the State Department risks being required by the Government of the Italian Republic to make repayments, as per Article II.6 of the financing agreement.

1006. Delay in Project Implementation – Manooni Water Project

Manooni Water Project being implemented by the project through Tanathi Water Works Development Agency was to be completed by 30 June, 2020. The project's duration was extended by one year up to 30 June, 2021 vide letter Ref: MOF/ERD/20/96/78/01/(29) dated 8 July, 2020. However, at the time of the audit in October, 2021, the project was yet to be completed despite the expiry of the extension period.

In the circumstances, failure to complete the project may adversely affect the benefits of the objectives of the project despite having invested a substantial amount of money on the project

1007. Budget Over Expenditure

The statement of receipts and payments reflects receipts of Kshs.51,033,946 against expenses of Kshs.54,182,711 thereby incurring a deficit of Kshs.3,148,765. The Management has not explained why expenditure was incurred without adequate budgetary provision. This is contrary to the Appropriation Act, 2018, the Supplementary Appropriation Act, 2018 and Regulation 43(b) of the Public Finance Management (National Government) Regulations, 2015 which provides that an Accounting Officer shall ensure that public funds entrusted to their care are applied for purposes for only which they were intended and appropriated by the National Assembly.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1008. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA WATER SECURITY AND CLIMATE RESILIENCE PROJECT (IDA CREDIT NO.5268/5674-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1009. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1010. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.4,120,000,000 and Kshs.1,974,134,243 respectively, resulting in underfunding of Kshs.2,145,865,757 or 52% of the budget. Similarly, the project spent Kshs.2,902,257,520 against the budgeted amount of Kshs.4,120,000,000 resulting in under expenditure of Kshs.1,217,801,569 representing 30% of the estimated expenditure. Management has attributed the low absorption to slow pace of completing land compensation and delay in release of counterpart funding. The

underfunding and under expenditure is an indication that the Project's objectives may not be achieved and may impact negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1011. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1012. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1013. As required by the International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements agree with the accounting records and returns.

WATER AND SANITATION DEVELOPMENT PROJECT (IDA CREDIT NO.6029/6030-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1014. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1015. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.8,563,804,204 against a budget of Kshs.8,580,000,000 resulting into a receipts shortfall of Kshs.16,195,796 or 0.2% of budgeted receipts. Further, the statement reflects final expenditure budget and actual on comparable basis of Kshs.8,580,000,000 and Kshs.3,934,318,336 resulting to an under-expenditure of Kshs.4,645,681,664 or 54% of

the budget. Management did not provide satisfactory explanation for the under expenditure, which implies that the overall goals and objectives of the Project were not achieved as planned which may have negatively impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1016. Cash Management

During the year under review, the Water and Sanitation Development project reported a cash and cash equivalents balance of Kshs.4,831,436,975. Out of this balance, the Project had a brought forward balance which stood at Kshs.19,744,850 under Equity Bank account No. 01071032110300. The unutilized funds have remained constant over the two years and appears idle balances, which could have been invested or used for service delivery.

Management did not provide satisfactory explanation for the accumulation of the idle cash balances.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1017. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1018. As required by International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements agree with the accounting records and returns.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF WATER AND SANITATION

LAKE VICTORIA WATER SUPPLY AND SANITATION PROGRAM - (PHASE II) PROJECT NO. P-Z1-EA0-004 (ADF GRANT NO.2100155019967) - LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1019. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1020. Budgetary Control and Performance

The Project had an approved budget of Kshs.174,750,000 during the year under review for implementation of project activities. During the same period, the Project recorded expenditure of Kshs.161,026,424 or approximately 92% of the approved budget resulting to under expenditure of Kshs.13,723,576 or approximately 8% of the approved budget. Although the Management has explained that the delay in utilization of the funds was due to the late release of funds from the ministry, no further action had been taken to ensure that in future there are no such delays. The citizens therefore did not obtain the benefits accruing from the unspent funds.

1021. Excess Funds Drawn by the Project

The funding summary under the Project information indicates that the Donor had made commitments amounting to Kshs.1,320,593,041 equivalent of UA10,390,000. However, actual drawdowns as at 30 June, 2021 amounted to Kshs.1,447,105,994 equivalent to UA11,385,363 indicating that the Project had drawn in excess of the funds committed by Kshs.126,512,953. Similarly, the Government of Kenya counterpart funds commitment was Kshs.186,132,490 equivalent to UA1,450,000. However, Kshs.431,274,725 equivalent to UA2,105,275 of the counterpart funds had been drawn indicating that the Project had also drawn in excess of the committed counterpart funds by Kshs.245,142,235.

Although the Management has explained that the over funding was as a result of additional cost on Keroka-Isebania projects through an addendum, retendering cost as a result of termination of the first contract, increase scope of the Project and the exchange rates which were used at the time of signing the agreement being different from those

used at the time of receiving grants, no documentary evidence was provided for audit verification in support of the explanations.

Consequently, the increased Project funding of Kshs.371,655,188 cannot be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1022. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1023. There were no material issues relating to effectiveness of internal controls, risk management and governance.

LAKE VICTORIA WATER AND SANITATION PROJECT – NUMBER CONVENTION AFD CKE 1093 02 M – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1024. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1025. Delayed Disbursements and Project Implementation

The program funding summary indicates that EU-AITF had contributed Kshs.234,786,000 equivalent to 39% of the committed funds and the Government of Kenya had contributed Kshs.15,350,000 equivalent to 1.3% of the committee funds for the program. However, no funds have so far been received from AFD and EIB due to delays in the signing of Subsidiary financing agreements between the Government of Kenya and the financiers. Although Management has indicated that the subsidiary agreements were finally signed on 2 October, 2020, there has been no commitment from the financiers as to when the funds will be disbursed to the project.

Consequently, the project may not be implemented and completed within the stipulated time frame of the overall financing agreement.

1026. Budgetary Control and Performance

he statement of comparative budget and actual amounts reflects an approved budget of Kshs.530,000,000 and actual expenditure of Kshs.121,526,125 representing approximately 23% budget absorption. Although tThe Management attributes the low absorption to delay in signing of the subsidiary agreements with AFD and EIB, the slow negotiation process for land compensation and delays in implementers procurement process. The Management has provided a revised implementation work plan made to ensure that the project implementation is completed as planned.

Consequently, the underfunding and under absorption of funds has denied the public the opportunity of benefiting from the project and the project may not be completed as planned.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1027. Unauthorised Expenditure - Lack of Approved Procurement Plan

During the year under review, the Project entered into a contract with various firms for consultancy services out of which an amount of Kshs.121,526,125 was paid. However, the Management did not provide the approved procurement plan for audit verification showing the goods and services to be procured during the year, the procurement methods to be used. In addition, there was no evidence that the project management requested and obtained a letter of no objection from the financier-AFD regarding the drafting and approval of the procurement plan prior to the commencement of the procurement process for Water Resource and Wastewater Master plan. This is contrary to Section 1.6.1 of the AFD Procurement Guidelines.

Consequently, the Management breached the Financing Agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1028. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1029. As required by Agence Francaise De Development Fund (AFD), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CR. NO.5103-KE) – LAKE VICTORIA NORTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1030. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1031. Unsupported Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.1,818,688 under operating expenses which, as shown under Note 8.8, relates to fuel, advertisement, staff travel, monitoring and evaluation, and others. However, the expenditure was not supported by an approved budget and taskforce reports. No explanation was provided for the failure to support the expenditure, as a result of which, the propriety of the expenditure could not be confirmed.

1032. Failure to Close the Project

The Project, with a budget of US$ 34,990,184 (equivalent to Kshs.3,252,230,091), commenced on 14 December, 2012, and was to last for seven (7) years up to 2019 but was extended to 2020. However, as at the time of audit, in October, 2021, the project had not been closed. No explanation was provided for the failure to close the project at the expiry of its life time. Consequently, any expenditure and decisions made during the period the project had expired may not be supported by law and the propriety of the involved expenditure may be unlawful.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1033. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (LOAN NO.2000200000501) - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1034. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1035. Low Absorption of Project Funds

The report on project information and overall performance indicates that the project commenced on 9 January, 2017 and was expected to run for a period of five years to end 31 December, 2021. However, the closing date has since been extended to 31 December, 2023. The project therefore has been in operation for about four (4) years and five (5) months which covers 74% of its extended seven (7) year duration expected to end in December, 2023. However, as at 30 June, 2021, the project had only absorbed Kshs.3,975,889,181 out of the total loan amount of Kshs.14,865,821,383 (UA 103,702,540) translating to about 26% of the total funding. In the year under review, the Project did not utilize Kshs.513,100,829 or 27% of its approved annual budget.

This under absorption indicates delay in implementation of the project activities as anticipated and thus it is unlikely that the Project will meet its intended objectives.

1036. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects, final receipts budget and actual on comparative basis amount of Kshs.1,925,000,000 and Kshs.1,516,964,855 respectively, resulting to underfunding of Kshs.408,035,145 or 21% of the budget. Further, the Project's approved expenditure was Kshs.1,925,000,000 while the actual expenditure was Kshs.1,411,899,171 resulting in under absorption of Kshs.513,100,829 or 27% of the budget. The Management explained the under absorption as attributed to the fact that the consultant for the grant component did not attain the required milestone

by the end of the financial year, and slow progress in the attainment of the planned milestones in Mwala, Changamwe and Machakos water contracts due to slow progress by contractors and land acquisition issues.

The under expenditure of the approved budget indicates that some activities and projects in the annual work plan were not implemented thus affecting the achievement of the intended objectives and negatively affecting service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1037. Failure to Maintain Separate Project Bank Account

Article I, Section 1.2 (j) of the Subsidiary Loan Agreement between the Government of Kenya and Tana Water Works Development Agency requires the Programme to open a separate bank account for the purpose of receiving and accounting counterpart funds. However, as at the time of this audit in October, 2021, the Project had not opened the account but continued to receive the counterpart funds through the Agency's development bank account.

1038. Slow Implementation of Projects

An audit inspection of projects and review of contract agreements for works being implemented by Athi Water Works Development Agency, Tana Athi Water Works Development Agency, and Coast Water Works Development Agency show slow progress in implementation of the projects and were behind schedule. Site visits to projects revealed slow progress of works compared with the agreed projects' duration. It was also noted that overall progress was 36%-twenty-six months to the end of the revised seven-year contract period to end in December, 2023. Further, field verification of Gatundu Water Supply and Sewerage Project revealed progress was about 18% completion level, although the Project Management estimated the works to be 30% complete.

Although the management attributed the delay in implementation of the projects to failure to obtain tax exemption, slow acquisition of land for project by National Land Commission, inadequate counterpart funding and court cases among other reasons, several works may not be completed within the contract period which may lead to cost overruns.

1039. Stalled Project - Changamwe Re-pooling Sewer Network

Contract for the works was awarded contract cost is Kshs.204,483,295, commencement date was 30 October, 2018 and the expected completion date was 14 June, 2020, which was later extended to 14 January, 2021 and again revised to 14 January, 2022. As at 30 June, 2021 the contractor had received Kshs.72,816,261. A site visit to Changamwe repooling sewer network project revealed that the project had stalled due to an order

issued on ongoing lawsuit by the contractor against the Athi Water Works Development Agency for breach of contractual agreement. The order restrained the Agency from removing the contractor from the possession of the construction site and appointing another contractor to proceed with the construction work, pending the hearing and determination of the suit.

Inspection carried out in October, 2021 revealed that the manholes constructed had been vandalized, while piping works were done coring about 3km out of the expected 15km. The overall work completed was only15%. It is also not clear if the works would be completed due to the ongoing lawsuit.

In the circumstances, the intended beneficiaries may not receive services from the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1040. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1041. As required by the African Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are agree with the accounting records and returns.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAM (AfDB LOAN NO.2000200000501) – TANA WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1042. Cash and Cash Equivalents

As pointed out in the previous year, the statement of financial assets as at 30 June, 2021 reflects bank balances of Kshs. 20,295. However, the Implementing Agency did not open the Program`s bank account for purposes of receiving and accounting for counterpart funds as required under Article I, Section 1.2(j) of the Subsidiary Loan Agreement. The Implementing Agency operates one development

account No.1101998773 into which all development funds are received and accounted for.

Review of the cash book, bank reconciliation statements and breakdown schedule for the development account No.1101998773 revealed that the account had a closing balance of Kshs.401,562,709.94 as at 30 June, 2021 out of which an amount of Kshs.20,295 was attributed to the Program. However, the completeness and accuracy of the balance of Kshs.20,295 could not be ascertained in the absence of a separate bank account for the Program.

The Management did not provide satisfactory explanation for failing to open the Program's bank account to avoid commingling of funds with those intended for other GOK development projects being implemented by Tana Water Works Development Agency.

1043. Acquisition of Land - Lack of Ownership Documents

The Statement of receipts and payments for the period ended 30 June, 2021 reflects acquisition of non-financial assets expenditure of Kshs.31,904,151 and Kshs.154,917,445, all totalling to Kshs.186,821,596 in respect of acquisition of land and as disclosed under Note 10.6(a) & (b) to the financial statements. Included in this amount is Kshs.169,940,630 and Kshs.16,880,966 for fully paid and partly paid parcels of land respectively. However, although the sale agreements with the vendors for the respective parcels of land were provided for audit verification, there was no evidence that title deeds had been acquired.

In the circumstances, it has not been possible to ascertain the ownership status of the parcel of land amounting to Kshs.186,821,596.

Other Matter

1044. Budgetary Control and Performance

During the year under review, the Program had an approved total expenditure budget of Kshs.1,800,000,000 against the actual expenditure of Kshs.1,741,619,366 translating to 97% budget performance. Similarly, out of the budgeted receipts of Kshs.1,800,000,00, the project received Kshs.1,587,328,054 or 88%. Management has attributed the shortfall in receipts to delay in disbursement of the 4th quarter allocation and unfinalized payment documents submitted to the Parent Ministry for onward transmission to The National Treasury.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1045. Delay in Project Implementation

As previously reported, available information and contract agreements for the works being implemented by both Tana Water Works Development Agency and Northern Water Works Development Agency show that various contract agreements for the

implementation of the Projects were signed in 2018 and early 2019 with completion dates set for June and July, 2020. However, by 30 June, 2020 the projects were not completed leading to revision of the completion dates to November and December, 2021. Review of the project status report dated 31 August, 2021, indicated that ten (10) out of sixteen (16) projects were less than 50% complete by 31 August 2021, three months to the end of the contract period.

Although the Management attributed the delay in implementation of the projects to failure to obtain tax exemption and inadequate counterpart funding, no evidence was provided on measures being taken to forestall the recurrence of a similar situation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1046. Projects Verification

During the year under review, seven (7) projects with a contract sum of Ksh.4,079,728,886 were visited for verification in the month of September, 2021 and the following observations were made:

Project No.	Project Description/ Details	Contract Amount (Kshs.)	Audit Observations	Total Payment as at 30 June, 2021 (Kshs.)
1.	Chogoria Water Infrastructures Project	574,317,061	(i) Intake works were 80% complete (ii) Treatment plant was 60% done (iii) Elevated steel tank had not been constructed (iv) Staff houses and administration block were at lintel level (v) Wayleave/land for the sewer line and construction of 500M^3 storage tank at Iruma area had not been granted as the owners were yet to be compensated. Further , construction site for storage tank at Kairuni was yet to be identified and valued	253,469,913

Project No.	Project Description/ Details	Contract Amount (Kshs.)	Audit Observations	Total Payment as at 30 June, 2021 (Kshs.)
			by the National Land Commission. (vi) The overall project status was 68% complete and given the problem of wayleaves and acquisition of land the Project may not be completed by 03 December, 2021.	
2.	Chogoria Sewerage Infrastructure Project	374,595,276	(i) An inlet, Anaerobic ponds and sludge beds had not been constructed (ii) Administration offices and staff houses had not been done (iii) Three acres of land were yet to be procured and the land owners were to provide documents of title of ownership so as to allow compensation. (iv) Wayleave for sewer line had not been granted	137,173,289
3.	Chuka Sewerage Infrastructure Project	459,368,692	(i) Sewerage treatment plant was at 80% complete (ii) Sewerage line not constructed as a result of non-compensation of land owners for wayleave	225,142,587
4.	Meru Sewerage Infrastructure	874,506,524	(i) The sewerage works were ongoing and were only 56% complete	253,909,782

Project No.	Project Description/ Details	Contract Amount (Kshs.)	Audit Observations	Total Payment as at 30 June, 2021 (Kshs.)
			(ii) Access road to the project had not been constructed (iii) Fifty-six (56) Kms of sewer line were supposed to have been done but only ten (10) Kms or 20% had been carried out. (iv) Wayleave for the sewer line had not been granted as the land owners were yet to provide ownership documents to the Implementing Agency to facilitate compensation of the crops / vegetation on their land. (v) Two staff houses and laboratory had been constructed but electrical works had not been carried out (vi) The overall Project status was 44% complete and given that it was only one month to the set completion date of 20 October 2021 there is no likelihood of meeting the set contract end period	
5.	Marsabit Water Supply Infrastructure Project	722,685,030	(i) The construction of water supply infrastructure was about 65% complete	258,008,943
6.	Marsabit Sewerage Infrastructure Project	1,001,017,386	(i) Construction of sewerage infrastructure was about 75% complete	419,622,765

Project No.	Project Description/ Details	Contract Amount (Kshs.)	Audit Observations	Total Payment as at 30 June, 2021 (Kshs.)
			(ii) Three (Two Toyota twin cab pickup and a land cruiser) with a total cost of Kshs.17,000,000 had not been provided. (iii) Sewer treatment plant is being constructed on thirty-seven and a half (37.5) acres of land whose title deed has not been processed. (iv) Capacity building with a provisional sum of Kshs.26,250,000 had not been done.	
7.	Isiolo Town Water Supply and Sewerage Project-Last Mile Connectivity	73,238,917	(i) Construction of six sewer lines were complete (ii) Construction of Mwangaza line estimated to cost of Kshs.7,848,517 was 37% complete	49,683,749
	Total	**4,079,728,886**		**1,597,011,028**

As a result, there is risk of significant number of works not being completed within the contract period which may result in cost escalations.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1047. As required by African Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Program's financial statements agree with the accounting records and returns.

KENYA TOWNS SUSTAINABLE WATER SUPPLY AND SANITATION PROGRAMME - RIFT VALLEY WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1048. Inaccuracies of the Financial Statements

A review of financial statements for the year ended 30 June, 2021 submitted for audit revealed the following anomalies:

1048.1 Funding Summary

The funding summary reflected at Note 1.7 to the financial statements on the Project information and overall performance reflects total donor commitment of 111,497,553 Units of Accounts (UAs) equivalent to Kshs.15,944,150,119 which vary with the totals of figures extracted from the loans and grants agreement of UAs 278,562,829 as shown below:

Details	Loan Currency	Amount	Exchange Rate	Amount (UAs)	Loan Number
Loan	US Dollar (USD)	$381,191,000	1UA = USD 1.4029	271,716,445	2000200000501
Loan	Units of Accounts (UA)	5,134,564 UAs		5,134,564	2100150036294
Grant	Units of Accounts (UA)	511,820 UAs		511,820	2100155033467
Grant	Units of Accounts (UA)	1,200,000 UAs		1,200,000	5500155011104
			Total	**278,562,829**	

The resultant variance of UAs 167,065,276 (Kshs.23,890,334,528) has not been explained or reconciled. Further, the funding summary does not indicate the loans or grants numbers.

In the circumstances, the accuracy of the funding summary statement and reason for its understatement and application of the amount totalling UAs 167,065,276 could not be determined for the year ended 30 June, 2021.

1048.2 Prior Year Adjustment

The statement of receipts and payments for the period ended 30 June, 2021 reflects prior year adjustment figure of Kshs.131,083,313 which was not supported with journal entries, payments voucher details such as invoices, supplier statements, inspection and acceptance certificates. Consequently, the accuracy, validity and completeness of the

prior year adjustment figure of Kshs.131,083,313 could not be confirmed for the year ended 30 June, 2021.

1048.2.1 Purchase of Goods and Services

The statement of receipts and payments reflects a cumulative to-date figure for purchase of goods and services expenditures totalling Kshs.1,081,797,204 which varies with the figure of Kshs.1,154,942,553 reflected at Note 7 to the financial statements, resulting to unexplained variance of Kshs.73,145,349.

In the circumstances, the accuracy of the cumulative purchase of goods and services expenditures of Kshs.1,081,797,204 cannot be confirmed for the year ended 30 June, 2021.

1049. Unauthorized Over Expenditure

The statement of comparative budget and actual amounts reflects an over expenditure of Kshs.42,526,981 (or 9%) on purchase of goods and services budget of Kshs.455,272,000 which was not explained (or supported). Further, no authority or approval was provided to authenticate its existence for the year ended 30 June, 2021.

1050. Unresolved Prior Year Audit Issues

The progress on follow-up of auditor recommendations at Note 12 to the financial statements indicates that audit issues have been resolved. However, no documentary evidence such as minutes of the Management meetings, receipts, fixed asset registers and risk management policy were provided to support the resolved issues.

Under the circumstances, the Management failed to comply to the requirements of the Public Sector Accounting Reporting template pertaining to disclosures of progress on follow up of auditor recommendations on previous year, for the year ended 30 June, 2021.

1051. Receipts

1051.1 Transfer from Government Entities

The statement of receipts and payments reflects transfers from government entities figure of Kshs.185,338,665 which varies with the figure of Kshs.236,250,000 reflected in the bank statements resulting to an unexplained variance of Kshs.50,911,334.

Under the circumstance, the accuracy and source of transfer from government entities of Kshs.50,911,334 for the year ended 30 June, 2021, could not be confirmed.

1051.2 Direct Payments

The statement of receipts and payments reflects loan from external development partners figure of Kshs.2,094,035,513 which relates to payments made on behalf of the Project. However, the receipts figure was not supported with loan acknowledgement, loan returns and loan arrangement documentation.

In the circumstances, the accuracy, validity and completeness and ownership of loan receipts of Kshs.2,094,035,513 could not be confirmed for the year ended 30 June, 2021.

1051.3 Low Absorption of Project Funding

The loan agreement was signed on 9 January, 2017 running for five years to 31 December, 2021. The total project funding is UAs 111,497,553 (or Kshs.15,944,150,119) of which only UAs 30,778,285 (or Kshs.4,401,294,776) representing 28% has been drawn with six months remaining. The balance of UAs 80,719,268 (or Kshs.11,542,855,343) equivalent to 73% has not been drawn. Low absorption has the effect of the project not utilizing funds set aside for it and therefore incurring additional cost of commitment charges of 0.25% by the Donor as provided in section 3.07 of the loan agreement.

Under the circumstances, the under absorption will affect proper project implementation

1052. Acquisition of Assets - Land Acquisition

Statement of receipts and payments reflects acquisition of assets figure of Kshs.1,781,572,198 which included acquisition of land expenditure of Kshs.105,346,434 which was not been supported with resettlement action plan and valuation report, name of payees or payment vouchers.

Under the circumstances, the accuracy, validity and propriety of land acquisition expenditure of Kshs.105,346,434 for the year ended 30 June, 2021 could not be confirmed.

1053. Cash and Cash Equivalents

1053.1 The statement of financial assets reflects cash and cash equivalent figure of Kshs.100,012,714 as at 30 June, 2021. However, the cash book availed for audit reflected a balance of Kshs.140,863,953 which had not been reconciled with the bank balance figure of Kshs.100,012,714 as at 30 June, 2021. Further, the project bank statements were not availed for audit verification.

1053.2 The bank account is also not maintained specifically for the Project but it also serves as an operations account of the implementing agency (Central Rift Valley Water Works Development Agency). This is contrary to clause 1.2(j) and (h) of the subsidiary loan agreement (SLA) between the Government of Kenya and Central Rift Valley Water Works Development Agency which provides that a local and foreign currency bank accounts shall be opened for the purpose of receiving the portion of loan from the Government and proceeds of foreign grant or loan respectively.

Under the circumstances, the accuracy, completeness and existence of Kshs.100,012,714 cash and cash equivalents as at 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1054. Acquisition of Assets

1054.1 Project Implementation Status

Physical verification undertaken during the month of October, 2021 at the six (6) Programme implementation sites revealed the following:

No.	Project	Contract Sum (Kshs.)	Audit Observation
1.	Oyugis Water Supply	608,822,545	Overall Work Progress is at 40% against 85%-time lapse
2.	Kendu Bay Water Supply	673,929,361	Overall Work Progress is at 60% against 87%-time lapse
3.	Ugunja-Ukwala Water Supply	1,046,858,732	Overall Work Progress is at 57% against 78%-time lapse.
4.	Kiptogot - Kolongolo Water Supply System	1,200,043,073	Overall Work Progress is at 60% against 100%-time lapse.
5.	Kilgoris - Lolgorian Water Supply and Sanitation Project	518,204,478	Overall Work Progress is at 7% against 33%-time lapse
	Total	**4,047,858,189**	

Failure to complete projects on time denied the stakeholders value for money expected during the year under review.

1054.2 Vehicles Ownership

Four (4) project motor vehicles costing Kshs.27,810,000 were registered in the name of the contractor contrary to letter from The National Treasury Circular Ref. No. DFN415/232/011 that requires the motor vehicles be registered in the name of the project as shown below:

No.	Vehicle Type	Registration No.	Cost (Kshs.)
1.	Toyota Pickup Double Cab	KDA 053H	6,560,000
2.	Toyota Pickup Double Cab	KDA 164G	6,560,000
3.	Toyota Pickup Double Cab	KDA 038J	6,560,000
4.	Toyota Fortuner SUV	KDA 041H	8,130,000
	Total		**27,810,000**

Failure to register the procured four (4) motor vehicles in the name of the Project is in breach of the law.

1054.3 Project Status Report

An analysis of Project status report for the year ended 30 June, 2021 revealed that Kshs.5,326,703,882 of projects implemented between 2018-2020 have not yet been completed as shown below:

S/No.	Project Name	Contract Sum (Kshs.)	Contract Signing Date	Start Date	Expected Completion Date	Extended Completion Date	Project Progress %
1.	Olkalou Town Sewerage Project	589,937,192	6 May, 2020	30 Sep 2020	30 Sep 2021	-	49
2.	Oyugis - Water Supply and Sanitation Project	608,822,545	13 Sep 2018	1 Apr 2019	1 Oct 2020	1 Nov 2021	40
3.	Kendu Bay Water Supply and Sanitation Project	580,973,587	16 Oct 2018	1 Apr 2019	1 Oct 2020	1 Oct 2021	60
4.	Ugunja - Ukwala - Sega Water Supply and Sanitation Project	1,046,858,732	2 May 2019	1 Oct 2019	23 Mar 2021	31 Dec 2021	57
5.	Last Mile Connectivity Project for Keroka Town (Lot 1)	114,309,996	25 Sep 2020	-	-	-	4
6.	Kipkarren dam treatment works and associated pipelines water project	1,185,758,756	13 Dec 2018	24 Jun 2019	24 Mar 2021	31 Dec 2021	19
7.	Kiptogot - Kolongolo Water Supply Project	1,200,043,073	15 Nov 2018	1 Jul 2019	31 Jan 2021	28 Jun, 2021	60
	Total	**5,326,703,881**					

Delay in the implementation of the projects within specified contract period attracts a commitment charge of 0.25% of non-disbursed portions of the loan. No letter of objection from the African Development Bank was provided to support the extension of the projects.

Consequently, the citizens failed to get the value for money due to delayed completion of projects.

1055. Purchase of Goods and Services - Consultancy Services

Included in the consultancy services expenditure of Kshs.417,809,750 reflected in Note 7 to the financial statements is an expenditure of Kshs.13,162,656 incurred on the supply, delivery and installation of an integrated enterprise resource planning (ERP) systems. A review of documents provided for audit revealed that tender evaluation of the tender was conducted on 18 December, 2019 and 240 days later the tender opened on 26 March, 2019 which is outside the bid validity period of 120 days. Further, the contract agreement was signed on 26 February, 2020 almost 12 months after tender opening hence contravening clause 2.59 of the African Development Bank rules and procedures which require the borrower to award contracts within the period of validity of bid, which was stated as 120 days in the standard bid document. In addition, no documentary evidence was availed to confirm that the contract award was published in African Development Bank website online as required.

Under the circumstances, the procurement of Integrated Enterprise Resource Planning (ERP) systems for Kshs.13,162,656 for the year ended 30 June, 2021 was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1056. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1057. As required by the African Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Programme's financial statements are in agreement with the accounting records and returns.

SUPPORT TO WATER AND SANITATION SERVICES IN PERI-URBAN AREA PROJECT (LOAN NO.BMZ 2013.6543.6) – ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1058. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1059. Delay in Release of Funding

As disclosed under project information - 1.7 on the funding summary, the project was to be implemented within a revised duration of eight (8) years from September, 2015 to December, 2023 with total funding of Kshs.3,717,130,000 comprising of KfW grant and Loans of Kshs.258,290,000 and Kshs.3,144,400,000 respectively and counterpart funds by the Government of Kenya of Kshs.314,440,000. However, the disbursement of the funding has lagged behind with Kshs.1,397,184,974 or 41% and Kshs.190,270,552 or 39% from donors and GoK respectively totalling Kshs.1,587,445,526 received as at 30 June, 2021 leaving a balance of Kshs.2,129,674,474 or 57% of the total commitment compared the remaining thirty (30) months or 30% to end of the project implementation period.

As a result of the delay, the project is unlikely to fully achieve its expected outputs and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1060. Failure to Open a Project Bank Account

During the year under review, the Project Management did not open a separate Project bank account, but instead the project funds are deposited in the Athi Water Works Development Agency's development account. This is contrary to Regulation 76(1) of the Public Finance Management (National Government) regulations, 2015 which provides that for purpose of disbursement of Project Funds, there shall be opened and maintained a project account for every project.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1061. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KISII WATER SUPPLY AND SANITATION PROJECT (GRANT NO. ORIO11/KE/21) - LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1062. Unsupported Fund Balance

The statement of financial assets as at 30 June, 2021 reflects a comparative fund balance of Kshs.14,190,152 which is indicated as having resulted from the reported surplus for the prior year. However, the current year's opening fund balance is reported as nil although there is no documented movement between the closing balance of Kshs.14,190,152 and the nil opening balance. Although the Management has indicated that the balance of Kshs.14,190,152 is available for utilization in the project development implementation phase two, this has neither been reported in the financial statements nor supported by any documentation. Further, the reason for non-inclusion of the balance in the financial statements was not been provided.

Consequently, the accuracy of the statement of financial assets and liabilities as at 30 June, 2021 cannot be confirmed.

1063. Cash and Cash Equivalents - Unsupported Cash Movement

The statement of financial assets reflects nil cash balance as at 30 June, 2021 and a comparative balance of Kshs.14,190,152 as at 30 June, 2020. However, the management did not explain how the balance of Kshs.14,190,152 was expended given that the Project did not record any receipts or payments during the year ended 30 June, 2021. Under the circumstances, the accuracy of financial statements as at 30 June, 2021 could not be confirmed.

Other Matter

1064. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects nil budget and nil actuals. Although it has been explained that the project was not funded during the year as the implementation is still under financial proposal progress and sourcing of external financiers, no further information was provided on what the project was to achieve during the year under review as no workplans were provided for audit review. In addition, the Management has not indicated how the project is to be funded, the initial financier having declined to fund the project due to what was indicated as increased scope of the project to include Nyamira network, and price escalation.

Consequently, the project did not deliver any benefits to the intended beneficiaries.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1065. Absence of Project Cash Book and Bank Account

As reported in the previous year, during the year under review the Management did not maintain a cash book and a separate bank account for the Project as required of them by Clause 11 of the Grant Agreement. Instead, receipts and payments in respect to the Project were recorded and accounted for in the main cash book and bank account of the implementing entity contrary to Section 68(2) of the Public Finance Management Act, 2012 which requires Accounting Officers to maintain proper financial and accounting records.

1066. Delay in Project Implementation

As previously reported, a feasibility study report submitted to Infrastructure Development Facility(ORIO) on 29 October, 2018, indicated that the cost of the proposed Bunyunyu Dam Water Project increased to Euro.90,000,000 equivalent to Kshs.11.9 billion from its original cost estimated at Euro.551,475,000 equivalent to Kshs.66 billion. The increased cost resulted from change in the project's scope, mainly caused by addition of works in Nyamira County, and the estimated increase in price indices between 2011 to 2019. After the original financier declined to fund the additional costs, identification of a new financier commenced in February, 2019. However, Management did not confirm whether this was successful. Expenditure records indicated that the Project had as at 30 June, 2021 spent Kshs.86,344,504 on feasibility studies.

Failure of the Project to translate from the development to the implementation stage has put it at risk of not being implemented as planned that could see its objectives not being attained.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1067. There were no material issues relating to effectiveness of internal controls, risk management and governance.

WATER SECTOR DEVELOPMENT PROGRAMME LAKE VICTORIA SOUTH (KERICHO, KISII, NYAMIRA AND LITEIN) LOAN NO. BMZ 2010 65 861 AND GRANT NO. BMZ 2010 70 457– LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1068. Failure to Open Bank Account and Maintain a Separate Cash Book

The statement of financial assets reflects a nil balance for cash and cash equivalents. However, review of the Project's records indicated that the Project Management used the Implementing Agency's bank account and cash book to process receipts and payments relating to the Project. This is contrary to Regulation 76 (1) of Public Finance Management (National Government) Regulations, 2015 which provides that, for the purpose of disbursement of Project funds, there shall be opened and maintained a Project account for every Project at the Central Bank of Kenya unless it is exempted by the Cabinet Secretary in writing, into which all funds shall be kept and such an account shall be known by the name of the Project for which it is opened and each Project shall maintain only one bank account. Section 6.1 (d) of the financing agreement further states that the recipient of the funds shall maintain separate books and reports showing all costs incurred in connection with the expert services and clearly identifying the services financed from the financial contribution.

Although it is indicated in the financial statements under project information and overall performance that the Project banker is Kenya Commercial Bank Limited, Kisumu Branch, no cash book or certificate of bank balance was provided to show the existence of the banking facility as at 30 June, 2021.

Under the circumstances, the accuracy of the financial statements could not be ascertained as the Project did not maintain a cash book. Management was also in breach of the law and the Financing Agreement.

1069. Ownership of Project Vehicles

The fixed assets register as reflected at Annex 3 of the financial statements show total fixed assets amounting to Kshs.170,259,603 comprising motor vehicles, motor cycles, water distribution pipes and equipment and laboratory equipment. However, logbooks provided for audit as proof of ownership indicated that four vehicles valued at Kshs.29,477,500 were registered in the name of the contractor as detailed below:

Registration Number	Value (Kshs.)	Ownership
KCR 854R	6,438,600	Contractor
KCR 855R	6,438,400	Contractor

Registration Number	Value (Kshs.)	Ownership
KCP975M	7,245,000	Contractor
KCP064N	9,355,500	Contractor
Total	**29,477,500**	

Further, the logbook in respect of vehicle registration No. KCR 859R valued at Kshs.6,438,600 was not provided for audit review. Management did not explain the circumstances under which Project vehicles were registered in the name of the contractor neither has there been evidence of efforts to transfer the vehicles to the Project.

Under the circumstances, the ownership of fixed assets amounting to Kshs.35,916,100 could not be ascertained.

Other Matter

1070. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects an approved budget of Kshs.1,188,508,296 and actual expenditure of Kshs.719, 544,418 or approximately 61% resulting in under-expenditure of Kshs.468,963,878 or approximately 39% of the budget. This clearly indicates that some of the planned activities for the Project were not undertaken, which in turn implies that the Project's objectives may not be achieved.

Failure to use the funds as budgeted means the citizens did not receive the benefits that would have accrued from the implemented Projects.

1071. Pending Bills

Note 8(1) to the financial statements on other important disclosures and Annexure 2 reflects pending accounts payables balance of Kshs.24,637,368 relating to Government of Kenya (GOK) counterpart funding as at 30 June, 2021 relating to the period 2016 and 2019. Although the Management has explained that the same were paid during the first quarter of 2021/2022, no documentary evidence was provided in support of the paid bills. Failure to clear bills during the year to which they relate distorts the financial statements and adversely affects the implementation of activities of the subsequent year as they are to form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1072. Summary of Fixed Assets Register

The summary of fixed assets register at Annexure 3 to the financial statements reflects assets balance of Kshs.170,529,603 as at 30 June, 2021 which includes motor vehicle registration number KCP 064N, Toyota Land Cruiser Prado, valued at Kshs.9,355,500

purchased for the project supervision as per the bills of quantities. However, the vehicle was not provided for physical verification during the audit in October, 2021. Information available indicates that the motor vehicle was directly handed to the Ministry of Water and Sanitation by the Contractor in 2018 but there is no evidence that the same was authorised by the Chief Executive Officer of the implementing agency. No reason was provided for the handing over of the vehicle to the Ministry, which is contrary to Regulation 139(1)(a) and (b) of the Public Finance Management (National Government) Regulations, 2015, that requires prudent management of public assets.

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

1073. Expansion of Water Supply Systems in Kericho

The statement of receipts and payments reflects acquisition of non-financial assets amounting to Kshs.686,098,281 in respect of rehabilitation of civil works as disclosed in Note 5 to the financial statements. The amount includes expenditure of Kshs.302,909,632 incurred towards the expansion of water supply systems for Kericho through Contract No.LVSWSB/PQ/1/2017-2018/C/LOT3 awarded to a foreign Engineering Company at a contract sum of Kshs.1,189,805,385. Physical verification of the Project in the month of October, 2021 showed that the Project was on-going with the contractor still on site and the Project was at 58% completion. However, according to the Engineer's progress of work report, the ownership of the parcel of land on which the Project stands had not been confirmed as the document of title was yet to be obtained. Although Management has indicated that the County Government of Kericho is in the process of transferring the land ownership of the parcel of land from M/s Unilever, no reason has been provided as to why the process that started in 2017 had not been completed as at the time of audit.

Consequently, it could not be confirmed that the land and development thereon are properly safeguarded.

1074. Expansion of Water Supply and Sanitation Systems in Kisii and Nyamira

The rehabilitation of civil works expenditure amounting to Kshs.686,098,281 as disclosed in Note 5 to the financial statements includes Kshs.383,188,649 in respect of expansion of Water Supply and Sanitation Systems at Kisii and Nyamira implemented vide Contract No.LVSWSB/PQ/19/2014-15/C/LOT1 awarded to an International Company at a contract price of Kshs.2,289,840,260. Although physical verification of the Project during the month of October, 2021 showed that both Projects at Kisii and Nyamira were complete and had been handed over to the Gusii Water and Sanitation Company (GWASCO) Ltd, the Nyamira Project was not operational and there has been no value generated from the Project. In addition, the production and billing reports generated from the system of the GWASCO in respect of the Project and provided for audit verification showed that the expected water production during the year was to be 2,913,761M^3. However, only 58,595M^3 was billed during the year under review, which is approximately 2% of the planned production.

Consequently, the citizens did not get value for money in respect of Kshs.2,289,840,260 incurred on the Project.

1075. Irregular Contract Variation

During the audit, it was noted that Lake Victoria Water Works Development Agency entered into a contract with a Consulting Engineering firm for consultancy services for Kericho, Kisii, Nyamira and Litein BMZ-No 201065861 Project at a contract sum of EUR1,633,966 equivalent to Kshs.189,972,403 on 17 January, 2014. The contract sum was amended five (5) times to a final revised contract of EUR.2,698,350 on 15 June, 2019 equivalent to Kshs.302,727,887. This resulted to a variation of Kshs.112,755,484 which is approximately 59% of the initial contract price contrary to Section 139(4) (c) of the Public Procurement and Asset Disposal Act, 2015 which provides that any variation to a contract shall only be considered if the cumulative value of all contract variations do not result in an increment of a total contract price of more than twenty five per cent of the original contract price.

Further, the amendments and variations were not supported by the respective tender awarding authority within the procuring entity in accordance with Section 139(1)(b) of the Public Procurement and Assets Disposal Act, 2015 which provides that an amendment or a variation to a contract resulting from a procurement proceeding is effective only if the variation or amendment has been approved in writing by the respective tender awarding authority within a procuring entity. In addition, amendments 2 and 3 were signed but were not dated to show when the amendment took place. Also, details on varied works that necessitated the five amendments were not provided for audit.

Consequently, Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1076. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1077. As required by KfW Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audi. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA CREDIT NO.5103 KE) - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1078. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1079. Budgetary Control and Performance

The statement of comparative budget or actual amounts for the year ended 30 June, 2021 reflects an approved budgeted expenditure of Kshs.1,730,123,209 and actual expenditure of Kshs.1,740,647,305 resulting to an over expenditure of Kshs.10,524,096 or 1% of the total budget allocation. However, Management has not provided explanation regarding the over expenditure and whether it was authorized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1080. Delay in Implementation of the Project

Works at the Northern Water Collector Tunnel and Water Intake Project which entails development of river abstraction and water intake structures and construction of a 11.7 kilometers underground tunnel was budgeted to cost USD85,200,000 (equivalent to Kshs.9,031,000,000). The construction commenced on 10 May, 2012 and was expected to be completed by 30 December, 2020. Physical verification of the project in October, 2021 revealed that approximately 99% of the permanent works had been completed. However, supply, fabrication, installation of gates and stop logs, completion of secondary lining for Irati shaft, completion of Makomboki outfall and final site arrangements including all reinstatement works had not been completed.

As a result, it was not possible to confirm whether the project will be completed considering the contract period had expired.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1081. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1082. As required by International Development Association (IDA) I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements agree with the accounting records and returns.

TRILATERAL DEVELOPMENT COOPERATION IN KENYA, WATER AND SANITATION SECTOR PROJECT (CREDIT No. BMZ 201365352) – LAKE VICTORIA SOUTH WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1083. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1084. Failure to Open Bank Account and Maintain Cash Book

As reported in the previous year, the statement of financial position reflects a nil balance as at 30 June, 2021 under cash and cash equivalents. However, the Management did not maintain a separate cash book and did not operate a separate bank account for recording transactions in respect of Project funds. This is contrary to Section 6.1 (d) of the financing agreement which requires the recipient of funds to maintain books and reports showing all costs incurred in connection with expert services and clearly identify the services financed from the financial contribution. The Management has attributed this to the fact that any payments out of the Project funds are made out of the implementing Agency bank accounts and recorded in the Agency's cash book while any receipts in respect of the Project are deposited in the Agency's bank accounts

Consequently, the accuracy and validity of the nil cash and cash equivalents balance as at 30 June, 2021 could not be ascertained.

1085. Sustainability of the Project

The statement of receipts and payments and the statement of financial assets show that the project did not implement any activities in the year under review. As reported in the previous year the Project was behind the stipulated completion date of 30 June, 2020 as per the loan agreement. A letter ref: LVS/SWWMLV/KFW/130(18) dated 28 October, 2020 by the Ag. Chief Executive Officer of Lake Victoria South Water Works Development Agency to the Principal Secretary, Ministry of Water, Sanitation and Irrigation requested

the loan disbursement window to be extended to 30 June, 2022 and the due date for the loan to be extended to June, 2032. Information available indicates that The National Treasury confirmed the extension of the donor disbursement to 30 June, 2022 and an additional donor funding of Kshs.20,000,000 will be available during 2021/2022 in addition to counterpart funding received from Government of Kenya in July, 2021 amounting to Kshs.35,000,000. The Management did not provide any workplan for completion of the outstanding project activities.

Consequently, the adequacy of the funds availed and the roadmap for the Project completion cannot be known with certainty.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1086. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1087. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1088. As required by KfW Development Bank, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

NAIROBI WATER DISTRIBUTION NETWORK PROJECT (CREDIT NO. BMZ 2020.82.527/KV26833) – ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1089. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1090. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects budgeted expenditure of Kshs.1,066,743,115 against actual expenditure of Kshs.994,906,163 resulting to an under expenditure of Kshs.71,836,952 or 7% of the budget allocation. However, Management has not given satisfactory explanation for the underperformance which impacted negatively on the Project Implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1091. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1092. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1093. As required by the KfW Development Bank I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

NORTHERN COLLECTOR PHASE 1 AND ADDITIONAL REHABILITATION AND DEVELOPMENT OF THE NETWORK PROJECT - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1094. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1095. Delay in Release of Counterpart Funding

As disclosed under project information 1.7 on the funding summary, the project was to be implemented within a duration of six (6) years from January, 2014 to December, 2021 with total funding of Euros 114.16 million and Kenya shillings 12.834 billion comprising of Loans from Agence Francaise Development and Counterpart Funding from the Government of Kenya respectively. However, disbursement of the counterpart funding has lagged behind with Kshs.7,957.60 million, or 56.03 % having been received as at 30 June, 2021, leaving a balance of Kshs.4,876.40 billion or 43.97 % of the commitment, with less than 6 months remaining to end of project duration. As a result of the delay, the project is unlikely to fully achieve the intended objectives for the public.

1096. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,103,000 and Kshs.639,710,000 respectively, resulting in underfunding of Kshs.463,290,000 or 42 % of the budget.

Similarly, the project spent Kshs.869,100,000 against the budgeted amount of Kshs.1,100,000 resulting in under expenditure of Kshs.230,900,000 representing 21% of the estimated expenditure. The underfunding and under expenditure may affect the planned activities and impact negatively on service delivery to the public.

1097. Delay in Disbursement of Funds for the Project

According to the subsidiary Loan Agreement dated 22 October, 2014, Athi Water Works Development Agency was to receive a total of Euros 114.16 Million. The Board undertook that all funds disbursed shall be fully used at the latest on 31 March, 2020. This has not been met. However, the drawdown period was later extended to 31 January, 2022.

Basis for Conclusion

1098. Delay in Completion of Projects

1098.1 Distribution Component

The financial statements for the years ended 30 June, 2021 and as at 30 June, 2020 indicated that works for the construction of the 55.2 Km Ndakaini- Kigoro- Gigiri transmission pipeline was about 36 % completion level. Although there is progress of works including laying of the additional 18.1 km of pipes, the slow progress may affect the completion of the project within the revised timelines.

The project end date has already been revised and extended for 3 consecutive years from the initial project end date of 31 December, 2018.

With less than three (3) months to the revised project end date of 31 December, 2021 completion of the project within the set timelines may not be achieved. No evidence had

been provided indicating that the Implementing Agency had informed the lender of any decision or event which might affect the completion of the project within the extended contract period.

Such extension adversely affects the repayment of the loan as more interests will be accrued. This has also affected the production component as there are costs to the component that is 98% complete. And the remaining 2% for the project testing and commissioning.

1098.2 Ngethu -Gigiri Treated Water Pipeline

A site verification visit in October, 2021 showed slow progress of the pipeline and other associated works for the Thika Dam – Kigoro – Ngethu -Gigiri Treated Water Pipeline. The overall progress as at 30 June, 2021 was 34% compared with eighty eight (88) months period or 149% of the contract period which lapsed in April, 2019. It is unlikely that the revised deadline of 30 September, 2022 will be met given the current slow pace of works.

No evidence was provided on measures being taken to avoid further delays in implementation of the works.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1099. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1100. As required by the Agence Francaise Development (AFD), I report based on my audit, that, I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project, and the Project's financial statements agree with the accounting records and returns.

NAIROBI SANITATION OUTPUT BASED AID PROJECT (IDA GRANT NO. TF014251 AND NO. TF0A5607) - NAIROBI CITY WATER AND SEWERAGE COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1101. Unremitted Disbursements

As disclosed in Note 11.2 to the financial statements, the statement of receipts and payments indicates cumulative proceeds from domestic and foreign grants of Kshs.486,571,479. However, Paragraph 1.7 Funding Summary under the Project information and overall performance reflect amount received to date of Kshs.497,576,479 resulting to an unreconciled variance of Kshs.11,005,000. According to explanations provided and as disclosed in Note 12 to the financial statements, the variance of Kshs.11,005,000 was an amount withdrawn from the special account and transferred to the Ministry of Water and Sanitation in the year 2016/2017 but was not remitted to the project.

In the circumstances, the actual accumulated grant advanced of Kshs.486,571,479 for the year ending 30 June, 2021 has been misstated.

1102. Unreconciled Donor Receipts

The project information and overall performance under Note 1.7 funding summary, reflects amount received to date of US Dollars 4,912,725 while the special account report of Nairobi Sanitation OBA Project IDA Loan Credit No. TF 014251-KE for the year ended 30 June, 2021 reflects amount advanced by IDA to the project amounting to USD 3,567,380 as at 30 June, 2021 leading to an unexplained and unreconciled variance of USD 1,298,335.

In the circumstances, the actual grant advanced has been misstated.

Emphasis of Matter

1103. Fixed Assets Management

As previously reported and as included in Annex 4 to the financial statements, is a summary of fixed assets register for Nairobi Sanitation Output Based Aid (OBA) Project valued at Kshs.10,800,000. Review of the ownership documents revealed that the assets were still in the name of the contractor, yet the contractor had returned the original logbooks together with a letter and original signed transfer forms on 10 July, 2019. To date, the assets have not been transferred to Nairobi City Water and Sewerage Company Ltd being the implementing entity.

In the circumstances, it was not possible to ascertain the ownership of the assets of the project as at 30 June, 2021.

1104. Slow Absorption of Funds

As disclosed in paragraph 1.2 on project information, the project was earmarked to close on 30 June, 2019. However, paragraph 1.7 on funding summary indicates that IDA had made a commitment amounting to Kshs.693,000,000 equivalent of USD 6,930,000 as at 30 June, 2019. However, actual drawdowns during the project's life amounted to Kshs.497,576,479, equivalent to USD 4,912,725, resulting to a balance of Kshs.201,727,500 undrawn. The credit lapsed without being fully utilized and the project's planned deliverables earmarked for completion using the funding may not have been realized.

However, Management has not provided for audit review, documentary evidence to show that the closure process was initiated or any attempt to secure an extension of the project from the Donor.

1105. Project Closure Reports

Paragraph 1.2 of the financial statements revealed that the project was to end on 30 June, 2019. Review of special account reports revealed that the grants were last received in 2018. Further, the certificate of substantial completion dated 26 August, 2019 indicated that the defects liability period of the work would expire on 8 July, 2020. However, the project closure report was not provided for audit review, being more than one year after the expiry of the defects liability period.

In the absence of this report, it was not possible to ascertain the actual status of the project.

1106. Contingent Liability

As previously reported and as disclosed in Note 14.5 to the financial statements, there was a pending arbitration dispute between a contractor and Nairobi City Water and Sewerage Company (NCWSC) in respect to the project, whereby Management had failed to pay the contractor an advance payment of Kshs.166,224,772 as agreed in the contract terms. The contractor had completed the project as at the time of the audit carried out in September 2021.

In the circumstances, the probability of the contingent liability materializing is high.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1107. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1108. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1109. As required by International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project, and the Project's financial statements are in agreement with the accounting records and returns.

KENYA URBAN WATER AND SANITATION OBA PROJECT FUND FOR LOW INCOME AREAS - WATER SECTOR TRUST FUND

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1110. There were no material issues noted during the audit of the financial statemnts of the Project.

Other Matter

1111. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.431,884,030 against a budget of 500,500,000 resulting into a receipts shortfall of Kshs.223,198,477 or 52% of budgeted receipts. Further, the statement reflects final expenditure budget and actual on comparable basis of Kshs.500,500,000 and Kshs.503,717,208 resulting to an over-expenditure of Kshs.3,217,208 or 1% of the budget.

Management did not provide satisfactory explanation for the shortfall in revenue, which implies that the overall goals and objectives of the Project were not achieved as planned which impacted negatively on service delivery to the public.

1112. Overall Project Implementation

The Project commenced on 1 December, 2014 with the expected completion date on 30 November, 2020. The implementation period was however extended to 30 June, 2021. However, as disclosed under the Project Information segment Section 1.7 of the financial

statements, as at 30 June, 2021, out of initial Donor commitment of Kshs.1,110,700,000, an amount of Kshs.1,039,660,980 was received resulting in an undrawn balance of Kshs.71,039,020.

Management attributed the under absorption of funds to delays in disbursements of funds by Commercial Banks to Water Service Providers and lapse of Project time.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1113. Late Submission of Financial Statements

The financial statements of the Project for the year ended 30 June, 2021 were submitted for Audit on 8 October, 2021, eight (8) days after the statutory deadline of 30 September, 2021. This is contrary to Section 81(4) (a) of the Public Finance Management Act, 2012 which requires accounting officers to submit financial statements to the Auditor-General within three (3) months after the end of each financial year for audit.

The Project Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1114. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1115. As required by the IDA (World Bank) I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project, and the Project's financial statements agree with the accounting records and returns.

NAIROBI RIVERS BASIN REHABILITATION AND RESTORATION PROGRAM: SEWERAGE IMPROVEMENT PROJECT PHASE II (AfDB LOAN NO. 2000200003407 AND ADF LOAN NO. 2100150040550) - ATHI WATER WORKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1116. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1117. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects that the Program received an amount of Kshs.739,738,147 against the approved budget of Kshs.1,021,124,096 resulting to a shortfall of Kshs.281,385,949 or 28% of the budgeted receipts. Similarly, the project had budgeted to spend Kshs.1,021,124,096 but utilized an amount of Kshs.714,342,681 resulting into under expenditure of Kshs.306,781,416 or 30% of the budget. Management has attributed the under absorption to slow procurement process and mobilization of works by the contractors.

The under collection of revenue and under expenditure is an indication that some programmes and activities that had been planned for, were not implemented.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1118. Slow Progress of Works

Review of Project procurement records revealed that during the year under review, contract for the construction of Kahawa West, Githurai 44 & 45, Kahawa Sukari Reticulation sewer was awarded to a firm at a contract sum of Kshs.2,154,077,998 for a duration of eighteen (18) months from 15 March, 2021 to 14 September, 2022. However, physical verification carried out in October 2021 revealed that overall progress of works was only at 2% completion level against seven (7) months, or 39% time lapsed of the contract period.

Further, a status review carried out on the construction of Mwiki and Clayworks reticulation sewers which was awarded at a contract sum of Kshs.1,794,140,606, revealed overall progress stood at 0.02% against time lapsed of six (6) months or 33.3% of the eighteen (18) months contract duration from 22 March, 2021 to 20 October, 2022. No satisfactory explanation has been provided for the delays.

The implementation of the project is behind schedule, and it is unlikely that the remaining time will be enough to complete the project and therefore the Program's objectives may not be realized as envisaged.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1119. There were no material issues relating to internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1120. As required by the African Development Bank and the African Development Fund, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements agree with the accounting records and returns.

BURA REHABILITATION DEVELOPMENT PROJECT (LOAN NUMBERS: BADEA 3530:LA/763, KUWAIT 752, OPEC 1154P) - NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1121. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1122. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budget and actual on comparable basis of Kshs.1,788,598,120 and Kshs.184,340,685 respectively, resulting to an underfunding of Kshs.1,604,257,435.20 or 90% of the budget. Similarly, the expenditure was limited to the actual receipts of Kshs.184,340,385 which represented an under-expenditure of 90% of the final budget for the year. The Project Management attributed the underfunding and under expenditure to termination of initial contract awarded for the works and delay in awarding the tender to a new contractor.

As a result, the Project's goals and activities may not be achieved within the financing period which commenced on 27 May, 2013 and is expected to end on 13 December, 2023.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1123. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1124. There were no material issues relating to effectiveness of internal controls,risk management and governance.

MWEA IRRIGATION DEVELOPMENT PROJECT (LOAN NO. KE-P27) - NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1125. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1126. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects a final receipts budget and actual on comparable basis of Kshs.2,151,000,000 and Kshs.1,566,382,430 respectively resulting to a shortfall of Kshs.584,617,570 or 27% of the approved budget. Further, the statement reflects a final expenditure budget and actual on comparable basis of Kshs.2,151,000,000 and Kshs.1,566,382,430 respectively, resulting to underutilization of Kshs.584,617,570 or 27% of the approved budget. Management has attributed the shortfall in receipts to delay in disbursement of donor funds due to the termination of contract for civil works on irrigation and drainage facilities, on 22 January, 2020. The underfunding and underperformance affected the implementation of the Project's planned programmes and activities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1127. Delayed Implementation of Works for Existing Community Irrigation Schemes

Main contract for the project of construction of Thiba dam, appurtenant structures and expansion of irrigation area in Mwea, awarded in December, 2010 required the contractor to carry out improvement or protection works for existing community irrigation schemes at a sum of Kshs.166,373,039.52 as part of corporate social responsibility (CSR) activity. The project which commenced in December, 2010 is expected to end in March, 2022. The CSR works entail improvement and protection works for three (3) existing community Irrigation schemes namely Rukenya, Kimbithe and Komboini Irrigation Schemes. However, physical verification, of the project in October, 2021, revealed that rehabilitation at Rukenya scheme was ongoing and no works had started for Kimbithe and Komboini Irrigation Schemes, with only five (5) months left to end of contract period.

The Management attributed the delay in commencement of the works to the failure by the contractor to gain access to the site due to obstruction by the local community. The Project Management has not provided measures being put in place to ensure completion of the three community irrigation schemes within the contract period.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1128. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1129. As required by Loan Agreement No. KE-P27 between the Japan International Corporation Agency (JICA) and the Republic of Kenya, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

RWABURA IRRIGATION DEVELOPMENT PROJECT – NATIONAL IRRIGATION AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1130. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1131. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budget and actual on comparable basis of Kshs.160,000,000 and Kshs.6,071,838 respectively, resulting to an underfunding of Kshs.153,928,162 or 92%. The Project expenditure was limited to the amount received during the year. The underfunding and under expenditure affected the Project's planned activities. However, Management has not provided explanation for the underperformance.

1132. Delayed Compensation of Project Affected Persons

A review of documents revealed that the Project Management had planned to use a portion of Kshs.130,000,000 counterpart funding from Government of Kenya for compensation of Project affected persons at Rwabura Irrigation Project. However, by the time of concluding the audit in November, 2021, the compensation process was yet to be completed which has led to delay of disbursement of funding by the donor. The Management attributed the delay in compensating the affected persons to redesign of the project and review of way leave acquisition.

As a result of the delayed compensation, the project may not achieve its intended objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1133. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1134. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MINISTRY OF LANDS AND PHYSICAL PLANNING – VOTE 1112

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1135. Misclassification of Expenditure

As disclosed in Note 4 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2021 reflects an expenditure of Kshs.1,691,360,688 under use of goods and services. However, expenditure amounting to Kshs.58,144,693 was charged to wrong account items under use of goods and services as detailed below:

Correct Account Items	Wrong Account Items Charged	Amount (Kshs.)
Office and General Supplies and Services	Training Expenses	442,750
Hospitality Supplies and Services	Domestic Travel and Subsistence	1,654,964
Hospitality Supplies and Services	Foreign Travel and Subsistence	268,379
Domestic Travel and Subsistence	Foreign Travel and Subsistence	83,975
Hospitality Supplies and Services	Fuel Oil and Lubricants	258,045
Domestic Travel and Subsistence	Fuel Oil and Lubricants	175,980
Fuel Oil and Lubricants	Specialized Materials and Services	44,015,600
Fuel Oil and Lubricants	Research, Studies, Project Preparation, Design Supervision	10,000,000
Communication, Supplies and Services	Refurbishment of Buildings	1,245,000
Total		**58,144,693**

Consequently, the accuracy and fair presentation of the expenditure balances for the above account items in the financial statements for the year ended 30 June, 2021 could not be confirmed.

1136. Prior Year Adjustment

The statement of assets and liabilities as at 30 June, 2021 reflects a negative prior year adjustment of Kshs.20,422,880 in the year under review. However, the presentation of the prior year adjustment in the year under review was not done retrospectively to correct

the material errors discovered in the current year in the comparative information presented in the financial statements for the previous year.

Consequently, the accuracy and fair presentation of the prior year adjustment in the financial statements could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1137. Supply, Delivery, Installation and Commissioning of Global Navigational Satellite

Included in the use of goods and services expenditure of Kshs.1,691,360,688, as disclosed in Note 4 to the financial statements, is an amount of Kshs.900,412,653 under specialized materials and services. The latter balance in turn includes an amount of Kshs.86,322,495 paid to a firm in respect of supply, delivery and installation of Global Navigational Satellite to Survey of Kenya vide contract number MLPP/706933/2018-2019 (IFMIS Tender No.706933) through an agreement dated 20 May, 2019 between the Ministry of Lands and Physical planning and the firm. However, tender evaluation minutes were not provided for audit review to ascertain how the supplier was identified, evaluated and awarded the contract.

Consequently, the validity and authenticity of the contract and expenditure could not be ascertained.

1138. Taskforce Allowances

The expenditure on acquisition of assets of Kshs.1,261,353,015, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.879,049,757 on research, studies, project preparation, design and supervision. The latter balance in turn includes an amount of Kshs.4,060,000 paid to fifty (50) officers as taskforce allowances. These officers were appointed to a taskforce to prepare responses to the audit queries for 2017/2018 financial year through a memo from Head of Accounting Unit, which requested for 20 days.

However, this memo contravened the provisions of the government circular reference number MSPS.2/1A Vol.XLVIII/ (119) dated 2 August, 2013.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1139. Lack of a Risk Management Policy

During the year under review, despite the Internal Audit Unit having a risk matrix that ranks risks and guides the annual internal audit plans, the Ministry did not have in place

an institutionalized Risk Management Policy. As a result, there were no formal approved processes and guidelines on how to identify, assess and mitigate operational, legal and financial risks.

1140. Inactive Audit Committee

During the financial year under review, the Ministry`s Audit Committee never met to discuss the internal audit reports of the Ministry. The Audit Committee was therefore not effective in providing oversight on financial and risk management including; monitoring and reviewing of the effectiveness of the internal audit function and internal controls, risk management systems and financial statements.

REVENUE STATEMENTS FOR THE MINISTRY OF LANDS AND PHYSICAL PLANNING

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1141. Overstatement of Stand Premia on Town Plots

As disclosed in Note 1 to the financial statements, the statement of receipts and disbursements for the year ended 30 June, 2021 reflects actual tax receipt amounting to Kshs.67,171,533 in respect of stand premia on town plots. However, the amount differs with the ledger balance of Kshs.66,064,487, resulting in an unexplained and an unreconciled variance of Kshs.1,107,046.

In the circumstances, the accuracy of the stand premia balance of Kshs.67,171,533 reflected in the financial statements could not be confirmed.

1142. Unreconciled Balance Due for Disbursement to the Exchequer

The statement of receipts and disbursements for the year ended 30 June, 2021 reflects a comparative balance due for disbursement to the Exchequer of Kshs.2,669,255, which was carried forward to 2020/2021 financial year. The statement further reflects total receipts balance of Kshs.1,049,897,379 and disbursements to the Exchequer of Kshs.1,017,346,339 during the financial year 2020/2021, leaving a balance of Kshs.32,551,040 due to the Exchequer as at 30 June, 2021.

However, it has not been explained or disclosed how the balance due for disbursement to the Exchequer of Kshs.2,669,255 brought forward from the financial year 2019/2020 was accounted for or surrendered to the Exchequer during the year under review.

Other Matter

1143. Budgeted Revenue and Actual Collection

A review of the budgeted and actual revenue collections for the year under review revealed that the Ministry was not able to realize all the budgeted revenue under the following revenue items:

Revenue Item	Budgeted Amount (Kshs.)	Actual Amount (Kshs.)	Variance (Kshs.)	% Unrealized Revenue
Stamp Duty	12,988,148	4,549,819	8,438,329	65
Stand Premia on Town Plots	79,837,768	67,171,533	12,666,235	16
Other Revenue	1,065,771,654	189,563,127	876,208,527	82
Conveyance Fees	8,886,286	7,570,740	1,315,546	15
Land Valuation Fee	6,456,878	2,322,035	4,134,843	64

Although it has been explained that the reason for non-realization of the budgeted revenue in full was due to Covid-19 pandemic, persistent under-collection of revenue could have negative effects on delivery of goods and services to the Kenyan citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1144. Delay in Banking

A review of revenue records held at the Ministry Headquarters and Department of Survey of Kenya revealed delays in banking of revenue collected amounting Kshs.12,137,452 and Kshs.1,539,590, respectively by more than five (5) days.

This is contrary to Regulation 81(2) of the Public Finance Management (National Government) Regulations, 2015 which requires the receiver of revenue to pay promptly the revenue received into the Consolidated Fund and in any case not later than five (5) days after receipt thereof.

Consequently, the Management was in breach of the law on prompt banking.

1145. Un-Surrendered Revenue by the County Government of Machakos

In the report for the previous financial year, reference was made to un-surrendered survey fees amounting to Kshs.7,261,896 collected during the 2019/2020 financial year by the Department of Survey in Machakos Land Registry and remitted to the County Government of Machakos instead of the Ministry of Lands and Physical Planning. The matter remained unresolved as at 30 June, 2021.

In addition, during the year under review, survey fees collected by the County Government of Machakos amounting to Kshs.7,134,986 was not surrenderd to the Ministry of Lands and Physical Planning. This is contrary to Section 76(2) of the Public Finance Management Act, 2012, which requires any public officer, other than a receiver or collector of revenue for the National Government, to deliver the revenue not later than three (3) days after receiving it to a receiver or a collector of revenue for the National Government.

However, no documentary evidence was provided to confirm how the County Government of Machakos was appointed to collect the survey fees on behalf of the Ministry. Consequently, the Management is in breach of the law and the collected fees could not be accounted for.

1146. Failure to Open a Separate Revenue Collection Account

Field verification in regional offices during the month of October, 2021 revealed that revenues collected, and funds received by the Ministry as Exchequer releases for operations purposes for the regional offices were posted in the same cash books and deposited similarly in the same bank account in all the fifteen (15) stations visited.

This is contrary to Section 75(2) of the Public Finance Management Act, 2012, which requires a receiver of revenue to account for revenue received separately from other receipts.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1147. Inadequate Staffing

During the year under review, the Ministry of Lands and Physical Planning did not have its own revenue accounting staff to handle revenue collections in the regional offices but relied on the staff from The National Treasury. No explanation was provided by the Ministry for failure to have its staff for revenue collection.

Consequently, the Management may not adequately deliver on the mandate of revenue collection.

1148. Weak Internal Controls

Physical verification in a sample of fifteen (15) revenue collection stations within the regional offices visited in the month of October, 2021 revealed various internal control weaknesses which persisted during the year under audit as highlighted below:

i) Lack of documented guidelines on identifying plots whose owners should pay rent;
ii) Lack of registers for town plots;
iii) Lack of defaulters list for the town plots;
iv) Shortage of land fee receipt books;
v) Inadequate funding of regional offices;
vi) Late disbursement of funds for daily operations; and
vii) Lack of assigned police security to the offices to secure important documents.

Consequently, the Management may not adequately deliver on the mandate on revenue collection.

STATE DEPARTMENT FOR INFORMATION, COMMUNICATION TECHNOLOGY AND INNOVATION – VOTE 1122

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1149. Unconfirmed Proceeds from Foreign Borrowings

As disclosed in Note 2 to the financial statements, the statement of receipts and payments reflects foreign borrowings totalling to Kshs.12,535,780,458. The balance relates to direct payments made by a Chinese Bank to the Contractor for undertaking the implementation of Konza Data Centre and Smart City Facilities Project. The payments made comprised of borrowings totalling to Kshs.2,671,086,095 for Data Centre at Konza Technopolis, an amount of Kshs.608,984,395 from China for National Optic Fibre Backbone Project and a total of Kshs.9,255,709,966 for Konza Techcity Project respectively. However, the payments were supported by photocopies of documents instead of original documents which the Management indicated that they were forwarded to the lender.

Consequently, it has not been possible to confirm the propriety of payments of totalling to Kshs.12,535,780,458.

Other Matter

1150. Pending Bills

As disclosed under Annex 1 to the financial statements, the State Department had pending accounts payable totalling to Kshs.28,559,663 as at 30 June, 2021 which mainly arose during the year. However, Management has not provided satisfactory explanation for failure to settle the bills during the year under review.

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

1151. Unresolved Prior Year Issues

In the report of the previous year, several paragraphs were raised under the Report on Financial Statements, Other Matter and Report on Lawfulness and Effectiveness in Use of Public Resources. Although the Management has indicated that some of the issues have been resolved under progress on follow up of auditor's recommendation section of the financial statements, the matters remained unresolved as at 30 June, 2021.

1152. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development combined reflected actual receipts of Kshs.17,954,849,460 against a budget of Kshs.19,449,102,512

resulting into a receipts shortfall of Kshs.1,494,253,052 of the budgeted receipts. Similarly, the statement reflects final expenditure budget and actual on comparable basis of Kshs.19,449,102,512 and Kshs.17,870,703,341 respectively resulting to an under-expenditure of Kshs.1,578,399,171 of the budget. The shortfall in budgeted receipts and under-expenditure implies that the overall goals and objectives of the State Department were not achieved as planned impacting negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1153. Court Awards Relating to Public Relations and Communication Contract

Note 17.5 to the financial statements reflects contingent liabilities totalling to Kshs.11,473,560 as at 30 June, 2021. As further disclosed in Annex 5 to the financial statements, the liability relates to court case determined in favor of a consultant for marketing services. Available information indicated that the State Department, entered into a contract in 2016 for provision of public relations, communication, and event management agency services at a contract sum of Kshs.19,122,600. The Ministry however, paid a total of Kshs.7,649,040 but failed to pay the balance amounting to Kshs.12,183,473. The consultant sued the Ministry for breach of contract.

During the year under review, the case was ruled in favour of the consultant and was awarded Kshs.12,183,473 as principal amount, Kshs.459,492 as legal costs and Kshs.5,243,232 compounded interest at 12 % per annum from 2 February, 2018 to 30 November, 2021 totalling to Kshs.17,886,198. However, the State Department disclosed an amount of Kshs.11,473,560 resulting in an unexplained variance amounting to Kshs.6,412,638. Further, the public did not receive value for money additional cost of Kshs.5,702,724 above the initial contract sum of Kshs.19,122,600 that could have been avoided had the Management complied with the terms of the contract.

Consequently, the value for money of contingent liabilities totalling to Kshs.11,473,560 disclosed in the financial statements could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1154. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

EASTERN AFRICA REGIONAL TRANSPORT, TRADE AND DEVELOPMENT FACILITATION PROJECT (IDA CREDIT NO.5638-KE) - INFORMATION AND COMMUNICATION TECHNOLOGY AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1155. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1156. Slow Project Funds Absorption

The Project was started in November, 2015 and was to run for six (6) years to end in December, 2021. However, as reflected under the funding summary, out of the total commitment of Kshs.2,979,795,000 by IDA and the Government of Kenya, an amount of Kshs.398,668,366 or 13.3% had been released to the Project as at 30 June, 2021. As previously reported, due to continued underfunding, the Project is unlikely to fully achieve the intended objectives.

My opinion is not modified in respect of this matter.

Other Matter

1157. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects total actual receipts of Kshs.398,668,366 against estimated amounts of Kshs.400,000,000 resulting in a shortfall of Kshs.1,331,634 or 0.3%. Similarly, the Program had an approved total expenditure budget of Kshs.400,000,000 against the actual expenditure of Kshs.349,025,082 translating to 87% budget utilization. Management has attributed the underperformance to the Covid-19 pandemic which negatively impacted on the Program implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1158. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1159. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1160. As required by International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by Project and the Project's financial statements agree with the accounting records and returns.

STATE DEPARTMENT FOR BROADCASTING AND TELECOMMUNICATIONS – VOTE 1123

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1161. Variances Between the Financial Statements and IFMIS Ledger Balances

A comparison between the financial statements and the supporting IFMIS ledger balance revealed variances as shown below:

Item	IFMIS Balance (Kshs.)	Financial Statement Amount (Kshs.)	Difference (Kshs.)
Recurrent Bank Account	560,349,861	4,933,997	555,415,889
District Recurrent Bank Account	504,943	-	504,943
Development Bank Account	271,220,447	1,975,733	269,244,715
Deposit Bank Account	279,319,245	281,928,092	(2,608,847)
Cash in Hand	589,040,131	244,789	588,795,342
Salary in Advance	132,360	-	132,360
Prepayments	1,411,950	-	1,411,950
R/D Cheques	5,332,522	-	5,332,522
Government Imprests	703,393	664,205	39,188
Suspense and Clearance	630,610	-	630,610
General Deposits	241,807,410	281,928,092	(40,120,682)
Other Liabilities	9,298,544		9,298,544
System Required Liabilities	192,716,118	-	192,716,118
Opening Balances Reserve	12,288,008,888	35,102,567	12,252,906,321

The variances have not been explained nor reconciled.

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

1162. Pending Bills

Note 17.1 to the financial statements reflects pending bills amounting to Kshs.873,106,334 as at 30 June, 2021. However, this amount differs from the amount of Kshs.281,928,092 disclosed under Annex 1 to the financial statements, resulting to an unexplained variance of Kshs.591,178,242. Further, failure to settle bills during the year

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

In the circumstances, the accuracy and validity of the reported pending bills of Kshs.873,106,334 as at 30 June, 2021 could not be confirmed.

Other Matter

1163. Budgetary Control and Performance

The summary statement of appropriation-recurrent and development combined for the year ended 30 June, 2021 reflects budgeted receipts and actual on comparable basis amounting to Kshs.8,041,518,735 and Kshs.7,466,440,047 respectively, resulting to a shortfall of Kshs.575,078,688 or 7% of the budget. Similarly, the Department's approved expenditure budget was Kshs.8,041,518,735 while the actual expenditure was Kshs.7,459,540,479 resulting to under-expenditure of Kshs.581,978,257 or 7% of the budget.

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

1164. Unconfirmed Arrears of Appropriations-In-Aid (AIA) Owed By State Agencies

As previously reported, the Government Advertising Agency (GAA) is owed Kshs.483,152,144 by various State Agencies for advertising services. The outstanding amount is expected to supplement the publicity and advertising budget for the State Department. However, outstanding balance of Kshs.303,782,510 as at 30 June, 2021 could not be confirmed as primary records including schedule of the outstanding AIA and specific individual accounts were not provided for audit review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1165. Accounts Receivables - Long Overdue Imprest

As disclosed in Note 11 to the financial statements, the statement of financial assets and liabilities reflects a balance of Kshs.664,205 under accounts receivables-outstanding imprest and clearance accounts balances. The balance includes outstanding imprest owed by two officers that has remained outstanding since 25 August, 2016. No reason was rendered for the failure to surrender the imprest or recover it from the officers' salaries in accordance with Regulation 93 of the Public Finance Management (National Government) Regulations, 2015.

No satisfactory explanation was given for the failure to recover the imprest as required.

1166. Failure to Conduct Media Monitoring of Distribution of MyGOv Publication

The statement of receipts and payments reflects payments of Kshs.1,715,995,564 in respect of use of goods and services for the year ended 30 June, 2021. The expenditure mainly relates to payments made to media houses for publication of MyGov newspaper during the year under review. However, as previously reported, the Government Advertising Agency has never carried out a media monitoring exercise to determine the number of copies published and distributed by the media house, which would have formed a basis for any contractual negotiations on amounts payable for placing of Government and associated advertising in the print media.

In the circumstances, the propriety and value for money on the expenditure of Kshs.1,715,995,564 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1167. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR SPORTS – VOTE 1132

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1168. Irregularities on Award of Tender to Hotel

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.329,844,700 under use of goods and services which further includes an amount of Kshs.77,822,791 relating to hospitality supplies and services. Examination of payment vouchers reveals that Kshs.6,796,952 was paid for provision of accommodation services, banqueting-offices, massage rooms, extra breakfast, extra lunch and dinner services for Continental Tour-Kipkeino Classic. However, examination of supporting records revealed the following anomalies:

(i) The attached professional opinion dated 30 September, 2020 referred to under Section 103 of Public Procurement and Disposal Act, 2015 on direct procurement, does not support the use of this method in the hospitality services since reasonable hotels alternative exists and that the method may have been used to avoid competition.

(ii) Quotations were also forwarded by the event organizer through a letter dated 2 October, 2020 containing six (6) quotations for suppliers. However, the selected Hotel was not on the prequalified list of the suppliers.

(iii) The Management did not provide for audit review specifications for the tender, tender opening register, technical evaluation and minutes of award. It is therefore, not possible to confirm that rates submitted by the Hotel were fair, equitable, transparent, competitive and cost effective.

(iv) An award letter of offer Ref: CT/ADMIN/VOL.1/33/2020 dated 22 September, 2020 was issued to the hotel and an agreement later signed on 2 October, 2020 between Athletics Kenya-Continental Tour Kipkeino Classic and the Hotel while the contract or event period was from 23 September to 4 October, 2020. It was therefore not clear why the agreement was signed nine (9) days after the start of the event, and two (2) days before the end of the event.

Consequently, the propriety of Kshs.6,796,952 expenditure and the value for money could not be confirmed for the year ended 30 June, 2021.

Other Matter

1169. Unresolved Prior Year Matters

Note 16 to the financial statement reflects various prior year audit issues which remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in

resolving the prior year audit issues. Consequently, the management has not complied with the requirement of Public Sector Accounting Standards Board reporting template for year ended 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1170. There were no material issues relating to lawfulness and effectiveness in use of pulic resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1171. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR CULTURE AND HERITAGE – VOTE 1134

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1172. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services amount of Kshs.215,294,652. However, the respective Note 5 to the financial statements cast to Kshs.216,227,801 resulting in an un-explained difference of Kshs.933,149.

Under the circumstances, the accuracy of use of goods and services amount of Kshs.215,294,652 could not be confirmed.

1173. Unsupported Accounts Payables-Retention

As disclosed in Note11 to the financial statements, the statement of assets and liabilities reflects an accounts payables balance of Kshs.31,130,268 as at 30 June, 2021. The balance includes an amount of Kshs.4,544,668 in respect of retention money, out of which a balance of Kshs.4,098,684 was transferred to the State Department after split of the Ministry of Sports Culture and Arts into two State Departments. The State Department vide letter Ref. SDCH/Ac/1 Vol. 1(153) dated 13 November, 2019 wrote to the State Department for Sports requesting them to provide details of the retentions to determine what the projects related to for purposes of payment. However, as at the time of the audit, details of the retentions had not been provided and therefore their ownership could not be confirmed.

In addition, the retention balance of Kshs.4,544,668 includes a balance of Kshs.445,984 in respect to refurbishment services provided by a contractor for which project completion documents had not been availed to the Department to facilitate payment.

Consequently, the accuracy and validity of the accounts payables-retention balance of Kshs.4,544,668 as at 30 June, 2021 could not be confirmed.

1174. Unsupported Prior Year Adjustment on Cash in Hand

Note 13 to financial statements reflects a prior year adjustment of Kshs.1,155,347 which includes adjustment on cash in hand of Kshs.54,810. The total amount under adjustment of Kshs.1,155,347 relates to unspent balances for the financial year 2019/2020 recovered by The National Treasury and the State Department. Analysis of management response and support documents however revealed that total recoveries supported was Kshs.1,100,535 leaving a balance of Kshs.54,810 relating to cash in hand whose support documents authenticity could not be confirmed.

Consequently, it was not possible to ascertain the validity of the prior year adjustment of Kshs.54,810 on cash in hand as at 30 June, 2021.

Other Matter

1175. Pending Bills

Annex I to the financial statements reflects pending bills totalling to Kshs.74,437,396 as at 30 June, 2021. Out of this balance, Kshs.59,857,711 relates to financial year 2019/2020 as analyzed in Note 17.1, resulting to an increase of Kshs.14,579,685 (20%). It was not clear why the prior year pending bills of Kshs.59,857,711 were not paid when they became due or why they did not form first charge in the year 2020/2021. In addition, out of the total pending bills balance of Kshs.74,437,396, an amount of Kshs.31,507,892 equivalent to 42% represents rent arrears owed to the Kenya National Library Service Board (KNLSB) that remained outstanding as at 30 June, 2021. Failure to settle bills in the year to which they relate adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge.

1176. Unresolved Prior Year Issues

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1177. Failure to Conduct Training Needs Assessment, Prepare Staff Training and Development Policy and Training Master Plan

Note 5 to the financial statements on use of goods and services reflects training expenses of Kshs.4,016,290. However, there was no evidence that the State Department prepared and operationalized a staff training and development policy, training master plan and training needs assessment. Therefore, the trainings were not based on identified needs and could therefore not be confirmed to be beneficial to the employees of the State Department. This violates Regulation 43(1)(b) of Public Finance Management (National Government) Regulation, 2015 which provides that an Accounting Officer should ensure that funds entrusted to their care are properly safeguarded and applied for the purposes for only which they were intended and appropriated by the National Assembly.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1178. Assets Management

1178.1 Untagged and Unallocated Assets

An inspection of the State Department's assets revealed that the assets were not tagged for ease of identification and safeguard against loss. In addition, review of the assets register revealed that serial numbers for some office equipment were not recorded for

ease of identification. In addition, five iPad issued to the records management office valued at Kshs.593,750 were not allocated to any particular officer for safety and accountability. Failure to tag and allocate assets is an indication of weak internal controls over assets.

1178.2 Disposal of Motor Vehicles

Review of documents and inspection of motor vehicles revealed that five motor vehicles listed below have been grounded at various garages for long periods.

Reg. No.	Model	Remarks by Management
GK A106 U	VW Passat	Grounded at CMC Ltd. Earmarked for Disposal but not disposed due to high reserve price
GK A 170U	VW Passat	Grounded at CMC Ltd Earmarked for Disposal but not disposed due to high reserve price
GK A 208A	Peugeot 504 Saloon	Grounded at NSSF but not disposed due to high reserve price
GK A 422L	Peugeot 406	Grounded at Urysia but not disposed due to high reserve price

In the circumstances, the vehicles are exposed to the risk of further deterioration and loss of value.

1178.3 Ownership of Motor Vehicles

Twenty-three (23) motor vehicles of various models were registered under other Government Agencies. Although Management explained that the logbooks for the twenty-three (23) vehicles were submitted to the National Transport Safety Authority for transfer on 27 September, 2021, the transfer had not been effected as at the time of the audit.

1179. Understaffing

A review of Human Resource records indicated that the State Department had an authorized establishment of 1,531 as at 30 June, 2021 against actual in post of 195 resulting in a staff deficit of 1,336 personnel. The staff shortage, if not addressed could impact negatively on the operations of the State Department.

MINISTRY OF ENERGY – VOTE 1152

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1180. Use of Goods and Services

The statement of receipts and payments reflects use of goods and services expenditure totalling Kshs.496,087,643 as further reflected in Note 7 to the financial statements. However, the balance contains the following anomalies:

1180.1 Unsupported Expenditure

The following payments totalling Kshs.4,283,700 made at the close of the financial year from the 28 to 30 June, 2021 were not supported with records on the nature and dates of the activities paid for:

No.	Expenditure Item	Amount (Kshs.)
1.	Domestic Travel	2,904,600
2.	Training Expenses	213,000
3.	Office and General Supplies	617,000
4.	Routine Maintenance -Other Assets	439,100
5.	Fuel and Other Lubricants	110,000
	Total	**4,283,700**

1180.2 Training Expenses

As disclosed in Note 7 to the financial statements, the use of goods and services expenditure includes training expenses totalling Kshs.17,582,215. However, records on the payments indicated that expenses totalling Kshs.10,224,197 were incurred on non-training items such as office expenses and allowances paid to various officers. Further, Management did not provide records to confirm that the reallocations were made in accordance with the provisions of the applicable provisions of Section 43 of the Public Finance Management Act, 2012.

In view of the anomalies, the training expenses balance totalling Kshs.17,582,215 may not be fairly stated.

1180.3 Routine Maintenance

The goods and services expenditure balance further includes routine maintenance expenses - other assets, totalling Kshs.83,944,712. Expenses totalling Kshs.72,600,390 included in the balance relate to Authority-to-Incur-Expenditure (AIEs) disbursed to various Energy Centres established by the Ministry. However, returns on actual expenditures incurred by the Centres were not provided for audit and as a result, the

accuracy, completeness and validity of the routine maintenance-other assets expenses totalling Kshs.83,944,712 could not be confirmed.

1180.4 Office and General Supplies

The goods and services expenditure also includes office and general supplies expenses totalling Kshs.22,151,720. Examination of the financial records indicated that expenses totalling Kshs.5,266,540 related to undefined cash office expenses and payments of allowances and imprests. However, contrary to Section 43(b) of the Public Finance Management Act, 2012, Management did not provide documents to explain the nature of the expenses, including the approvals, if any, for the re-allocation of the funds.

Consequently, the occurrence, accuracy, and validity of the office and general supplies expenses totalling Kshs.22,151,720 could not be confirmed.

1180.5 Hospitality, Supplies and Services

In addition, the use of goods and services balance includes hospitality, supplies and services amounting to Kshs.48,875,797 which in turn include the following payments totalling Kshs.6,665,000.

	Item	Amount (Kshs.)
1	Allowances to staff for undertaking their normal duties	1,890,000
2	Ungazetted allowances for transport and logistics	1,600,000
3	Unsupported sub-committee allowances on finalization of the budget	2,175,000
4	Refund on transport expenses	1,000,000
	Total	**6,665,000**

However, records on authorizations for the payments were not provided for audit review and as a result, the propriety of the payments could not be confirmed.

In view of the anomalies observed in relation to payments for use of goods and services, the accuracy, validity and fair statement of the expenditure balance totalling Kshs.496,087,643 reflected in the statement of receipts and payments could not be confirmed.

1181. Acquisition of Assets

As disclosed in Note 9 to the financial statements, the statement of receipts and payments reflects acquisition of assets totalling Kshs.16,982,483,963. However, the following anomalies were noted in respect of the balance:

1181.1 Rehabilitation of Civil Works

The acquisition of assets expenditure includes an amount of Kshs.71,873,092 spent on rehabilitation of civil works out of which Kshs.28,125,000 was denoted as transfers to the Ministry's Energy Centers located in various counties. However, the transfers were not supported with records on civil works undertaken at the Centres and as a result, it was not

possible to confirm the occurrence and validity of the expenditure. In addition, expenditure records indicated that daily subsistence allowances totalling Kshs.10,719,829 were paid to various officers. However, the payments were not supported with approved budgets and work plans, and further, the dates of the activities were not disclosed.

In the circumstances, the propriety and accuracy of the payments totalling Kshs.71,873,092 reported in respect of rehabilitation of civil works in the year under review could not be confirmed.

1181.2 Construction and Civil Works

The expenditure on acquisition on assets further includes Kshs.16,285,826,843 spent on construction and civil works. The balance includes payments totalling Kshs.16,231,249,088 made by the Ministry on behalf of Government Agencies for projects executed by the Agencies. Therefore, the amount is inappropriately accounted for as it should have been included in transfers totalling Kshs.32,003,846,607 reported in the statement of receipts and payments and Note 8 to the financial statements as having been made by the Ministry to other Government Agencies in the year under review. Further, the balance includes daily subsistence allowance payments totalling Kshs.2,434,000 made to various officers. Management did not provide records or explain why the payments for operational expenses were included in the construction and civil works account.

In the circumstances, the accuracy, completeness and fair statement of the construction and civil works balance totalling Kshs.16,301,132,250 as at 30 June, 2021 could not be confirmed.

1181.3 Research, Studies, Project Preparation

The acquisition of assets expenditure also includes research, studies, project preparation, design and supervision expenditure totalling Kshs.583,493,000. However, examination of the respective records revealed the following anomalies:

i. Imprest payments totalling Kshs.83,130,458 were made to 250 officers at the close of the financial year under review in June, 2021. Out of this balance, Kshs.47,604,700 was paid to 130 officers between 22 and 30 June, 2021. However, the imprests were not supported with approved work plans and were not accounted for by the Officers. They were instead expensed without records on the respective activities they were spent on.

ii. Expenditure records indicated that AIEs totalling Kshs.9,087,500 were issued to 16 (sixteen) Energy Centers and Kshs.4,844,000 paid out as daily subsistence allowances to officers on working visits to the Centres. However, for both expenditures, no records were provided to support or explain the spending.

iii. A sum of Kshs.5,000,000 was paid to a fuel supplier against a proforma invoice dated 29 June, 2021 which implied that the fuel may not have been supplied and utilized by the end of the financial year one day later on 30 June, 2021. Further,

the payment was not supported with detailed orders, a fuel register, work tickets and suppliers' records showing use of the fuel. Therefore, the validity and propriety of the expenditure totalling Kshs.5,000,000 could not be confirmed.

iv. Daily subsistence allowances payments totalling Kshs.4,500,000 were made to 30 officers undertaking their normal duties at their work stations. Further, the officers were not required to account for the funds which were instead directly expensed in the books of account.

In view of the foregoing, the propriety of the research, studies, project preparation, design and supervision payments totalling Kshs.583,493,000 reported in the year under review could not be confirmed.

1181.4 Irregular Payment of Allowances

The expenditure on acquisition of assets further includes expenditure on refurbishment of buildings totalling Kshs.8,226,574. Included in the balance are facilitation allowance payments totalling Kshs.3,494,028 paid to various officers. However, the payments were not supported with approved work plans and records on travel and activities undertaken by the officers. In addition, contrary to Regulation 93(5) of Public Finance Management Regulations, 2015, there were no records showing how the Officers accounted for the imprests. As a result, the propriety of the payments totalling Kshs.3,494,028 could not be confirmed.

In view of these issues, the accuracy and validity of the acquisition of assets balance totalling Kshs.16,982,482 963 reflected in the statement of receipts and payments could not be confirmed.

1182. Bank Balances

The statement of assets and liabilities reflects bank balances totalling Kshs.424,965,555 as further disclosed in Note 10A to the financial statements. Examination of bank reconciliation statements for the month of June, 2021 for the Development and Recurrent bank accounts disclosed unpresented cheques totalling Kshs.4,681,006,617 and Kshs.29,461,825 respectively.

The cheques included imprest payments to various officers totalling Kshs.23,025,394 under the recurrent account and Kshs.12,210,998 under the development account for activities scheduled for the following (2021/22) financial year. However, the imprests were expensed upon payment. As a result, the propriety of payments totalling Kshs.35,236,39, and fair statement of the bank balance totalling Kshs.424,965,555 reflected in the statement of assets and liabilities as at 30 June, 2021 could not be confirmed.

1183. Accounts Payables - Long Outstanding Retention Monies

The statement of assets and liabilities reflects accounts payable totalling Kshs.183,247,173 as at 30 June, 2021, as further disclosed in Note 11 to the financial statements. The balance includes retention monies totalling Kshs.112,753,222 payable to

various vendors and contractors. Annex 5 of the financial statements indicates that Kshs.89,160,030 of the retentions had been outstanding for more than three years as at 30 June, 2021. Further, retention monies and deposits totalling Kshs.70,493,951.25 included in the Kshs.112,753,222 balance and attributed to the Principal Secretary to the Ministry were not supported with sufficient records and as a result, their nature and origin could not be confirmed.

In view of these issues, the accuracy and validity of the accounts payables balance totalling Kshs.183,247,173 reflected in the statement of assets and liabilities as at 30 June, 2021 could not be confirmed.

1184. Fixed Assets

Annex 1 – summary of fixed assets reflects fixed assets with historical costs totalling Kshs.285,647,117,842 which include land costed at Kshs.8,226,575. As reported in previous years and as disclosed in Annex I, the State Department did not have title deeds for eight (8) plots of land measuring 21.42 hectares in aggregate and estimated by the Ministry to have an aggregate market value of Kshs.180,700,000. Information provided by Management indicated that the process of acquiring title deeds for some of the plots had been underway for several years.

In the absence of the title documents, it was not possible to confirm ownership of the lands by the Ministry and the accuracy and completeness of the Ministry's fixed assets balance totalling Kshs.268,664,633,879 as at 30 June, 2021 reflected in Annex 1 of the financial statements.

Other Matter

1185. Budgetary Control and Performance

The summary statement of appropriation - recurrent and Development Combined indicates that the Ministry's revenue budget for the year under review amounted to Kshs.79,164,432,735 but actual receipts were Kshs.50,040,924,077 resulting to a revenue shortfall of Kshs.29,123,508,658 or 37% of the budget. Additionally, the Ministry's budgeted expenditure amounted to Kshs.79,164,432,735 but actual spending amounted to Kshs.49,877,987,166 or 63% of the budget resulting to under-expenditure of Kshs.29,286,445,569.

In view of the under-expenditure, programme outputs planned for the year may not have been attained.

1186. Late Exchequer Releases from The National Treasury

Audit review of the Exchequer releases received by the Ministry indicated that development vote funds totalling to Kshs.4,446,857,887 were received on 2 July, and 3 July, 2021 after the end of the financial year on 30 June, 2020.

Consequently, the delayed Exchequer releases may have hindered timely implementation of the Ministry's programmes.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1187. Unexplained Use of Petroleum Development Funds

Revenue records indicated that Kshs.500,000,000 was received by the Ministry from the Petroleum Development Fund the year under review. The purpose of the transfer of the funds to the Ministry, including the activities the funds were to be spent on, was not adequately explained. Section 4(4) of the Petroleum Development Fund Act 1991 requires that such funds only be spent on development of common facilities for distribution or testing of oil products and matters relating to the development of the oil industry.

The records further indicated that Kshs.35,000,000 of the Kshs.500,000,000 receipts was transferred to the Kenya Association of Manufacturers (KAM) which is not a public entity. However, the framework or contract for disbursement of the funds to KAM was not provided for audit review.

In view of these anomalies, it was not possible to confirm whether the funds totalling Kshs.500,000,000 were spent in compliance with the requirements of the Petroleum Development Fund.

1188. Overstaffing

Audit review of staffing records indicated that there were 75 Officers above the number prescribed in the authorized staff establishment. Five out of the Officers held posts that were not provided for in the establishment. Management explained the over-staffing as having arisen from promotions made by the Public Service Commission in the entire Civil Service for the purpose of managing succession of staff expected to retire from the Service.

In the absence of an updated approved staff establishment, the Ministry may be over-staffed and may be incurring unnecessary employee costs.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1189. Lack of Risk Management Policy Framework

Regulation 165(1) of the Public Finance Management Regulations, 2015, requires each National Government entity to develop risk management strategies which should include fraud prevention mechanisms, a disaster recovery plan and a system of risk management

and internal control that builds robust operations. However, as similarly noted in the previous year, the Ministry did not have a risk management policy framework in the year under review.

In the absence of an approved risk management framework, Managements' ability to identify, measure and mitigate operational and other risks faced by the Ministry may have been constrained.

1190. Lack of Fixed Assets Register

The summary fixed assets register at Annex 1 indicates that the Ministry had fixed assets with a total historical cost of Kshs.285,647,117,842 as at 30 June, 2021. However, contrary to the requirements of Circular 1 No. 5/2020 of 25 February, 2020 issued by The National Treasury, the assets register provided for audit did not include an analysis of the various categories of assets included in the balance. In addition, not all land and buildings owned by the Ministry were disclosed in the register. In particular, the register did not reflect assets located at the various Energy Centers established by the Ministry. Further, assets records indicated that the Ministry disposed of eight (8) motor vehicles in the year under review but no adjustments were made in the register to recognize the sales.

In the absence of an accurate and comprehensive register of assets, control on fixed asset records was inadequate. In addition, the accuracy, completeness of the fixed assets balance totalling Kshs.285,647,117,842 and safe custody of the respective assets, could not be confirmed.

DONOR FUNDED PROJECTS

KENYA ELECTRICITY MODERNIZATION PROJECT (IDA CR. NO. 5587 KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1191. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1192. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects budgeted receipts of Kshs.179,000,000 and actual receipts of Kshs.14,068,258 resulting to underfunding of Kshs.164,931,742 or 92%. Similarly, the Project budgeted Kshs.154,000,000 under purchase of goods and services but incurred Kshs.20,848,467 or utilization of only 13.5%. Management has attributed the under-utilization to the complexity of the nature of World Bank procurement procedures on various consultancies, hence the low absorption.

Consequently, the under absorption of the budget may have resulted in non-implementation of the Project's planned activities, thus slowing down achievement of the intended goals and objectives.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1193. Acquisition of Non-Financial Assets

The statements of receipts and payments reflects acquisition of non-financial assets of Kshs.6,047,694. Out of this balance, an amount of Kshs.5,878,154 was paid to a consultant as an advance payment in respect of contract for design, supply, installation, testing and commissioning of SCADA software. According to the financial records, the project entered into a consultancy services contract with the consultant on 31 March, 2020 at a contract sum of USD 354,095 (approx. Kshs.35,409,500). The duration of the contract was estimated to be six (6) weeks from the date of signing of the contract. However, it was noted that the implementation of the project had delayed for over 18 months. The Management has explained that the delay was attributed to the lockdown of the Country at the onset of Covid 19 pandemic.

Further, according to the contract agreement, the contract required security in form of a bank guarantee for any advance payment and in this case an advance payment of Kshs.5,878,154 being 15% of the contract. However, the bank guarantee expired on 30 April, 2021 and had not been renewed as at the time of audit. The Management has, however, explained that the consultant who had delivered 80% of the contract has requested for extension of contract which is still in the process of being reviewed.

Consequently, the expiry of the bank guarantee may expose the project to loss in the event that the contract obligations are not met and the Project may not have received value for money in respect of the procurement.

1194. Project Performance Information

Analysis of the budget performance against the actual amount for the year under review indicated that the annual budget was Kshs.179,000,000 against actual receipts of Kshs.14,068,258 and actual payments totalling Kshs.26,896,161. Further, the project timeline was projected as seven years three months with a gross budget of Kshs.456,000,000. As at 30 June, 2021, project implementation had been on for five years and nine months representing 79.3% of the time while the payments were at Kshs.291,398,737 representing 63.9% of the budget. This clearly shows the project is behind schedule and may, therefore, not attain the targeted achievement at the expiry date of the project. In addition, no information on achievements against the approved workplan were provided for audit review.

The Management has, once more, attributed project under-performance to the complexity of World Bank procurement process and the numerous consultations between the project Management and the World Bank.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1195. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR. NO. 6135-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1196. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1197. Budgetary Control and Performance

The statement of comparative budget and actual amounts in the financial statements reflects receipts budget and actual amounts on comparable basis of Kshs.1,200,000,000 and Kshs.393,973,313 respectively resulting to a deficit of Kshs.806,026,687 or 67% of the budget. Similarly, the Project spent an amount of Kshs.400,751,930 against the approved budget of Kshs.1,200,000,000 resulting to an under-absorption of Kshs.799,248,070 or 67% below the approved budget. Management has attributed the under absorption to long approval process of procurable items and low implementation by the key facility managers of standalone solar systems and clean cooking solutions for households under component 2 hence the project was not able to charge the reimbursable costs to them.

1198. Project Implementation Status

According to the Project's monitoring and evaluation progress report together with the annual work plan, the project is behind schedule considering that the expected completion date was agreed to be 30 June, 2023 and significant work still remains to be done. According to the Management, the delay is attributable to low implementation of other components i.e components 1, 2 and 3 which are to be implemented by Kenya Power and Lighting Company PLC, Rural Electrification and Renewable Energy Corporation and key facility managers. This in turn affects the overall performance of the project.

Consequently, the Project may not be completed as planned. This will, no doubt, result in delayed service delivery to the public and possible cost overruns.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1199. There were no material issues relating to lawfulness and effectiveness in use of public money.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1200. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR. NO. 6135-KE) - MINISTRY OF ENERGY AND SNV NETHERLANDS DEVELOPMENT ORGANIZATION

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1201. Interest Income

The statement of receipts and payment under Note 2 indicates interest income amounting to Kshs.43,581,597. Included in the interest income is an amount of Kshs.41,455,627 received from Kenya Commercial Bank (KCB), which differs from the interest computation schedule for the period amounting to Kshs.70,003,231. This amount varies from Kshs.41,455,627 actually received and reported in the financial statements resulting to under remittance of Kshs.28,548,015. The Management stated that they were in the process of engaging KCB to credit the remaining balance.

Further, information provided for audit review indicates that the project's bank account was opened at KCB Bank on 2 September, 2019 and an amount of Kshs.2,223,466,000 deposited into the account on 11 March, 2020. However, the interest recognition as reflected in the financial statements started in March, 2021. This implies that the Project did not receive any interest income for the period March, 2020 to February, 2021 though the funds had already been received from the financier. The Management has not explained why the project did not receive any interest during the period.

Consequently, the accuracy and completeness of the interest income received of Kshs.43,581,597 in the statement of receipts and payments for the year ended 30 June, 2021 could not be confirmed.

1202. Purchase of Goods and Services

The statement of receipts and payments reflects purchase of goods and services amounting to Kshs.17,401,773. Out of the balance, an amount of Kshs.11,170 230 is in respect of specialized materials and services. However, review of the details of the payments indicates that the expenditure was in respect of marketing services, training and accommodation expenses which are not specialized materials and services. Further, payments were not supported by an approved workplan and their relevant documentation to show that the activities were in line with project objectives.

Consequently, the accuracy, completeness, and propriety of the expenditure of Kshs.11,170,230 in respect of specialized materials and services for the year ended 30 June, 2021 could not be confirmed.

1203. Inaccuracies in the Financial Statements

The statement of receipts and payments reflects accumulated total payments amounting to Kshs.17,401,777 while the statement of budget and actual amounts indicates total payments of Kshs.97,400,367 resulting in a variance of Kshs.79,998,590. Further, statement of application of funds indicates unutilized balance of Kshs.2,132,283,976 while the statement of receipts and payments indicates fund balance of Kshs.2,249,645,824 resulting in a variance of Kshs.111,361,848.

Consequently, the accuracy and completeness of the financial statements as at 30 June, 2021 could not be confirmed.

Other Matter

1204. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects receipts budget of Kshs.4,743,581,597 and actual receipts amounting to Kshs.2,267,047,597 respectively resulting in a shortfall of Kshs.2,476,534,000 or 52%. Similarly, the Project spent an amount of Kshs.97,400,367 against the approved budget of Kshs.4,706,218,343 resulting to an under absorption of Kshs.4,608,817,976 or 98% of the approved budget. The under absorption of the funds received clearly indicates that the bulk of planned activities were not implemented.

Further, according to the Project's monitoring and evaluation progress report, the Project is behind schedule considering that the expected completion date is 30 June, 2023 and significant work remains to be done as shown below;

Key Performance Indicator (Target)	July, 2020- June, 2021 Cumulative Status
a) Solar Service Providers Results Based Financing (SSP RBF) Facility	
250,000 solar home systems to be sold	63,322 units sold but pending verification by the IVA
Kshs.1.2 Billion to be disbursed out for Result-based Financing	Kshs.40,037,911 has been disbursed as part of ex-ante drawdown pending verification of IVA
1.1 million people to receive electricity from off-grid solar	316,610 people have received electricity from off-grid solar subject to verification by IVA assuming 5 people per Household.
b) Clean Cooking Solution Results Based Financing (CCS RBF) Facility	
150,000 of higher tier stoves to be sold	3,809 units have been sold
Kshs.0.5 Billion to be disbursed out for CCS RBF Facility	10 Recipients are under agreement with Ministry of Energy with Kshs.31.9 M having been disbursed to them. However, the expected ex-post disbursement, currently stand at Kshs.6.1 M pending IVA verification.
c) Solar Service Providers Debt (SSP Debt) Facility	
Kshs 3.0 Billion working capital for the participating Solar Service Providers which was identified as a key gap during the design of KOSAP in 2015	The debt facility has made only one transaction of Kshs.16,839,823 despite diligent efforts.

Consequently, the Project may not be completed within the stipulated timelines and this may result in delayed service delivery to the public and possible cost overruns.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1205. Unaccounted for Accounts Receivables

The statement of financial assets as at 30 June, 2021 reflects accounts receivables of Kshs.77,606,105, being advance to suppliers of clean cooking solution, solar service providers and debt facility providers as disclosed in Note 5 to the financial statements These amounts were issued during the year and ought to have been repaid or accounted for during the year. The amount had however not been accounted for or repaid as at 30 June, 2021.The Management did not explain why the funds remained unpaid or unaccounted for.

Under the circumstance, recoverability of the funds remained doubtful.

1206. Failure to Appoint an Independent Verification Agent (IVA)

The KOSAP Facility Implementation Manuals Clause 1.3.5, stipulates that the Facility Managers are to provide recommendations to the Ministry of Energy on contracting and outsourcing arrangements of a third-party Independent Verification Agent(s) (IVA), including a framework on verification of data points.

It was however noted that, the procurement and appointment of the Independent Verification Agent (IVA) for the Standalone Community System and the Home Systems had not been concluded at the time of the audit. According to the management, the evaluation of the technical and financial bids submitted for the above-mentioned assignment recommended that the contract be awarded to the lowest evaluated bidder. However, the lowest bidder and the quoted amount of USD 2.2 Million against the approved estimated budget of USD 0.7 Million as per the KOSAP Project Procurement Strategy for Development (PPSD) was higher by 314% of the budgeted while the next most responsive bidder quoted approx. USD 3.33m.

Although, the procurement proceedings should have been halted since there were no sufficient funds to meet the obligation as required by section 53(8) of the Public Procurement and Asset Disposal Act, 2015 and hence all bids were non responsive, the professional opinion on the combined evaluation report was issued on 15 January, 2021 recommending the award and the same submitted to the World Bank. The Management also requested for a No Objection from World Bank for procurement of the service at enhanced cost which was granted on 24 March, 2021. However, as at the time of the audit, the Independent Verification Agent was yet to be contracted as the contract negotiation was still in process.

Consequently, the issuance of the professional opinion was in breach of Section 53(8) of the Public Procurement and Asset Disposal Act, 2015 while the continued absence of

Independent Verification Agent in the Project implementation may lead to delayed independent verification of Project deliverables, delays in financial disbursement to the Service providers and delayed achievement of overall Project objectives.

1207. Delay in Project Implementation

The financing agreement reflects the Project commencement date to be 23 November, 2018 with a completion date of 30 June, 2023.The Project has therefore been on for 31 months which is equivalent to 55.4% of the approved timeline. However, there was a utilization of only Kshs.11,170,230 compared to the approved commitment of Kshs.4,700,000,000 which is equivalent to 0.2% of the budget. Further, the Management did not provide an approved work plan for audit review and it was therefore not possible to ascertain the project performance against the plan.

The low utilisation of Project funds clearly shows that the planned programmes and activities have not been implemented therefore making it very difficult to achieve Project's objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1208. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OTHER DONOR FUNDED PROJECTS IMPLEMENTED BY AGENCIES UNDER THE MINISTRY OF ENERGY

BOGORIA SILALI GEOTHERMAL PROJECT (LOAN NO.2013.66.103) - GEOTHERMAL DEVELOPMENT COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1209. Cash and Cash Equivalents

The statement of financial assets for the year ended 30 June, 2021 reflects cash and cash equivalents of Kshs.870,796,000 comprising of bank balances for four accounts held at Kenya Commercial Bank, Cooperative Bank of Kenya and NCBA Bank. However, the balance of Kshs.322,045,000 in respect of the account held at Cooperative Bank as

reflected in Note 10.9 to the financial statements differs with cash book balance of Kshs.60,948,99 resulting in a variance of Kshs.261,096,001. The difference between the two balances was not reconciled.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.870,796,000 included in the statement of financial assets for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1210. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects total budgeted expenditure of Kshs 2,079,000,000 against the actual expenditure of Kshs.1,069,898,000 resulting in an under-expenditure of Kshs.1,009,102,000 or 49% of the total budget. The under expenditure implies that planned activities during the year were not implemented thus affecting service delivery to citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1211. Commingling of Funds Due to Failure to Observe PFM Regulations

During the year under review, the Company operated a bank account opened and dedicated to the project. However, a number of payments relating to the Project were made outside the Project's bank account contrary to the Financing Agreement and Regulation 76(1) of the Public Finance Management (National Government Regulations, 2015 which requires a project account to be opened, maintained and operated in the name of the Project for which it is opened.

1212. Stalled Geothermal Development at Silali Prospective Site

The amended Loan Agreement between the German Development Bank(KfW) and the Kenya Government dated 26 August, 2020 for steam field development at Bogoria-Silali Block provided that the loan would finance drilling exploration and appraisal wells carried out by GDC mobilization and demobilization of drilling rigs for up to 20 wells in the Bogoria-Silali Block.

Paragraph 1.3 of the annual report containing project information and overall performance report indicates that geothermal development under the Project was to be carried out in three prospective areas: Korosi, Paka and Silali. However, review of the Project status showed that drilling had only been carried out in two (2) of the prospected areas namely Korosi and Paka. The Management indicated that GDC had requested for approval and authorization for geothermal development and associated projects from the County Government of Turkana vide letter referenced GDC/MD/02/3a/GMM-jat dated

27 May, 2015. Despite the Company's follow up efforts through the Principal Secretary Ministry of Energy in May, 2021, no response had been received as at the time of audit December, 2021.

Lack of approval and authorization from the County Government of Turkana has occasioned delay in commencement of drilling activities at the Silali prospected site.

1213. Failure to Prioritize Payments of Pending Bills

As disclosed in Note 11 to the financial statements, the Project had pending bills amounting to Kshs.184,801,000 as at 30 June, 2021. Examination of documents provided for audit revealed that bills amounting to Kshs.33,938,773 were brought forward from 2019/2020 financial year and ought to have been paid as a first charge in 2020/2021 financial year as required by The National Treasury Circular No 10/2020 dated 16 June, 2020. The Management indicated that invoices relating to the pending bills for supply of goods and services were received after year end and hence could not be settled in the year. However, the ageing analysis provided showed that invoices for all the pending bills had been received by the Company by 30 June, 2021.

No explanation has, therefore, been given for the failure to give priority to prior year pending bills.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1214. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MULTINATIONAL - KENYA SECTION OF INTERCONNECTION PROJECT OF ELECTRICITY GRIDS OF NILE EQUATORIAL LAKES COUNTRIES (ADF LOAN NO. 2100150022643) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1215. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1216. Expiry of the Loan Agreement

As reported in the previous years, the loan agreement between the Republic of Kenya and African Development Bank expired in 31 December, 2017. However, the project stalled at 61% level of completion after the company terminated the services of the main contractor for non-performance in April, 2016. Further, no funds have been received from the Bank since 2016. Analysis of the project cash and pending bills records as at 30 June, 2021 revealed a funding shortfall of Kshs.423,530,240. There was no evidence that the Loan Agreement had been renewed or other sources of funds had been identified. Therefore, it has not been possible to confirm whether or when the project will be completed.

1217. Outstanding Arbitration on Terminated Contract

As reported in the previous years, an arbitration case was filed on 1 April 2016 between the contractor and the Kenya Electricity Transmission Company Limited in relation to termination of contract for works which had not been finalized. On 20 July, 2020, the tribunal, which was the arbitrator on the matter, issued an award in favour of the contractor for Euro 37,365,690 equivalent Kshs.4.5 billion. However, Management is of the opinion that the decision made by the arbitrator is against public policy and made an appeal to have the award set aside in the High Court. The High court upheld the tribunal award. The Company has since appealed to the Court of Appeal.

It is therefore not possible to confirm when the matter will be resolved and how the cost in terms of legal fees that the Company will incur will be reflected in the financial statements.

My opinion is not modified in respect of this matter.

Other Matter

1218. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflect actual receipt of Kshs.18,750,000 against the budgeted amount of Kshs.500,000,000 resulting to a shortfall of Kshs.481,250,000 or 96% of the budget. Similarly, the statement reflects final payments budget of Kshs.500,000,000 against the actual expenditure of Kshs.76,469,760 resulting to under expenditure of Kshs.423,530,240 or 85% of the budget.

The under expenditure affects the planned activities and may impact negatively on service delivery to the beneficiaries.

1219. Pending Bills - Goods and Services

As reported in the previous year, the project management contracted works and services amounting to Kshs.4,196,353,894 as disclosed in Annex 2A. The amount certified as payable totalled to Kshs.3,453,000,803 out of which Kshs.3,006,460,944 was paid during the year leaving a balance of Kshs.446,539,858 as pending bills. The unpaid bills are likely to attract interest and penalties and or litigation and related legal expenses which will lead to wasteful expenditure.

1220. Long outstanding Wayleave Compensation

As reported in the previous year, the expected and certified compensation to landowners for wayleaves acquired since inception of the project amounted to Kshs.1,723,576,364 as disclosed in Annex 2B to the financial statements with an amount of Kshs.7,467,753 having been added in the year under review. Management paid Kshs.1,388,308,698 leaving an unpaid amount of Kshs.335,267,667. Management has attributed failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee land owners coupled with various court injunctions on disputed cases.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1221. Legal Costs on Termination of Contract and Loan Interest Costs

The Project stalled upon the termination of the main contractor in April, 2016. Since then, the project has accumulated legal costs amounting to Kshs.293,840,788 on a court case in which the Management lost at the Arbitration and High Court level with the two courts granting compensation to the contractor amounting to Euros 37,365,690. The Management has moved to the Court of Appeal to challenge the judgement. Further, the loan already disbursed to the project continues to attract unquantified amount of interest even though the asset that was to be acquired out of the loan and possibly enable repayments remains incomplete and unused.

Under the circumstances, there is potential loss in excess of Kshs.4.5b if the judgement is upheld at the next level and it is not possible to confirm that there is value for money obtained from the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1222. Automation of the Financial Reporting Process

Review of the financial reporting process revealed significant manual interventions. Although the subledgers and ledgers are extracted from the Intelligence Business

reporting module of the SAP system, the processing of the trial balance and financial statements is done manually on excel worksheet.

Consequently, the manual interventions may result in errors in the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1223. As required by the African Development Fund, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

MULTINATIONAL KENYA-TANZANIA POWER INTERCONNECTION PROJECT (KENYAN COMPONENT) (ADF LOAN NO.2100150032846) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1224. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1225. Long Outstanding Wayleave Compensation

As reported in the previous year, the total compensation payments owed to landowners for wayleaves acquired since inception of the Project on 5 December, 2012 amounted to Kshs.1,363,055,825 as disclosed in Annex C of the financial statements. The amount certified and payable amounted to Kshs.734,992,812 and the payments made were Kshs.500,507,996 leaving a balance of Kshs.234,484,816 unpaid as at 30 June, 2021. It was observed that continued delay in wayleave compensation hindered the timely implementation of the Project.

Management has attributed the failure to pay the amount to lack of budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee landowners and various court injunctions on disputed cases.

Since the implementation of the Project is behind schedule, any further delay in resolving these issues is likely to delay its completion and may lead to cost escalation.

1226. Delay in Project Implementation

The Project started on 14 February, 2017 with an expected completion time of April, 2020. As at 30 June, 2021, the Project was at 86% completion with over 100%-time lapse. Though Management has explained that delays were caused by delay in acquiring wayleaves, long negotiation for land compensation and protracted legal cases, it is clear that delay in project implementation could lead to cost overruns and the Project may not be able to utilize the available loan funding.

1227. Pending Bills - Goods and Services

As reported in the previous year, the total value of the works and services contracted under the Project amounted to Kshs.3,455,587,779 as disclosed on Annex 3A of the financial statements. The amount certified as payable totalled Kshs.2,561,907,217 out of which payments totalling Kshs.2,323,460,022 were made over the years leaving an unpaid balance of Kshs.138,447,196. Delay in settling pending bills may result to wasteful expenditure on interest, penalties and litigation costs.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1228. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1229. Automation of the Financial Reporting Process

Review of the financial reporting process revealed significant manual interventions. Although the subledgers and ledgers are extracted from the Intelligence Business reporting module of the SAP system, the processing of the trial balance and financial statements is done manually on excel worksheets.

Consequently, the manual interventions may result in errors in the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1230. As required by African Development Fund (ADF), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

LAST MILE CONNECTIVITY PROJECT (LOAN NO.2100150032195) – KENYA POWER AND LIGHTING COMPANY PLC

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1231. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1232. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1233. Weaknesses in Implementation of the Project

Last Mile Connectivity Project is being implemented by Kenya Power and Lighting Company PLC in accordance with the financing agreement signed between the Government of Kenya and the African Development Bank (AfDB).

Review of the project implementation revealed a number of weaknesses and governance lapses as shown below:

i) Lack of public participation by the communities targeted in the project which led to lack of project ownership by members of the public thus hampering implementation of the project.

ii) There was no evidence of engagement with key regulatory, oversight and stakeholder agencies such as the Energy and Petroleum Regulatory Authority (EPRA) and Rural Electrification and Renewable Energy Corporation (REREC), an omission which can to lead to duplication of projects.

iii) Documents that are key to procurement of services and works including feasibility studies and surveys, progress reports for projects, technical specifications, bills of quantities and architectural drawings, and environmental and social impacts assessment reports were not provided for audit review.

iv) The Company procured consultancy services for supervision and management of civil works and installation of meters at a cost of Kshs.274,380,500. However, site visits by the audit team revealed no evidence of consultants' personnel presence at the sites raising doubt as to whether they had been deployed as per the contract.

v) The project had received a total of Kshs.28,272,249,380 representing 63% of the approved loan amount of Kshs.44,797,955,760. However, documents in respect of disbursement and payments to contractors were not provided for audit verification. In addition, although the project had a projection of connecting 525,796 customers by the end of phase I and II of the project, only 213,432 had been connected representing 41% of the projection yet disbursement was at 63%.

vi) Single prepaid meters procured from a Chinese company at a cost of US$.10,073,000 (Kshs.1,086,373,050) and installed at customers premises were not vending even though they had been activated by the contractor, thereby implying that customers were purchasing tokens but the Consumer Interface Units (CIU) were not picking the tokens and thus had no access to power. Other meters had taken as long as three years without vending.

1234. Time Lag in Payment Processing

The terms of payments in the signed contracts with suppliers required payments to be processed within sixty (60) days after receiving contractors' invoices. However, review of pending bills as at 30 June, 2021 revealed significant delays in processing of payments. As a result, Kshs.89,063,531 remained outstanding for more than one year. The non-payment of the amount was occasioned by KPLC failure to adhere to regulations on contractual period provided and rejection of any changes in the contracts by the Company.

Delay in payment of contractors exposes the project to interest charges and penalties on outstanding balances. Further, failure to settle bills during the year they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year in which they form a first charge.

1235. Delay in Project Delivery

Despite the project having connected 206,839 customers, which is 92% of the total customers targeted of 224,952, there was slow progress in achieving the set targets under Lot 2 and 4 whose achievements are outlined below:

Lot	Targeted Customers	Connected Customers	Outstanding Connections	% of Connectivity
Lot 2	39,287	23,898	15,389	61
Lot 4	22,015	13,502	8,513	61

The Management attributed the slow progress in achieving set targets to a dispute with the contractor who under-performed on the contract. Kenya Power and Lighting Company

PLC made an attempt to terminate the contract but the contractor went to court to challenge the termination, a case whose decision was made on 28 November, 2019, allowing the contract to be terminated.

The Management did not provide documentation to support termination of the project and neither was there evidence of continuous implementation of the project by the contractor.

There is a high chance that set outcomes/targets may not be achieved. The donor has, however, extended the closing date of the financing agreement to December, 2022 to allow finalization of the pending works.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1236. As required by the African Development Bank (AfDB) I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

LAST MILE CONNECTIVITY PROJECT II (LOAN NO.2000200000152) – KENYA POWER AND LIGHTING COMPANY PLC

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1237. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1238. Pending Bills

Note 11.1 to the financial statements reflects pending bills of Kshs.517,952,000 as at 30 June, 2021. Management has not provided explanations for non-payment of the bills. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment. Failure to settle bills during the year to which they relate distorts the financial statements, and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1239. Large Time Lag in Processing of Tax Exemption Certificates for Contractors

Contractors incurred retention/storage/Custom Bond 1-A fees due to delays by Kenya Power and Lighting Company PLC (KPLC) in processing tax exemption certificates on time. As a result, the contractors are demanding reimbursement of approximately Kshs.18,762,706 from the Kenya Power and Lighting Company PLC (KPLC) as extra costs incurred in respect of LOT1 and 5 as analyzed below;

Lot Number	Amount USD	Exchange Rate (1 USD = Kshs.100)	Kshs.
Lot 1	-		4,011,506
Lot 5	147,512	100	14,751,200
Total			**18,762,706**

This might lead to additional project costs that were not included in the budget.

1240. Non-Compliance with Reports Submission Set Timelines

Analysis of reports submission for 2020/2021 revealed that the project did not comply with report submission timelines as per Section 7.01 and Section 7.02 of Article VII of Subsidiary Grant Agreement dated 4 April, 2017.

Quarter	Due Date	Submission Date	Days Late
July-September, 2020	15/10/2020	21/10/2020	6
October - December, 2020	15/01/2021	20/01/2021	5
April - June, 2021	5/07/2021	16/07/2021	1

The Project is therefore in breach of the terms of the financing agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1241. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1242. As required by the African Development Bank (ADB) I report based on my audit that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further,

adequate accounting records have been kept by the Project, and the Project's financial statements are in agreement with the accounting records and returns.

EASTERN ELECTRICITY HIGHWAY PROJECT (IDA CREDIT NO. 5148-KE; AFD LOAN NO: CKE 1030 01B AND ADF LOAN NO: 2100150027845) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1243. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1244. Pending Bills

Note 12:1 and 12.2 to the Financial Statements reflect pending bills amounting to Kshs.383,308,720 as at 30 June, 2021 (2020: Kshs.2,640,343,389). During the year under review, the project management made payments amounting to Kshs.5,611,733,914 while accumulating bills amounting to Kshs.3,354,699,245. Management has not explained why the bills were not settled during the year they were incurred. The Project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

Failure to settle bills during the year they were incurred distorts the financial statements and adversely affects the budget provision for the subsequent year as they form the first charge.

1245. Undrawn Fund Balance

As reported previously, the project had an approved budget of US$ 441,000,000, AU 75,000,000, EUR 54,556,082 and counterpart funding by the Government of Kenya of Kshs.8,585,000,000, all equivalent to Kshs.74,208,027,626. The Project was envisaged to be completed by 30 September, 2020. However, as at 30 June, 2021 there was an undrawn balance of Kshs.27,463,658,564 or approximately 37% of the project funding with total pending bills of Kshs.383,308,720. It is likely that the project funding of Kshs.27,463,658,565 which had not been drawn may not be absorbed by the time of expiry of the funding period.

Consequently, the significant unutilized funding balance may result in funds being locked in the current project whereas these funds could have been utilized on other projects to deliver services to Kenyans.

1246. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflected actual receipts of Kshs.6,616.824,364 against final budget of Kshs.6,696,000,000 resulting to a shortfall of Kshs.79,175,636. Further, the actual expenditure for the year amounting to Kshs.5,848,436,687 against the final budget expenditure of Kshs.6,696,000,000 resulting to an under absorption of Kshs.847,563,313. Management did not provide explanation regarding the under absorption.

1247. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired since inception amounted to Kshs.2,615,896,273 out of which an amount of Kshs.2,387,141,878 was certified as payable. The project management had so far paid an amount of Kshs.2,572,091,186 leaving a balance of Kshs.43,805,087 unpaid. The Management has attributed the failure to pay the amount to lack of budgetary allocation from National Treasury and lengthy land valuation negotiations due to absentee landowners and various court injunctions on disputed cases.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1248. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1249. Automation of the Financial Reporting Process

Review of the financial reporting process revealed significant manual interventions. Although the subledgers and ledgers are extracted from the Intelligence Business reporting module of the SAP system, the processing of the trial balance and financial statements is done manually on excel worksheet.

Consequently, the manual interventions may result in errors in the financial statements.

RURAL ELECTRIFICATION IN FIVE REGIONS PROJECT (CR.NO.11/597KE, 1407PKE) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1250. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1251. Low Absorption of Project Funds

Note 1.9 on funding summary indicates that both the Donor and the Government of the Republic of Kenya had made commitments amounting to Kshs.5,856,180,000 (USD 57,000,000). The actual amount received during the Project's period totalled to Kshs.1,855,991,983 (USD 18,151,972) equivalent to 31.7% of the funding, leaving a balance of Kshs.4,000,188,017 (USD 38,848,028) undrawn, yet the project had been ongoing for seven years and nine months leaving a variance of implementation period of six months only. However, with the Project's closing date of 31 December 2021, the credit may lapse without being fully utilized and the objectives and planned deliverables may not be realized.

My opinion in respect of this matter is not modified.

Other Matter

1252. Delayed Project Implementation

Review of the financial records indicated that the Government of Kenya entered into financing agreement with four (4) financiers for implementation of rural electrification projects in five (5) regions at a total cost of Kshs.5,856,180,000. According to the agreements, the projects were to commence in September, 2013 with an expected completion date of December, 2021. Review of the statement of receipts and payments indicates that an amount of Kshs.1,855,991,983 had been incurred on the projects, which amounts to 31.7% of the total funding. However, out of the project timelines of 99 months, 93 months which is equivalent to 94% of the time, had lapsed. The Management did not explain how they intend to fast track the implementation of the projects considering the fact that the financing agreements will lapse on 31 December, 2021.

Consequently, delay in project implementation has affected the project's planned activities and therefore impacting negatively on service delivery to the public.

1253. Pending Bills

Annex 3A to the financial statements reflects pending bills totalling to Kshs.795,366,464 as at 30 June, 2021. The Management did not explain reasons for non-settlement of the bills and therefore the project is at the risk of incurring significant interest costs and penalties with the continued delay in payment. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1254. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1255. There were no material issues relating to effectiveness of internal contrils, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1256. As required by the Arab Bank for Economic Development in Africa (BADEA), Saudi Fund for Development and The Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept by the Project and the Project's financial statements are in agreement with the accounting records and returns.

OLKARIA-LESSOS-KISUMU TRANSMISSION LINES CONSTRUCTION PROJECT (JICA LOAN NO. KE-P28) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1257. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1258. Budgetary Control and Performance

The Project budgeted to receive a total of Kshs.5,067,559,158 as transfer from Government entities and loans from external development partners but received a total of Kshs.4,220,613,526 resulting to a shortfall of Kshs.846,945,632 or 16.7%. Similarly, the project budgeted to spend Kshs.5,067,559,158 on purchase of goods and services and acquisition of assets but spent Kshs.4,525,875,565 resulting to under absorption of Kshs.541,683,593 or 11%.

The reported under funding and under absorption of the project budget may have resulted in delayed implementation of planned project activities and achievement of the set objectives.

1259. Pending Bills

As disclosed in Annex 3A to the financial statements, the project management contracted works and services amounting to Kshs.12,707,860,870. The amount certified payable as at 30 June, 2021 amounted to Kshs.9,939,257,070 out of which Kshs.9,020,007,591 was paid leaving a balance of Kshs.919,249,479 as pending bills. The unpaid bills are likely to result to interest, penalties or litigation and related legal expenses, which are wasteful expenditure

1260. Long Outstanding Wayleave Compensation

As disclosed in Annex 3C to the financial statements, the expected compensation to landowners amounted to Kshs.5,129,890 for wayleave acquired since inception of the project in February 2016. The amount certified amounted to Kshs.2,993,949,151 and the amount paid to date amounted to Kshs,2,961,213,785 leaving a balance of Kshs.32,735,366. Management attributed failure to pay the amount to lack of budgetary allocation from the National Treasury and lengthy land valuation negotiations due to absentee landlords and various court injunctions.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1261. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1262. Automation of the Financial Reporting Process

Review of the financial reporting process for the project revealed that there is significant manual intervention in preparation of financial reports. Whereas the sub-ledgers are extracted from SAP system through the Business Intelligent Reporting Module, the processing of trial balance and financial statements is done manually on excel.

Consequently, the manual intervention may result in errors in the Project financial statements

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1263. As required by the Japan International Cooperation Agency (JICA), I report based on the audit that each expenditure listed under the statement of expenditure (SOE) is appropriate and conforms to the objectives of the project under the loan agreement and complies the provisions of the agreement, that the Project expenditure does not include non-eligible items. Further, the Project's statement of expenditure is in agreement with the underlying records and returns and the statement of expenditure is eligible for JICA financing under the loan agreement and its supported by sufficient and appropriate supporting documents under the loan agreement.

220KV AND 132KV TRANSMISSION LINES AND SUBSTATIONS (EXIM BANK OF INDIA FUNDED) PROJECTS - KENYA ELECTRICITY TRANSMISSION COMPANY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1264. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1265. Liquidation of Contractor

As reported in prior years, the contractor of Lot 1A 220KV Turkwel-Ortum-Kitale substations was contracted on 16 April, 2013 at a contract sum of US$19,972,680 that was later revised to US$18,100,120. As at the time of the contract termination, the

contractor had achieved overall completion status of 73%. The contractor was put into liquidation in July, 2018 by the courts in India resulting in challenges in completing the project due to lack of financing. According to Management, another contractor is in process of being identified to take over the remaining works.

Consequently, the project may not be completed on time and may also experience cost overruns.

My opinion is not qualified with respect to this matter.

Other Matter

1266. Delay in Project Completion

The Lot 1A -220KV Substation at Turkwel, Ortum and Kitale and Lot 3A- 132/33KV Machakos, Konza-Kajiado - Namanga Transmission line reported 73% and 82% completion rate respectively, by 30 June, 2021. Lot 1A of the project is currently suspended and significant works remain undone. Further, construction works are yet to commence at the main strategic substation in Turkwel and this may result in underutilization of the project. In addition, Lot 3A was expected to be completed by 30 December, 2019, but as at 30 June, 2021 the completion rate was 82% .

In the circumstances, the project deliverables may not be realized and hence delay delivery of benefits to the intended beneficiaries.

1267. Long Outstanding Wayleave Compensation

According to the financial records, the expected compensation to land owners for wayleave acquired since inception of the project amounted to Kshs.1,240,413,982 out of which Kshs.1,027,453,943 had been paid leaving a balance of Kshs.171,030,249 unpaid. Management attributed failure to pay the amount due to lack of budgetary allocation from The National Treasury and lengthy land negotiations between the land owners, the Kenya Electricity Transmission Company and the County Government of Kajiado.

1268. Budgetary Control and Performance

The statement of comparison of budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts of Kshs.573,404,460 against the budgeted receipts of Kshs.1,711,204,897 resulting in a shortfall of Kshs.1,137,800,437 or 66% of the final receipt budget. Further, the actual expenditure for the year amounted to Kshs.750,055,134 against the budgeted expenditure of Kshs.1,711,204,897 resulting to under absorption of Kshs.901,013,097. Management attributed this to late disbursement of funds from The National Treasury and reduced proceeds from borrowing due to termination of contractual works.

1269. Pending Bills-Goods and Services

As disclosed under Note 12:1 to the financial statements, the Project had pending accounts payables totalling to Kshs.543,475,069 (2019/2020-Kshs.270,044,247) as at

30 June, 2021. During the year under review, the project management made payments amounting to Kshs.75,279,460 while accumulating bills amounting to Kshs.531,618,176. Management did not explain why the bills were not paid during the year they were incurred. The project is at risk of incurring significant interest costs and penalties with the continued delay in payment.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1270. Purchase of Goods and Services

The statement of receipts and payments reflects purchase of goods and services of Kshs.147,031,687 as disclosed under Note 11.3 to the financial statements.

According to the records provided for audit review, the Project stalled in 2018 after the contractor went under liquidation and therefore operating expenditure should no longer be in the Project as there were no ongoing activities.

Further, according to the financial statements, the total pending bills as at 30 June, 2020 were Kshs.87,136,353 which increased to Kshs.543,475,069 in the year under review. Included in the pending bills balance is an amount of Kshs.147,031,687 which includes professional fees of Kshs.77,697,166, other operating expenses of Kshs.60,542,212 and site travel of Kshs.8,670,936 which were not part of the pending bills at the beginning of the year. Management has not explained how the expenditure arose.

In the circumstances, the propriety and validity of the expenditure of Kshs.147,031,687 in respect purchase of goods and services as at 30 June, 2021 could not be confirmed.

1271. Transfers to Olkari – Lessos - Kisumu Transmission Line

The statement of receipts and payments together with Note 11.7 of the financial statements includes an amount of Kshs.128,315,126 that is indicated to have been transferred to Olkaria Lessos – Kisumu transmission construction project. However, the financial statements for Olkaria-Lesos – Kisumu Transmission Line Project does not include a receipt from this project.

Consequently, the accuracy, completeness and validity of the payments amounting to Kshs.128,315,126 for the year ended 30 June, 2021 could not be confirmed.

1272. Purchase of Transmission Equipment

Note 11.4 to the financial statements reflects payment for transmission equipment amounting to Kshs.322,417,866 (2020 – Kshs.178,849,360). However, the contractor stopped working on the project in July, 2018 after they went into liquidation and the contract was terminated. The Management has not provided details of the expenditure on transmission equipment.

Under the circumstances, the propriety and validity of expenditure of Kshs.322,417,866 on transmission equipment could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1273. Financial Reporting

As reported in the previous year, review of the financial reporting process of the project revealed significant manual interventions. Although the sub-ledgers are extracted from SAP system through the business Intelligence Reporting Module, the compilation of the Trial Balance and financial statements is done manually on excel worksheet.

Consequently, the manual intervention exposes the project reporting to risk of misstatements.

ETHIOPIA – KENYA ELECTRICITY HIGHWAY PROJECT (ADB LOAN NO. 2000200003502 – MARIAKANI SUBSTATION PROJECT ID NO: P-ZI-FA0-162) - KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1274. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1275. Financial Reporting Period

The Project's financial statements are indicated to cover a period of twenty-four months even though the implementation agreement was signed on 18 August, 2020 which implies the implementation period was for a duration of ten and a half months. Therefore, the financial statements period is incorrect.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1276. Project Commitment Without Funding

According to the Project's work plan attached to the subsidiary agreement, procurement in respect of the project was done on 25 January, 2016 which is also indicated as the

contract commencement date. Further, review of the financing agreement and implementation agreement indicates that they were signed on 19 June, 2019 and 18 August, 2020 respectively. It is therefore apparent that the procurement for the Project was done way before the financing agreement was signed which is contrary to Section 45(3)(a) of the Public Procurement and Asset Disposal Act, 2015. The section requires that all procurement processes be within the approved budget of the procuring entity and be planned by the procuring entity concerned through an annual procurement plan.

Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1277. Financial Reporting

Review of the financial reporting process of the Project revealed significant manual interventions. Although the subledgers are extracted from SAP system through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements was done manually on excel worksheets.

Consequently, the manual intervention could result in errors in the preparation of financial statements.

KENYA ELECTRICITY MODERNISATION PROJECT (IDA CREDIT 5587-KE) – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1278. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1279. Delay in Project Implementation

As previously reported in 2019/2020, the KEMP project commenced on 29 June, 2015 with an extended completion date of 31 December, 2022. However, as at 30 June, 2021 the executed activities were valued at Kshs.150,166,433 or 13.49% of the total project funding of Kshs.1,113,000,000. This is despite the fact that approximately 93% of the project duration had elapsed.

In the circumstances, the Project's objectives are unlikely to be achieved and hence affect the benefits that should have accrued to the citizenry.

1280. Low Budget Absorption

During the financial year under review, the project received a total of Kshs.69,000,000 against a budget of Kshs.350,000,000, representing 20% of the project budget for the year. Similarly, a total of Kshs.71,925,425 was paid against the approved budget of Kshs.350,000,000. The under-funding of the project resulted to poor absorption of project's budget.

Consequently, low absorption of project's budget is likely to result in a delay in the project implementation.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1281. Non-Adherence to the Provisions of the Loan Agreement

Article IV paragraph 4.2 of the project's subsidiary grant agreement identifies six geographical locations in which the project components would be implemented. Review of the activities relating to the project revealed that Management had increased the project's geographical locations from the original six to ten. No documentation was provided to support the change of scope of the project contrary to the provisions of Article XIII Paragraph 13.02 of the subsidiary grant agreement.

Additionally, two projects namely: Kadaina Island in Kilifi County and Chardende in Tana river county and which had been included in the subsidiary grant agreement had not been included in tendering process.

In the circumstance, the scope of the project may have been varied without due consideration to the provisions of Article XIII Paragraph 13.02 of the Subsidiary Grant Agreement and the project funding may not be sufficient as a result of scope expansion (additional project sites).

1282. Delay in Signing of Operation and Maintenance Contract

Review of the financial records revealed that the contract for operation and maintenance was awarded to a contractor for a contract price of USD4,563,340.8 in respect of foreign currency component and Kshs.34,421,684 for the local currency component on 10 July, 2019. According to the tender documents provided, the contract was to be signed within 120 days from the bid date. However, as at the time of audit in November, 2021, the contract had not been signed. The management has not explained the reasons for not signing the contract.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1283. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NAIROBI RING TRANSMISSION LINE PROJECT (AFD CREDIT NO. CKE6012.01, AFD CREDIT NO. CKE1068 01, AFD CREDIT NO. CKE1030.01.B, EIB CREDIT NO.25.367/KE AND GOK) – KENYA ELECTRICITY TRANSMISSION COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1284. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1285. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for the wayleave acquired since inception of the project in October, 2012, amounted to Kshs.2,558,971,379 as disclosed in Annex 2B to the financial statements with and amount of Kshs.2,891,791 acquired under review. The amount certified as payable amounted to Kshs.2,558,971,379 out of which Kshs.2,399,561,269 was paid leaving a balance of Kshs.159,410,110. Management has attributed failure to pay the amount due to lack of budgetary allocation from National Treasury and lengthy land valuation negotiations due to absentee land owners and various court injections on disputed court injections on disputed cases.

1286. Delay in Project Deliverables

Review of project deliverables revealed that the project was behind schedule with respect to the completion of the Kimuka sub-station being at 97% and Malaa sub-station being at 79%. This was despite having the completion date reviewed twice from May, 2020 to June, 2021.

Consequently, delays in completion of the Project may result in escalation of projected costs or expiry and withdrawal of funding by project financiers.

1287. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflect actual receipt of Kshs.3,158,479,998 against the budgeted amount of Kshs.3,100,000,000 resulting to an excess receipts of Kshs.58,479,998 or 102% of the budget. Similarly, the statement reflects final payments budget of Kshs.3,100,000,000 against the actual expenditure of Kshs.707,102,009 equivalent to 23% of the budget resulting to under expenditure of Kshs.2,392,897,991 or 77% of the budget.

The excess receipts of Kshs.58,479,998 were not explained while the under expenditure of 77% of the budget indicates that some of the planned activities were not implemented and may impact negatively on service delivery for the beneficiaries.

1288. Pending Bills-Goods and Services

As reported in the previous year, the project management contracted works and services amounting to Kshs.11,878,582,124 as disclosed in Annex 2A. The amount certified as payable amounted to Kshs.9,957,388,960 out of which Kshs.9,763,055,030 was paid during the year leaving a balance of Kshs.194,333,931 as pending bills. The unpaid bills are likely to attract interest and penalties and or litigation and related legal expenses which are wasteful expenditure.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1289. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1290. Automation of the Financial Reporting Process

It was observed during the audit that financial reporting process continued to have significant manual intervention. Whilst the subledgers and ledgers are extracted from Intelligence Business reporting module, the completion of the trial balance and financial statements is done manually on excel spread sheet. The manual intervention exposes the project reporting to a greater risk of errors.

POWER TRANSMISSION SYSTEM IMPROVEMENT PROJECT (ADF LOAN NO.2100150023752) - KENYA ELECTRICITY TRANSMISSION COMPANY LTD

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1291. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1292. Delay in Project Implementation

As reported in the previous year, review of completion status of the Project revealed delay in completion as detailed below:-

Line	Foundations	Erections	Stringing
Olkaria – Narok	100%	78.63%	44.55%
Lessos – Kabarnet	100%	84.48%	85.72%
Nanyuki – Rumuruti	100%	100%	66%
Kitui-Wote	50.76%	30.86%	11.03%

The Project whose completion date was 30 June, 2019 was rescheduled to April, 2020, following the engagement of another contractor for the remaining works on the project which were significant. Further it was observed that the Project's funding from the African Development Bank (AfDB) was terminated when the main contractor was declared insolvent in his home country.

Consequently, this Project may not be completed within schedule, resulting in delayed provision of expected services to the stakeholders.

1293. Budgetary Control and Performance

The statement of comparative of budget and actual amounts for the year ended 30 June, 2021 reflects actual receipts from transfer from Government entities of Kshs.109,375,000 against the budgeted receipts of Kshs.135,000,000 resulting in a shortfall of Kshs.25,625,000. Further, actual expenditure for the year amounted to Kshs.561,952,568 against the budgeted amount of Kshs.135,000,000 resulting to excess expenditure amounting to Kshs.426,952,568 for which Management attributed to utilization of brought forward funds from the previous year and slow implementation of the work plan in the previous year but no authority to utilize the brought forward amounts was provided for audit review.

1294. Pending Bills – Goods and Services

Note 12.1 and 12.2 to the financial statements reflect pending bills amounting to Kshs.294,923,200 for supply of goods and services and Kshs.174,687,343 for wayleave compensations respectively as at 30 June, 2021. During the year under audit, the Project Management made payments amounting to Kshs.477,661,777 while accumulating bills amounting to Kshs.235,718,269. The data on the amount of accumulated supplies in respect of supply of services as at 30 June, 2021 does not agree with the report as at 30 June, 2020 both for the original amounts contracted and accumulated payments to date. Management has not explained why the bills were not settled during the year in which they occurred. The project is at a risk of incurring significant interest on unpaid bills together with penalties thereon.

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

1295. Long Outstanding Wayleave Compensation

As reported in the previous year, the expected compensation to landowners for wayleaves acquired for the project amounted to Kshs.2,276,292,723 as disclosed in Annex 2B of the financial statements. The amount certified as payable amounted to Kshs.2,276,292,723 out of which Kshs.2,101,605,381 was paid leaving a balance of Kshs.174,687,343 as unpaid. Management attributed failure to pay the amount due to budgetary allocation from The National Treasury and lengthy land valuation negotiations due to absentee owners and various court injunctions on the disputed cases.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1296. There were no material issues relating to lawfulness and effectivess in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1297. Financial Reporting

Review of financial reporting process revealed significant manual interventions. Although the ledgers and sub-ledgers are extracted from SAP through the Business Intelligence Reporting Module, the processing of the trial balance and financial statements is done manually on excel spread sheets.

Consequently, the manual intervention may result to errors in the Project's financial statements.

MENENGAI GEOTHERMAL PROJECT - GEOTHERMAL DEVELOPMENT COMPANY LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1298. Cash and Cash Equivalents

The statement of financial assets as at 30 June, 2021 reflects cash and cash equivalents amounting to Kshs.368,370,000 comprising bank balances for three (3) foreign currency accounts, two (2) local currency accounts and one guarantee deposit (escrow) account all held at Cooperative Bank of Kenya. The balance includes Kshs.86,723,643 in respect of an escrow account whose cash book balance differs with the bank balance amounting to Kshs.134,809,533 resulting in an unexplained and unreconciled variance of Kshs.48,085,890. According to Note 10.12 to the financial statements, the escrow account balance is made up of an account balance of Kshs.139,849,000 and adjusted for interest of Kshs.53,125,000. However, the reasons for adjusting the account balance for interest has not been documented.

Consequently, the accuracy of the cash and cash equivalents balance amounting to Kshs.368,370,000 reflected in the statement of financial assets as at 30 June, 2021 could not be confirmed.

Other Matter

1299. Undisbursed Counterpart Funding

The statement of comparison of budgeted and actual amount for the year under review reflects a receipts budget of Kshs.2,432,000,000 under transfers from Government entities representing GOK counterpart funding. However, only Kshs.2,208,774,000 was realized. According to the Project management, an exchequer requisition of Kshs.260,000,000 was made to The National Treasury through the Ministry of Energy in March 2021, but the amount remained undisbursed by close of the financial year. This, therefore, meant that the planned activities could not be implemented, which in turn impacted negatively on the project workplan.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1300. Commingling of Funds

Payment documents provided for audit review revealed that Kshs.6,743,335 relating to Bogoria Silali Geothermal Project expenditure was paid through Menengai Geothermal Project account. The Management explained that payment from the said project account was occasioned by delays in receiving disbursement from the financing partner, KfW Development Bank, and the Company had to support various drilling operations. However, this was contrary to Regulation 76(1) of the Public Finance Management (National Government), 2015 which requires a project account to be opened, maintained and operated solely for the project for which it is opened.

1301. Delay in Power Plants Development Under Menengai Phase I Project

A Project Implementation and Steam Supply Agreements (PISSA) signed with three (3) Independent Power Producers (IPPs) on 1 November, 2014 for development of a 35 MW geothermal power generating plant in Menengai Geothermal Project area provided that GDC shall complete, test and commission the steam gathering system while the three IPPs upon getting partial risk guarantee would finalize the signing of the power purchase agreement and get a letter of support from the Government. The finalization of the IPPs conditions would make lenders provide the required funds for the Project.

A review of implementation status of the IPPs and GDC deliverables as at 30 June, 2021 revealed as follows: -

i) Quantum Power East Africa (QPEA) was yet to obtain a partial risk guarantee from the National Treasury. The request was made on 9 October, 2019 but no response had been received by 30 June, 2021.

ii) Sosian Menengai Geothermal Power Limited (SMGPL) was awaiting the Kenya Power and Lighting Company PLC to finalize the signing of the Power Purchase Agreement (PPA), with the same still pending as at 30 June, 2021.

iii) Orpower Twenty-Two Limited was to yet get a letter of support from the Government of Kenya as an application made on 24 April, 2019 had not been responded to.

iv) GDC on the other hand, had sunk 52 well, 21 which are producing; and completed, tested, and commissioned the steam gathering systems whereas the IPPs were yet to fulfil any of their obligations.

Failure of the parties to fulfil their contractual obligations has led to the delay in the Project implementation by over seven (7) years, risking the investment made by GDC of Kshs.69,055,342,000 on steam wells and associated infrastructure. Further, it was not certain when the Project would be completed since the effective start date was indicated to be the date the IPPs takes over the sites. In addition, the amount spent continue to attract significant interest charges with no income generation.

The Management indicated that M/s Sosian Menengai Geothermal Power Limited's Power Purchase Agreement became effective on 23 September, 2021 and that it was mobilizing funds to start the construction. However, no works had started so far and the status of the other two IPPs remained the same.

1302. Long Outstanding Pending Bills

Note 11.1 to the financial statements reflect pending bills totalling Kshs.461,177,000. A review of the pending bills and their respective age analysis revealed bills totalling Kshs.132,286,818 outstanding from 2019/2020 and earlier years. There has however, been payments for current year supplies before settling the pending bills, implying that they did not form the first charge during the financial year 2020/2021 as directed by the National Treasury in circular No.10/2020 issued on 16 June, 2020.

No explanation has been given for the failure to give priority to prior year pending bills which reflects unfairness towards the Project's suppliers.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1303. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1304. As required by African Development Bank and Agence Francaise De Development (AFD), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further,adequate accounting records have been kept by the Project, and the Project's financial statements are in agreement with the accounting records and returns.

KENYA DEVELOPMENT OF SOLAR POWER PLANT IN GARISSA PROJECT (GCL NO.2015(10) – RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1305. Lack of Land Ownership Documents for the Solar Power Plant

Review of the financial records confirmed that an amount of Kshs.12,692,273,348 was incurred on implementation of a 50 MW Solar project in the financial year 2019/2020. However, information provided for audit review confirmed that the land on which the

Project is located is being claimed by Raya Community Trust Help Group. It was also confirmed that the Group has already instituted a legal suit against the Corporation seeking compensation for the 220 acres of land on which the Project is located.

Management explained that compensation to the affected community was to be done through the County Government of Garissa. The compensation payment through the County Government has been rejected by the Raya Community who are seeking to have the compensation paid directly to them. Further, the amount claimed by the Raya Community has not been quantified.

In the circumstances, the ownership of the Solar Power Plant valued at Kshs.12,692,273,348 could not be determined since it is located on a disputed parcel of land.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1306. Non-Compliance with Public Finance Management (National Government) Regulations, 2015

The statement of comparison of budget and actual amounts reflects an expenditure of Kshs.693,352,591 incurred during the financial year but which was not supported by any budgetary allocation for the period. No evidence was provided to show that the expenditure incurred was budgeted for in line with the provisions of Regulation 76(3) of the Public Finance Management (National Government) Regulations of 2015.

Therefore, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1307. There were no material issues relating to effectiveness of internal controls, risk management and governance.

KENYA OFF-GRID SOLAR ACCESS PROJECT FOR UNDERSERVED COUNTIES (IDA CR.NO.6135-KE) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1308. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1309. Project Performance

The Project Financing Agreement and the supporting documentation indicated that Kenya Off-Grid Solar Access Project for the underserved counties had a total funding of Kshs.3,500,000,000 and was to be implemented within 5 years from July, 2017 to 30 June, 2022. As at the end of the financial year 2020/2021, the total amount drawn under the financing agreement was Kshs.110,868,972 but the amount remained unspent with no expenditure incurred on the project during the financial year. The amount drawn up to 30 June, 2021 represents 3.17% of the total funds committed for the project under the financing agreement while the project timeline was forty six months out of seventy months representing sixty six (66%) of the total time.

Further, the Management did not provide an approved work plan for audit review. In the circumstance, it was not possible to ascertain/determine the project performance against the work plan.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1310. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1311. There were no material issues relating to lawfulness and effectiveness in use of public resources.

KENYA ELECTRICITY EXPANSION PROJECT (OFID CR.NO.1487P) - RURAL ELECTRIFICATION AND RENEWABLE ENERGY CORPORATION

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1312. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1313. Delay in Implementation of Project

Review of the financing agreement and other relevant documentation revealed that the project had a financing commitment of Kshs.1,500,000,000. The statement of receipts and payments as at 30 June, 2021 indicates that the project had receipts of Kshs.263,691,632, and expenditure of the same amount which is 18% of the total amount financed. The project commenced on October, 2017 with an end date of December, 2021.

Additionally, in the financial year under review, the project had a budget of Kshs.750,000,000 but only 263,267,861 had been absorbed by the end of the year, representing 35% of the budget. Continued low absorption of funds will adversely affect the achievement of the Project's objectives and hence delay the benefits of the project to the citizenry.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1314. Delayed Commencement of the Project

The loan agreement for financing the Project was signed on 25 September, 2011. It was however noted that there was no activity for the project until the current financial year when the procurements were made with the implementor contracting for services on 25 and 26 June, 2020 which was nine (9) years after signing the financing agreement. Further the financing agreement provided for review indicated that the loan repayments were to commence on October, 2016 which is more than four (4) years before the actual first drawdown.

In addition, the following documents were not provided for audit review in support of the continued implementation of the project:

i. The amended loan agreement to allow for the drawdown on the loan and or implement of the project nine years down the line.

ii. The approved work plan and budget for the current financial year.

iii. The approved rescheduling of loan repayments as a result of the late drawdown.

In the circumstances, delay in implementation of the project is likely to adversely affect realisation of the project's objectives.

1315. Advance Payment to Contractors

Review of the financial records revealed that the project made advance payments to contractors amounting to Kshs.263,691,632 which were covered by payment guarantees issued by commercial banks that had a cover period upto 25 June, 2021 or interim works

certificate indicating that 90% of the accepted contract sum had been certified for payment, whichever is earlier. However, as at 30 June, 2021, the guarantee had expired and there was no evidence of ninety percent (90%) certification of the work or extension of the guarantee.

Further, clause 2.2 of the contract with the implementing contractors indicates that the Corporation can give a credit guarantee to the contractor's bank in favour of the contractor up to 80% of the contract sum, a clause that if effected, could greatly increase the risk exposure for the Corporation.

1316. Incomplete Coverage of the Defined Scope as per the Loan Agreement

According to Paragraph (c) of Annex 1 to the amendment of OFID loan agreement No.1487P for Kenya Electricity Expansion Project, dated 17 October, 2017, the scope of the project includes distribution, expansion and upgrading of the distribution network as well as connection of 300,000 new customers. Consultancy services for design and supervision were also included under this component. Further, additional scope included expansion of the 33kV distribution lines to facilitate connection to electrified public facilities, households and market centers in the region.

Review of the financial records indicate that the Corporation had tendered for establishment of mini-grids in Mandera, Turkana, Laikipia and Samburu at a total cost of Kshs.1,314,426,487 out of the total loan of Kshs.1,500,000,000 and which covered 38 markets against the 50 provided for in the loan agreement. The Management did not explain how the remaining 12 markets, and mini grids in Wajir and Marsabit counties would be covered. In addition, no evidence was provided to confirm that consultancy services for design and supervision were procured.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1317. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR LIVESTOCK – VOTE 1162

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1318. Specialized Materials and Supplies

The statement of receipts and payments reflects an expenditure of Kshs.938,392,958 under use of goods and services, which as disclosed in Note 5 to the financial statements, includes an amount of Kshs.270,387,574 in respect of specialized materials and supplies. However, the ledger reflects an amount of Kshs.271,219,567 as at 30 June, 2021, resulting in an unexplained variance of Kshs.831,993.

Consequently, the accuracy and completeness of the expenditure of Kshs.270,387,574 reflected in the financial statements for the year ended 30 June, 2021 could not be confirmed.

1319. Prior Year Adjustments

The statement of assets and liabilities reflects prior year adjustments amounting to Kshs.100,259,066. However, Note 13 to the financial statements reflects adjustments during the year relating to prior periods of Kshs.120,476,600 resulting in an unexplained and unreconciled variance of Kshs.20,217,534.

Consequently, the accuracy, validity and fair presentation of the prior year adjustments in the financial statements could not be confirmed.

1320. Unsupported Proceeds from Sales of Assets

The statement of receipts and payments reflects an amount of Kshs.18,672,004 in respect of proceeds from sale of assets. The amount was derived from collections from sale of certified seeds, breeding stocks, sale of inventories and commodities from across the country captured as Appropriations-In-Aid (AIA) by the Sub-County Accountants, and recorded in the miscellaneous receipts for onward surrender to the State Department for Livestock.

The State Department for Livestock, however, did not maintain at the Headquarters any documentation in support of the proceeds from sale of assets.

In the circumstances, it was not possible to confirm the completeness and accuracy of the proceeds from sale of assets of Kshs.18,672,004 for the year ended 30 June, 2021.

1321. Non-Accounting for Revenue from Institutes

The statement of receipts and payments reflects total receipts of Kshs.4,359,093,493 for the year ended 30 June, 2021. Review of bank statements and cash book revealed that revenue had been collected from Animal Health and Industry Training Institute - Ndomba,

Meat Training Institute - Machakos, Animal Health and Industry Training Institute - Nyahururu, and Dairy Training Institute - Naivasha of Kshs.22,197,835, Kshs.2,120,450, Kshs.4,605,604 and Kshs.14,803,111, respectively.

However, these fees and levies amounting to Kshs.43,727,000 collected at the four training institutes operated by the State Department for Livestock were apparently spent at the source and were not included in the receipts disclosed in the financial statements for the year ended 30 June, 2021.

Consequently, the accuracy and completeness of the total receipts of Kshs.4,359,093,493 reflected in the financial statements for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1322. Pending Bills

Disclosed in Annex 1 to the financial statements are pending bills relating to the financial year 2020/2021 of Kshs.341,516,639 and 2019/2020 of Kshs.88,588,014 all totalling Kshs.430,104,653 as at 30 June, 2021.These pending bills were not settled in the year under review but were carried forward to 2021/2022 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provisions to which they have to be charged.

Further, included in the pending bills of Kshs.88,588,014 for 2019/2020 are bills amounting to Kshs.37,347,338 which had been validated and request for funding made to The National Treasury on 9 November, 2020. The funds were received on 27 January, 2021 according to the verified bank statement. However, these bills were still pending as at 30 June, 2021. No satisfactory explanation was provided for failure to settle these bills.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1323. Full Payment for Incomplete Works - Marimanti Sheep and Goat Farm

Disclosed in Note 8 to the financial statements under acquisition of assets is an expenditure of Kshs.764,591,161 in respect of construction and civil works. Included in the expenditure is an amount of Kshs.19,848,632 for the construction of a hatchery and a poultry house at Marimanti sheep and goat station in Tharaka Nithi County whose contract had been awarded at a sum of Kshs.19,848,632.

The first payment certificate of Kshs. 19,848,632 and a certificate of practical completion were issued on 12 June, 2020 by the State Department of Public Works to the State Department of Livestock, advising the latter to pay 100% of the value of works. This was done contrary to the site meeting minutes of 11 June, 2020 which indicated that the contract's overall progress was at 82% according to the architect's report. In addition, the

project's implementation progress report dated 26 June, 2020 also indicated the project to be at 85% completion.

As at the time of audit verification in the month of October, 2021, although the full contract sum of Kshs.19,848,632 had been paid, construction of ceiling and cold-room were still pending. In addition, cracks were noted on various walls of the hatchery and the veranda was detaching from the building a clear indication of poor workmanship.

It was further noted that despite incomplete works in the first contract, the same contractor was awarded another tender for construction of additional works at hatcheries unit, vide contract number MOALF&C/SDL/DLP/RT/12/2020-2021 at a contract sum of Kshs.14,695,077

In the circumstances, the regularity and value for money for the amount of Kshs.19,848,632 paid to the contractor could not be confirmed.

1324. Non-Operational Livestock Value Chain Support Project (LVCSP) Equipment

Disclosed in Note 8 to the financial statements also under acquisition of assets is an expenditure of Kshs.68,221,628 for purchase of specialized plant equipment and machinery. This expenditure includes an amount of Kshs.31,824,000 spent on the purchase of milk cooling plants under the Livestock Value Chain Support Project (LVCSP) for various Farmers' Co-operative Societies. The following unsatisfactory matters were observed from the sampled societies visited:

1324.1 Tagho Dairy Farmer's Co-operative Society

The solar water heating panels had been installed but had not functioned since installation. There was no evidence of physical visits by the milk cooling plant installation sub-contractor to ensure that the plant was in use as expected.

1324.2 Masii Farmer's Co-operative Society

The solar water heating panels were delivered with broken tubes and were therefore not functional hence, not installed. The contractor was yet to visit the plant in order to correct the defective tubes. There was no evidence of monitoring and evaluation by the milk cooling plant installation sub-contractor during the warranty period to confirm if it was operational.

1324.3 Yatta Kwavonza Dairy Farmer's Co-operative Society

Interviews with the members of the society revealed that the solar water heating system had not been functional since inception. The contractor had apparently delivered the solar heating system with broken tubes. The milk cooling plant was therefore not in use.

1324.4 Kibwezi Dairy Farmers Co-operative Society Ltd

The solar panels were not functional as at the date of audit verification. Interviews with the group members revealed that the solar water heating system had not been functional since inception and the plant was therefore not in use.

1324.5 Mwiwe Dairy Farmers Co-operative Society Ltd

The plant was delivered to the society but had never been used for the intended purpose since the date of delivery. Due to lack of premises by the target beneficiaries, the milk cooling plant had been improperly stored in an open-air market and at times held at different locations by the society members.

Consequently, value for money for the expenditure of Kshs.31,824,000 incurred on the purchase of milk cooling plants for the year ended 30 June, 2021 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1325. Lack of Active Audit Committee

The State Department for Livestock did not provide documentary evidence to show that Audit Committee meetings were held during the year under review. In the absence of such meetings, the State Department failed in ensuring that external audit recommendations were fully addressed, that quality of internal audit was of an appropriate standard, and that line management had full regard to internal audit recommendations.

1326. Failure to Update Imprests Register

Review of payment vouchers and supporting schedules in respect of domestic travel and subsistence and other transportation costs and imprests register revealed that a total of 474 imprest warrants amounting to Kshs.195,983,271 were issued during the year ended 30 June, 2021.

However, 14 imprest warrants amounting to Kshs.8,496,771 had been issued but not recorded in the imprests register. Therefore, lack of effective control over imprests existed during the period under review as a result of failure to update the imprests register as and when the imprests were issued.

1327. Lack of Effective Internal Control over Non-current Assets and Biological Assets

1327.1 Incomplete Assets Register

Review of two asset registers provided revealed that the registers were incomplete. The registers reported on five categories of assets: office equipment, furniture and fittings; laboratory equipment; machinery and equipment; biological assets and vehicles. The fixed assets registers did not show complete information on the:

i. Date on which the asset was acquired or brought into use;

ii. Purchase/ original cost, the revalued amount and/or the fair value;

iii. Supplier details;

iv. Payment voucher details;

v. Serial number of relevant assets;

vi. Engine and chassis numbers for motor vehicles; and

vii. Disposal dates and prices.

Further, the registers did not indicate the value of land, buildings, intangible assets, household furniture, institutional equipment and ICT equipment as at 30 June, 2021. Included in the undisclosed value of land were Kabete Veterinary Farm L.R No.189R (1634 acres) and L.R No.2952 (1278 acres).

Consequently, the total value of the assets that the State Department holds all over the country including their specific descriptions, location, value and ownership could not be determined.

1327.2 Lack of Works in Progress Register

Disclosed in Note 8 to the financial statements under acquisition of assets are expenditures on construction of buildings – Kshs.438,800 refurbishment of buildings – Kshs.12,155,300, construction of civil works – Kshs.764,591,161 and overhaul and refurbishment of construction and civil works – Kshs.4,949,900 for the year ended 30 June, 2021.

However, a project implementation status report and a report on the status of contracts in the year under review were not provided for audit. It was therefore not possible to confirm if there were works in progress as at 30 June, 2021.

1327.3 Non-Disclosure of Data Related to Specific Biological Assets

The assets register provided for audit review reflected biological assets with total historical cost of Kshs.55,461,000. These assets comprised various farm animals from fifteen stations. However, the register did not separately disclose data relating to each individual biological asset such the fair unit value and the total value for each classification of animal but instead combined value for all the animals in each station. It was therefore not possible to confirm the fair value assigned for each of the animals.

DONOR FUNDED PROJECT

REGIONAL PASTORAL LIVELIHOODS RESILIENCE PROJECT (IDA CREDIT NO. KE 53880-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1328. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1329. Unpaid Insurance Claim for Project Vehicles

As reported in the previous year, an insurance company was paid an amount of Kshs.18,549,675 as premium for the insurance cover of all the project vehicles. However, two (2) project vehicles; GKB 038R and GKB 412R belonging to West Pokot County Project Implementation Office Unit got burnt by fire suspected to have originated from one of the food kiosks adjacent to the offices. Although compensation lodged was certified payable on 30 July, 2020 by the insurance company, the claims had not been settled or paid as of October, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1330. Underfunding of Counterpart Fund by the Government of Kenya

The project information and overall performance indicates that the Government of Kenya committed to provide counterpart funds to the project amounting to Kshs.1,830,000,000 but has so far disbursed a total of only Kshs.493,512,814, which is approximately 27% yet the project is ending by 31 December, 2021.

In the circumstances, the Government of Kenya underfunding amounting to Kshs.1,336,487,186 or about 73% may have derailed implementation of various project activities and intended objectives.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1331. Non-Review of Internal Audit Reports

Review of the audit committee reports revealed that the committee did not discuss internal audit reports for the project during the year under review. Under the circumstances, the effectiveness of internal control and risk management in relation to the project for the year ended 30 June, 2021 could not be confirmed.

STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY – VOTE 1166

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1332. Unsupported Training Expenses

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure on use of goods and services of Kshs.680,841,785 which includes training expenses of Kshs.168,174,182. The latter balance includes an advance payment of Kshs.43,289,344 made to the Bandari Maritime Academy for fishermen training services. However, the contract agreement was not provided to confirm that the advance payment was provided for in the contract.

Further, included in the training expenses are expenditure returns amounting to Kshs.145,290,396 and Kshs.5,499,996 from Mombasa and Kirinyaga West regional offices, respectively. However, these returns were not supported with the relevant documents such as training needs assessment report, training program, time tables and a list of all those who attended the training.

Consequently, the validity and accuracy of the training expenses of Kshs.168,174,182 could not be confirmed.

1333. Unsupported Expenditure

As disclosed in Note 7 to the financial statements, the statement of receipts and payments reflects an expenditure on acquisition of assets of Kshs.524,776,123. The expenditure includes an amount of Kshs.24,902,472 for purchase of specialized plant, equipment and machinery, which was extracted from the expenditure returns from five (5) regional offices in Kirinyaga West, Kieni East, Kisumu East, Mombasa and Turkana.

Further, the expenditure on acquisition of assets of Kshs.524,776,123, as disclosed in Note 7 to the financial statements, includes an amount of Kshs.90,272,521 for construction and civil works. The latter includes Authority to Incur Expenditure (AIEs) of Kshs.82,249,999 issued to Kieni East and Kirinyaga West regional offices. However, the expenditure returns were not supported with the relevant documents including payment vouchers, requisitions from the user departments, invoices, delivery notes, inspection and acceptance committee reports, tender opening and evaluation reports, award letters and ownership records for the assets acquired.

In addition, no records were provided to indicate the type and nature of the assets that were acquired. The assets acquired could also not be traced in the assets register for the State Department.

Consequently, the validity and accuracy of the expenditure of Kshs.107,152,471 on acquisition of assets could not be confirmed.

1334. Unconfirmed Expenditure on Purchase of Certified Seeds, Breeding Stock and Live Animals

As disclosed in Note 7 to the financial statements, the expenditure on acquisition assets of Kshs.524,776,123 includes an amount of Kshs.46,500,000 in respect of purchase of certified seeds, breeding stock and live animals. The amount relates to Authority to Incur Expenditure (AIEs) issued to the regional offices in Kirinyaga West of Kshs.31,000,000 and Kieni East of Kshs.15,500,000. The expenditure returns were not, however, provided for audit review.

Consequently, the validity and accuracy of the expenditure of Kshs.46,500,000 on purchase of certified seeds, breeding stock and live animals could not be ascertained.

Other Matter

1335. Pending Bills

Included under other important disclosures to the financial statements are pending accounts payable/bills amounting to Kshs.252,422,165, relating to construction of buildings and supply of goods and services as at 30 June, 2021. These bills were not settled in the year under review but were carried forward to 2021/2022 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year`s provisions to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1336. Irregular Issuance of Multiple Imprests

Analysis of the imprests register revealed that officers had overlapping imprests totalling Kshs.42,965,636 during the year under review. The officers had been issued with additional imprests before surrendering the previous ones contrary to Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, 2015.

Consequently, the State Department was in breach of the law.

1337. Over-Commitment of Salaries beyond Two Thirds of Basic Pay

As disclosed under Note 3 to the financial statements, the statement of receipts and payments reflects expenditure on compensation of employees of Kshs.297,971,677. Analysis of the IPPD payroll revealed that 98 officers earned less than one third of their basic salary contrary to Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service of May, 2016.

Consequently, the State Department was in breach of the provisions of the Human Resource Policies and Procedures Manual.

1338. Stalled Projects

Analysis of projects status report as at 30 June, 2021 revealed that eighteen (18) projects with a contract sum Kshs.1,797,912,745 and certified and paid works to date of Kshs.866,526,472 had stalled. No satisfactory explanation was provided for the stalling of works or delay in the projects completion.

Failure to complete the projects in time may deny the public the benefits derived from the use of these projects and value for money may not be achieved.

1339. Construction of National Mariculture Resource Centre at Shimoni

A tender for construction of National Mariculture Resource Centre at Shimoni was awarded to a company at a contract sum of Kshs.734,002,095. The contract which was signed on 5 June, 2019 did not, however, indicate the commencement and completion dates of the project.

According to the engineer's report, the period for the works was 25 weeks commencing on 5 June, 2019 to 15 January, 2020 and the performance bond was running up to 30 November, 2020. The certified amount was Kshs.280,774,839 while 60% of the works were completed as of 30 June, 2021. Management did not confirm the extension of the contract or performance guarantee despite the fact that the project is still ongoing.

Further, included in the Bill of Quantities were preliminaries expenses totalling Kshs.26,890,000 for which the relevant documentation to support the payments were not provided for audit review.

Consequently, the regularity of the contract and the payments could not be confirmed.

1340. Construction of Canteen, Ablution Block and Sentry at Shimoni

During the year under review, the State Department awarded a tender for construction of Canteen, Ablution Block and Sentry at Shimoni to a company at a contract sum of Kshs.41,515,445. The contract was signed on 4 June, 2019. The contract period was indicated as 24 weeks but the commencement and end dates were not included in the contract. The validity period for the performance bond could not be ascertained as the same was not included in the contract. Percentage of work done as stated in the report provided by the State Department was 74%. However, certificates of works done were not provided for audit review.

During the field visit in November, 2021 the following unsatisfactory matters were noted:

i. The ablution block doors and gutters had not been fixed. The stair cases also were yet to be done.

ii. The ground and first floors of the canteen building had been done partially but the roof was yet to be fixed. Wiring was done but switches were not installed.

In the absence of mandatory information in the contract document and certificates of work done, the validity of the contract and value for money of the project could not be ascertained.

1341. Renovation Works at Landing Sites in Lake Victoria Region

Included under other important disclosures to the financial statements are pending accounts payable of Kshs.252,422,165 out of which an amount of Kshs.163,956,847 relates to construction of buildings. The State Department through various tenders commenced the process of renovating six (6) landing sites along Lake Victoria beaches namely; Ogal, Sori, Luanda Kotieno, Mulukoba, Nyandiwa and Wich Lum.

The renovation works had begun in these landing sites but the works stalled after the sites were submerged by the water due to heavy rains. The contracts for the renovations were eventually terminated and mutual winding up done but the bills were not settled.

During physical verification of the landing sites in November, 2021 it was observed that the works done in Ogal landing site were sub-standard and the ceiling boards installed had begun falling off. In Wich Lum landing site in Siaya County, the building had collapsed and the foundation sunk. Some materials such as steel tower bars and plumbing pipes delivered to these landing sites remained unused and could be lost or stolen. The cold room machines and generators were delivered to the Kisumu Regional Office but remained idle when the renovations stalled.

Consequently, the State Department was not effective in the execution, supervision and completion of the renovation works.

1342. Irregularities in Supply and Delivery of Fingerlings

A tender for supply and delivery of fingerlings across the country was awarded to a company in four lots as shown below:

LOT	Quantity (No. of Fingerlings)	Price (Kshs.)
LOT 1	500,000	7,500,000
LOT 2	500,000	7,500,000
LOT 3	400,000	6,000,000
LOT 4	600,000	9,000,000
Total	**2,000,000**	**30,000,000**

The company supplied the fingerlings for LOT 1 and LOT 2 at a sum of Kshs.15,000,000 in the 2020/2021 financial year to different dams across the country. However, according to the delivery notes, some fingerlings were delivered to dams that were not in the users' requisitions as detailed below:

County	Dam	Quantity as per Delivery Note (No. of fingerlings)	Amount (Kshs.)
Kakamega	Mwanzo	20,000	300,000
	Mulama	20,000	300,000
Kisii	Ichumi Primary	20,000	300,000
	Bunyonge	10,000	150,000
	RiaKiriama	20,000	300,000

Further, it was noted that six (6) counties namely; Busia, Siaya, Narok, Trans Nzoia, Uasin Gishu and Laikipia did not have specific dams or lakes to which the fingerlings were delivered. Each of the six (6) counties was to receive 100,000 fingerlings each at a cost of Kshs.1,500,000 per county. In the circumstances, 600,000 fingerlings amounting to Kshs.9,000,000 for the six (6) counties could not be accounted for.

LOT 3 comprising 400,000 fingerlings valued at Kshs.6,000,000 was to be delivered to Njukiini, Karura, Kiambere, Kamburu, Masinga and Lake Kenyatta dams. Whereas LOT 4 comprising 600,000 fingerlings valued at Kshs.9,000,000 was to be delivered to Kiambere, Kamburu, Masinga and Lake Kenyatta dams. The payment vouchers for LOTS 3 and 4 were still pending as at the end of the financial year for 2020/2021.

Physical verification of some of the dams in November, 2021 revealed the following unsatisfactory matters:

i. Buyonge Dam in Kisii County - No access road to the dam. Desilting had not been done. The presence of fish in the dam could not be confirmed.

ii. Riakiriama/Nyangusu Dam in Kisii County- According to the delivery note, the dam received 20,000 fingerlings valued at Kshs.300,000 which were stocked on 14 January, 2021. However, the community officials reported that only 10,000 fingerlings were restocked in this dam and thus, resulting in 10,000 fingerlings worth Kshs.150,000 being unaccounted for.

iii. Busia County - According to the delivery note,100,000 fingerlings valued at Kshs.1,500,000 were delivered to Busia County without specifying the dams they were delivered to. The County Director of Fisheries and his officers indicated that the State Department did not deliver any fingerlings to Busia County.

Consequently, the State Department may not have obtained value for the procurement of fingerlings.

1343. Procurement, Ownership and Utilization of Medium Sized Fishing Boats

During the financial year 2018/2019, the State Department awarded a tender for supply of medium sized fishing boats to a firm at a sum of Kshs.60,815,205. The contract was signed on the 4 June, 2019. The boats were delivered at Liwatoni on 28 May, 2020 and payment for the same was made on 18 December, 2020.

However, ownership documents and insurance cover for the boats were not provided for audit review. Further, physical verification of the boats in November, 2021 revealed that the boats were not being used because they did meet the specification of a fishing boat.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1344. Lack of Ownership Documents and Incomplete Fixed Asset Register

Annex 1 to the financial statements reflects a summary of fixed assets register with total historical cost of Kshs.6,209,866,655 as at 30 June, 2021. Review of records revealed that the fixed asset register provided was incomplete and did not indicate clearly the assets owned, dates of acquisition and costs. Further, ownership documents for the assets acquired during the year and over the years were not provided for audit.

Lack of detailed information on the assets in the register and ownership documents is an indication of weak internal control over the assets.

1345. Lack of a Risk Management Policy

During the year under review, the State Department did not have a Risk Management Policy. Consequently, the procedures and strategies put in place to assess, identify, measure, prioritize and mitigate risks in the State Department could not be confirmed.

REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR FISHERIES, AQUACULTURE AND THE BLUE ECONOMY

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1346. Undisclosed Revenue from Rent

During field verification of projects in Kisumu County in November, 2021, it was noted that a private company which manufactures water buses was being hosted in the State Department`s property. Although the Management explained that the company had leased the premises since the year 2014 at a monthly rent of Kshs.30,000, no documentary evidence was provided to support the explanation including a signed contract or lease agreement, valuation report, invoices and receipt vouchers.

Further, the monthly rental receipts could not be traced to the State Department`s bank statement or cash book. Hence the rent which the company ought to have paid from the year 2014 to the financial year under review totalling Kshs.2,700,000 had not been accounted for. Information available also revealed that the company had communicated to the State Department vide a letter dated 26 September, 2013 indicating that it had leased the site for the last six (6) years. However, it was not possible to confirm whether the rent for the earlier six years had been collected and accounted for.

Consequently, the accuracy and completeness of the revenue collected for the year under review totalling Kshs.135,454,044 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1347. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1348. Weak Controls over Revenue Collection at the Lake Victoria Beaches

During field verification in November, 2021 of various fish landing sites in Lake Victoria region it was observed that the beach management units did not maintain a database of all fishing vessels and persons required to pay fishermen's fees and boat licenses. Further, there were no defined timetables and schedules of work for collecting revenue by the staff in the regional offices. In addition, although revenue collection through

licenses for fishermen and registration of local fishing vessels is the mandate of the State Department, the County Governments of Siaya and Migori were also charging licenses and collecting fees for the same. Further, members of the beach management units lacked training on best practices in the management of the beaches and knowledge on the best equipment to use for fishing.

1349. Ineffective Collection of Revenue by Kenya Fishing Industry Corporation

During field verification in November, 2021 at Kenya Fishing Industry Corporation, Mombasa, it was noted that the Corporation collected revenue amounting to Kshs.4,130,350 and remitted it to the revenue account of the State Department. The revenue collected by the Corporation included fish off-loading and security charges from only one fish landing site, Liwatoni, Mombasa and not all the seventy-seven (77) fish landing sites along the coastline of Kenya specified in the Fisheries Act, 2012. The Management claimed that the Corporation did not have enough staff to make the collection of revenue from those other sites.

Consequently, the Corporation is denying the Government revenue by not being able to collect levies and fees from the other seventy-six (76) fish landing sites as required under its mandate.

1350. Lack of Audit by Internal Audit

During the year under review, it was observed that revenue collection records and revenue statements had not been reviewed by the Internal Audit Unit of the State Department. Lack of review by the Internal Audit exposes the State Department to the risks of loss and/or under - collection of revenue and obscures the accountability required to assess the root cause of revenue issues.

DONOR FUNDED PROJECTS

KENYA MARINE FISHERIES AND SOCIO-ECONOMIC DEVELOPMENT PROJECT (IDA CREDIT NO.65400-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1351. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1352. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final budgeted receipts of Kshs.660,000,000 against actual receipts of Kshs.639,939,594, resulting in under-funding of Kshs.20,060,406 or 3% of the budget. budgeted expenditure of Kshs.660,000,000 against actual expenditure of Kshs.200,139,977, resulting in an under expenditure of Kshs.459,860,023 or 70% of the budget. The under-funding and under-expenditure may impact negatively on delivery of services to the intended recipients.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1353. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1354. There were no material issues relating to effectiveness of internal controls, risk management and governance.

AQUACULTURE BUSINESS DEVELOPMENT PROGRAMME (IFAD LOAN NO.2000002052)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1355. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1356. Budgetary Control and Performance

The Programme's approved expenditure budget for the financial year 2020/2021 amounted to Kshs.1,696,015,565 with actual on comparable basis of Kshs.1,324,312,696, resulting in an under expenditure of Kshs.371,702,869 or 22%.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1357. Procurement of Fingerlings

The statement of receipts and payments reflects expenditure on purchase of goods and services amounting to Kshs.663,117,677 and as disclosed under Note 6 to the financial statements. Included in this amount is expenditure on specialized materials and services of Kshs.85,652,537 relating to procurement of fingerlings for various counties.

Records indicate that fifteen counties were identified under the project and each county was to identify two dams for stocking of fingerlings . A total of 47 dams were restocked with 990,000 fingerlings. Records also indicate that 20,000 fingerlings were to be procured for each dam. However, during the procurement process each dam was added 2,000 fingerlings translating to unapproved procurement of Kshs.1,500,000. No explanation was provided for the anomaly. Further, there were no requisitions from the counties indicating the capacity of the dams and the number of fingerlings the respective dams could hold. In addition, it was not explained how the number of fingerlings per dam was determined given that the dams are of various sizes and capacity.

Consequently, the accuracy, validity and value for money of the stocking of fingerlings amounting to Kshs.85,652,537 could not be confirmed.

1358. Lack of Fishing Equipment and Monitoring and Evaluation Reports

Field visits done in the year 2021 revealed that the dams` committees were to manage fish harvesting which was supposed to be between 12 months after restocking. However, the farmers raised a challenge of lack of fishing equipment like nets and boats. Consequently, the farmers have been denied opportunity to harvest and sell fish which was to empower them economically.

Review of the current budget and procurement plan revealed no provision for the support of the farmers in terms of fishing equipment. In addition, no monitoring and evaluation reports were provided to confirm the impact of fish farming on the citizens.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1359. Non-Use of an Accounting System

The Programme Management single sourced an accounting software from a company in the financial year 2019/2020 at a contract sum of Kshs.7,437,472 and paid for annual license and maintenance fees of Kshs.764, 788 in the financial year 2020/2021. However, the audit noted that the system had not been put to use since installation. Ledgers and

financial statements are prepared manually which may lead to misstatement of the financial figures.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1360. As required by International Fund for Agricultural Development (IFAD), I report based on my audit, that IFAD funds and Government of Kenya counterpart funds have been used in accordance with the financing agreement, with due attention to economy, efficiency, effectiveness and only for the purposes of the Programme. Further, services financed during the year were procured in accordance with the terms and conditions of financing agreement and all supporting documentation, records and accounts have been maintained in respect of all Programme activities. In addition, national laws have been complied with and financial and accounting procedures approved for the Programme were followed and used and special account has been properly maintained for the Programme in accordance with the provisions of Loan Agreement.

STATE DEPARTMENT FOR CROP DEVELOPMENT AND AGRICULTURAL RESEARCH – VOTE 1169

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1361. Unsupported Capital Grants

The statement of receipts and payments reflects an expenditure on transfer to other government entities of Kshs.27,907,075,235. The expenditure, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.13,663,760,956 in respect of capital grants. The latter amount included Kshs.643,179,912 described as transfer to Kenya Climate Smart Agriculture Project on expenditure related to 2019/2020 but realized in 2020/2021 for which, no supporting documentation was provided for audit verification.

Consequently, the accuracy and completeness of the capital grants of Kshs.13,663,760,956 could not be confirmed.

1362. Expensing of AIEs Disbursed to Agricultural Technological Development Centers (ATDCs)

The statement of receipts and payments reflects an expenditure on acquisition of assets of Kshs.7,436,588,489 which includes Authority to Incur Expenditure (AIEs) issued to various Agricultural Technological Development Centers (ATDCs) amounting to Kshs.12,000,000 and charged to construction of buildings. These AIEs were expensed immediately before they were actually spent by the Agricultural Technological Development Centers (ATDCs).

Consequently, the validity, accuracy and completeness of the expenditure totalling Kshs.12,000,000 relating to the AIEs issued to the Agricultural Technological Development Centers (ATDCs) could not be confirmed.

1363. Unsupported Acquisition of Strategic Stocks and Commodities

As disclosed in Note 10 to the financial statements, the expenditure on acquisition of assets of Kshs.7,436,588,489 includes an amount of Kshs.5,584,034,231 on acquisition of strategic stocks and commodities, which relates to settlement of maize subsidy pending bills. Audit review of sampled pending bills payment records revealed that an expenditure amounting to Kshs.945,746,538 was not supported with invoices, delivery notes, inspection and acceptance reports, counter receipt voucher (S13), clearance from Ethics and Anti Corruption Commission.

Consequently, that the validity, accuracy and completeness of the acquisition of strategic stocks and commodities expenditure of Kshs.945,746,538 could not be confirmed.

1364. Non-Disclosure of Bank Balances for Emergency Locust Response Project

The statement of assets and liabilities as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.2,277,130,984. However, the balance excludes an amount of Kshs.562,596,391 relating to bank balances held in various participating counties under Emergency Locust Response Project as at 30 June, 2021.

Consequently, the accuracy and validity of cash and cash equivalents balance of Kshs.2,277,130,984 could not be ascertained.

1365. Unsupported Prior Year Adjustments

As disclosed in Note 15 to the financial statements, the statement of assets and liabilities reflects prior year adjustment amounting to Kshs.15, 692,109. However, the prior year adjustments in the year under review were not supported by documentary evidence or corrected retrospectively.

1366. Incorrect Accounts Receivables - Outstanding Imprests

The statement of assets and liabilities as at 30 June, 2021 reflects an accounts receivables balance of Kshs.4,222,000 relating to outstanding imprests as disclosed in Note 12 to the financial statements. However, the balance of Kshs.4,222,000 excludes Kenya Climate Smart Agriculture Project outstanding imprests balance of Kshs.48,122,740 as at 30 June, 2021.

In the circumstances, the accuracy, completeness and validity of the accounts receivable balance of Kshs.4,222,000 could not be confirmed.

Other Matter

1367. Long Outstanding Pending Bills

Note 18.1 to the financial statements reflects pending bills amounting to Kshs.10,782,845,180 as at 30 June, 2021 which were not settled in the year under review but were carried forward to 2021/2022 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year`s provisions to which they have to be charged. Further, review of expenditure documents in support of the pending bills revealed that bills amounting to Kshs.29,905,723 were not supported with relevant documents and authority as stipulated under Regulation 104 of the Public Finance Management (National Government) Regulations, 2015.

In addition, review of Annex 1 to the financial statements revealed that pending bills relating to recurrent vote of Kshs.8,565,920,782 and development vote of Kshs.1,953,843,720 all totalling Kshs.10,519,764,502 had been outstanding since 2018/2019 and earlier years. It is not clear why the State Department did not treat pending bills carried forward from the previous years as the first charge to the appropriation for the year under review as required under Regulation 42(1)(a) of the Public Financial Management (National Government) Regulations, 2015.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1368. Non-Compliance to a Third Rule on Salary Deductions

Analysis of the payroll data for the year ended 30 June, 2021 revealed that twenty one (21) employees had payroll deductions in excess of two thirds of their gross pay in the month of June, 2021. This contravenes Section 19(3) of the Employment Act, 2007.

1369. Failure to Maintain an Up-to-Date Assets Register

Disclosed in Annex 2 to the financial statements is a summary of fixed assets register with a historical cost balance of Kshs.17,512,719,015 as at 30 June, 2021. However, the State Department did not maintain an up to date fixed assets register contrary to Regulation 143 of the Public Finance Management (National Government) Regulations, 2015.

1370. Avoidable Interest on Delayed Payments on Acquisition of Strategic Stocks and Commodities

As disclosed in Note 10 to the financial statements, the expenditure on acquisition of strategic stocks and commodities of Kshs.5, 584,034,231 includes avoidable interest on delayed payments amounting to Kshs.1,326,443,395. Audit examination of relevant contracts supporting the payments revealed that the contracts did not provide for payment of interest on delayed payments.

Although the Management explained that the interest rate was awarded by the court, failure by Management to honour the bills as and when they fell due is contrary to Section 68(1) of the Public Finance Management Act, 2012.

1371. Failure to Surrender Appropriation-In-Aid (A.I.A) Collected at Kenya School of Agriculture

Review of the Budget of the State Department for Crop Development and Agricultural Research revealed that the State Department budgeted to collect A.I.A. amounting to Kshs.4,000,000 from the Kenya School of Agriculture (KSA). Further, examination of invoices, receipts, bank statements and payment vouchers maintained at KSA revealed that the school collected A.I.As amounting to Kshs.4,037,330 and Kshs.647,555 through deposit and recurrent accounts respectively, both totalling Kshs.4,684,885. However, the A.I.A. collected was not surrendered to the State Department and accounted for in the financial statements for the year ended 30 June, 2021.

The Management was therefore in breach of Regulation 43(c) of the Public Finance and Management (National government) Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1372. Lack of Risk Management Policy and Disaster Recovery Plan

As previously reported, the State Department did not have a Risk Management Policy and a Disaster Recovery Plan contrary to Regulation 165 of the Public Finance Management (National Government) Regulations, 2015.

DONOR FUNDED PROJECTS

KENYA CEREAL ENHANCEMENT PROGRAMME - CLIMATE RESILIENT AGRICULTURAL LIVELIHOOD WINDOW (EU GRANT NO.200000623 EU, GRANT NO.2000001522, IFAD NO. LOAN 2000001121, AND ASAP GRANT NO.2000001122)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1373. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1374. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts amounting to Kshs.1,732,637,791 against a budget provision of Kshs.2,175,000,000, resulting in a shortfall of Kshs.442,362,209 or 20%. Further, the Programme budgeted to spend Kshs.2,175,000,000 compared to the actual expenditure of Kshs.1,769,544,136 resulting in an under expenditure of Kshs.405,455,864 or 19%. The slow budget absorption may affect delivery of goods and services to the intended beneficiaries.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1375. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1376. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the International Fund for Agricultural Development (IFAD), I report based on the audit, that:

(i) Proper accounting records have been kept;

(ii) The financial statements are in agreement with the accounting records;

(iii) IFAD funds and Government of Kenya counterpart funds have been used in accordance with the financing agreements, with due attention to economy, efficiency, effectiveness and only for the purposes of the Programme;

(iv) Services financed during the year were procured in accordance with the terms and conditions of financing agreements;

(v) All supporting documentation, records and accounts have been maintained in respect of all Programme activities;

(vi) National laws have been complied with and financial and accounting procedures approved for the Programme were followed and used;

(vii) Special accounts have been properly maintained for the Programme in accordance with the provisions of Loan and Grant Agreements; and

(viii) Expenditures claimed through statement of expenditure (SOE) procedures were properly authorized, classified and supported by documentation.

In addition, as required by Clause 1 of Schedule 3 (Special Covenants) of the Financing Agreement, I report based on performance audit of e-voucher scheme that:

(i) The Programme`s funds have been spent with due regard to economy, efficiency and effectiveness;

(ii) The funds have been used in accordance with the conditions stipulated in the Subsidiary Agreement between Equity Bank and Cooperative Bank of Kenya, and State Department of Agriculture with due attention to economy and efficiency, and solely for the purposes for which the financing was provided;

(iii) The Programme is being implemented in conformity with sound administrative financial and technical practices;

(iv) The general internal control environment of the e-voucher system is effective;

(v) Controls exist that ensure a designated beneficiary has relevant identification cards [National ID card and an electronic card with PIN] and only eligible farmers who have been vetted and registered are beneficiaries of the Programme;

(vi) The prices of inputs charged by participating agro-dealers are in line with the general market; and

(vii) The e-voucher system, through which farmers are able to access farm inputs has been working as intended.

MULTI-NATIONAL DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME IN THE HORN OF AFRICA (ADF LOAN NO.2100150028345)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1377. Unexplained Variances and Inaccuracies in the Statement of Comparative Budget and Actual Amounts

The statement of comparative budget and actual amounts reflects total actual receipts and payments of Kshs.627,392,678 and Kshs.571,589,531 respectively. However, the statement of receipts and payments on the other hand reflects total receipts of Kshs.901,865,445 and payments of Kshs.927,753,801 resulting in unexplained variances of Kshs.274,472,767 and Kshs.356,164,270 for receipts and payments respectively. Further, the description and grouping of the receipts and payment items differs across the two statements, contrary to the prescribed financial reporting template by the Public Sector Accounting Standards Board.

In view of the above, the accuracy and completeness of the statement of comparative budget and actual amounts for the year ended 30 June, 2021 could not be confirmed.

1378. Loan from External Development Partners

The statement of receipts and payments reflects a comparative amount of Kshs.878,476,575 in respect of Loan from External Development Partners under payments made by third parties for the financial year 2019/2020. This figure differs with the audited financial statements for the year 2019/2020 which reflects an amount of Kshs.812,853,404, resulting in an unexplained variance of Kshs.65,623,171.

Consequently, the accuracy and completeness of the comparative figure of Kshs.878,476,575 in respect of Loan from External Development Partners under payments made by third parties could not be confirmed.

1379. Acquisition of Non-Financial Assets

The statement of receipts and payments for the year ended 30 June, 2021 reflects expenditure on acquisition of non-financial assets amounting to Kshs.889,149,949 and as disclosed in Note 8 to the financial statements. The expenditure was in respect to construction of civil works. The following unsatisfactory issues were noted:

1379.1 Unsupported Expenditure

Included in the acquisition of non-financial assets expenditure of Kshs.889,149,949 were payments totalling Kshs.515,177,603.82 for which the supporting documents and records were not provided for audit review.

Consequently, the propriety, validity and accuracy of the expenditure of Kshs.515,177,603.82 on civil works for the year ended 30 June, 2021 could not be ascertained.

1379.2 Variance Between Financial Statements and Vote Book

The expenditure of Kshs.889,149,949 on acquisition of non-financial assets as reflected in the financial statements differs with the vote book cumulative expenditure of Kshs.412,444,086 for the year ended 30 June, 2021, resulting in an unexplained variance of Kshs.476,705,863.

In the circumstances, the accuracy of the acquisition of non-financial assets expenditure amounting to Kshs.889,149,949 for the year ended 30 June, 2021 could not be confirmed.

1379.3 Construction of Access Roads in Baringo County

Included in the expenditure on acquisition of non-financial assets of Kshs.889,149,949 is an amount of Kshs.20,231,608 in respect of construction of 16 kilometers of access roads in Baringo County at a contract sum of Kshs.31,821,118.43. However, the tender advertisement, bids submitted, tender opening, tender evaluation, comparison minutes and schedules, professional opinion, and letters of notification and acceptance were not provided for audit review.

Consequently, the accuracy, validity and completeness of the contract sum of Kshs.31,821,118.43 for access roads could not be confirmed.

1380. Purchase of Goods and Services

1380.1 Variance between Statement of Receipts and Payments and Note 6 to the Financial Statements

The statement of receipts and payments for the year ended 30 June, 2021 reflects expenditure on purchase of goods and services of Kshs.29,853,852 which however differs with the corresponding amount of Kshs.30,021,852 disclosed in Note 6 to the financial statements. The resulting variance of Kshs.168,000 was not explained.

Consequently, the accuracy and completeness of the purchase of goods and services figure of Kshs.29,853,852 for the year ended 30 June, 2021 could not be confirmed.

1380.2 Unsupported Expenditure on Domestic Travel and Subsistence

Note 6 to the financial statements reflects an expenditure of Kshs.25,956,482 in respect of domestic travel and subsistence allowance under payments made by the entity in cash. Included in this amount is a payment of Kshs.1,934,100 made against Imprest Warrant No.4022654, issued for a request for facilitation to undertake a joint approach surveillance

in the reduction of tsetse fly menace affecting the calving pattern and market weight gain in Samburu County. However, the surveillance report was not provided for audit review.

Further, included in the approval was a budget breakdown on planned purchase of 160 litres of chemicals for spraying tsetse flies and purchase of protective gear and lab reagents totalling Kshs.840,000. However, no documentary evidence was provided to account for purchase, delivery, issue and use of the said chemicals, protective gears and lab reagents.

In view of the foregoing, the propriety, validity, accuracy and completeness of the expenditure totalling Kshs.2,774,482 claimed to have been incurred on reduction of ticks and tsetse fly in Samburu County for the year ended 30 June, 2021 could not be ascertained.

Other Matter

1381. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.883,046,916 and Kshs.627,392,678, respectively resulting in an under- funding of Kshs.255,654,241 or 29% of the budget. Further, the statement of comparative budget and actual amounts reflects final payments budget and actual on comparable basis of Kshs.883,046,916 and Kshs.571,589,531, respectively, resulting in under-expenditure of Kshs.311,457,385 or 35% of the budget. The under-funding and the low budget utilization may affect realization of the planned activities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1382. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1383. Unconfirmed Monthly Cash Book Balances

A review of the monthly bank reconciliation statements, bank statements and cash book revealed that the cash book was not regularly balanced at the end of the month. In the circumstances, the controls over cash and cash equivalent are not adequate.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1384. As required by the African Development Fund, I report based on the audit, that the Programme's funds and counterpart funds have been used in accordance with the conditions of the Loan Agreement. Further, goods and services financed have been procured in accordance with the Loan Agreement and the necessary supporting documents, records and accounts have been kept in respect of all Programme's activities. In addition, internal controls to monitor expenditure and other financial transactions and ensure safe custody of assets and ledgers and fixed assets register for the Programme's assets are maintained.

SMALL-SCALE IRRIGATION AND VALUE ADDITION PROJECT - (ADF LOAN NO.2000130014530 AND GRANT NO.5570155000751)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1385. Unsupported Over-payment in Respect of Contract for Construction of Makanyaga Irrigation Scheme

The statement of receipts and payments reflects an expenditure of Kshs.515,386,932 under payments made by third parties in respect of acquisition of non-financial assets and as disclosed in Note 8 to the financial statements. The expenditure was incurred on construction of civil works. Included in this figure is an amount of Kshs.20,917,383 paid to a contractor for the construction of Makanyaga Irrigation in Tharaka Niithi County during the year ended 30 June, 2021.

Records made available for audit indicated that a firm was contracted at a tender sum of Kshs.164,694,456 for the construction of the Irrigation Scheme. However, examination of related expenditure records which included payment vouchers, payment certificates and supporting documents revealed that the contractor was paid a total of Kshs.189,207,652 instead of the contract sum of Kshs.164,694,456, hence an unexplained overpayment of Kshs.24,513,196.

In the circumstances, the accuracy and validity of the excess payment of Kshs.24,513,196 which includes an amount of Kshs.20,917,383 paid to the contractor during the year under review could not be confirmed.

1386. Unsupported Expenditure on Seeds and Seedlings

The expenditure of Kshs.167,182,953 in respect to use of goods and services and as disclosed in Note 6 to the financial statements, includes a payment of Kshs.12,752,500 for the supply and delivery of agricultural materials - assorted seeds and seedlings. These

seeds and seedlings were procured from two suppliers for Kshs.10,652,500 and Kshs.2,100,000, respectively.

Approved requisition indicating the number of assorted seeds and seedlings required and the intended beneficiaries were not however made available for audit review. In addition, it was not possible to ascertain whether the seeds and seedlings were delivered to the project and distributed to the user stations since neither document for receipt nor for issuance were made available for audit review. Moreover, a payment to one supplier was made without a corresponding invoice.

Consequently, the propriety, accuracy and completeness of the expenditure of Kshs.12,752,500 for assorted seeds and seedlings for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1387. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,231,170,775 and Kshs.685,819,263, respectively, resulting in an under funding of Kshs.545,251,512 or 44% of the budget. Further, the statement of comparative budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.1,426,032,035 and Kshs.686,415,095, respectively resulting in an under-expenditure of Kshs.739,616,940 or 52% of the budget. The underfunding and the slow budget utilization may affect implementation of the budgeted activities.

1388. Slow Rate of Funds Absorption

The donor commitment reflected in other information accompanying the financial statements was USD 24,000,000 and USD 39,546,000 for grant and loan, respectively. As at 30 June, 2021, approximately 12 months to the closure, the project had only absorbed USD.4,851,049.58 and USD 17,878,659.44 for loan and grant, accounting for 20% and 45% of the donor commitment, respectively. The slow rate of absorption of funds implies that some activities in the project will not be implemented which will negatively impact on achievement of the goals of the project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1389. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENTAND GOVERNANCE

Basis for Conclusion

1390. Lack of a Separate Imprests Register for the Project

Review of records on imprests management revealed that the Project used the same imprests register which was being maintained for two other projects namely; Rural Livelihoods Adaptation to Climate Change Project and Drought Resilience and Sustainable Livelihoods Programme. Further, the register was not being updated regularly upon issuance of imprests to officers and the warrant numbers were not serially sequential. It was, therefore, not possible to determine individual and aggregate imprests outstanding for each staff and specific projects respectively, at any particular time.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1391. As required by the African Development Bank, I report based on the audit that the Project funds and counterpart funds have been used in accordance with the conditions of Loan Agreement and Protocol of Grant Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided. Further, goods and services financed have been procured in accordance with the Loan Agreement and Protocol of Grant Agreement, and the Bank`s rules and procedures and necessary supporting documents, records and accounts have been kept in respect of all Project activities. In addition, adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exist and ledgers and fixed assets register for the Project's assets are maintained as required.

CAPACITY DEVELOPMENT PROJECT FOR ENHANCEMENT OF RICE PRODUCTION IN IRRIGATION SCHEMES IN KENYA – (PROJECT GRANT/CREDIT NO: 1161001009)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1392. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1393. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1394. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL AGRICULTURAL AND RURAL INCLUSIVE GROWTH PROJECT (IDA CREDIT NO.5900-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1395. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1396. Non-Remittance of Counterpart Funds

Note 11.1 to the financial statements reflects transfer from Government Entities of Kshs.176,597,158 in the financial year 2020/2021. Review of records relating to the transfers revealed that the National and County Governments had not remitted cumulative funds amounting to Kshs.161,379,616 and Kshs.282,837,995, respectively to the Project as of 30 June, 2021. This is contrary to Schedule 2 of the Financing Agreement signed between IDA and the Republic of Kenya, which indicates that IDA will Fund 91% of every year`s activities/expenditure of the Project while the Government of Kenya (GOK) will fund an average of 9% of every year`s Project expenditure.

1397. Unbudgeted Expenditure

The statement of receipts and payments reflects acquisition of non-financial assets expenditure of Kshs.28,989,204 and as disclosed under Note 11.4 to the financial statements. Further, the statement of comparative budget versus actual on comparable

basis reflects a final budget on acquisition of non-financial assets of Kshs.28,989,204. However, the approved estimates for the year 2020/2021 did not have budget allocation for acquisition of assets and no approval for reallocation was provided for audit.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1398. Idle Assets

The statement of receipts and payments reflects transfer to County Governments of Kshs.4,406,228,395 in the year 2020/2021 and as disclosed under Note 11.6 to the financial statements. Review of expenditure for County Government of Kitui revealed that an amount of Kshs.6,085,140 was paid vide payment voucher number 280621 dated 24 June, 2021 to a company for supply of twenty (20) Yamaha YRB motorcycles. However, verification of the stores on 8 October, 2021 revealed that the motor cycles were still in the store awaiting dispatch to various wards in the county. No satisfactory explanation was given for the delay in distributing the motorcycles, four months after being received in the stores.

1399. Non-Tagging and Non-Serialization of Assets

During the year, National Project Coordination Unit (NPCU) procured office equipment, furniture and fittings and ICT equipment worth Kshs.3,415,856 as disclosed under Note 11.4 to the financial statements, resulting in an accumulated cost of office equipment, furniture and fittings and ICT equipment procured by the Project since inception to Kshs.122,379,693. Verification of the assets revealed, however, that they were not tagged or serialized, thus making it difficult to confirm their existence and location.

KENYA CLIMATE SMART AGRICULTURE PROJECT (IDA CREDIT NO.5945 – KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1400. Understatement of Loan Amount from External Development Partners

The statement of receipts and payments reflects a loan from external development partners of Kshs.10,763,331,756 as disclosed under Note 11.2 to the financial statements. Included in this amount is a receipt of Kshs.989,500,000. This receipt differs with corresponding National Treasury credit advice reference No. PA 125479 dated 30 November, 2020 that reflect an amount of Kshs.989,550,000 which was disbursed

vide transaction No. FT/20335/4XCSP, resulting to an understatement of Kshs.50,000 of receipts in the statement of receipts and payments.

Consequently, the accuracy and completeness of loan amount from external development partners of Kshs.10,763,331,756 for the year ended 30 June, 2021 could not be confirmed.

1401. Non-Reconciling Items in the Bank Reconciliation

The statement of financial assets as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.1,148,939,638. However, included in the reconciling items for the Project's bank reconciliation statement for A/c No.100192558 as at 30 June, 2021 were outstanding RTGS transactions amounting to Kshs.3,623,723 which were over six months old with some dating back to April 2019. These were not reversed in the cash book.

Consequently, the accuracy and validity of cash and cash equivalents balance of Kshs.1,148,939,638 as at 30 June, 2021 could not be confirmed.

1402. Unsupported Subsistence Allowances for Contingency Emergency Response

The expenditure of Kshs.1,331,260,216 under purchase of goods and services as disclosed under Note 11.4 to the financial statements includes an amount of Kshs.305,330,753 on contingency emergency response. The latter amount included AIEs Nos B112100 and B112101 of Kshs.12,150,000 and Kshs.24,182,800, respectively, totalling to Kshs.36,332,800. The AIEs were issued to the State Department for Public Service to cater for daily subsistence allowances to National Youth Service (NYS) officers involved in locust control activities. However, expenditure returns and supporting schedules from the State Department of Public Service were not provided for audit review.

Consequently, the propriety, accuracy and validity of the expenditure of Kshs.36,332,800 included under contingency emergency response of Kshs.305,330,753 for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1403. Proposed Rehabilitation and Upgrading of Wajir Livestock Training Institute

The tender for the contract for the proposed rehabilitation and upgrading of Wajir Livestock Training Institute was advertised in the local newspapers on 23 April, 2020. The tender closed on 22 May, 2020 and fifteen (15No.) bidders submitted their bids.

The contract was awarded to a Company at a tender sum of Kshs.97,240,810. The State Department for Crop Development and Agricultural Research entered into a contract with the firm on 25 September, 2020 for a contract period of 48 weeks to 25 August, 2021. Examination of the tender and contract records and documents revealed the following unsatisfactory matters:

1403.1 Inadequacies in Tender Evaluation

According to Section 111 of the bidding document on evaluation and qualification criteria, one of the mandatory conditions to be met by bidders for a bid to be found responsive was that it ought not to have any arithmetical errors. This condition is against Section 82 of the Public Procurement and Assets Disposal Act, 2015 and Clause 2.50 of the World Bank's Guidelines that anticipates that a bid may have errors and provides how to treat the same.

However, another Company had provided a bid of Kshs.93,929,220 which was below the winning bid price of Kshs.97,240,810 by Kshs.3,311,590. The bid price of Kshs.93,929,220 from this Company had arithmetic errors. The evaluation committee corrected the arithmetic errors to the bid and correct amount was reported as Kshs.79,741,105. The evaluation committee concluded that the bid was found unresponsive only because of arithmetic errors noted.

1403.2 Expired Performance Bond

The contractor submitted a performance bank guarantee No: MD2026166572 dated 18 September, 2020 of Kshs.9,724,081 which expired on 18 September, 2021 before completion of work. Evidence that the Contractor had renewed the guarantee was not provided for audit review.

1403.3 Lapsed Contract Period

Section IX-Particular Conditions of contract GCC.1.1 (R) states that the intended completion date for the whole of the work shall be 48 weeks from the signing of the contract. The contract period had lapsed on 25 August, 2021 and the works were not completed. The contractor had been paid Kshs.71,547,776 to date against the contract sum of Kshs.97,240,810 which was 74% of the contract sum.

1403.4 Failure to Prepare Monthly Progress of Works

Section 152 of Public Procurement and Asset Disposal Act, 2015 requires the head of the procurement function to prepare monthly progress reports of all procurement contracts of the procuring entity and submit them to the Accounting Officer. Further, clause 28 of the General Conditions of Contract requires the contractor to monitor progress of the works and submit to the manager a progress report showing actual progress achieved and effect of progress achieved on the time remaining. However, monthly progress reports on rehabilitation of Wajir Livestock Training Institute were not provided for audit review.

1403.5 Project not in Budget

Examination of the Kenya Climate Smart Agriculture Project budget for the 2020/2021 financial year revealed that there was no provision for the Proposed Rehabilitation and Upgrading of Wajir Livestock Training Institute. It is not clear, therefore, how the contract was awarded without a budget.

1403.6 Non-Remittance of Value Added Tax

Contrary to Section 21 of the Value Added Tax Act, information available indicates that Value Added Tax amounting to Kshs.1,662,398.87 withheld during the period April, 2019 to December, 2020 had not been remitted to Kenya Revenue Authority.

1404. Preservation of Project Documents and Records in the Counties

Component 1 of the KCSAP Project is implemented through funding Community Investment Groups (CIGs), Vulnerable and Marginalized Groups (VMGs) and Producer Organizations. Audit review of various counties implementing the Project revealed that accounting records and procurement documents are maintained at the community level by the Community Driven Development Committees (CDDC) and Producer Organizations (PO) and not at the County Project Coordinating Units.

Consequently, preservation of the documents for the prescribed number of years as prescribed under Regulations 100, 104(1) and 119(3) of the Public Finance Management (National Government) Regulations, 2015 is not guaranteed.

1405. Amount not Received in Special Purpose Account (SPA) in Baringo County

An audit examination of the Project's cash book revealed that out of the Kshs.263,705,512 disbursed to Baringo County during the year under review, an amount of Kshs.73,116,010 had not been received in the Special Purpose Account for onward transfer to the Operations Account.

Therefore, failure to transfer funds to Special Purpose Account violates the provisions of the Project Appraisal Document (PAD) and hinders achievement of the desired objectives of the Project.

1406. Irregular Diversion of Project Funds in Isiolo County

Clause 14 of the KCSAP Project Appraisal Document requires financial management arrangements to be put in place to ensure among other things that project resources are used to finance only the intended activities efficiently and economically.

Review of the Project`s Special Purpose bank statements for Isiolo County revealed that Kshs.60,000,000 was transferred on 04 June, 2021 to a Kenya Commercial Bank Account belonging to Isiolo County Government. Although, the funds were transferred back to KCSAP Project account on 31 August, 2021 this amounts to unauthorized diversion of project funds.

1407. Unsupported Expenditure in Isiolo County

Audit review of Special Purpose Account bank statement for Isiolo County revealed payments of Kshs.10,411,821 made to a firm on 17 March, 2021 by the County Treasury. However, these payments were not supported by payment vouchers and relevant documentation. As a result, the validity and eligibility of the expenditure of Kshs.10,411,821 could not be confirmed.

1408. Expenditure on Procurement of Grass Seeds in Isiolo County

The County Project Coordinator requested a Chief Officer vide internal memo dated 30 October, 2019 to facilitate purchase of grass seeds for Parkuruk Catchment Rehabilitation. The Project awarded the contract for supply and delivery of grass seeds for Parkuruk Catchment Rehabilitation to a supplier at a sum of Kshs.2,000,000 through request for quotation. The audit could not confirm receipt and issues of grass seeds since relevant documents were not provided for audit review. During physical verification carried on 19 October, 2021 at Parkuruk Catchment Rehabilitation, no trace of any grass planted was observed.

Consequently, the validity and eligibility of the expenditure of Kshs.2,000,000 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1409. There were no material issues relating to effectiveness of internal controls, risk management and governance.

ENABLE YOUTH KENYA PROGRAM – (ADF LOAN NO. 2100150038895)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1410. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1411. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.198,340,396 and Kshs.81,893,355, respectively

resulting in an under-funding of Kshs.116,447,041 or about 59% of the budget. Similarly, the Project expended Kshs.76,283,644 against an approved budget of Kshs.198,340,396 resulting in an under-expenditure of Kshs.122,056,752 or about 62% of the budget funding and under-expenditure may affect the planned activities and impact negatively on service delivery to the intended beneficiaries.

1412. Delay in Execution of Scheduled Program Activities

Audit examination of the Program`s Annual Work Plans (AWP) revealed critical activities relating to Youth Agribusiness Incubation Centers (YABICs) that were budgeted for in 2019/2020 financial year and scheduled for completion by December, 2019 as per the Program Implementation Manual (PIM), were instead carried forward to the annual work plan for financial year 2020/2021. Further, audit and physical inspection revealed that the scheduled activities had not been executed by 30 June, 2021 as tabulated below:

Key Activities	Outputs	Target	Completion Period as per PIM	Completion Period as per Work Plan 2020/2021	Total Budget Amount (Kshs.)
Rehabilitate and upgrade YABICs	YABICs rehabilitated, upgraded	Eight (8) YABICs	December, 2019	July, 2020 to December, 2020	90,000,000
Procure for and equip YABICs	YABICs fully equipped for incubation and training of youth agri-preneurs	Eight (8) YABICs	December,2019	July, 2020 to December, 2020	50,000,000
Establish measures in YABICs to ensure retention such as child care support, disability access and boarding rooms	YABICs upgraded, equipped and operationalized.	Eight (8) YABICs	December, 2019	October, 2020 to June, 2021	1,000,000
Total					**141,000,000**

No satisfactory explanation was provided for delay and failure to execute the activities as scheduled in the Program Implementation Manual and the Annual Work Plans.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1413. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1414. Lack of Internal Audit Report

A Review of the approved Internal Audit Work-plan for financial Year 2020/2021 for the State Department for Crops Development and Agricultural Research revealed that Internal Audit Unit had planned an internal audit exercise for Enable Youth Kenya Program. However, no audit report was provided for audit review. Management explained that scheduled audit exercise by the Internal Audit Unit could not be carried out due to contraction of Covid-19 by some staff.

Consequently, it could not be confirmed whether or not the Program Management complied with Annex B.4 of Enable Youth Kenya Project Appraisal Report, on Financial Management and Disbursement Arrangements which states that the Ministry's Internal Audit Unit will cover the Program.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1415. As required by African Development Fund, I report based on my audit, that the Program's funds and counterpart funds have been used in accordance with the conditions of the Loan Agreement with due attention to economy, efficiency and effectiveness, and for the purposes for which they were provided. Further, goods and services financed have been procured in accordance with the Loan Agreement and the Fund`s rules and procedures and necessary supporting documents, records and accounts have been kept in respect of all Program activities. In addition, adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exists.

AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME II (SIDA GRANT NO. 51110109)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1416. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1417. Under Funding and Under Expenditure on Budget

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,216,954,518 and Kshs.1,057,151,793,

respectively resulting in an under-funding of Kshs.159,802,725 or 13% of the budget. Similarly, the Programme expended Kshs.933,253,617 against actual receipt of Kshs.1,057,151,793, resulting in an under-absorption of Kshs.123, 898,176 or 12% of the actual receipts. The under-funding and under-absorption of the funds released could have affected the planned activities and negatively impacted on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1418. Irregular Disbursement

The statement of receipts and payments reflects expenditure for purchase of goods and services amounting to Kshs.224,427,938 and as disclosed under Note 10.8 to the financial statements. Included in this amount is Kshs.98,659,675 in respect of other operating expenses/feasibility studies. The latter further includes Kshs.2,000,000 disbursed to Kisii County Revenue Fund as reimbursement of its share of Government of Kenya contribution after an erroneous transfer of money to Kirinyaga County meant for Kisii County vide an internal memo ref:JAS/PROJECTS/3/VOL.III/125 dated 19 February, 2021. Review of the status at the time of audit in October, 2021 revealed that the Kirinyaga County Government had not refunded the excess disbursement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1419. There were no material issues relating to effectiveness of internal controls, risk management and governance.

EMERGENCY LOCUST RESPONSE PROJECT (IDA CREDIT NO.6648-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1420. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1421. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects loan from external development partners final budget and actual on comparable basis of Kshs.1,457,000,000 and Kshs.1,347,337,000, respectively resulting in an under-funding of Kshs.109,663,000 or 7.5% of the budget. Similarly, the Project expended Kshs.688,580,890 against an approved budget of Kshs.1,457,000,000 resulting in an under-expenditure of Kshs.768,419,110 or 52.7% of the budget. The underfunding and under expenditure affected the planned activities and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1422. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1423. There were no material issues relating to effectiveness of internal controls, risk management and governance.

MULTI-NATIONAL RURAL LIVELIHOODS ADAPTATION TO CLIMATE CHANGE IN THE HORN OF AFRICA (ADB/ADF GRANT NO.5550155001201)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1424. Variances Between Financial Statements and IFMIS Ledger

The statement of receipts and payments reflects expenditure on purchase of goods and services of Kshs.43,736,154 and as detailed in Note 6 to the financial statements. However, some reported expenses had variances amounting to Kshs.7,128,365 with the IFMIS ledger as tabulated below:

Details of Expenditure Items	Actuals as per IFMIS Ledger (Kshs.)	Actuals as per Financial Statements (Kshs.)	Variance (Kshs.)
Utilities, Supplies and Services	6,135,255	448,908	5,686,347
Telephone, Telex, Facsimile and Mobile Phone Services	500,000	840,420	(340,420)
Domestic Travel and Subsistence	-	22,738,227	(22,738,227)
Training Expenses - Travel Allowance	12,733,180	12,208,527	524,653
Training Expenses - Production and Printing of Training Materials	952,440	-	952,440
General Office Supplies (papers, pencils, forms, small office equipment)	579,100	-	579,100
Contracted Professional Services	4,798,766	-	4,798,766
Contracted Technical Services	4,051,379	-	4,051,379
Maintenance Expenses - Motor Vehicles	6,500,000	-	6,500,000
Pre-feasibility, Feasibility and Appraisal Studies	2,464,735	-	2,464,735
Pre-feasibility, Feasibility and Appraisal Studies	4,649,592	-	4,649,592
Total	**43,364,447**	**36,236,082**	**7,128,365**

Consequently, the accuracy and completeness of the above expenditure amounts as reflected in the financial statements for the year ended 30 June, 2021 could not be confirmed.

1425. Irregular Charging of Expenditure on Fuel Oil and Lubricants

The expenditure of Kshs.43,736,154 in respect to purchase of goods and services as disclosed in Note 6 to the financial statements includes an amount of Kshs.7,500,000 relating to fuel, oil and lubricants. Review of cash book and other supporting documents revealed that an expenditure of Kshs.4,000,000 charged to fuel, oil and lubricants was not related to the Programme but related to Drought Resilience and Sustainable Livelihoods Project.

Consequently, the accuracy and completeness of the total expenditure of Kshs.4,000,000 on fuel, oil and lubricants for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1426. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.98,262,141 and Kshs.78,262,141 respectively, resulting in an under funding of Kshs.20,000,000 or 20% of the budget. Further, the statement of comparative budget and actual amounts reflects final expenditure budget and actual on comparable basis of Kshs.98,262,141 and Kshs.43,736,154 respectively, resulting in an under-expenditure of Kshs.54,525,987 or 55% of the budget. The under-funding and under-expenditure of the budget may affect the implementation of the planned activities.

1427. Projects' Status Report

A review of a status report for contracts implemented in the year ended 30 June, 2021 indicated that the Programme Management signed sixteen (16) contracts valued at Kshs.62,464,851 which were scheduled to be completed by 30 June, 2021. Out of these, eight (8) contracts were for consultancy services valued at Kshs.28,301,894, while the other eight (8) worth Kshs.34,162,957 were in relation to various physical projects. Review of the contract documents revealed that out of the eight (8) contracts for physical projects, only two (2) amounting to Kshs.10,721,265 were complete while six (6) with a total contract sum of Kshs.23,441,692 were partially complete.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1428. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1429. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1430. As required by African Development Bank and African Development Fund, I report based on the audit that the Programme funds have been used in accordance with the conditions of Protocol of Grant Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided. Further, goods and services financed have been procured in accordance with the Protocol of Grant Agreement and the Bank`s and Fund`s rules and procedures

and necessary supporting documents, records and accounts have been kept in respect of all Programme activities. In addition, adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exist and ledgers and fixed assets register for the Programme assets are maintained as required.

STRENGTHENING FERTILIZER QUALITY AND REGULATORY STANDARDS IN KENYA PROJECT (AGRA GRANT NO.2013 SHP001)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1431. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1432. Project Completion Status

According to the financing agreement dated 23 July, 2014, (Schedule II - Conditions of the Grant Agreement) the Project ought to have been concluded by 30 June, 2017. The grant period was, however, extended through a letter from AGRA dated 19 February, 2018, for a period of six months effective from January to June, 2018, after which the unspent fund balance was to be refunded to AGRA. Further, the Project has ceased operations and had not been active for over three (3) years while the handing over of the Project and its assets to the parent Ministry of Agriculture, Livestock, Fisheries and Corporative – State Department for Crop Development and Agricultural Research has not been done.

In addition, the unspent amount of Kshs.7,315,322 has not been surrendered to AGRA contrary to Clause 7 of the Financing Agreement which states that, "any unused grant funds not spent or committed for purposes of the Project must be promptly returned to the donor at the end of the grant period".

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1433. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1434. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SUPPORTING AGRICULTURAL INPUT AND OUTPUT MARKETING POLICY AND REGULATORY REFORMS TO IMPROVE THE ENABLING BUSINESS ENVIRONMENT FOR AGRICULTURE IN KENYA (AGRA GRANT NUMBER 2018 KE 005)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1435. Inaccuracies in the Statement of Comparative Budget and Actual Amounts

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 reflects receipts and expenditure budget of Kshs.86,072,671 and Kshs.85,209,058 respectively. However, the approved budget for the financial year 2020/2021 provided for audit indicated a total budget of Kshs.87,086,900, resulting in an unexplained variance of Kshs.1,014,229 under receipts and Kshs.1,877,842 under expenditure, respectively. In addition, the summary of overall project performance under other information accompanying the financial statements reflects total budget for 2020/2021 financial year of Kshs.85,320,453 which differs with the statement of comparative budget and actual amounts final budget of Kshs.86,072,671 resulting in an unexplained variance of Kshs.752,217.

The statement of comparative budget and actual amounts for the year ended 30 June, 2021 also reflects actual receipts on comparable basis of Kshs.86,072,671 while the statement of receipts and payments reflects actual receipts of Kshs.62,252,944.45 resulting in an unexplained variance of Kshs.23,819,727. The statement further reflects a final budget of Kshs.1,027,256 in respect of acquisition of non-financial assets. However, an adjustment made of Kshs.252,256 is not reflected in the final budget for the item hence overstatement of the final budget by the same amount.

In the circumstances, the accuracy and completeness of the statement of comparative budget and actual amounts for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1436. Use of Funds on Non-Project Related Expenditure

The statement of receipts and payments reflects payments amounting Kshs.83,731,902 in respect of purchase of goods and services and as disclosed under Note 6 to the financial statements. Included in this amount is Kshs.561,928 relating to communication, supplies and services which was paid vide cheque number 0001587 dated 20 May, 2021 for supply of telephone exchange services to the State Department for Crop Development and Agricultural Research. However, this expenditure item was not among the budgeted activities for financing through the project funds.

1437. Under-funding of the Project Activities

Note 1.7- Funding Summary on pages vii and viii under other information accompanying the financial statements reflects total funding to-date (30-06-2021) of Kshs.92,983,178.80 (USD 871,558) comprising USD 294,515) and USD 577,043 for financial years 2019/2020 and 2020/2021, respectively.

The Project requested for exchequer release of USD 577,043 in the financial year 2021/2021. However, The National Treasury released Kshs.61,788,150 (USD 555,000) only to the project`s bank account maintained at NCBA on 21 December, 2020, resulting in a shortfall of USD 22,043 and thus, underfunding of the project`s activities. This is contrary to Paragraph 5 of the Grant Agreement which require that all the grant funds received from AGRA for the project must be maintained in a separate account dedicated to the charitable purposes of the project.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1438. Inadequate Internal Controls Over Fuel Purchased and Drawn

The expenditure on purchase of goods and services disclosed under Note 6 to the financial statements includes an amount of Kshs.580,736 relating to routine maintenance – vehicles and other transport equipment. Expenditure records on fuel show that an amount of Kshs.500,000 was paid vide cheque number 000033 dated 28 October, 2020 for provision of fuel in bulk to the Project. The fuel management records, however, reflected the following anomalies and internal control weaknesses:

i. There was no correlation between the fuel register and the payment of Kshs.500,000 because Local Purchase Order or any relevant document was not referenced there to.

ii. The fuel register was not properly maintained and details of fuel drawn were not recorded.

iii. There was no reconciliation between the supplier's statement and the project management's statements. The statement from the supplier, on a random check, differed with the fuel register and the supporting receipts. Further, the supplier's statement did not show the date the fuel was drawn hence making reconciliation difficult.

1439. Lack of Internal Audit Review

During the year under review, it was noted that there was no internal audit review of the project's activities contrary to Section 73(3)(b) of the Public Finance Management Act, 2012 which require that the Internal Auditor shall conduct internal auditing which includes risk-based, value-for-money and systems audits aimed at strengthening internal control mechanisms that could have an impact on achievement of the strategic objectives of the entity.

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR CROP DEVELOPMENT AND AGRICULTURAL RESEARCH

CENTRE OF EXCELLENCE IN SUSTAINABLE AGRICULTURAL AND AGRIBUSINESS MANAGEMENT (CESAAM) CREDIT NO.5798-KE – EGERTON UNIVERSITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1440. CESAAM Office Block Design

Included in the enhancing institutional readiness and operations expenditure of Kshs.19,518,996 reflected in the statement of receipts and payments under Note 8.11 to the financial statements is an expenditure of Kshs.10,138,030 incurred on design of CESAAM office block. However, the completion interim certificates were not issued by the inspection and acceptance committee as stipulated in Section 48(4)(e) of the Public Procurement and Assets Disposal Act, 2015. The Management also indicates that the Vice Chancellor appointed the project implementation committee to supervise and implement the contract together with the consultant as part of the project implementation team, in accordance with Section 151 of the Public Procurement and Disposal Act, 2015. However, the project implementation committee is not mandated by the procurement laws and regulations to issue interim certificates for goods, works and services delivered.

Under the circumstances, the propriety of Kshs.10,138,030 incurred on the Centre of Excellence in Sustainable Agriculture and Agribusiness Management (CESAAM) office block design for the year ended 30 June, 2021 could not be confirmed.

1441. Outstanding Imprests and Advances

The outstanding imprests and advances reflected in the statement of financial assets and liabilities of Kshs.23,136,827 is at variance with the amount of Kshs.22,559,843 disclosed under Note 8.14 to the financial statements resulting to unexplained variance of Kshs.576,984.

In the circumstances, the accuracy and completeness of the outstanding imprests and advances of Kshs.23,136,827 as at 30 June, 2021 could not be confirmed.

Emphasis of Matter

1442. Bank Reconciliation

The bank reconciliation statement at Appendix 3 to the financial statements is for the month ended 31 July, 2021 instead of the month ended 30 June, 2021. This is contrary to the financial reporting template provided by the Public Sector Accounting Standards Board for the year ended 30 June, 2021.

1443. Project Information

The report and financial statements on page(iii) reflects the project start date as 24 August, 2016. However, the correct project start date is 4 July, 2016 as per the credit agreement signed between GOK and International Development Association(IDA).

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1444. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1445. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1446. As required by International Development Association-Credit No.5798-KE, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been and the financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR CO-OPERATIVES – VOTE 1173

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1447. There were no material issues noted during the audit of the financial statements of the State Department.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1448. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1449. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR TRADE AND ENTERPRISE DEVELOPMENT – VOTE 1174

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1450. There were no material issues noted during the audit of the financial statements of the State Department.

Emphasis of Matter

1451. Government Assets

1451.1 Loss of Motor Vehicles

The financial statements reflect non-current assets with a historical cost of Kshs.303,997,644, as disclosed in the summary of fixed assets register at Annex 3 of the financial statements. Included in these assets are transport equipment with a historical cost of Kshs.12,142,954, the figure includes two vehicles, registration numbers GK H604 Isuzu pick-up and GK A589T Toyota Pick-up all of unknown value, that were reported stolen at the Thika Police Station on 27 August, 2007 and the Kabete Police Station on 09 February, 2013 respectively. Although, the Management indicated that the issues are still under investigations and awaiting conclusion and recommendations of the cases from the investigating agency, the matter has taken long to conclude.

1451.2 Lack of Ownership Documents for Parcel of Land in South C Nairobi

Information available and as disclosed under Annex 3 to the financial statements indicates that the State Department owns the Weights and Measures Complex in South C Nairobi, which is built on a parcel of land measuring approximately seven (7) acres of unknown value. However, the ownership documents were not provided for audit review.

In the circumstances, it was not possible to confirm the ownership status of the parcel of land in South C Nairobi as at 30 June, 2021.

Other Matter

1452. Budgetary Control and Performance

The State Department received Exchequer receipts totalling Kshs.3,401,811,887 against an approved budget of Kshs.3,450,437,732 resulting to a shortfall of Kshs.48,625,845 of the approved budget. Similarly, actual expenditure amounted to Kshs.3,389,289,408 against the approved budget of Kshs.3,450,437,732 resulting to an under absorption of Kshs.61,148,324 which occurred mainly under other grants and transfers and social security benefits.

The shortfall in budgeted receipts and under-absorption implies that the overall goals and objectives of the State Department were not achieved as planned.

1453. Lack of Expenditure Returns for Disbursements to Foreign Missions

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities reflects an accounts receivables balance of Kshs.31,443,610 in respect to disbursements by the State Department to foreign missions whose expenditure returns were not provided for audit review. Although the Management had previously explained that the responsibility of providing the expenditure returns for the expenditure in foreign missions lies with the Principal Secretary, Ministry of Foreign Affairs, no evidence was provided for verification showing the actions being taken by the Department to ensure that returns are made available as and when required.

In view of the above, the regularity of the unaccounted for AIEs held by foreign missions could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1454. Exchequer Releases Received After Year End

The statement of receipts and payments reflects Exchequer releases amounting to Kshs.3,363,202,764, as disclosed in Note 1 to the financial statements. Included in this figure is Kshs.1,330,015,992 relating to Exchequer released by The National Treasury to the State Department for Quarter 4, which further includes Kshs.150,000,000, which was released and received on 02 July, 2021.

The delayed Exchequer releases may have affected the State Department's ability to implement its planned programmes and possible underutilization of the budget, resulting to negative impact on service delivery to the public.

1455. Delayed Completion of Contract - Kenya Institute of Business Training (KIBT) Phase II

The State Department for Trade entered into a contract with a contractor for partitioning of offices for the Kenya Institute of Business Training (KIBT) at Parklands Complex at a contract sum of Kshs.146,600,150 which was to be implemented in six months commencing on 17 September, 2018 and ending on 17 March, 2019.

Review of the project file revealed that the contractor sought and obtained several extensions of time, with the first being from 17 March, 2019 to 17 May, 2019, then to 30 June, 2019 and thereafter to 24 September, 2019. However, an audit inspection carried out on the Project in the month of October, 2021 revealed that the contractor was not on site and partitioning works had not been completed.

In addition, the second basement floor of the Project was overflowing with water from underground. The Management explained that the water was pumped out regularly to avoid overflows. However, Management did not explain the measures put in place to ensure the safety of the building in view of the current water leakage and moisture in the basement floor.

No plausible explanation was provided for not completing the project within the duration provided for under the contract.

In the Circumstance, the delays may result in cost overrun and delayed occupation of the building by the State Department for purposes of provision of services to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1456. There no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR INDUSTRIALIZATION - VOTE 1175

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1457. Motor Vehicles without Title Documents

Annex 4, the summary of fixed assets register reflects a total historical cumulative cost of assets of Kshs.390,303,201. However, the balance excludes 78 motor vehicles (36 motor vehicles at the Headquarters and 42 motor vehicles at the County Industrial Development Offices) with an estimated value of Kshs.185,080,000 and Kshs.94,200,600, respectively. Records provided indicated that out of the pool of 78 motor vehicles, 75 motor vehicles did not have logbooks or any registration documents and therefore it was not possible to determine their ownership status.

Management explained that, the original registration documents for the motor vehicles could not be traced due to the reorganization of the Ministry of Industrialization into various State Departments. Although, Management had requested for copies of the registration documents from the National Transport Safety Authority (NTSA), the logbooks had not been received.

In the absence of the logbooks, it was not possible to confirm ownership of the motor vehicles.

Other Matter

1458. Budgetary Control and Performance

The State Department received Exchequer receipts totalling Kshs.4,534,617,601 against an approved budget of Kshs.6,626,795,985 resulting to a shortfall of Kshs.2,092,178,384 or 32% of the approved budget. Similarly, actual expenditure amounted to Kshs.4,569,897,965 against the approved budget of Kshs.6,626,795,985 resulting to an under absorption of Kshs.2,056,898,020 or 31% which occurred mainly under transfers to other government units. The Management attributed the under absorption to delays in Exchequer releases by The National Treasury. The shortfall in budgeted receipts and under-absorption implies that the overall goals and objectives of the State Department were not achieved as planned.

1459. Pending Bills

As previously reported, Notes 17.1 and 17.3 to the financial statements reflects pending bills amounting to Kshs.120,698,294 comprised of Kshs.22,753,616 for the State Department, Kshs.77,487,181 for Kenya Industrial Training Institute (KITI) and Kshs.20,457,497 due to other entities respectively, that were not settled in the year under review but were carried forward to the 2021/2022 financial year. Failure to settle bills in the year to which they relate will adversely affect the implementation of the subsequent

year's budgeted programmes as the pending bills form a first charge to that year's budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1460. Exchequer Releases Received After Year End

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects Exchequer releases amounting to Kshs.4,409,619,069. Included in the balance is an amount of Kshs.528,363,136 relating to Exchequer released by The National Treasury to the State Department from 2 July, to 7 July, 2021 as summarized below;

Date Funds Received in the Bank Account	Vote	Amount (Kshs.)
2 July,2021	Recurrent	23,013,783
7 July,2021	Recurrent	59,050,695
7 July,2021	Development	446,298,658
Total		**528,363,136**

The delayed Exchequer releases may have affected the State Department's ability to implement its planned programmes, thus negatively impacting on service delivery to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1461. Failure to Provide Internal Audit Reports

During the audit, the Internal Audit reports for the State Department were not provided for review and it was therefore not possible to ascertain whether the Internal Audit Function had given an assurance on the state of the risk management, internal control and governance within the State Department as required by Regulation 160(1) of the Public Finance Management (National Government) Regulations, 2015.

Further, the Management did not provide the Audit Committee minutes for audit review, contrary to Regulations 166(2) and 179(1) of the Public Finance Management (National Government) Regulations, 2015, which requires the Audit Committee to carry out annual review of independence, performance, and competency of the internal audit unit and comment on their effectiveness in the annual report and also ensure that the Audit Committee meets at least once in every three months respectively.

DONOR FUNDED PROJECTS

KENYA INDUSTRY AND ENTREPRENEURSHIP PROJECT (CREDIT NO. IDA 6268-KE)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1462. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1463. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects actual receipts of Kshs.122,157,715 against budgeted receipts of Kshs.514,436,061, resulting in a shortfall of Kshs.392,278,346 or 76% of total budget. The shortfall arose under the IDA Loan where actual receipts amounted to Kshs.102,500,265 against the budgeted receipts of Kshs.498,267,183, resulting in a shortfall of Kshs.395,766,918 or 79% of the total budgeted receipts. In addition, actual receipts under transfer from government entities were Kshs.19,657,450 against budgeted receipts of Kshs.16,168,878, resulting to excess receipts of Kshs.3,488,572 or 18% of the total budgeted receipts. These excess receipts, combined with the shortfall under the IDA Loan resulted to the combined shortfall in receipts of Kshs.392,278,351 or 76% of total budget.

Further, the statement of comparative budget and actual amounts reflects budgeted payments of Kshs.514,436,061 against actual payments of Kshs.158,310,681, resulting to under expenditure of Kshs.356,125,380 or 69% of total budget. The Management has attributed the under expenditure to slow procurement of consultants due to COVID-19 challenges, which resulted in delayed signing of contracts for the consultants and approval of inception reports.

In view of the above, the Project Management have not have implemented all the planned and approved programmes, resulting to delayed provision of services to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1464. Unsupported Payments – Hire of Conference Facilities

The statement of receipts and payments for the year ended 30 June, 2021 reflects Kshs.108, 960,681, in respect to purchase of goods and services as disclosed in Note 4

to the financial statements, which includes Kshs.2,584,410 for hospitality supplies and services which includes an amount of Kshs.2,292,500 and which was paid to various suppliers on account of hire of conference facility. However, the expenditure was not supported with relevant documents including evidence of letters of appointment of opening and evaluation committee members, their reports and the professional opinion of the head of procurement function and the Local Service Orders (LSOs). This is contrary to the requirements of Regulation 91(2) of Public Procurement and Asset Disposal Regulations, 2020 which states that "The accounting officer or such other person delegated in writing by that accounting officer shall, and for the purposes of the procurement process, appoint (a) an ad hoc opening committee in accordance with Section 78 of the Act; and (b) the ad hoc evaluation committee in accordance with Section 46 of the Act and regulation 39 of these Regulations. (3) The ad hoc evaluation committee shall carry out the evaluation in accordance with the Act and these Regulations. Further Subsection (4) requires that before any decision to award a procurement under a request for quotation is made, the head of procurement function shall by way of professional opinion make a recommendation based on a market survey.

Consequently, the Management was in breach of the law.

1465. Irregular Allowances on Office Partitioning

Statements of receipts and payments for the year ended 30 June, 2021 reflects Kshs.108,960,681, in respect to purchase of goods and services as disclosed in Note 4 to the financial statements, which includes Kshs.1,005,000 under other operating payments, which amount of Kshs.960,000 was paid as allowances to officers who were involved in partitioning of Project offices. However, review of the expenditure revealed that although a contractor was engaged for the work, the Management made payments for meal allowance to staff for partitioning of the Project offices. This is contrary to Section C.17(3) of H.R Policies & Procedures Manual for Public Service 2016 which states that, Meal allowance shall not be paid as a compensation for officers who are required to work beyond the official working hours.

In the circumstances, the propriety of the allowances of Kshs.960,000 for partitioning of offices as at 30 June, 2021 could not be confirmed the Management was in breach of the law.

1466. Irregular Award of Contract for Works and Consultancy Services

1466.1 Consultancy Services for Administration and Management of Industry Academia Platform

The statement of receipts and payments for the year ended 30 June, 2021 reflects Kshs.108,960,681 in respect of purchase of Goods and Services, as disclosed in Note 4 to the financial statements. This includes Kshs.79,148,797 for consultancy services out of which Kshs.8,429,679 was spent on consultancy for Administration and Management of an Industry Academia Platform. However, review of the procurement of the consultancy services revealed that the firm which worn the tender was in partnership with another firm

which submitted a proposal for expression of interest for the same contract. This is contrary to the requirements of the Bank under Section 3.20 of World Bank Procurement Regulations, 2018 which prohibit consultants from submitting multiple proposals on any one consultancy.

Consequently, the Project Management was in breach of the Bank Procurement Regulation.

1466.2 Consultancy Services for International Acceleration Process

The statement of receipts and payments for the year ended 30 June, 2021 reflects Kshs.108,960,681 in respect to purchase of Goods and Services, as disclosed in Note 4 to the financial statements, which includes Kshs.79,148,797 for consultancy services out of which Kshs.26,687,554 was spent on consultancy for International Acceleration Process services.

However, review of the procurement documents for the above contract revealed existence of two (2) evaluation reports on the expression of interest for the above consultancy services. According to the first report dated 25 January, 2019 the above successful tender was not responsive based on the fact that, the firm did not demonstrate adequate experience in carrying out similar assignments and a strong understanding of the operating and business environment in Kenya. Further, the firm did not demonstrate ability to work collaboratively with government counterparts. The firm also lacked sufficient existing network and experience in working with start-ups and entrepreneurs who had been engaged in the then previous five years.

According to the second report dated 11 July, 2019, the winning firm and another firm which were unresponsive according to the first evaluation report, were reported to be responsive. Further, two firms which were evaluated as responsive as per the first report, were reported to be unresponsive as per the second evaluation report. It was not clear the circumstances under which the evaluation results in the two reports changed such that the winning firm was declared the successful bid, considering that there were no changes in the evaluation criteria or the composition of the evaluation committee.

Under the circumstances, it was not possible to confirm that the above consultancy services were procured in compliance with proper procurement procedures.

1466.3 Contract for Routine Maintenance - Office Partition

The statement of receipts and payments for the year ended 30 June, 2021 reflects Kshs.108,960,681 in respect to purchase of Goods and Services, as disclo ed in Note 4 to the financial statements. Included in this figure is Kshs.2,529,084 which was paid for Routine Maintenance - Office partition. However, review of related procurement documents revealed that the tender was closed on 27 March, 2020 and the evaluation was completed on 26 May, 2020, which was beyond the prescribed evaluation period of 30 days.

Further, the notification of award of tender was issued on 16 June, 2020, after the tender validity period of 60 days had lapsed on 27 May, 2020. There was no approval for extension of the tender validity period.

In view of the above anomalies, it was not possible to confirm that the above partitioning works were procured in compliance with proper procurement procedures.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1467. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR INDUSTRIALIZATION

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO.5812-KE) - MICRO AND SMALL ENTERPRISE AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1468. There were no material issues noted during the audit of the financial statements of the Project.

Emphasis of Matter

1469. Amount Withdrawn but Unclaimed

The statement of special (designated) account reconciliation for the project reflects USD 5,181,590 (Kshs.532,149,361) at the then exchange rate of 1 USD at Kshs.102.7 as withdrawn but unclaimed as at 30 June, 2021. This represents cumulative funds transferred to the local Project bank account but whose expenditure returns have not been submitted to The National Treasury by the close of the financial year.

Other Matter

1470. Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final expenditure budget of Kshs.1,007,000,000 against actual expenditure of Kshs.668,688,108 resulting to under expenditure of Kshs.338,311,892 representing 34% of the budget.

In view of the above, the Project Management has not implemented all the planned and approved programmes, resulting to delay in provision of services to the citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1471. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1472. Weak Controls Over Fuel Expenditure

The statement of receipts and payments for the year ended 30 June, 2021 reflects Kshs.245,096,020 with respect to purchase of goods and services as indicated at Note 6 to the financial statements which includes Kshs.1,466,350 for refined fuels and lubricants. The project vehicles were fueled using cash and fuel cards and the project engaged Vivo Oil for loading of fuel cards. However, it was observed that although the project has seven (7) vehicles, there were other twelve (12) vehicles which were also fueled and serviced using project funds. Further, it was observed that Management had not set fuel cards limits for each vehicle and in several cases the cards and vehicle numbers were not indicated hence enabling any vehicle to be fueled using any fuel card.

The above anomalies are contrary to Section 79(2) of Public Finance Management Act, 2012 which states that, without prejudice to provisions under subsection (1), a public officer employed in a national government state organ or public entity shall (b) ensure that the resources within the officer's area of responsibility are used in a way which, (i) is lawful and authorized; and (ii) is effective, efficient, economical and transparent.

No explanation was provided by Management for not putting in place effective internal controls for fuel management.

STATE DEPARTMENT FOR LABOUR - VOTE 1184

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1473. Interest on Delayed Payments

The statements of receipts and payments reflects an expenditure of Kshs.97,773,323 under acquisition of assets which, as disclosed in Note 9 to the financial statements, includes an amount of Kshs.86,144,544 relating to construction of buildings. The latter balance includes an amount of Kshs.49,100,000 paid towards an office block construction. The project for the construction of the office block was awarded to a company on 15 May, 2015 at a contract sum of Kshs.442,723,947. The project commenced on 29 May, 2015 and had a revised completion date of 31 December, 2020 which has expired. Although a total of Kshs.313,000,000 had been paid since inception of the project, certificate No.9 of 11 June, 2020 reflected interest on delayed payment of Kshs.6,207,287. The delay in project completion has resulted in increased project cost due to claims by contractors for time extension and claims of interests due to delayed payments.

Under the circumstances, the interest amount payable of Kshs.6,207,287 is nugatory and could have been avoided.

1474. Acquisition of Assets and Fixed Assets Register

The statements of receipts and payments reflects an expenditure of Kshs.97,773,323 under acquisition of assets for the year ended 30 June, 2021. However, the fixed assets register at Annex 4 to the financial statements reflects fixed assets with a historical cost of Kshs.225,511,252 and additions during the year of Kshs.99,225,709 which differ from the amount of Kshs.97,773,623 reflected in the statement of receipts and payments. Further, the fixed assets register did not indicate the historical value, current value, asset number and location of the assets. In addition, inspection and acceptance reports for the completed projects were not provided for audit verification.

Consequently, ownership, existence, valuation and accuracy of the closing fixed assets balance of Kshs.225,511,252 and acquisition during the year of Kshs.99,225,709 could not be confirmed.

1475. Recurrent Bank Account

The statement of assets and liabilities reflects bank balances of Kshs.194,079,153 which, as disclosed in Note 9 to the financial statements, includes a recurrent bank balance of Kshs.23,452,990. However, the cash book reflected a closing balance of Kshs.23,546,722 as at 30 June, 2021 resulting in an understatement of Kshs.93,732.

Consequently, the accuracy of the recurrent bank account balance of Kshs.23,452,990 could not be confirmed.

Other Matter

1476. Non-Payment of Pending Bills

As disclosed in Annex 1 to the financial statements, pending bills totalling to Kshs.81,872,393 were not settled during the year but were instead carried forward to financial year 2021/2022. Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1477. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1478. Non-Adherence to One Third Basic Salary Rule

Review of the Human Resource data revealed instances where some employees were receiving net salaries which were less than a third of their basic salaries. This is contrary to Section 19(3) of the Employment Act, 2007 which states that the total amount of deduction of the wages of an employee should not exceed two thirds of such wages.

Consequently, the Management was in breach of the law.

1479. Mis-Posting of Staff

Review of the authorized establishment indicated that the authorized establishment was a total of 1,367 staff members while the existing number was 570 resulting in a deficit of 797(41.7%) as at 30 June, 2021. Further, 185 staff members were placed in positions that were not authorized while 979 staff members were not in the authorized positions as detailed below:

Category	Authorized Establishment	Staff In-Post	Variance (Number of Staff)	Observation/ Explanation	Risk
Job categories with no officers occupying the positions.	365	0	365	This is the number of approved staff who have not yet been employed by the auditee and the offices designated do not have any staff members present. Current in Post is 0 while Authorized Establishment is a positive number.	The risk of efficiency in service delivery and execution of the mandate.

Category	Authorized Establishment	Staff In-Post	Variance (Number of Staff)	Observation/ Explanation	Risk
Job categories with excess officers that are in the same position	67	252	185	This is where the current in post are more than the authorized establishment. This means that the 794 officers were in excess in posts that had already been filled.	The risk of redundancy in carrying out operations leaving some officers idle and underutilized.
Job Category with fewer officers	1197	218	979	This is where the current in post are less than the authorized establishment. This means officers may be overwhelmed by work that is supposed to be shared.	The risk of overwhelming the officers hence leading to under-performance in service delivery to Kenyans.

The understaffing poses a risk of ineffectiveness in service delivery to public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1480. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECTS

KENYA YOUTH EMPLOYMENT OPPORTUNITY PROJECT CREDIT NO.58120-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1481. Domestic Travel and Subsistence

The financial statements for the year under review reflect Kshs.62,068,655 in respect of purchase of goods and services which further includes domestic travel and subsistence totalling to Kshs.40,115,560 that excluded Kshs.2,356,000 paid in respect of domestic travel and subsistence allowance. No reason was provided to explain the understatement of domestic travel and subsistence by Kshs.2,356,000. Consequently, the accuracy and completeness of domestic travel and subsistence allowance could not be confirmed for the year ended 30 June, 2021

1482. Wrong Charge of Accounts

The statement of receipts and payments reflects purchase of goods and services figure of Kshs.62,068,655 which includes wrong charge of training expenses totalling Kshs.112,000 instead of charge to fuel, oil and lubricants. Further, the Management wrongly posted expenditure totalling to Kshs.1,100,000 in respect of fuel, oil, and lubricant to routine maintenance of other assets while Kshs.1, 400,000 in respect of contracted professional services (training expenses) was charged to other operating expenses. Consequently, the fuel, oil and lubricants, other operating and training expenses are misstated and therefore the accuracy and completeness of the financial statements could not be confirmed for the year ended 30 June, 2021.

Emphasis of Matter

1483. Budgetary Control and Performance

The previous year's funding summary reflected total donor commitment of Kshs.1,350,000,000. However, at the close of the year ended 30 June, 2021, the cumulative amount disbursed to the project totaled Kshs.525,281,035 resulting to undrawn balance of Kshs.824,718,965.

Although the Financing Agreement signed on 4 July, 2016 indicates that the project is expected to end on 31 December, 2021, the Project Management has not explained the reasons for the huge undrawn balance totalling Kshs.824,718,965. Consequently, the citizens may not have received the Project's expected services for the year ended 30 June, 2021.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1484. Acquisition of Assets

Note 3 to the financial statements reflects acquisition of ICT equipment totalling Kshs.1,155,500. However, although the initial budget was Kshs.10,000,000, it was reduced to Nil balance through supplementary budget. The State Department for Labour has not explained the source of Kshs.1,155,500 used for the purchase of ICT Networking.

Consequently, the purchase of ICT Equipment was not approved according to requirement of Public Finance Management Act, 2012 Section 43(1)(d) which states that accounting officer may reallocate funds from the authorized use but may not reallocate funds where – the transfer of funds may result in contravention of fiscal responsibility principles and the Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1485. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1486. As required by Financing Agreement between the International Development Association (IDA) and the Kenya Government, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the project financial statements are in agreement with the accounting records and returns.

OTHER DONOR FUNDED PROJECT IMPLEMENTED BY AGENCY UNDER THE STATE DEPARTMENT FOR LABOUR

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (KYEOP) IDA - 5812-KE - NATIONAL INDUSTRIAL TRAINING AUTHORITY (NITA)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1487. Inaccuracies in the Financial Statements

1487.1 Statement of Cash Flows

The statement of financial assets reflects cash and cash equivalents of Kshs.176,741,559 as at 30 June, 2021 which differs with the year-end cash and cash equivalents of Kshs.177,214,091 reflected in the statement of cash flows.

Consequently, the accuracy and completeness of the statement of cash flow's, cash and cash equivalents balance of Kshs.177,214,091 could not be confirmed for the year ended 30 June, 2021.

1487.2 Cash and Cash Equivalents

The statement of financial assets reflects a cash and cash equivalent balance of Kshs.176,741,559 which does not include Kshs.3,619,473 held in suspense at Co-operative Bank of Kenya. Further, audit revealed that another suspense account with Nil balance was held at Equity Bank which was not disclosed in the financial statements. There were also no bank reconciliation statements and returns for the two (2) suspense accounts.

Consequently, the accuracy of the cash and cash equivalents balance of Kshs.176,741,559 as at 30 June, 2021 could not be confirmed.

1488. Renewal Contracts for Contractual Staff

Included in the compensation of employees' balance of Kshs.29,414,921 is Kshs.2,400,000 being unsupported monthly salary payments made to 10 contracted drivers for the month of January, 2021 to 30 June, 2021. Examination of records found in their personal files revealed that they had all requested for contract renewal through letters which were all approved on 14 December, 2020 but no signed contracts were in place to support the renewal. In the circumstance, the propriety and completeness of Kshs.29,414,921 for compensation of employees could not be confirmed for the year ended 30, June 2021.

1489. Unsupported Fuel Expenditure

Note 3 to the financial statements reflects fuel costs of Kshs.2,958,982 which also includes Kshs.1,254,538. However, documents such as work tickets, cash books and fuel statements were not provided for audit verification. Further, the Project's fuel statement revealed that National Industrial Training Authority (NITA) refunded an amount totalling to Kshs.1,306,818 being amount of fuel incurred by the Authority. However, supporting documents for the actual total amount incurred by the Authority were not provided. In the circumstance, the actual fuel consumed by NITA has not been provided for audit verification and the propriety of the fuel costs of Kshs.1,254,538 for the year ended 30 June, 2021 could not be confirmed

1490. Fixed Assets

Analysis of the summary of fixed assets as shown in the table below and at Annex 3 to the financial statement and the physical fixed assets register kept by the Project reveals significant differences of Kshs.9,323,039 relating to office furniture and general equipment; and a similar difference of Kshs.9,323,039 relating to vehicles and other transport equipment totalling to Kshs.18,646,078. No explanation has been provided regarding the total difference of Kshs.18,646,078.

Asset Class	Cumulative Financial Statements Amounts (Kshs.)	Cumulative Fixed Assets Register Amount (Kshs.)	Difference (Kshs.)
Office Furniture and General Equipment	34,146,327	43,469,366	9,323,039
Software	23,220,001	23,220,001	0
Vehicles and Other Transport Equipment	86,943,039	77,620,000	9,323,039
Total	**144,309,367**	**144,309,367**	**18,646,078**

Consequently, the accuracy of the summary of fixed assets register at Annex 3 could not be confirmed for the year ended 30 June, 2021.

Other Matter

1491. Budgetary Control and Performance

The statement of comparison of budget and actuals amount as at 30 June, 2021 reflects a total payments final budget of Kshs.1,033,473,937 against actual expenditure amount of Kshs.580,680,647 giving a budget utilization of 56%. An in-depth review of the expenditures incurred showed there were budget under-absorption as shown in table below.

Component	Budgeted Amounts (Kshs.)	Actual Expenditure (Kshs.)	Under Absorption (Kshs.)	% Under Absorption
Compensation of Employees	41,587,000	29,414,921	12,172,079	29
Purchase of Goods and Services	991,886,937	551,265,726	440,621,211	44
Total	**1,033,473,937**	**580,680,647**	**452,793,290**	**44**

From the analysis above, it is evident that the Project under spent its budget by a total of Kshs.452,793,290 (44%). This may have a negative impact on implementation of planned activities and service delivery to stakeholders. There is need for proper planning to avoid instances of idle funds.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1492. Compensation of Employees

Included in the compensation of employee's balance of Kshs.29,414,921 is Kshs.1,292,635 relating to statutory deductions whose documentary evidence such as payment and acknowledgement slips were not provided for audit review and therefore it is not clear whether they had been remitted to relevant entities as required by Section 94(1) of the Tax Procedure Act, 2015, Section 27(1) of the NSSF Act, 2013, and Section 18(2) of the NHIF Act Cap. 255.

1493. Imprest Management

Examination of imprests records totalling to Kshs.4,814,837 revealed that officers serving on the Project were issued with more than one (1) imprest contrary to Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, 2015 which states that the Accounting Officer shall ensure that an imprest holder does not have an outstanding imprest before an earlier one is surrendered.

Consequently, the Management was in breach of the law.

1494. Activities Without Prior Clearance from the World Bank

The audit reveals that a budget of Kshs.600,000 was approved by the World Bank for development of new occupational standards while the actual expenditure is recorded as Kshs.3,755,900. In addition, another expenditure totalling Kshs.1,034,600 was incurred in a workshop to prepare NITA's new role in KYEOP. However, a no objection certificate from the World Bank was not provided for audit review.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1495. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1496. As required by the Financing agreement between International Development Association and the Republic of Kenya, I report based on my audit, that I have obtained all the project's information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR SOCIAL PROTECTION - VOTE 1185

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

1497. Inaccuracies in the Financial Statements

1497.1 Misclassification of Expenses

The following amounts were charged to the wrong items of expenditure accounts as detailed below; -

Expenditure Account Wrongly Charged	Account to be charged	Expenditure Amount (Kshs.)
Routine Maintenance -Other Assets	Refurbishment of Buildings	28,551,210
Vehicle Maintenance	Office General Expenses	300,000
Routine Maintenance	Office and General Supplies	995,50
Routine Maintenance -Other Assets	Routine Maintenance – Vehicles	147,366
Foreign Travel and Domestic Travel and Subsistence	Domestic Travel and Subsistence	4,857,321
Other Operating Expenses	Domestic Travel and Subsistence	55,389,530
Fixed Assets	Various Items	20,004,912
Training Expenses	Various	1,619,922
Other Operating Expenses	Domestic Travel and Subsistence	18,126,506

In the circumstances, the accuracy of the balances in the financial statements for the year ended 30 June, 2021 could not be confirmed.

1497.2 Variances Between the Financial Statements and the Integrated Financial Management Information System (IFMIS) Trial Balance

The financial statements reveals inconsistencies with the balances in the IFMIS trial balance as detailed below.

Account Item	Financial Statements (Kshs.)	IFMIS Trial Balance (Kshs.)	Variance (Kshs.)
Inventory AP Accrual	-	173,424,431	(173,424,431)
Expense AP Accrual	-	1,950,552,567	(1,950,552,567)
AP Liabilities	-	2,415,583,731	(2,415,583,731)
Exchequer Releases/Provisioning	31,126,369,476	148,113,239,011	(116,986,869,536)
Consolidated Fund	-	115,965,329,894	(115,965,329,894)
General suspense A/C (Accounts Receivables)	593,620,698	593,622,524	(1,896)

The variances have not been supported or explained.

Consequently, the completeness and accuracy of the financial statements could not be ascertained for the year ended 30 June, 2021.

1498. Unsupported Balances

The statement of receipts and payments reflects an expenditure of Kshs.28,799,118,269 under transfers to other Government Units which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.34,953,896 relating to Economic Stimulus which was not supported by necessary documentation such as acknowledgement of receipt and an agreement. Similarly, an amount of Kshs.593,620,698 in respect of general suspense and a negative balance of Kshs.242,421,047 relating to other payables were not supported by necessary documentation such as invoices and suppliers listing.

In the circumstance, the accuracy and validity of the balances for the year ended 30 June, 2021 could not be confirmed.

1499. Payment of Commission

The statement of receipts and payments reflects Kshs.1,104,035,346 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes other operating expenses of Kshs.382,303,743 where commissions to service providers was charged. Review of records revealed the following anomalies:

1499.1 Beneficiary Reconciliation Reports.

Although records indicates that Kshs.300,868,450 was paid as commission to service providers during the year under review, reconciliation reports by the State Department required in accordance with Section 3.10.1 of the contract between the State Department and the service providers were not provided for audit review.

Consequently, the propriety and accuracy of Kshs.300,868,450 could not be ascertained for the year ended 30 June, 2021.

1499.2 Irregular Payment of Commission

Examination of bank statements for the holding account at the Kenya Commercial Bank revealed that the bank was paid commissions amounting Kshs.296,510,054 for payment cycles starting July, 2019 - March, 2020 during the year under audit. However, the bank levied a further charge of Kshs.12,964,522 on beneficiaries accounts whose balances were more than Kshs.16,000. This is contrary to Section 1.3.6 of the contract with service providers which states that the State Department shall authorise payment to beneficiaries for eight months (8) or Kshs.16,000 irrespective of proof of life.

In addition, the Management did not provide details of beneficiaries whose account balances were in excess of Kshs.16,000, the basis upon which Kshs.12,964,522 was paid as commission.

Consequently, the accuracy and propriety of Kshs.12,964,522 could not be confirmed for the year ended 30 June, 2021.

1500. Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.523,605,738. However, the following anomalies were noted:

(i) The bank reconciliation statements together with bank statements for the accounts held at the Central Bank of Kenya, Kenya Commercial Bank and Co-operative Bank for recurrent, development, deposit and Kenya Social and Economic Inclusion Program from the months of July, 2020 to May, 2021 were not submitted contrary to Regulation 90(1) and (3) of the Public Finance Management (National Government) Regulations, 2015.

(ii) As disclosed in Note 9 to the financial statements, included in the cash and cash equivalents balance is an amount of Kshs.235,837,284 held at the Central Bank of Kenya in respect of the Kenya Social and Economic Inclusion Program (KSEIP). The same amount is reflected in the financial statements of KSEIP as an asset. This means that the cash and cash equivalents of the State Department is overstated by an equivalent amount of Kshs.235,837,284 and therefore, the Department's books did not balance since the amount is not reflected as a contra entry as at 30 June, 2021.

Under the circumstance, the accuracy of the cash and cash equivalents balance of Kshs.523,605,738 as at 30 June, 2021 could not be confirmed.

1501. Deceased Beneficiaries in the Inua Jamii Program Payroll

Audit tests of beneficiaries payroll undertaken in a sample of sixty-eight (68) out of a total of two hundred and ninety (290) Sub Counties (or 23%) during the month of November 2021 reveals that the payroll for payment of older persons' cash transfer (OP-CT), cash transfer to orphans and vulnerable children (CT-OVC) and persons with severe disability cash transfer (PWSD-CT) was erroneous as it contains seven thousand five hundred and

seventy seven (7,577) deceased beneficiaries resulting in an unexplained payment of Kshs.254,702,000 for the period starting 2017 to 30 June, 2021.

Further, records indicates that service providers were equally paid Kshs.15,282,120 in respect of commissions on irregular payment to deceased beneficiaries whose basis has not been explained.

In the circumstances, the propriety, accuracy and completeness of Kshs.269,984,120 utilised cash transfer for the year ended 30 June, 2021 could not be ascertained.

Other Matter

1502. Lack of Ownership Documents

Review of fixed assets register revealed that the State Department occupies 36 parcels of land spread across the country. However, 35 parcels of land did not have requisite ownership documents. The State Department has however, submitted documents to confirm that effort to acquire title deeds for the parcels of land is in progress. In the absence of these legal documents, the ownership of the parcels of land and the accuracy of the reported valuation could not be ascertained.

1503. Pending Bills

The financial statements for the year under review reflected pending bills balance of Kshs.42,300,409, comprising of bills verified and payable of Kshs.33,131,053, bills under verification of Kshs.3,785,397 and bills contested /court awards of Kshs.5,383,959 that were not settled in the year under review, but were carried forward to 2021/2022 financial year. Failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1504. Diversion of Funds

The statement of receipts and payments reflects an expenditure of Kshs.28,799,118,269 under transfers to other Government units which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.865,091,982 relating to current grants to government agencies and other levels of government. The latter balance includes an amount of Kshs.54,091,632 diverted and used for payment to merchants and suppliers, the Kenya Revenue Authority and employees for the State Department without authorisation.

1505. Balances in the Holding Accounts

Examination of bank statements for the four (4) service providers submitted for audit revealed that the holding accounts held a total of Kshs.461,622,844 as at 30 June, 2021 as indicated below:-

Payment Service Provider	Account Name	Account Number	Balance as at 30 June, 2021 (Kshs.)
Kenya Commercial Bank	Agency for Cash Transfer Programme	1168237459	167,852,778
Co-operative Bank	State Department of Social Protection	1141696731500	50,117,479
Kenya Post Office Savings Bank	Inua Jamii Project Account	744130013971	20,135,257
Equity Bank Limited	Agency for Cash Transfer Programme	180279733379	223,517,330
	Total		**461,622,844**

No explanation was provided as to why the amount of Kshs.461,622,844 was not transferred to beneficiaries.

Consequently, it was not possible to confirm that value for money was obtained from Kshs.461,622,844 transferred to the four holding bank accounts.

1506. Presidential Secondary School Bursary

Included in grants and transfers to other Government entities' as disclosed in Note 6 to the financial statements, is an amount of Kshs.405,520,849 incurred for scholarships, educational benefits and emergency reliefs. Included in the latter balance is an amount of Kshs.399,999,400 for presidential bursary disbursed to secondary schools in 47 counties to 21,961 beneficiaries distributed at the constituency level.

However, during physical verification in 16 Sub-Counties the following anomalies were noted:

(i) No evidence of sensitization and creation of awareness by the Department of Children's Services through Constituency Social Assistance Committee (CSAC) on the presidential bursary scheme application processes, eligibility and criteria including the process applied for identification of the needy students was not produced for audit verification. This was attributed to lack of facilitation as there was no allowance paid to those who are required to get involved in the process.

(ii) Presidential bursary applications registers showing applicants' names, identification details, admission or registration numbers and the schools to determine whether the beneficiaries had applied for the money was not provided.

(iii) The constituency bursary sub-committee minutes, attendance registers and reports on identification of the needy students, vetting and award of bursaries to the qualifying beneficiaries, to ascertain whether the award was merit-based as per the set guidelines and whether the bursary funds were for the beneficial use of the intended institutions and individuals were not produced for audit verification.

(iv) No evidence was provided to show that the committee confirmed award of bursary from other sources to avoid double dipping.

(v) No documentation to confirm all forms were analysed and subjected to score ranking of the applicants. Sampled bursary application forms produced revealed that the forms were not filled by the bursary sub-committee for approval of the awarded amount for payment as required by law and therefore, the basis of approval of award and payment of Kshs.399,999,400 was not established.

(vi) The responsibility of the beneficiary learning institutions to acknowledge receipts of the funds through acknowledgement letters and/or receipts classified according to the fees structure were not effectively done.

In the circumstance, the Department failed to comply with the Presidential Secondary School Bursary (PSSB) Operations Guidelines 2018.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1507. Lack of Functioning Internal Audit

During the year under review, no internal audit report was prepared and there was no proof of internal controls to detect and prevent errors. Further, there was no assurance that appropriate institutional policies and procedures are followed and there was no evidence that the Management's decisions were backed by any evaluated adequate reliable information.

1508. Ineffective Audit Committee

Appointment letters for Audit Committee Members dated 16 December, 2019 provided indicated that the Audit Committee Members were interviewed on 20 October, 2019 and immediately appointed as members of the Ministerial Audit Committee and were instructed to report to the Cabinet Secretary for the Ministry of Finance not later than 13 January, 2020 for further instructions. However, no documentary evidence was provided including minutes and reports of their deliberations since the time they were appointed. Failure to establish an effective Internal Audit Committee implies the following anomalies:

(i) The review of the entity's reporting functions and the integrity of the financial reports are not reviewed.

(ii) Monitoring of the effectiveness of the entity's performance management and information were not checked.

(iii) Monitoring of strong and effective oversight of the entity's internal audit function was not reviewed.

(iv) No effective liaison and facilitation communication between management and external audit.

1509. Weak Information Technology-Internal Controls

The State Department for Social Protection does not have in place, approved procedures or guidelines on how changes and upgrades to package systems are to be handled. There were no formally documented and approved processes to manage upgrades made to all financial/performance information system and also when an upgrade is made to the system. There were no formal change request documentation completed indicating the change to be made and reasons for all changes to the financial system.

Further, there were no policies in place, which cover physical access to IT environments. The entity also does not have an IT Continuity Plan and Disaster Recovery Plan in place. There are no backups stored in a secure off-site storage facility. In addition, the Management Information System used by the State Department doesn't weed out duplication.

Consequently, the risk of wastage and loss of public resources was high for the year ended 30 June, 2021.

DONOR FUNDED PROJECTS

KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT CREDIT NO. 6348-KE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1510. Inaccuracies of the Financial Statements

The statement of receipts and payments reflects a comparative grant from external development partner - World Bank-DFID of Kshs.335,569,200 while the audited report for the year ended 30 June, 2020 reflected Kshs.Nil grant from the World Bank-DFID.

Consequently, the financial statements are not prepared and presented as per the requirement of PSASB reporting template and therefore, the accuracy of the financial statements could not be confirmed for the year ended 30 June, 2021.

1511. Unmatched Contract Deliverables with Payment

The statement of receipts and payments reflects grant from external development partners of Kshs.299,778,217 as at 30 June, 2021 paid to UNICEF for provision of technical assistance for implementing the Nutritional Improvements through Cash and Health Education (Niche). The payment of Kshs.299,778,217 was made during the month of June, 2021 while the meeting held on 15 June, 2021 approved payment of a third tranche to UNICEF upon submission of the third invoice.

However, the County work plans and annual report submitted to the implementation committee were not submitted for audit review. Further, documents to support achievement of year 1 activities (deliverables) for payment of Kshs.299,778,718 as stipulated in the contract with UNICEF were also not provided. In addition, an inception report with detailed annual work plan for year 1, and indicative budget of target Counties as per scope of work to support payment of 2nd tranche were also not provided for audit review.

Consequently, the accuracy and propriety of the amount transferred to UNICEF amounting to Kshs.299,778,718 could not be confirmed for the year ended 30 June, 2021.

Other Matter

1512. Budgetary Control and Performance

Statement of comparative budget and actual amounts reflects budgeted and actual expenditure of Kshs.16,278,599,018 and Kshs.14,584,952,396 resulting in under expenditure of Kshs.1,693,646,622 representing 90% absorption.

Management has attributed the under absorption to Covid-19 pandemic, slow procurement process due to Covid-19 and data collection done on two Counties instead of three as initially planned. This is an indication that goals and objectives of the project may not have been achieved as disbursement linked indicators were not realized for the year ended 30 June, 2021.

1513. Project Implementation Status

Schedule 2E(1)(a) of financing agreement dated 31 January, 2019 requires that, without limitation on the provisions of Section II to Schedule 2 of the agreement, the recipient shall prior to each payment under the Project:(a) carry out in accordance with the verification protocol, an assessment to determine the extent to which the disbursement linked results ("DLRs") in respect of which payment is requested has been achieved; and (b) furnish an assessment to the Association for review. The table below outlines disbursement linked indicators not achieved in 2020/2021.

No.	Disbursement Linked Indicator (DLI)	Disbursement Linked Results (DLR)	Progress in DLI's
1	Scope, coverage, and functionality of single Registry Enhanced	(1b) (i)-re-registration exercise in the four original counties completed and beneficiary list updated accordingly- WB IDA- EUR 3.5 M-(US $ 4m) DFID-US $ 0.5 M-June 2020	Overdue
2	New Inua Jamii payment mechanism for three NSNP cash transfer programs is rolled out	(2b)- 100% of beneficiaries receiving payments through the new payment mechanism -IDA EUR 4.3m (US $ 9m) -June 2021	Partially achieved
3	Integrated G & CM mechanism is strengthened and rolled out at decentralized level	(3a)- G &CM Mechanism is functional at all levels for four National Safety Net Programme (NSNP) programs in 47 counties -IDA EUR 8.65 m (US $ 10M)-June 2020	Overdue
4	Increased access to social inclusion interventions	(4b)(i) tools designed and formal agreement between the SDSP, MOH and NHIF in place to operationalize systematic enrolment of NSNP beneficiaries into the NHIF- IDA EUR 3.4m (US $ 4m)-June 2020	Overdue

Management has attributed the delay to the slow project start. This is an indication that goals and objectives of the project may not be achieved as the disbursement linked indicators are not being realized.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1514. Wasteful Expenditure on Training

Note 5 to the financial statement reflects domestic travel amount of Kshs.43,298,520 which also includes an amount of Kshs.1,232,000 paid to officers for the purpose of conducting National Training on Nutritional Improvement through Cash and Health Education operations, management information system (MIS) modules and manuals to County teams. However, documents attached revealed that officers from the Counties did not attend the training and no justification was given why the trainers proceeded to stay on for five (5) days. Consequently, the project objectives were not met while the public did not get value for money. The propriety of expenditure amounting to Kshs.1,232,000 could therefore, not be confirmed for the year ended 30 June, 2021.

1515. Slow Project Implementation

Review of documents for 2020/2021 revealed that activities in the annual work plan commenced in October, 2020 and payments for various activities were made from 2 December, 2020. Scrutiny of the work plan revealed that some of the activities were not undertaken in 2020/2021. Management attributed the slow start of the project due to delay in regularization of the Kenya Social and Economic Inclusion Project budget. This affected project budget allocation and implementation as the project lost 9 months for project implementation. There was also delay in exchequer releases for project implementation and closure and scale down of activities from March, 2020 as a result of the COVID-19 confinement measures. This indicates that the project objectives may not be achieved before its closure. Value for money may also not have been attained for the year ended 30 June, 2021.

1516. Payment of Contract without Provision of Bank Guarantee

The ten percent (10%) of the contract price was paid without a bank guarantee from the consultant against Clause 41.2 and 41.2.1 of the special conditions of the contract. Management explained that the advance payment was required to be paid within 30 days after the receipt of an advance bank guarantee but it was paid on 27 May, 2021, six (6) months after signing the contract, in contravention to provisions of the contract.

1517. Training Without Approved Training Plan

Kenya Social and Economic Inclusion Project – State Department for Social Protection incurred a training expense of Kshs.29, 948,100 as shown at Note 5 to financial statements in 2020/2021 without an approved training plan. Management developed a training programme for Kenya Social and Economic Inclusion Project in lieu of training plan which was not given a "No Objection" by the World Bank due to lack of a training needs assessment. This may result in delay in Project Implementation and disbursement of funds by World Bank due to ineligible expenditures and training on areas not beneficial

to delivery of project objectives. Consequently, Management was in breach of the Agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1518. Lack of Internal Audit Reports and Ineffective Internal Controls

Management of Kenya Social and Economic Inclusion Project in 2020/2021 failed to maintain and provide a copy of the internal audit reports, risk registers, and evidence that the report was submitted to the World Bank as per laid down terms of reference for verification as per section 132 and 133 of Kenya Social and Economic Inclusion Financial Management Policies & Procedure Manual (FMPPM) Policy Guidelines, Governance & Reporting. This implies that the Management failed to put in place internal controls to help in detection and prevention of errors that could possibly lead to loss of funds.

1519. Audit Committee and Audit Charter

Audit Ministerial Committee was appointed vide letter Ref: ML&SP/SP/8/37/Vol.1. However, it was established that the Committee did not meet to review and approve; annual financial statements/annual audit reports, programs and projects, annual budget (organization's including projects) reviews, the reports of the internal auditor for taking necessary action among others as per section 23 of Kenya Social and Economic Inclusion Financial Management Policies & Procedure Manual (FMPPM) Policy Guidelines, Governance & Reporting. This increased the risk of error and fraud occurring.

1520. Lack of Monthly Bank Reconciliations

Kenya Social and Economic Inclusion Project did not maintain monthly bank reconciliations for 2020/2021 as required by law and the Kenya Social and Economic Inclusion Project and the financial management policies and procedures manual. Only bank reconciliation for June, 2021 was done. Consequently, the risk of misuse of project's resources was high.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1521. As required by Financing Agreement Credit No. 6348 KE between Government of Kenya and International Development Association, dated 31 January, 2019, I report based on my audit, that I have obtained all the information and explanations which to the best of my knowledge and believe were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the financial statements of the project are in agreement with the accounting records and returns.

KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT NO. P164654, IDA CREDIT NO. 63480 AND GRANT NO. TFA9527 - NATIONAL DROUGHT MANAGEMENT AUTHORITY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Disclaimer of Opinion

1522. Change of Project Name and Opening Balances

1522.1 Change of Project Name and Assets Handover

The Other Important Disclosures note to the financial statements indicates that Hunger Safety Net Programme (HSNP II) came to an end on 16 October, 2019 and was succeeded by Kenya Social and Economic Inclusion Project (KSEIP or HSNP III). However, in the previous year's (2019/2020) audit report, the name used for the project is National Safety Net Programme (NSNP) under the State Department for Social Protection Cr. No. 5287, while in the year under review the project's name changed to KSEIP IDA Cr. No. 63480 and Grant No. TFA9527 or Project No. P164654 under National Drought Management Authority (NDMA). The frequent changes in project names has resulted to the following observations or anomalies:

i. KSEIP consolidates all cash transfer programmes initially under NSNP and KSEIP is being implemented by NDMA as HSNP III.

ii. The cash and cash equivalents of Kshs.1,618,376,310 reflected in the financial statements of NSNP as at 30 June, 2020 were not fully transferred to KSEIP as opening balance on 1 July, 2020. Instead, an amount of Kshs.486,296,128(30%) was reflected as KSEIP opening balance while the brought forward receivables of Kshs.15,354,719 is also fully omitted and is not explained in the financial statements of Kenya Social and Economic Inclusion Project (KSEIP) as at 30 June, 2021.

iii. The transfer of fixed acquired assets totalling Kshs.75,749,883 and Kshs.18,943,601 acquired in years 2019/2020 and 2018/2019 respectively from the National Safety Net Programme to KSIEP-handover report or documentary evidence was never provided for audit review.

Consequently, it was not possible to establish the details pertaining to the transfer of fixed assets and also the accuracy and ownership of the cash and cash equivalent could not be confirmed as at 30 June, 2021.

1522.2 Opening Balances

The Other Important Disclosures note to the financial statements indicates National Hunger Safety Net Programme (HSNP) amounts relating to the previous year were omitted from financial statements of KSEIP's comparative figures as at 30 June, 2021.

However, it is not clear why the full opening audited balances were not reported in the 2020/2021 financial statements of KSEIP, therefore, resulting to differences as shown below.

Statement of Receipts and Payments	Comparative Balances as at 30 June, 2021 of KSEIP Kshs.	Audited Balance as at 30 June, 2020 of NSNP Kshs.	Difference Kshs.
Total Receipts	4,208,502,293	42,236,583,532	(38,028,081,239)
Total Payments	3,722,206,166	41,922,581,651	(38,200,375,485)
Surplus	486,296,128	314,001,881	172,294,247
Statement of Financial Assets			
Bank Balances	486,296,128	1,618,376,310	(1,132,080,182)
Fund Balance	Nil	1,319,729,148	(1,319,729,148)
B/forward Receivables	Nil	15,354,719	(15,354,719)

Consequently, the comparative opening balances and the differences as shown in the table for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1523. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1524. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

STATE DEPARTMENT FOR MINING - VOTE 1192

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1525. Unsupported Pending Bills

As disclosed in Note 16.1 to the financial statements, the State Department for Mining had pending bills amounting to Kshs.65,784,775 as at 30 June, 2021. A review of the list of pending bills provided for audit revealed that bills totalling Kshs.48,404,652 lacked supporting documents while an amount of Kshs.29,145,888 related to 2019/2020 financial year. Further, a Pending Bills Committee appointed by the Accounting Officer to review all pending bills of the State Department declared bills amounting to Kshs.2,652,490 as ineligible while bills totalling Kshs.3,362,896 which were included in the list, were not verified by the Committee and were therefore not valid for inclusion as pending bills.

Further, no explanation was provided by the Management for failure to give priority to settlement of prior years' pending bills as a first charge as required under Regulation 42 (a) of the Public Finance Management (National Government) Regulations, 2015 which requires debt service payments to be a first charge on the Consolidated Fund and the Accounting Officer to ensure this is done to the extent possible that the government does not default on debt obligations and as directed by The National Treasury in circular No.10/2020 issued on 16 June, 2020.

Consequently, the authenticity of the pending bills of Kshs.48,404,652 could not be confirmed and further, failure to settle the bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

1526. Misallocation of Expenditure

The statement of receipts and payments reflects an expenditure of Kshs.205,619,568 on use of goods and services. However, supporting schedules and analysis of the sub-items under use of goods and services revealed an expenditure amounting to Kshs.133,821,167 charged to wrong accounts without requisite approvals contrary to Section 43(2)(b) of the Public Finance Management Act, 2012 which provides for reallocation of funds between programs, or sub-votes to be done by the Accounting Officer upon approval of a request made to The National Treasury explaining the reasons for the reallocation.

Consequently, the regularity of the expenditure of Kshs.133,821,167 in respect of use of goods and services could not be ascertained.

1527. Unsupported Fixed Assets

Annex 3 to the financial statements on summary of fixed asset register for the year ended 30 June, 2021 reflects historical cost of assets amounting to Kshs.540,270,530. However, the assets were not supported with a detailed fixed asset register. Further, the supporting

schedules provided for audit in respect of the additions during the year of Kshs.25,142,988 indicated an amount of Kshs.12,025,564 charged to acquisition of assets and which related to subsistence allowances, facilitation allowances and training expenses.

In the circumstances, the accuracy and existence of additions during the year of Kshs.12,025,564 as reflected in the financial statements could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1528. Compensation of Employees

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects expenditure on compensation of employees amounting to Kshs.380,916,686. Review of the expenditure revealed the following anomalies:

1528.1 Irregular Payment of Motivation Allowances

The expenditure on compensation of employees includes an amount of Kshs.3,670,000 paid to three hundred and sixty-five (365) officers of the State Department for Mining as motivation allowances in the month of December, 2020 contrary to the Human Resource Policies and Procedures Manual for the Public Service. The staff comprising permanent employees, interns and casuals were all paid a uniform rate of Kshs.10,000 whose basis was not ascertained. Although Management indicated that the Authorized Officer, on the recommendation of the Ministerial Performance Management Committee approved the bonus payment to staff as a reward for exemplary performance over the financial year, no minutes of the Committee were provided for audit review.

1528.2 Un-Procedural Engagement of Casual Employees

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects an amount of Kshs.8,616,561 in respect basic wages of temporary employees incurred in payment of casual employees working at the Ministry Headquarters, Madini House, Regional Offices and Fluorspar Region. However, no documentary evidence was provided for audit to indicate how the recruitment was undertaken. In addition, the State Department engaged a total of 75 casual employees contrary to a Public Service Commission letter Ref: No PSC/21/2/5 dated 12 August, 2020 which authorized the State Department to engage a maximum of 45 casual employees for financial year under review.

1529. Irregular Payment of Allowances

As disclosed in Note 4 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.205,619,658 in respect of use of goods and services which includes an amount of Kshs.52,245,375 for other operating expenses. The latter

includes an amount of Kshs.13,007,700 paid to various officers for undertaking their normal duties and in respect of undefined facilitators as shown.

Expenditure Item	Payment Details	Amount (Kshs.)
Training	• Preparation for audit • Undefined facilitators	660,000 440,000
Specialized Material and Services	• Preparation for audit and clearance of audit queries • Budget preparation • Bank Reconciliation Preparation • Staff Mapping	5,798,000 4,069,700 1,060,000 980,000
	Total	**13,007,700**

Management did not provide explanation to justify payment of these allowances.

In the circumstances, the regularity of the Kshs.13,007,700 could not be verified.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1530. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR MINING

REPORT ON THE REVENUE STATEMENTS

Basis for Qualified Opinion

1531. Unsupported Non-Tax Receipts

The statement of receipts and disbursements reflects an amount Kshs.1,843,684,919 as total non-tax receipts. The receipts comprise of revenue collected from cement levy, mining royalties and licence and permits fees from various licensees. Section 191 of the Mining Act, 2016 provides for establishment and maintenance of an up to date computerized mining cadastre and registry system, including a register of mineral rights. Review of records at the State Department revealed that the cadastre system was maintained. However, there was no register of mineral rights or records of licences issued for each category. Due to the unavailability of these records, the reported receipts in respect of mining and exploration licences, export permits and mining royalties from various licensees could not be verified against any supporting records.

Under the circumstances, the accuracy, validity, and completeness of the total non-tax receipts amounting to Kshs.1,843,684,919 for the year ended 30 June, 2021 could not be confirmed.

1532. Unreported and Unauthorized Use of Prospecting Fees

The Cabinet Secretary, The National Treasury designated the Principal Secretary of the State Department for Mining as a Receiver of revenue through a letter REF:AG.1/021 Vol.111/91 dated 24 July, 2020. The letter classified classes of revenue for collection and to be accounted for by the Receiver of revenue, which included prospecting fees among others.

The revenue statements for the year ended 30 June, 2021 did not include prospecting fees revenue or arrears in the class of revenue. A review of accounting records at the State Department revealed prospecting fees amounting to Kshs.25,048,358 was collected and deposited into the Department's recurrent bank account where it was utilized as Appropriations-In-Aid (AIA) without approval of the Cabinet Secretary for National Treasury. This was contrary to Regulation 64(4) of the Public Finance Management (National Government) Regulations, 2015 which provides that moneys received by the Receiver of revenue shall be paid into the designated bank accounts of the National Government and is not to be used by any public officer.

Consequently, the accuracy of the nil balance on prospecting fees in the revenue statements for the year under review could not be confirmed. In addition, the Management is in breach of the law.

1533. Unreported Cement Levy Arrears by East Africa Portland Cement Company

The statement of arrears of revenue reflects cement levy arrears totalling Kshs.2,115,612,977 owed by various companies. Included in the balance, is

Kshs.404,759,572 owed by East Africa Portland Cement Company (EAPCC) which accrued in the financial years 2014/2015 to 2020/2021. Further, the Company has since 2018/2019 filed incomplete self-declaration assessments and was therefore, not assessed for cement levy from 2018/2019 to 2020/2021 financial years. Management did not provide any explanation on why levies that were due and chargeable to the Company were not assessed in the relevant periods and reported in the financial statements.

Under the circumstances, the recoverability and accuracy of the Kshs.404,759,572 as at 30 June, 2021 could not be ascertained.

1534. Long Outstanding Arrears from Savanna Cement Company

Included in the arrears of revenue of Kshs.2,115,612,977 is Kshs.370,862,635 due from Savanna Cement Company in respect of cement minerals levy as at 30 June, 2021. Although a payment plan agreement was signed in August, 2017 between the State Department and the Company requiring settlement of the arrears in twenty-four (24) monthly instalments starting from September, 2017, the Company had reneged on the plan, stating that it did not hold a mineral license from the State Department and therefore was not liable to pay the levy. The Company had also moved to the High Court challenging Legal Notice No.222 of 2013 which required payment of cement minerals levy by all cement producing companies in Kenya. Although Management indicated that a consent has been recorded in Court for settlement of the matter, the same was not provided for audit review.

Further, the Company has not filed any self-declaration assessment since 2018/2019 financial year to the time of the audit in February, 2022 and has, therefore, not been assessed for cement levy. In addition, the Company remitted Kshs.5,000,000 during the year, but the remittance was not supported by production and sales reports.

Under the circumstances, the recoverability of the Kshs.370,862,635 as at 30 June, 2021 could not be confirmed.

1535. Long Outstanding Dues from Tata Chemicals Magadi Limited

The statement of arrears of revenue as at 30 June, 2021 reflects royalty arrears totalling Kshs.675,023,295 owed by Tata Chemicals Magadi Limited which has accrued since the financial year 2015/2016. Although the Company undertook to settle the arrears with the State Department, no significant progress was made during the year.

Further, review of correspondences between the Company and the State Department revealed that the Company had cited serious operational and financial challenges as the reason for inability to pay the royalties at the gazetted rates. The Company Management proposed to pay negotiated rate of 3% and to be applied retrospectively from 01 July, 2017. However, the Ministry of Petroleum and Mining asserts on application of the gazetted rates of 4% of gross sales value from 1 July, 2017 and 5% of gross sales value from 01 July, 2019. The Company has not proposed any payment plan to settle the accrued royalties.

Consequently, the recoverability of the arrears of revenue of Kshs.675,023,295 as at 30 June, 2022 could not be confirmed.

1536. Unreported and Long Outstanding Dues from Carbacid (CO2) Limited

The statement of arrears of revenue reflects arrears of revenue of Kshs.78,490,587 due from Carbacid (CO2) Limited. The arrears relate to the financial years 2017/2018 to 2020/2021. However, a review of correspondences revealed that the Company Management had expressed reservations regarding payment of the royalties before a consensus on payment rates was reached. In addition, the Company did not file a self-declaration assessment and was, therefore, not assessed for royalties due in the year under review.

Consequently, the recoverability of the arrears of revenue of Kshs.78,490,587 as at 30 June, 2022 could not be confirmed.

1537. Unremitted Mining Royalties

The statement of arrears in revenue for the year under review includes outstanding mining royalties totalling Kshs.47,717,596. The royalty arrears comprise of Kshs.30,196,739 and Kshs.17,520,857 accruing from Kilimapesa Gold Pty Limited and Africa Diatomite Industries Limited respectively. Management did not provide evidence of any efforts made to recover the arrears of revenue. Further, a review of records maintained by the State Department revealed that, declared and assessed sales records in respect of Kilimapesa Gold Pty Limited were not up to date and thus the royalty arrears could not be accurately estimated.

In addition, a review of Cadastre records revealed that Chauhshan International Mining Company was granted a license to mine diatomite in 2016. However, no documents were provided for audit review to confirm the validity and the status of the mining license since 2016. Further, it was not clear whether the company pays ground rent for the rights held.

In the circumstances, the accuracy and recoverability of the royalty arrears of Kshs.47,717,596 as at 30 June, 2021 could not be confirmed.

1538. Irregular Underpayment of Cement Levy by National Cement Company Limited

The statement of receipts and disbursements for the year under review reflects cement levy receipts amounting to Kshs.882,501,151. The receipts include Kshs.289,263,087 received from National Cement Company Limited as shown in Note 1 to the revenue statement. However, analysis of production reports from the Company revealed a variance of Kshs.51,181,322 between cement levy remitted to Ministry of Petroleum and Mining and the levy due on production as shown below:

Period	Production in Tons Kshs.	Rate Used Kshs.	Royalty as per Reports Kshs.	Royalty Payable at 140/Ton Kshs.	Variances Kshs.
July, 2020 - March, 2021	2,041,514	127.54827	260,391,587	285,811,960	25,420,373
April, 2021 - June, 2021	644,024.11	100	64,402,411	90,163,360	25,760,949
				Total	**51,181,322**

Further, review of records at the State Department in respect of the cement Company revealed that on 4 March, 2021, the Cabinet Secretary through a letter Ref: No. MOPM/(S)6/1 granted consent to the Company to pay a reduced cement levy at a rate Kshs.100 per tonne instead of Kshs.140 per tonne. However, Section 188(2) of the Mining Act, 2016 requires the Cabinet Secretary to make regulations to provide for the conditions and criteria for determining application for reduction or suspension of payment of royalties which had not been done at the time of granting the reduction and have also not been done by the time of the audit in February, 2022.

In addition, there was no evidence of gazettement of the revised cement levy rate as provided for in the Section 183(2) of the Mining Act, 2016. In addition, it was not clear why the reduced levy rate of Kshs.100 applied only to one Company while the sector had several players manufacturing the same product.

In the circumstance, the accuracy of the Kshs.289,263,087 on levy receipts for the year under review could not be confirmed. In addition, the Management is in breach of the law.

1539. Failure to Collect Annual Ground Rents

The Mining (Amendment of Third Schedule) Order, 2014 provides for payment of annual ground rents for an exclusive prospective licence or special licence, and annual ground rent for a lease area per hectare. Review of mining cadastral records maintained by the State Department revealed that the Receiver of revenue failed to identify and collect annual ground rents payable by holders of exclusive prospecting licence, mining permit, prospecting permit and mining licence amounting to Kshs.133,335,448 contrary to Section 182(1) of the Mining Act, 2016 which provides that an applicant or a holder of a mineral right, a mineral dealer's licence or a diamond dealer's licence, shall pay such fees or charges and at such time as may be prescribed, by notice in the gazette.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1540. Dealing in Minerals Without Valid Licenses

Review of the mining cadastral records maintained by the State Department for Mining revealed that East Africa Portland Cement Company (EAPCC) and Savanna Cement Company had not been issued with mineral dealer's licences or mineral dealer's permit. However, the Companies continued to undertake mining activities and deal in minerals without valid licenses or permits contrary to Section 159 of the Mining Act, 2016.

Management explained that Savannah Cement Company do not undertake mining activities but instead imports the clinker, the main ingredient for cement manufacturing. However, cement manufacturing involves mixing clinker with other minerals such as Gypsum and Pozzolona among others. The additive minerals are sourced locally, and a request to the Company to disclose the suppliers of the other minerals was not responded to.

Consequently, the Management was in breach of the law.

1541. Failure to Share Royalties and Lack of Mechanism for Sharing Royalties

Section 183(5) of the Mining Act, 2016 requires royalties paid by a holder of mineral right to be distributed as follows: seventy percent (70%) to the National Government, twenty percent (20%) to the County Government and ten percent (10%) to the Community where the mining operations occur.

During five financial years following enactment of the Act, of 2016, a total of Kshs.7,503,885,961 in royalties was collected from various mineral right holders translating to Kshs.750,388,596 that the National Treasury should have paid to the communities and Kshs.1,500,777,192 to the devolved units as detailed in the table below:

Year	Amount Kshs.	70% Kshs.	20% Kshs.	10% Kshs.
2016/2017	1,065,421,154	745,794,808	213,084,231	106,542,115
2017/2018	1,364,759,144	955,331,401	272,951,829	136,475,914
2018/2019	1,571,862,220	1,100,303,554	314,372,444	157,186,222
2019/2020	1,666,666,523	1,166,666,566	333,333,305	166,666,652
2020/2021	1,835,176,919	1,284,623,844	367,035,384	183,517,692
Total	**7,503,885,961**	**5,252,720,172**	**1,500,777,192**	**750,388,596**

However, all revenue collected was transferred to the Exchequer Account at The National Treasury and was not shared with County Governments or communities. The Ministry of Petroleum and Mining attributed the situation to lack of a framework for remission of royalties share to the communities and County Governments. Further, the Ministry of Petroleum and Mining and The National Treasury are yet to put in place a mechanism to ensure that the share of the County Governments and the communities are safeguarded until such a time when structures are in place for sharing collected royalties.

In addition, if the share for the County Governments and communities amounting to Kshs.2,251,165,788 is not set aside, the citizens in areas where mining activities are carried out might not benefit from royalties as the minerals being extracted are finite and might get depleted by the time structures for revenue sharing are established.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1542. Failure to Establish Artisanal Mining Committees

Section 94 of the Mining Act, 2016 requires establishment of Artisanal Mining Committee in every County. However, only six Artisanal Mining Committees have been established in the counties of Kakamega, Vihiga, Siaya/Kisumu, Migori, Kitui and Taita Taveta. The

Committees are expected to advise the representative of the Director of Mines in the granting, renewal, or revocation of artisanal mining permits. Some of the counties without established Committees have large groups of unregulated artisanal miners that continue to operate without permits and hence denying the country revenues from mining activities.

1543. Lack of Artisanal Miners Register

Regional mining officers did not maintain register of artisanal miners in their respective regions as required under Section 93(3) of the Mining Act, 2016. A check at sampled regional mining offices established that the regional offices did not maintain a register of artisanal miners in their areas. Although the Management attributed this to lack of Artisanal Mining Committees, it was established that even in Counties where there are Artisanal Mining Committees, the Ministry has not issued artisanal mining permits hence no artisanal mining register. This hinder efforts to supervise and monitor the operation and activities of artisanal miners and denies the Country revenues.

1544. Lack of Monitoring of Mining Operations

During the year under review, the Ministry did not conduct inspections and audit of the mineral right holders as required under Section 20(1)(i) of the Mining Act, 2016. From the records and reports available at the Ministry, the last inspections were conducted in 2017. The Ministry therefore relies on data, and self-declarations by the mining companies to assess revenue payable, which may not be accurate and could lead to loss of revenue due to under declaration or non-declaration of production and sales figures. Further, failure to undertake inspections and monitoring of operations has brought about laxity by the companies in implementing the licensing conditions leading to accumulation of revenue arrears to Kshs.2,115,612,977 excluding those yet to be assessed and declared.

In view of the forgoing, the accuracy and validity of companies self-assessed sales and production reports used as basis for payments of royalties/levies of Kshs.1,843,684,919 as disclosed in the statement of receipts and disbursements was not confirmed.

STATE DEPARTMENT FOR PETROLEUM - VOTE 1193

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1545. Inaccuracies in the Financial Statements

The financial statements for the year ended 30 June, 2021 reflect the following anomalies.

- The statement of assets and liabilities reflects an unreferenced fund balance brought forward of Kshs.35,655,140, while Note 14 reflects fund balance brought forward of Kshs.79,412,648. The variance of Kshs.43,757,508 has not been reconciled.

- Disclosed in Note 15 and reflected in the statement of cashflows for the year ended 30 June, 2021 is a negative prior year adjustments balance of Kshs.67,848,980 and a comparative negative balance of Kshs.124,804,908. However, these balances have not been adjusted in the statement of assets and liabilities as required by paragraph 1.5.1 of International Public Sector Accounting Standards (Cash Basis). Further, the prior year adjustments balance of Kshs.67,848.980 includes refund to The National Treasury, adjustments on payables and adjustments of receivables of Kshs.(35,655,140), Kshs.(32,739,990) and Kshs.186,150 respectively whose supporting documents were not provided for audit review.

In the circumstances, the accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

1546. Variance Between Financial Statements and General Ledger

The financial statements reflect balances for various items which differ with balances in the Integrated Financial Management Information System (IFMIS) general ledger as shown in the table below. The variances have not been explained or reconciled.

Item	Note	Financial Statement Balance (Kshs.)	General Ledger Balance (Kshs.)	Variance (Kshs.)
Routine Maintenance - Other Assets	7	3,012,052	1,780,400	1,231,652
Research, Studies, Project Preparation, Design & Supervision	10	1,503,511,895	1,503,372,769	139,126
Outstanding Imprest	12	92,490	18,754,500	18,662,010

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

1547. Unsupported Payments to Staff and Suppliers

The statement of financial assets reflects cash and cash equivalents balance totalling Kshs.15,970,560 as at 30 June, 2021. The bank reconciliation statements for the month of June, 2021 for the development and recurrent accounts reflect payments in the cash book not in the bank statements totalling Kshs.337,613,517 and Kshs.11,204,324, respectively. These payments include amounts totalling Kshs.100,088,805 and Kshs.443,850 paid to staff on 30 June, 2021 from development and recurrent accounts, respectively. The payments were expensed directly and not processed as imprest as required by financial regulations. Further, the supporting documents for the payments were not provided for audit review.

In the circumstances, the purpose, nature, and authenticity of the payments could not be established and the non-recognition of payments to staff as imprest has overstated the expenditure and understated the receivables in the financial statements.

1548. Misclassification of Expenditure

The statement of receipts and payments reflects Kshs.727,541,479 and Kshs.1,783,578,881 in respect to use of goods and services and acquisition of assets, respectively. Review of the expenditure disclosed in Notes 7 and 9 to the financial statements revealed expenses totalling Kshs.20,878,246 were charged to incorrect expenditure items without approval of The National Treasury contrary to Section 43(2b) of the Public Finance Management Act, 2012 as shown below: -

Item	Note	Vote-Head Total (Kshs.)	Amount Wrongly Charged (Kshs.)	Correct Vote-Heads for the Expenditure
Hospital Supplies and Supplies	7	92,827,869	9,516,608	Domestic Travel and Subsistence
Communication Supplies and Services	7	2,729,348	299,698	Domestic Travel and Subsistence
Domestic Travel and Subsistence Allowance	7	3,367,330	2,136,810	Foreign Travel and Subsistence
Research Studies, Project Preparation, Design and Supervision	10	1,503,511,895	2,000,000	Fuel, Oil & Lubricants
Research Studies, Project Preparation, Design and Supervision	10	1,503,511,895	6,925,130	Office and General Supplies
Total			**20,878,246**	

In the circumstance, the accuracy of balances reported against the expenditure items could not be ascertained.

1549. Unsupported Fuel Expense

Note 7 to the financial statements reflects an expenditure of Kshs.727,541,479 under use of goods and services which includes Kshs.6,675,000 in respect to fuel, oil, and lubricants. Examination of the related expenditure records revealed that payments totalling Kshs.5,425,000 were made to the National Oil Corporation of Kenya for purchase of bulk fuel during the year. However, no documentary evidence to indicate how the fuel was drawn by the State Department's motor vehicles during the year were provided for audit review.

In the circumstances, it was not possible to ascertain the propriety of fuel expenses of Kshs.5,425,000.

Other Matter

1550. Pending Bills

Note 19.1 to the financial statements reflects a pending bills balance of Kshs.115,724,246 as at 30 June, 2021. The bills were incurred during the year under review and remained unsettled. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they will form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1551. Unaccounted for Transfers to Other Government Entities

The statement of receipts and payments reflects an expenditure amounting to Kshs.1,783,578,881 under acquisition of assets. The amount includes Kshs.280,000,000 transferred to the National Oil Corporation of Kenya (NOCK) from the Petroleum Development Levy (PDL) Fund and Petroleum Training Levy for development of Block 14T, an oil exploration block allocated to the Corporation, and training of Corporation staff on petroleum matters. However, no approved budget, work plan of activities to be carried in the block or details of employees trained was provided for audit verification. Further, no cost statements or evidence of expenditure of the funds transferred was provided for audit review.

Consequently, it was not possible to ascertain whether the transferred amount of Kshs.280,000,000 was incurred for the intended purpose.

1552. Purchase of Defective LPG Gas Cylinders

During the year under review, the State Department contracted an inspection company for Kshs.10,122,371 to conduct an independent inspection of the 6kg LPG gas cylinders

purchased under the Mwananchi gas project. As previously reported in 2017/2018, the State Department for Petroleum had started the implementation of Liquefied Petroleum Gas (LPG) project that was intended to promote the use of modern cooking fuels among low-income households. The project entailed supply and distribution of LPG cylinders, grills and burners and National Oil Corporation of Kenya was engaged to distribute the gas cylinders to the households. However, majority of the supplied cylinders were found to have technical defects and were recalled hence prompting the Ministry to engage services of an independent inspector.

Tests done by the independent inspector engaged during the year concluded that a total of 79,057 gas cylinders comprising 15,056 and 11,132 being 100% of cylinders supplied by two firms and 52,869 being 66% of another firm's delivery, did not meet the tender specifications. This was consistent with the inspection and acceptance committee's finding at the time of supply.

In view of the above, the payments totalling Kshs.125,091,769 made to the three suppliers in respect of the supply gas cylinders that did not meet tender specification in 2017/2018 and 2018/2019 financial years constitute a loss of public funds.

1553. Irregular Procurement of Equipment

1553.1 Two Burner Low Pressure Tabletop Cookers

Note 9 to the financial statements reflects expenditure of Kshs.279,686,486 on purchase of specialized plant, equipment, and machinery under acquisition of assets. The amount includes Kshs.77,700,000 incurred on purchase and delivery of 20,000 units of 2-Burner Low Pressure Tabletop Cooker.

Examination of related procurement records revealed that the State Department awarded and signed the above contract of Kshs.77,700,000 inclusive of Kshs.5,200,000 for inland transportation on 30 June, 2021, with a delivery period of nine (9) weeks from the date of the contract signing. However, payment records provided for audit review revealed that the invoice, delivery note, goods received note, inspection and acceptance certificate for the goods were all dated 30 June, 2021 and the payment of the Kshs.77,700,000 was made to the supplier on the same date yet the goods had not been delivered. This is contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity or an officer authorized by him or her in writing.

Further, the notification of intention to enter into a contract was dated 17 June 2021, while the contract was signed on 30 June, 2021, which was less than the mandatory fourteen (14) days prior to contract signing required by clause 45(1)(f) of the contract agreement. Similarly, the standstill period in the notice of intention to award was reduced from fourteen (14) to ten (10) days contrary to clause 42 (1)(f) of the contract agreement.

In the circumstances, the procurement of the contract was irregular and validity of the expenditures incurred on purchase and delivery of new two-burner low pressure tabletop cookers at a cost of Kshs.77,700,000 could not be confirmed.

1553.2 Supply, Delivery, Testing and Commissioning of Magnetometer

The State Department for Petroleum awarded and signed the contract for the supply, delivery, testing and commissioning of a magnetometer with a local company on 30 June, 2021, at cost of Kshs.22,500,000 for a delivery period of three weeks. A review of the payment records for the contract revealed that the invoicing was done on 29 June, 2021 while payment was made on 30 June, 2021 yet no delivery had been made. This is contrary to Section 146 of the Public Procurement and Asset Disposal Act, 2015 which states that no works, goods or services contract shall be paid for before they are executed or delivered and accepted by the Accounting Officer of a procuring entity or an officer authorized by him or her in writing.

In the circumstances, the procurement of the magnetometer was irregular and the validity of the expenditures for the supply, delivery, testing and commissioning of a magnetometer at cost of Kshs.22,500,000 could not be confirmed.

1554. Irregular Payments of Allowances to Staff

Review of expenditure records revealed payments totalling Kshs.42,979,358 being allowances to staff working beyond normal working hours. However, these payments were made to staff undertaking their normal duties and at their regular workstations. In addition, the payments were not approved by Salaries and Remuneration Commission or backed by any circulars as shown below.

Account Name	Date	Expense Description	Amount (Kshs.)
Hospitality	24 June, 2021	Payment of allowances to 39 staff involved in LAN cabling restructuring	2,212,540
Domestic Travel	24 June, 2021	Payment to staff preparing bank reconciliations	318,000
Research Studies	6 January, 2021	Payment to 63 staff for preparing financial statements for year 2018/2019	6,400,000
Research Studies	26 January, 2021	Payments to 31 staff for preparation of tender documents	3,500,000
Research Studies	30 June, 2021	Payment to 41 officers to undertake payroll audit and data cleaning for 2019/2020	6,850,000
Research Studies	30 June, 2021	Payment to 160 staff for participating in closure of financial year 2020/2021	16,724,000
Research Studies	28 June, 2021	Payment to 21 staff for participating in disposal of obsolete stores & equipment	2,100,000

Account Name	Date	Expense Description	Amount (Kshs.)
Research Studies	28 June, 2021	Payment to 61 staff for participating in preparation of second revision of revenue and expenditure estimates	5,192,500
		Total	**42,979,358**

In the circumstances, the allowance are irregular and the validity of the expenditures reported under domestic travel, hospitality and research studies for the year ended 30 June, 2021 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1555. Weaknesses in Implementation of Mwananchi LPG Enhancement Project

Mwananchi Liquefied Petroleum Gas (LPG) Project which was initiated by the then Ministry of Energy and Petroleum in 2016 intended to promote use of modern cooking fuel among the low-income households. The project entails supply and distribution of Liquefied Petroleum Gas (LPG) cylinders, grills, and burners to households at subsidized prices, and erection of facilities to store the cylinders at local distribution points. The National Oil Corporation of Kenya was engaged to implement the project with a role to ensure the components are distributed to the households.

The project was to be implemented in two modules whereby Module 1 entailed distribution of subsidized filled 6 Kg cylinders fitted with a grill and a burner in eleven (11) piloted sub-counties in Nairobi. While Module II involved distribution of filled 6Kg cylinders with a smart metering device, a horse pipe and two (2) low burner tabletop cookers.

Review of implementation status of the project revealed implementation lapses and uncertainties relating to the project as follows:

i) An approved project implementation plan and strategy detailing how project was incepted, how it was to be actualized, and its overall sustainability plan was not provided for audit review;

ii) At the initial stages of roll out of the project, a total of 79,057 LPG cylinders or 74% of the 106,186 cylinders supplied for module 1 were defective which significantly affected implementation and attainment of the project objective;

iii) A beneficiary identification mechanism for the procured LPG cylinders and 20,000 low burner tabletop cookers was yet to be developed, raising doubts on readiness for implementation;

iv) There was no smart metering service and technical support in place at the source point for dispensing LPG to consumers and;

v) There was no policy for recognition and accounting for revenue from the sale of LPG cylinders and LPG from the smart metering dispensing.

In view of the above, it was not possible to confirm whether the project objective would be achieved and whether the project is sustainable.

1556. Delays in Handover of Functions to Energy and Petroleum Regulatory Authority

The statement of receipts and payments reflects an amount of Kshs.1,783,578,881 relating to acquisition of assets out of which Kshs.704,787,543 was incurred on acquisition of data, supervision of upstream activities, and local content enforcement. The payments were made under research, studies, project preparation, design, and supervision. However, according to Section 45 and Section 51(1) of the Petroleum Act, 2019, these functions fall under the mandate of Energy and Petroleum Regulatory Authority (EPRA).

In the circumstances, it was not possible to ascertain whether the activities were complimenting EPRA functions or a duplication of mandate.

DONOR FUNDED PROJECT

KENYA PETROLEUM TECHNICAL ASSISTANCE PROJECT (IDA CREDIT NO.5526-KE AND GRANT NO. TFOA 3418)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1557. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1558. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year under review reflects final budget and actual payments on comparable basis of Kshs.1,327,510,000 and Kshs.1,216,664,638 respectively, resulting in an under-expenditure of Kshs.110,845,362 or 8% indicating that some of the planned activities were not undertaken and therefore the Project may not have achieved some of the desired objectives.

1559. Project Implementation and Performance

The project information and funding summary statement indicates that the donor had made a funding commitment of US$.51,000,000 (Kshs.5,1000,000,000) comprising Kshs.600,000,000 and Kshs.4,500,000,000 in IDA Grant and IDA Loan respectively. However, as at 30 June, 2021, the Project had utilized a total of Kshs.4,111,428,526 or 81% with only two months to Project closure in August, 2021 after a 6 month extension was granted on the initial closure date of February, 2021.

In the circumstance, the Project may not be able to fully utilize the remaining amount of Kshs.988,571,474 in the remaining project implementation period which will negatively impact on service delivery to citizens.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1560. Irregular Procurement and Payment of Conference Services

Purchase of goods and services in the statement of receipts and payments for the year ended 30 June, 2021 amounted to Kshs.1,199,138,598. As disclosed in Note 5 to the financial statements, this item includes hospitality, supplies, and services of

Kshs.8,380,676 out of which Kshs.2,357,000 was paid to a hotel in Naivasha for provision of conference facilities and services for three (3) workshops in respect of services rendered in February, March and May, 2019 as per the workshop attendance register and local service orders. The procurement requisitions and authorization for the services were, however, dated 21 October, 2020 which was more than a year since the services were rendered. Regulation 22 (1) of The Public Procurement and Asset Disposal Regulations 2006 (revised 2020) provides that "every procurement shall be initiated using a purchase requisition which shall include all necessary information pertaining to the procurement" and therefore there was noncompliance with the law as well as creating doubt on the occurrence of the event.

In the circumstance, it is not possible to confirm whether the Project received the services, value for money or that the services were procured in compliance with the Public Procurement and Asset Disposal Act, 2015 and Public Procurement And Asset Disposal Regulations, 2020.

1561. Breach of Contract Terms

1561.1 Consultancy Services for Development of a National Petroleum Master Plan

The statement of receipts and payments for the year ended 30 June, 2021 reflects payments totalling Kshs.1,199,138,598 in respect of purchase of goods and services. Included in the amount is Kshs.1,099,784,078 incurred on consultancy services as disclosed in Note 5 to the financial statements. The consultancy services expenditure includes Kshs.17,278,395 paid to a consultancy firm being the third instalment of 15% on production of a draft final report on National Petroleum Master Plan. According to the contract, the consultant was to be paid upon submission of reports reviewed by a technical committee drawn from Ministry of Petroleum and Mining, National Oil Corporation, The National Treasury, Kenya Revenue Authority, Ministry of Industry, Trade and Cooperative, Office of the Attorney General, Presidential Delivery Unit, Kenya Pipeline Company, Kenya Electricity Generating Company and Energy Regulation Commission.

However, the technical committee formed to review and approve consultancy deliverables as well as ensure quality delivery by the consultant was constituted only from three (3) organizations including Kenya Pipeline Company, National Oil Corporation and representatives from State Department of Petroleum as opposed to ten (10) organizations indicated in the contract's terms of reference. Consequently, the technical committee that approved the contractual outputs by the Consultant was not properly constituted in line with the contract and, the approvals therefrom, were not binding to the Project Management thereby making the payment irregular.

1561.2 Consultancy Services for Formulation of Upstream Petroleum Regulations

Further, the payment for consultancy services of Kshs.1,099,784,078 includes Kshs.31,011,521 paid to a consultancy firm in respect of an inception report on formulation of Upstream Petroleum Regulations. According to contract terms of reference,

deliverables and reports of the consultant's work were to be reviewed and approved by a technical committee drawn from Ministry of Petroleum and Mining, Office of the Attorney General, National Oil Corporation, Energy Regulation Commission, The National Treasury, National Environmental Management Authority and Kenya Revenue Authority. However, review of the payments made to the consultant indicated that deliverables were reviewed and approved by a committee drawn from three (3) organizations against the seven (7) envisaged in the contract. Consequently, the technical committee that approved the contractual outputs by the Consultant was not properly constituted in line with the contract and the approvals therefrom were not binding to the Project Management thereby making the payment irregular. Further, there was no evidence in form of letters for the appointment of members to the technical committee from the other entities.

Under the circumstances, the payments made in respect of the above consultancy contracts were therefore irregular as the works may not have been evaluated objectively as envisaged in the contract agreement.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1562. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1563. As required by International Development Association (IDA), I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been and the Project's financial statements are in agreement with the accounting records and returns.

STATE DEPARTMENT FOR TOURISM - VOTE 1202

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1564. Inaccuracies of the Financial Statements

Comparison of balances reflected in the financial statement for the year ended 30 June, 2021 and reports generated by IFMIS annexed to the financial statements revealed the following unreconciled differences as detailed below:

i. Statement of Receipts and Payments

Item	Amount as Per Financial Statements (Kshs.)	Amount as Per IFMIS Report (Kshs.)	Variance (Kshs.)
Payments			
Use of Goods and Services	272,705,455	271,396,408	1,309,047

ii. Statement of Assets and Liabilities

Item	Note	Amount as Per Audited Financial Statements (Kshs.)	Amount as Per IFMIS Report (Kshs.)	Variance (Kshs.)
Fund Balance b/fwd	13	319,831	6,790,591	(6,470,760)
Prior Year Adjustments	14	(103,939)	-	(103,939)
Surplus/Deficit for the Year		2,243,587	7,474,982	(5,231,395)
Net Financial Position		2,459,479	7,474,982	(5,015,503)

iii. Summary Statement of Appropriation - Recurrent and Development Combined

Item	Amount as Per Audited Financial Statements (Kshs.)	Amount as Per IFMIS Report (Kshs.)	Variance (Kshs.)
Revenue/Expense Item	**Final Approved Budget**	**Final Approved Budget**	
Receipts			
Exchequer Releases	5,973,111,495	3,582,215,382	2,390,896,113
Total Receipts	**5,973,111,495**	**3,582,215,382**	**2,390,896,113**

Payments			-
Transfers to Other Government Units	5,198,007,389	8,780,222,771	(3,582,215,382)
Total Payments	**5,973,111,495**	**9,555,326,877**	**(3,582,215,382)**
	-		-
Revenue/Expense Item	**Actual Amount**	**Actual Amount**	**Variance**
Receipts			
Exchequer Releases	5,921,792,580	5,921,792,484	96
Total Receipts	5,921,792,580	5,921,792,484	96
Payments			
Use of Goods and Services	272,705,455	271,396,408	1,309,047
Total Payments	**5,919,548,897**	**5,918,239,849**	**1,309,047**
Surplus/Deficit	**2,243,587**	**3,552,634**	

iv. Variances Between Financial Statements and Trial Balance

Account No. and Description	Financial Statements (Kshs.)	Trial Balance (Kshs.)	Variance (Kshs.)
2210300 Domestic Travel and Subsistence, and Other Transportation Costs	30,784,060	30,928,260	(144,200)
2210400 Foreign Travel and Subsistence, and Other Transportation Costs	28,104,355	28,105,995	(1,640)
2210500 Printing, Advertising and Information Supplies and Services	2,591,143	2,625,975	(34,832)
2210800 Hospitality Supplies and Services	17,986,266	18,050,066	(63,800)
2211300 Other Operating Expenses	105,019,314	103,836,194	1,183,120
2220100 Routine Maintenance – Vehicles	5,162,160	5,143,561	18,599
3110400 Construction of Roads	94,949,999	90,670,850	4,279,149
9910100 General Provisions	-	21,736,660	(21,736,660)
9910200 Exchequer Provisions	-	(9,926,838,443)	9,926,838,443
9990000 Opening Balance Reserves	319,831	3,988,329,802	(3,988,649,633)
Total	**284,277,466**	**(5,637,411,079)**	

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

1565. Inaccuracies in Cash and Cash Equivalents

The statement of assets and liabilities reflects Kshs.138,581,930 as cash and cash equivalents as at 30 June, 2021. The balances in the financial statements did not agree with the reconciled cash book balances as shown below;

Account Number	Reconciliation Statement Balance (Kshs.)	Financial Statement Balance (Kshs.)	Variance (Kshs.)
CBK-Recurrent	273,710,578	1,585,520	272,125,058
CBK-Development	(195,431)	95	(195,526)
CBK-Deposits	147,065,903	136,996,315	10,069,588
Total	**420,581,050**	**138,581,930**	

Consequently, the accuracy of cash and cash equivalents balance of Kshs.138,581,930 as at 30 June, 2021 could not be confirmed.

Other Matter

1566. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, Report on Lawfulness and Effectiveness in the Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board and the National Treasury's Circular Ref.AG.4/16/2 Vol.3(72) dated 30 June, 2021 on Revised Annual Financial Reporting Template.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1567. Procurement, Design and Printing Government Calendars

Note 5 to the financial statements for the year under review reflects use of goods and services balance of Kshs.272,705,455 which includes payments of Kshs.30,558,945 in respect of specialized materials which in turn includes payments totalling to Kshs.14,238,106 for design and printing of calendars.

The State Department on 5 October, 2020 requested Kenya Tourism Board (KTB) to undertake the design and printing of Government calendars for the year 2021. Authority to Incur Expenditure amounting Kshs.14,000,000 was issued to KTB in November, 2020.

However, the following anomalies were noted,

(i) The procurement plan for State Department for the year 2020-2021 reflects planned procurement of wall calendars and desk calendars items to be done using open tender method. The quantities to be procured were 50,000 units of wall calendars at estimated unit cost of Kshs.320 (Total Kshs.16,000,000) and 25,000 units of desk calendars at estimated unit cost of Kshs.300 (Total Kshs.7,500,000).

(ii) The Management through Kenya Tourism Board (KTB) engaged a procuring agent at an agency commission cost of Kshs.2,045,705 to design and print 90,250 and 42,200 units of desk calendars at a total cost of Kshs.12,192,402.

(iii) No justification was provided for the use of a procuring agent instead of open tender method contrary to Section 51 of the Public Procurement and Asset Disposal Act, 2015.

(iv) Procurement documents such as notice of advertisement, evaluation minutes, letter of award and contract agreement between the procuring agent and KTB were not availed for audit review.

Consequently, the Management was in breach of the law and the validity of the expenditure of Kshs.14,238,106 for the year ended could not be confirmed.

1568. Repair and Rehabilitation of Farm-Murera Gate Road (Contract No: MOT/02/2016-2017)

As previously reported, the contract for the repair and rehabilitation of approximately 26 kilometers long, Farm-Murera Gate Road, was awarded to a local contractor at a contract sum of Kshs.198,799,982. The contract agreement was signed on 27 April, 2017. The contract commencement date was on 21 May, 2017 for a contract period of twelve (12) months with completion date of 31 May, 2018.

The Kenya Rural Roads Authority wrote to the State Department for Tourism Ref: KeRRA/05/MOT/02/2016-2017/Vol1/ (2519) on project cost appraisal No.1 dated 14 February, 2018 that the variation of the scope of works from 26 kilometers to 11.5 kilometers was recommended by the Chief Engineer (Materials) as per MTRD report No. 1347 Re.M.499/35/M/340 dated 11 October, 2017 that proposed an enhanced pavement structure and hence change of scope of work. The letter further states, that the contract sums would be sufficient to undertake 11.5 kilometers of the road namely repair of the first 8.0 kilometers and rehabilitation of 3.5 kilometers beyond 8 kilometers as per revised bill of quantities and the evaluation report.

An addendum letter on variation order No.1 was signed on 11 July, 2018 by the State Department for Tourism and the contractor varying the scope of work from 26 kilometers to 11.5 kilometers as detailed in the summary of appraised bill of quantities, the contract sum was revised to Kshs.198,795,353 and the works were to be executed within the approved contract period.

Construction commenced on 31 May, 2017 for a contract period of 12 months with a completion date of 31 May, 2018. The contractor was awarded the first extension of 146 days which revised the project completion date from 31 May, 2018 to 24 October, 2018.

The contractor was granted a second extension of 207 days on 3 February, 2020 which revised the project completion date from 24 October, 2018 to 19 May, 2019.

Audit review of the project revealed the following anomalies;

i. No evidence was provided to show that feasibility study and design reports were done by engineers to guide in the process of preparation of bills of quantities.

ii. The revised scope of work was not executed within the contract period as per requirement of the addendum letter on variation order No.1 signed on 11 July, 2018 by the State Department and the contractor varying the scope of work from 26 kilometers to 11.5 kilometers.

iii. According to minutes for substantial completion inspection meeting held on 11 February, 2021, the inspection committee irregularly agreed to back-date the date for substantial completion to 18 August, 2020 instead of the actual date of carrying out the inspection of 11 February, 2021.

It was also not clear why the takeover certificate was issued and backdated to 18 August, 2020 yet completion inspection was done on 11 February, 2021.

iv. The defects liability period was backdated to 11 August, 2021 whereas the defects liability period was expected to commence from the date of substantial completion inspection of 11 February, 2021 for a period of six (6) months to 11 August, 2021. In addition, the final inspection on end of defect liability period was done on 25 May, 2021 before the expiry of expected date of defect liability period of 11 August, 2021 as per the site minutes dated 25 May, 2021 on final inspection on end of defects liability period.

v. As at 30 June, 2021 the contractor had been paid a total of Kshs.197,234,736 as tabulated below:

Interim Payment Certificate (IPC)	Date of Certificate	Amount Certified (Kshs.)	Date of Payments	Amount Paid (Kshs.)
IPC No. 1,2,3 and 4	Various dates	109,239,069	27 December, 2019	102,284,737
IPC No. 5	8 June, 2020	51,779,148	15 January, 2021	47,500,000
			30 June, 2021	4,279,148
IPC No. 6	9 May, 2021	36,892,815	30 June, 2021	43,170,850
				197,234,735

Review of payments vouchers and supporting documents for Interim payment certificate No. 4 reflects work certified of Kshs.40,184,567.26, out of which a deduction of Kshs.6,000,000 was made relating to liquidated damages charged to the contractor for delay in completing the project. However, the contractor was paid the full amounts of the contract sum of Kshs.197,234,736 without deduction of liquidated damages of Kshs.6,000,000. There is a possibility of loss of public funds since damages have not been deducted/recovered from the invoiced amount or

performance security in contravention of Section 140 of the Public Procurement and Asset Disposal Act, 2015 on interest on overdue amounts and liquidated damages.

vi. Physical verification carried on the project between 18 to 23 November, 2021 revealed that; Section 2-Km 8+000 to Km 11+500: pot hole patching had already deteriorated, with no road markings and the road surface damaged with pot holes less than six (6) months since the final inspection.

vii. Item No. 1 in the Bill of Quantities relates to preliminaries and general items that the contractor was to provide and maintain. Laboratory equipment for use by engineers' representatives, engineer's office furniture and survey equipment, all worth Kshs.13,800,000, which were to revert to the employer (State Department) at the close of the contract as detailed below;

Item	Description	Amount (Kshs.)
1.05	Provide and maintain laboratory equipment, reagents and other items as priced in appendix A in the BQs for use by Engineer's representative for the duration of the contract. Ownership to revert to the employer at the end of the contract	7,800,000
1.06	Provide and maintain furniture, tools and other items for the engineer's office as priced in Appendix B for the duration of the contract ownership to revert to the employer at the end of the contract	4,000,000
1.07	Provide and maintain survey equipment as priced in Appendix C for the duration of the contract, ownership to revert to the employer at the end of the contract.	2,000,000
	Total	**13,800,000**

No evidence was provided to indicate that the preliminary and general items worth Kshs.13,800,000 were transferred to the State Department for Tourism.

Under the circumstances, it was not possible to confirm that resources of the State Department were used in an effective, efficient and economical and transparent manner as required under Section 68(1) of the Public Finance Management Act, 2012.

1569. Proposed Regeneration of Mama Ngina Drive Water Front and Cultural District in Mombasa - Contract No. MOT/01/2018-2019

The contract was awarded to a local contractor on 14 December, 2018 and agreement was signed on 2 January, 2019 at a contract sum of Kshs.433,929,098. The contract period was 150 days and completion date set on 1 June, 2019.

The main works involved, Kilindini culture centre, amphitheater, gateways (2 No.), ablution block (2No.), enabling works for kiosk (100 No.), pigeon towers (3 No.),

waterfront walkway, parking and driveways, squares and court yards, footpaths, restoration of existing tarmac road, external works, day works, prime costs and provisional sums.

Review of project records and physical inspection carried out on 10 November, 2021 revealed the following anomalies;

i. Itemized works in the Bill of Quantities for the amphitheater Bill No.3 amounted to Kshs.7,945,710 while final account reflects Kshs.3,955,565. However, the works had not been executed by the contactor in November, 2021 as tabulated below:

Element	Particulars	Page No.	BQ Amount (Kshs.)	Final Account Amount (Kshs.)
B	Frame	3/5	854,000	2,049,100
D	Roof Finishing and Rain Water Disposal	3/8	1,195,100	638,700
E	Windows	3/10	248,350	174,965
F	Doors	3/13	1,116,000	387,500
J	Ceiling Finishes	3/17	426,700	616,800
L	Joinery Fitting	3/20	4,105,560	88,500
	Total		**7,945,710**	**3,955,565**

No explanation has been provided for the payment of works not done.

ii. Bill No.6 reflects outstanding enabling works for kiosks amounting to Kshs.802,272 while final account reflects Kshs.1,359,276. The works were not executed although payments had been made as tabulated below;

	Works Tendered (Kshs.)	Works Verified (Kshs.)	Outstanding Works (Kshs.)
Item	100(No.) Food Kiosks along the walkway	76 (No.) Food Kiosks along the walkway	24 (No) Food Kiosks along the walkway
Enabling Kiosks-Bill No.6	3,342,800	2,540,528	802,272
Final Account	5,663,650	4,304,374	1,359,276

iii. Bill No.7 reflects outstanding pigeon towers works amounting to Kshs.2,757,200 while final account reflects Kshs.1,710,050 were not executed, although payments had been made as tabulated below:

	Works Tendered (Kshs.)	Works Verified (Kshs.)	Outstanding works (Kshs.)
Item	3(No.) Pigeon towers	2 (No.) Pigeon towers	1 (No.) Pigeon towers
Pigeon Towers - Bill No.7	8,271,600	5,514,400	2,757,200
Final Account	8,458,662	6,748,612	1,710,050

No explanation was provided for payment of works not executed which contravenes Section 150(1)(3) and Section 154(b) of the Public Procurement and Asset Disposal Act, 2015 on contract administration and contract close respectively.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1570. Overpayment on Foreign Travel Allowance

[illegible] to the financial statements reflects Kshs.28,104,355 as payments for foreign travel and subsistence and other transport costs. Audit review of payment voucher No. 2900 dated 30 June, 2021 of Kshs.745,498 incurred for foreign travel subsistence allowance revealed that one officer was paid per diem for thirteen (13) days while other officers travelling on the same trip were paid per diem for eight (8) days. No explanation has been provided for the extra five (5) days paid to one officer that occasioned an overpayment of Kshs.286,730.

Consequently, the effectiveness of internal controls on the management of imprests could not be confirmed.

STATE DEPARTMENT FOR WILDLIFE - VOTE 1203

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1571. Unsupported Purchase of Certified Seeds

Note 7 to the financial statements for the year ended 30 June, 2021 reflects acquisition of assets totalling Kshs.11,224,275. Out of these, an amount totalling Kshs.10,000,000 was in respect to purchase of certified seeds. These funds were transferred to Kenya Wildlife Services for purchase of certified seeds, however, Kenya Wildlife Services did not provide returns showing how the funds were utilised.

Consequently, the validity and completeness of the expenditure of Kshs.10,000,000 for purchase of tree seedlings for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1572. Unverifiable Assets

As previously reported, Annex 1 to the financial statements reflects a fixed assets balance of Kshs. 35,583,579 with an amount of overhaul of vehicles and other transport equipment of Kshs.1,514,005. However, the balance of motor vehicles differs with the amount of Kshs.107,904,964 reflected in the fixed assets register schedule. In addition, the schedule of fixed assets includes a list of seventeen (17) motor vehicles inherited from the defunct Ministry of Regional Development and Ministry of Environment and Natural Resources. However, the State Department did not have logbooks for twelve (12) vehicles, while logbooks for the other five (5) vehicles are in the names of other entities and had not been transferred to the State Department's name.

As a result, it was not possible to confirm the value of assets owned by the State Department.

1573. Budgetary Control and Performance

The summary statement of appropriation - recurrent and development reflects final receipts budget and actual on comparable basis of Kshs.9,755,015,954 and Kshs.9,511,090,079 respectively resulting to an under-funding of Kshs.243,925,875 or 3% of the budget. Similarly, the State Department spent Kshs.9,509,718,105 against an approved budget of Kshs.9,755,015,954 resulting to an under-expenditure of Kshs.245,297,848 or 3% of the budget.

The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1574. Non-Adherence to a Third Rule of Basic Pay

As disclosed in Note 4 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2021 reflects compensation of employee balance of Kshs.115,220,952. Included in this amount, is basic salaries to permanent employees of amounting to Kshs.73,609,568. However, a sample review of the payroll for the year ended 30 June, 2021 revealed that net pay for eleven (11) employees was less than a third of their corresponding basic pay. This is contrary to Section 19(3) of the Employment Act, 2007.

Consequently, Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1575. Lack of ICT Policy and Risk Management Policy

Further, the State Department had not prepared and implemented an ICT policy as a commitment to the process of implementing digital technology. An ICT policy would give guidance on how to ensure confidentiality, integrity and availability of the entity's data. Further, the State Department did not have a risk management policy, Contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015. Failure to develop a risk policy means that the State Department did not have a framework for management of risk and hence it was not possible to identify, assess and control risk.

As a result, it has not been possible to define the entity's risk appetite and set the risk tolerance levels by identifying boundaries against unacceptable risk exposures as well as determining the data integrity.

DONOR FUNDED PROJECT

COMBATING POACHING AND ILLEGAL WILDLIFE TRAFFICKING IN KENYA THROUGH INTEGRATED APPROACH (IWT-KENYA) PROJECT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1576. Acquisition of Assets

1576.1 Unsupported Office Furniture and General Equipment

Note 5 to the financial statements reflects acquisition of non-financial assets of Kshs.44,253,506 which includes purchase of office furniture and general equipment amounting to Kshs.3,292,404. However, the supporting documents which include list of registered suppliers, the quotation opening and evaluation minutes, professional opinion, the inspection and acceptance certificate and the goods received note and the issue note were not provided for audit.

In the circumstances, the validity and completeness of the office furniture and general equipment expenditure amounting to Kshs.3,292,404 for the year ended 30 June, 2021 could not be confirmed.

1576.2 Undelivered Vehicles and Other Transport Equipment

Note 5 to the financial statements reflects acquisition of non-financial assets of Kshs.44,253,506 which includes purchase of vehicles and other transport equipment amounting to Kshs.40,961,102, out of which an amount of Kshs.29,924,704 is in respect to five (5) vehicles not delivered as at 30 June, 2021. Further, there was no agreement presented for audit detailing the conditions for payment and the period within which the vehicles were to be delivered. The supplier was paid in full before delivering the goods, contrary to Section 146 of the Public Procurement and Disposal Act, 2015, which states that, no works, goods or services contract shall be paid for, before they are executed or delivered and accepted by the accounting officer of a procuring entity or an officer authorized by him or her in writing except where so specified in the tender documents and contract agreement. Such an advance payment shall not be paid before the contract is signed.

Consequently, the regularity and completeness of the purchase of vehicles and other transport equipment amounting to Kshs.40,961,102 for the year ended 30 June, 2021 could not be confirmed.

1577. Unsupported Purchase of Goods and Services

The statement of receipts and payments for the year ended 30 June, 2021 reflects purchase of goods and services totalling to Kshs.8,698,396 as disclosed in Note 4 to the financial statements. However, included in this figure is an amount of Kshs.5,096,736 which was not supported with the relevant supporting documentation as summarized below.

No.	Item	Amount (Kshs.)	Supporting Documents not Availed
1	Domestic Travel & Subsistence	3,045,018	Approval letters, Imprest warrants, work tickets, and payment vouchers
2	Audit Fees	524,463	Contract agreement with hired Auditor, Invoice, and payment vouchers.
3	Training Expenses	1,527,255	Invitation letters, reports on training, payment vouchers, invoices and local purchase orders.
	Total	**5,096,736**	

Consequently, the validity and completeness of purchase of goods and services totalling to Kshs.8,698,396 for the year ended 30 June, 2021 could not be confirmed.

1578. Unsupported Proceeds from Domestic and Foreign Grants

The statement of receipts and payments for the year ended 30 June, 2021 reflects proceeds from domestic and foreign grants amounting to Kshs.56,373,538 as disclosed in Note 2 to the financial statements. However, the bank statements and other documents where these receipts are reflected were not provided for audit review.

In the circumstances, the accuracy and completeness of proceeds from domestic and foreign grants amounting to Kshs.56,373,538 for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1579. Budgetary Control and Performance

The summary statement of comparative budget and actual amount reflects final receipts budget and actual on comparable basis of Kshs.139,024,300 and Kshs.56,553,538 respectively resulting to an under-funding of Kshs.82,470,762 or 59% of the budget. Similarly, the Project spent Kshs.56,553,538 against an approved budget of Kshs.139,024,300 resulting to an under-expenditure of Kshs.82,470,762 or 59% of the budget. The underfunding and underperformance affected the planned activities and may have impacted negatively on service delivery of the Project during the first year of implementation to the stakeholders.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1580. Ambiguity in the Financing Agreement

The Financing Agreement states in section 'IX Financial Planning and Management Funds Flow: "Both GoK and UN financial and procurement procedures will be utilized and adhered to as appropriate. The project will adhere to the Public Financial Management Act (2012)". However, this clause may be in conflict with the Act as the UN financial and procurement procedures are not in tandem with the Public Finance Management Act, 2012 and the Public Procurement and Asset Disposal Act, 2015

In the circumstances, continued application of the Financing Agreement with the above clause may result to non-adherence to the Public Finance Management Act, 2012.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1581. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR GENDER - VOTE 1212

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1582. Variances Between the Financial Statements and IFMIS Ledger Balance

Review of balances reflected in the financial statements for the year under review revealed variances with those reflected in the supporting ledgers extracted from the Integrated Financial Management Information System (IFMIS). The variances were not reconciled or explained as detailed below:

Account Item	Reference	Financial Statements Amount (Kshs.)	IFMIS Ledger Amount (Kshs.)	Variance (Kshs.)
Current Grants To Other Government Agencies	Note 5	492,770,000	357,770,000	135,000,000
Capital Grants to Government Agencies	Note 5	25,000,000	0	25,000,000
Other Capital Grants and Transfers	Note 5	2,171,000,000	0	2,171,000,000
Use of Goods and Services	Note 4	260,468,993	259,820,596	648,397
Bank Balance	Note 8	411,902	2,246,741,374	(2,246,329,472)
Cash Balance	-	0	2,730,048,741	(2,730,048,741)
Accounts Receivables	Note 9	2,462,503	3,175,969	(713,466)
Accounts Payables	Note 10	397,099	487,600,609	(487,203,510)
Fund Balance brought Forward	Note 11	6,041,851	2,640,250	3,401,601
Prior Year Adjustments	Note 12	(641,374)	0	(641,374)
Surplus/(Deficit) for the Year	Page 25	(2,923,171)	(2,274,774)	(648,397)

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2021 could not be confirmed.

1583. Unsupported Accounts Receivables Balance

As disclosed in Note 9 to the financial statements, the statement of assets and liabilities reflects Kshs.2,462,503 in respect of accounts receivables - outstanding imprest and

clearance accounts. However, supporting documents and detailed schedules for the amount were not provided for audit review.

Consequently, the accuracy and completeness of accounts receivables - outstanding imprest and clearance accounts amounting to Kshs.2,462,503 as at 30 June, 2021 could not be confirmed.

1584. Misclassification of Expenditure Under Foreign Travel and Subsistence

The statement of receipts and payments reflects an expenditure amounting to Kshs.260,468,993 in respect of use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.2,220,486 in respect of foreign travel and subsistence. However, examination of payment vouchers supporting the expenditure on foreign travel and subsistence revealed unrelated amounts totalling Kshs.361,200 which was incurred on domestic travel and subsistence. However, no adjustments were made to correct the misclassification.

As a result, the accuracy of the affected balances and the regularity of the misclassified expenditure could not be confirmed.

Other Matter

1585. Unresolved Prior Year Matters

As disclosed in Part 16, follow-up on auditor's recommendations on prior year audit issues, various audit issues raised in the prior year remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

1586. Pending Bills

Note 16.1 to the financial statements reflects pending bills amounting to Kshs.18,936,066 as at 30 June, 2021 which were not settled in the year under review, but carried forward to 2021/2022 financial year. Failure to settle bills in the year for which they relate will adversely affect the budgetary provisions for the subsequent year as they form a first charge to that year's budget provision.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1587. Failure to Comply with the One-Third of Basic Salary Rule

During the year under review seventeen (17) employees earned a net salary of less than one third (1/3) of their basic salaries contrary to Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016.The Management did not give plausible explanations for failure to comply with the policy.

In the circumstances, the State Department contravened Section C.1(3) of the Public Service Commission (PSC) Human Resource Policies, 2016 as this may expose the staff to pecuniary embarrassment.

1588. Internal Control Weaknesses on Payments Processing

Examination of sampled payment vouchers totalling Kshs.5,908,490 revealed process weaknesses which included failure to examine and authenticate imprest surrender documents. Additionally, some payment vouchers were not signed by relevant authorizing officers as required by Regulation 104(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that all receipts and payments vouchers of public moneys shall be properly supported by pre-numbered receipt and payment vouchers and shall be supported by the appropriate authority and documentation.

Further, Regulation 23 of the Public Finance Management (National Government) Regulations, 2015 requires the Accounting Officer to maintain effective systems of internal control and the measures taken to ensure that they are effective and ensure records are accurate, reliable and complete.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1589. Weaknesses in Overall Governance

1589.1 Internal Audit Function

Review of the State Department's internal audit department revealed that it lacked capacity to review and appraise internal controls, risk management and governance practices since it had only one auditor. Further, during the year under review, the department did not have an approved internal audit charter, an annual work plan and a budget line contrary to Section 1.5 of the Kenya Gazette Notice Number 2690 Vol. CXVIII - No.40.

In the circumstances, the effectiveness of the internal audit function in enhancing operational efficiency, governance and compliance as provided for under Section 73(4) and (5) of the Public Finance Management Act, 2012 could not be ascertained.

1589.2 Audit Committee

Review of the Audit Committee of the State Department revealed several weaknesses in performance of its mandate as detailed below:

i. Despite the State Department of Gender having constituted an Audit Committee, the Committee did not convene any meeting during the year contrary to Regulation 179(1) of the Public Finance Management (National Government) Regulations, 2015 which requires that an Audit Committee should meet at least once in every three (3) months.

ii. The Committee did not have a duly elected chairperson contrary to Regulation 174(5) of the Public Finance Management (National Government) Regulations, 2015 that requires that the chairperson of an Audit Committee shall be independent of the national government entities.

iii. No Committee member had been trained on governance contrary to paragraph2.6.1 of the Kenya Gazette Notice Number 2690 Vol. CXVIII on Capacity Building Framework, which requires serving audit committee members to training on emerging trends about audit committees, internal audit, external audit, governance, risk and internal controls funded by the Department.

iv. The Management did not disclose in the financial statements the fiduciary oversight committees such as Internal Audit and Audit Committee as required by PSASB reporting template for the year 2021.

Failure of the Audit Committee to perform its duties and convene regular meetings may render the internal audit function ineffective and its independence may be compromised.

1589.3 Lack of Risk Management Policy

During the year under review, the State Department did not have an approved Risk Management Policy and a Risk Register to document risks emanating from the users and the mitigation factors in place to minimize the risks. This is contrary to Regulation 165(1) of the Public Finance Management (National Government) Regulations, 2015 which requires the Accounting Officer to ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and a system of risk management and internal control that builds robust business operations.

In view of the above weaknesses, it was not confirmed whether the internal controls in place at the State Department were adequate and effective during the year under review.

STATE DEPARTMENT FOR PUBLIC SERVICE - VOTE 1213

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1590. Unsupported Adjustments

The statement of receipts and payments reflects payments totalling to Kshs.15,510,303,215. However, a review of the general ledgers for the expenditure revealed several adjustments and corrections totalling to Kshs.45,634,075 in respect to twelve (12) expenditure items. However, Management did not provide supporting documents and journal vouchers.

In the circumstances, the accuracy and completeness of the reported expenditure balance of Kshs.15,510,303,215 for the year ended 30 June, 2021 could not be confirmed.

1591. Use of Goods and Services

The statement of receipts and payments reflects an expenditure of Kshs.1,123,199,815 under use of goods and services which, as disclosed in Note 5 to the financial statements, includes other operating expenses amounting to Kshs.372,146,786. The following unsatisfactory matters were noted:

1591.1 Unsupported Supply of Milk

Included in other operating expenses is an amount of Kshs.1,658,475 made to a supplier for supply and delivery of milk to various Huduma Centres across the country. However, the counter receipt voucher dated 30 October, 2020 showed that the milk was taken on charge approximately twenty-five days (25) after delivery was done. Further, the Management did not provide a certificate by the Inspection and Acceptance Committee to authenticate receipt of the milk. This is contrary to Section 48 of the Public Procurement and Asset Disposal Act, 2015 which requires immediate inspection of goods after the delivery.

Consequently, the accuracy and validity of the expenditure of Kshs.1,658,475 spent on purchase of milk could not be confirmed.

1591.2 Unsupported Payments on Cleaning Services

The other operating expenses also includes an amount of Kshs.14,088,300 that was paid to a firm for cleaning services in seven (7) Huduma centres in Nairobi and Mombasa during the year under review. Review of records revealed that the rate payable for the floor area was Kshs.39.50 and Kshs.15 per square foot for Huduma Centres in Nairobi and Mombasa respectively. However, the floor area measurements estimated total of 49,181 and 7,534 square feet in Nairobi and Mombasa respectively, were not supported

with inspection and valuation reports from the State Department of Lands, Housing and Urban Development.

Further, a proposed lease report dated 30 July, 2020, by a private valuer contracted by the premises owner, the Postal Corporation of Kenya to the State Department for leasing of premises at General Post Office, Mombasa revealed that the Huduma centre occupies a floor area measuring about seven thousand two hundred and fifteen (7,215) square feet, which differed with the initial information contained in framework agreement between the State Department and the service provider which estimated the floor area to be seven thousand five hundred and thirty four (7,534) square feet. This therefore indicates an exaggerated floor area by three hundred and nineteen (319) square feet.

Consequently, the accuracy and validity for the expenditure of Kshs.14,088,300 on cleaning services in Huduma centres could not be confirmed.

Other Matter

1592. Pending Bills

As disclosed under Annex 2 to the financial statements, the State Department for Public Service had pending bills totalling to Kshs.231,416,395 as at 30 June, 2021. However, Management has not provided reasons for non-payment of the bills. Further, failure to settle bills during the year to which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1593. Unresolved Prior Year Matters

In the audit report of the previous year, several issues were raised. However, the Management has not resolved the issues or given satisfactory explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury and Planning Circular for the year ended 30 June, 2021.

1594. Delay in Exchequer Releases

Review of records in relation to Exchequer releases revealed that the State Department received Kshs.3,693,709,571 Exchequer releases from The National Treasury in the months of June and July 2021 as detailed below:

Date Funds Released by The National Treasury	Vote	Amount Received (Kshs.)
3 June, 2021	Recurrent	72,328,735
4 June, 2021	Recurrent	1,000,000,000
25 June, 2021	Recurrent	65,983,761
29 June, 2021	Recurrent	150,469,967
1 July, 2021	Recurrent	1,129,864,077
2 July, 2021	Recurrent	158,000,000

Date Funds Released by The National Treasury	Vote	Amount Received (Kshs.)
6 July, 2021	Recurrent	199,508,631
2 July, 2021	Development	917,000,000
6 July, 2021	Development	554,400
Total		**3,693,709,571**

Delay in Exchequer releases may have negatively affected timely implementation of the programmes of the State Department and provision of services to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1595. Irregular Advance Payment for Supply of Uniform

The Management made an advance payment amounting to Kshs.11,330,000 to a cloth manufacturing firm being fifty percent (50%) of the contract sum for the supply and delivery of branded shirts and blouses. This was contrary to Section 147 of the Public Procurement and Asset Disposal Act, 2015 which states that under exceptional circumstances, advance payment may be granted and shall not exceed twenty per cent (20%) of the price of the tender.

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1596. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR YOUTH AFFAIRS - VOTE 1214

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1597. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

1598. Late Exchequer Releases

The statement of receipts and payments reflects transfers from The National Treasury totalling Kshs.3,140,772,010. However, Exchequer issues totalling Kshs.86,845,787 comprised of recurrent and development expenditure of Kshs.70,402,559 and Kshs.16,443,228, respectively were received by the State Department during the month of June, 2021 as follows:

Date	Vote	Amount Received (Kshs.)
21 June, 2021	Recurrent	55,368,277
28 June, 2021	Recurrent	15,034,282
01 June, 2021	Development	3,263,200
30 June, 2021	Development	13,180,028
	Total	**86,845,787**

The late Exchequer releases may have hindered timely implementation of the State Department's programmes.

1599. Pending Bills

Annex 1 to the financial statements reflects a nil balance in respect of comparative year pending accounts payables while the audited financial statements for 2019/2020 financial year reflected a balance of Kshs.16,921,561. The resultant difference was not explained or reconciled. Further, the State Department had pending bills balance of Kshs.21,737,242 that were not settled in the year under review but were carried forward to 2021/2022 financial year. Failure to settle bills in the year for which they relate adversely affect the implementation of the subsequent year's budgeted programs as the pending bills form a first charge to that year's budget provision.

1600. Unresolved Prior Year Matters

As disclosed under follow up on auditor's recommendations on prior year audit issues, various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1601. Other Operating Expenses

The statement of receipts and payments reflects an expenditure of Kshs.2,012,999,158 under use of goods and services which, as disclosed in Note 4 to the financial statements, includes amounts of Kshs.732,699,000, Kshs.14,478,657, and Kshs.10,432,414 in respect of other operating expenses, routine maintenance - vehicles and other transport equipment, and fuel, oil and lubricants, respectively. The following observations were made:

1601.1 Delay in Inspection of Very Important Person (VIP) Robin Chairs

The expenditure of Kshs.732,699,000 in respect of other operating expenses includes an amount of Kshs.1,360,800 paid to a firm for supply and delivery of VIP robin chairs for the boardroom. However, review of documents provided including payment vouchers, invoices, and quotations revealed that the invoice, delivery note and request for quotations were all issued on 28 June, 2019. The items were received in the stores on 30 June, 2019 but the inspection certificate was issued on 8 December, 2020 (approximately one and half years after delivery). Although the Management attributed the delay to missing documents, the delay in inspecting the furniture is contrary to Section 48 of the Public Procurement and Asset Disposal Act, 2015 which requires immediate inspection of goods after the delivery.

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

1601.2 Air Ticket to Spain for a Trainee Footballer

The expenditure of Kshs.732,699,000 in respect of other operating expenses also includes an amount of Kshs.569,445 for a return air ticket to Spain for non-civil servant to train as a professional footballer. The request for the air ticket was made on 22 July, 2019. However, no evidence was provided indicating proof of travel by the footballer. This is contrary to Regulation 104 of the Public Finance Management (National Government) Regulations, 2015 which stipulates that all expenditures should be supported by the appropriate authority. In addition, the air ticket was issued on 1 September, 2019 whereas the Local Service Order were both dated 19 December, 2020, thus an indication that air ticket was issued before an order was placed.

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

1602. Irregular Procurement of Motor Vehicle Service and Repairs

The expenditure of Kshs.14,478,657 in respect of routine maintenance - vehicles and other transport equipment includes an amount of Kshs.3,178,866 paid to three (3) garages for repair of motor vehicles. However, records provided for audit indicates that the garages were not registered and prequalified by the State Department. This is

contrary to Section 71 of the Public Procurement and Asset Disposal Act, 2015 which requires that the Head of Procurement function to maintain and continuously update lists of registered suppliers, contractors and consultants in various specific categories of goods, works or services according to its procurement needs.

Further, Regulation 174(1) and (2) of the Public Procurement and Asset Disposal Regulations, 2020 stipulates that a procuring entity shall utilize its own workshop or garage to repair and maintain motor vehicles, plant or equipment and where the procuring entity lacks the capacity to carry out the repairs or maintenance, an Accounting Officer shall competitively procure such services from a pre-qualified list of service providers licensed to undertake such services.

Consequently, it was not possible to confirm whether the State Department obtained value for money for the expenditure on repair of motor vehicles.

1603. Failure to Provide Motor Vehicle Work Tickets

As disclosed in Note 4 to the financial statements, the State Department incurred an expenditure of Kshs.10,432,414 on fuel, oil and lubricants on a fleet of forty (40) motor vehicles. However, work tickets for nineteen (19) motor vehicles were not provided for audit verification. This is contrary to Regulation 166 (4)(b) of the Public Procurement and Asset Disposal Regulations, 2020 which stipulates that an Accounting Officer should ensure that movement and condition of assets can be tracked. No explanation was provided for the anomaly.

1604. Management of Imprest

The statement of assets and liabilities reflects an accounts receivables-outstanding imprests and clearance accounts balance of Kshs.1,242,895 which, as disclosed in Note 8 to the financial statements, includes a balance of Kshs.78,000 in respect of government imprest. However, various officers were issued with multiple imprest before surrendering the previous imprests contrary to Regulation 93(4) of the Public Finance Management (National Government) Regulations, 2015 which prohibit issue of new imprests to officers with outstanding imprests. No explanation was provided by the Management for the anomaly.

1605. Construction of Empowerment Centres in Emurua Dikkir and Nyatike

The statement of receipts and payments reflects an expenditure of Kshs.66,448,446 under acquisition of assets which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.10,418,630 in respect to construction of buildings. However, the balance of Kshs.10,418,630 in respect to construction of buildings differed with an amount of Kshs.13,681,879 reflected in the schedule of expenditure spent on construction of two (2) Youth Empowerment Centres resulting to unexplained and unreconciled variance of Kshs.3,263,249. Further, review of records revealed the following anomalies:

(i) Physical verification carried out in November, 2021 at Emurua Dikkir Youth Empowerment Centre revealed that the walls had visible cracks, while the roof was leaking and the doors were unlockable. This was an indication of poor workmanship

while the certificate of practical completion had been issued. Further, the Centre had no equipment, electricity and water connection. No budgetary allocation was made during the financial year 2021/2022 to ensure operationalization of the centre. In the absence of budgetary allocation, the Centre is likely to remain unutilized.

(ii) Physical verification at Nyatike Youth Empowerment Centre revealed that the Centre was completed and handed over on 4 November, 2021. However, the Centre is in a remote part of the county without equipment, electricity, water connection, perimeter wall and a guard house. Further, despite the challenges, no budgetary allocation was made during the year 2021/2022 to ensure operationalization of the Centre to serve the intended purpose.

In the circumstances, the value for money realised on the expenditure for the Youth Empowerment Centres in the year ended 30 June, 2021 could not be confirmed.

1606. Unsupported Acquisition of Assets/Summary of Fixed Assets Register

Review of the fixed assets register provided for audit revealed that information such as date of acquisition, serial numbers of electronic equipment and values of all assets were not indicated in the register. Further, physical verification revealed that the assets were not tagged for ease of identification and tracking.

In the Circumstances, it could not be confirmed that preventative mechanisms were in place to eliminate theft, security threats, losses, wastage and misuse of assets as required by Regulation 139(1) and (2) of the Public Finance Management (National Government) Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1607. Lack of a Risk Management Policy

During the year under review, the State Department did not have in place an approved Risk Management Policy. Further, no evidence was provided that the Department has documented, identified and assessed risks and developed controls to respond to risks identified as required by Regulation 165 of the Public Finance Management (National Government) Regulations, 2015. The regulation stipulates that the Accounting Officer should ensure that the national government entity develops risk management strategies, which include fraud prevention mechanism and system of risk management and internal control that builds robust business operations.

Under the circumstances, the adequacy and effectiveness of the risk management strategies and controls put in place could not be established.

DONOR FUNDED PROJECT

KENYA YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT (IDA CREDIT NO. 5812-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1608. Consultancy Services on Life Skills Training

The Management entered into a contract MPYG/KYEOP/FBS/01/2017-2018 with a consultant on 30 October, 2018 for delivery of life skills training. The training targeted seventy thousand (70,000) trainees in seventeen (17) counties within four (4) contract packages. The consultant was paid an amount of Kshs.70,351,900 on 3 February, 2021 being eighty percent (80%) of contract sum for provision of life skills training during Cycle V of the project. However, the following anomalies were noted:

i. Although the payment voucher was supported with a Local Purchase Order (LPO), no assessment report was provided contrary to the provisions of the framework agreement. In addition, no evidence was provided to show that the consultant provided insurance cover and general facility safety standards to the youth as provided for in the framework agreement.

ii. Review of Cycle V Training final report showed that all training in the seventeen (17) counties covered were carried out in hired training venues. However, no agreement as provided for in the framework was provided for audit verification.

iii. The training report further showed that nine thousand one hundred and twenty-six (9,126) trainees successfully attended and completed the training, which is less than nine thousand one hundred and seventy two (9,172) indicated in invoices number 576 and 577 both dated 2 December, 2020 resulting in an unexplained overpayment estimated at Kshs.460,000.

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

Other Matter

1609. Pending Bills

Note 12 to financial statements reflects pending bills of Kshs.14,803,297 as at 30 June, 2021. Management has not provided reasons for non-payment of the bills even though the Project is at risk of incurring significant interest costs and penalties with the continued delay in making payments. Further, failure to settle bills during the year to which

they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

1610. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2020 reflects budgeted receipts and actual on comparable basis amounting to Kshs.2,037,000,000 and Kshs.1,778,621,106 respectively resulting to a shortfall of Kshs.258,378,894 or 13% of the budget. Similarly, the Project's approved expenditure budget was Kshs.2,037,000,000 while the actual expenditure was Kshs.1,814,319,536 resulting to under-expenditure of Kshs.222,680,464 or 11% of the budget.

This under absorption indicates delay in implementation of the project activities as anticipated and thus it is unlikely that the Project will meet its intended objectives.

1611. Unresolved Prior Year Audit Issues

Various prior year audit issues remained unresolved as at 30 June, 2021. The included misclassification of expenditure, unconfirmed delivery of goods, Invalid contracts, unsupported expenditure, failure to comply with the procurement laws and regulations among others, Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1612. Non- Compliance with Project Implementation Work Plan

During the year under review, the Project had an approved work plan which indicated that an amount of Kshs.1,050,000,000 was to be disbursed in two (2) tranches of Kshs.375,000,000 and Kshs.675,000,000 to one thousand five hundred (1,500) youths through awardees programme described as "Mbelenabiz" Business Plan Competition. The programme, which was launched on 10 July, 2019, is an initiative of the Government of Kenya under the Kenya Employment and Opportunities Project implemented by the Micro and Small Enterprises Authority (MSEA) and the Ministry of ICT, Innovation and Youth Affairs with support from the World Bank.

The programme aim at creating new and expanding existing Youth-led Enterprises by providing them with grants and Business training and award the winners as per the mandate of Ministry of ICT, Innovation and Youth Affairs. However, examination of accounting records maintained by the Project Management shows that during the year only Kshs.343,065,350 was disbursed to the initiative leaving a balance of Kshs.706,934,650. This is an indication that the activity was not implemented as per the approved budget and which may have negatively impacted on service delivery to the public. No reason was provided for the failure to adhere to the annual work plan and approved budget.

1613. Unconfirmed Delivery of Core Business Skills Training

The Management signed a contract MPYG/KYEOP/FBS/02/2017-2018 on 31 October, 2018 with consultants in a joint venture for delivery of core business skills training. Examination of sampled payments in respect to the contract revealed the following anomalies:

1613.1 Payment for Core Business Skills

The Management paid Kshs.65,631,300 to the consultant on 9 March, 2021 for delivering an eleven-days Cycle V core business skills training to eighty thousand, six hundred and thirty-two (8,632) trainees drawn from ten (10) Counties that took place from 19 October, 2020 to 30 October, 2020.The following was anomalies were observed in respect of this payment:

i. The training report from the consultant submitted on 18 December, 2020 indicated that the training targeted a total of nine thousand and sixty (9,060) trainees but only eight thousand five hundred and thirty-two (8,532) trainees attended the training. However, an invoice raised for payment indicated eight thousand six hundred and thirty two (8,632) youths were trained resulting to an overpayment of Kshs.1,000,000 in respect of the additional 100 trainees.

ii. The final report from the consultant was submitted on 18 December, 2020 indicated that the training covered twelve (12) counties while the invoice submitted alongside the report reflected 8632 trainees participated from only ten (10) counties. No reason was provided for contradictory information.

In the circumstance, it was not possible to confirm whether the Project received value for money on the expenditure of Kshs.65,631,300 incurred on the training.

1613.2 Payment for Life Skills Training

Examination of payment voucher number 278 dated 2 February, 2021, revealed that the Project Management paid a consultant Kshs.40,826,600 for provision of an eleven (11) days Cycle 5 life skills training to five thousand three hundred and sixty-nine (5,369) trainees drawn from ten (10) counties which took place from 05 October, 2020 to 16 October, 2020.

Scrutiny of the documentation in support of the payment voucher revealed the following inconsistencies:

i. The final training report from the consultant dated 18 December, 2020 indicated that the cycle V life skills training had targeted a total of six thousand six hundred and eighty eight (6,688) trainees. However, only five thousand five hundred and twelve (5,512) youths were trained which again differed from five thousand three hundred and sixty nine (5,369) trainees shown in the invoice attached to the payment voucher. The resultant variance of one hundred and forty three (143) trainees and an amount of Kshs.1,430,000 in respect of the training has not been explained.

ii. Records also showed that the training ended on 16 October, 2020 but the training report was submitted more than sixty (60) days in December, 2020 contrary to the terms of reference which require final report to be submitted within fourteen (14) days after the end of the training of each cycle. No explanation was provided for the delay.

In the circumstance, it was not possible to confirm whether the Project received value for money on the expenditure of Kshs.40,826,600 incurred on the training.

1614. Non-Payment of Trainee Stipends

Field inspection carried out in the Month of October 2021, in Kwale, Mombasa, Kilifi, Kitui, Machakos, Migori, Kisumu, Kisii, Kakamega and Bungoma counties revealed that some youths who underwent the Project training during cycle I to cycle II between early 2019 and July, 2021, did not receive the full amount of stipends of Kshs.36,000 which had been included in the programme. However, interviews conducted during field verification noted that the trainees received stipends allowances ranging from Kshs.3,000 to Kshs.21,000. This has led to massive drop out midway through the training due to inability to pay transport and other upkeep costs.

Management did not provide explanation for the failure to pay trainees the agreed stipends.

1615. Non-Payment to Master Craftsmen Fee

Similarly, interviews conducted with the youths trained in Cycle V and VI in the ten counties visited, revealed instances where master craftsmen discontinued training youths undergoing job specific skills training before completion due to nonpayment of craftsmen fee. As a result, of non-payment, Project activities and objectives may not be realized. Further, no records were provided to determine the amount owed to the trainees.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1616. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1617. As required by International Development Association (IDA) Financing Agreement No.5812-KE dated 4 July, 2016, I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements agree with the accounting records and returns.

STATE DEPARTMENT FOR EAST AFRICAN COMMUNITY - VOTE 1221

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1618. There were no material issues noted during the audit of the financial statements of the State Department.

Other Matter

1619. Pending Bills

Note 15 to the financial statements reflects pending bills totalling Kshs.13,002,057, which include pending accounts payables and other pending payables of Kshs.124,767, Kshs.4,453,133 as balance brought forward, and additions during the year of Kshs.8,424,157 respectively.

Management has not provided an explanation for non-payment of the pending bills. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1620. Late Exchequer Releases

The statement of receipts and payments reflects exchequer releases of Kshs.502,981,964 as disclosed in Note 1 to the financial statements. Included in the figure is Kshs.92,956,173 and Kshs.28,644,650 totalling to Kshs.121,600,823 which was received in the State Department on 24 June, 2021 and 8 July, 2021 respectively. The late release of the exchequer by The National Treasury to the State Department caused delays in the use of the resources. Further, exchequer received on 8 July, 2021 was backdated in the records of the Department as received on 30 June, 2021 which is contrary to the basis of IPSAS cash reporting framework. This is contrary to Section 17(2)b of the Public Finance Management Act, 2012, which states that, payment from the National Exchequer Account should be done without undue delay on all amounts that are payable for public services.

The delayed exchequer releases may have affected the State Department's ability to implement its planned programmes and possible underutilization of the budget, resulting to negative impact on delivery of services to the public.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1621. There were no material issues relating to effectiveness of internal controls, risk management and governance.

STATE DEPARTMENT FOR REGIONAL AND NORTHERN CORRIDOR DEVELOPMENT - VOTE 1222

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1622. There were no issues noted during the audit of the financial statements of the State Department.

Other Matter

1623. Budgetary Control and Performance

The State Department received Exchequer receipts totalling Kshs.2,985,759,457 against an approved budget of Kshs.3,614,699,195 resulting to a shortfall of Kshs.628,939,738 or 17% of the approved budget. Similarly, actual expenditure amounted to Kshs.2,982,339,485 against the approved budget of Kshs.3,614,699,195 resulting to an under absorption of Kshs.632,359,710 or 17.5% which occurred mainly under transfers to other government Units. The shortfall in budgeted receipts and under-absorption implies that the overall goals and objectives of the State Department were not achieved as planned.

1624. Pending Bills

As previously reported, Annex 1 to the financial statements reflects pending bills amounting to Kshs.2,448,920,483 chargeable to both the recurrent and development votes that were not settled during the year under review but were instead carried forward to the 2021/2022 financial year. The pending bills balance includes an amount of Kshs.2,439,340,189 which relates to 2019/2020 and earlier financial years.

No explanation was provided for failure to pay the bills before the end of the financial year. This is contrary to Regulation 42(1)(a) of the Public Finance Management (National Government) Regulations, 2015 which requires Accounting Officers to ensure that debt service payment is a first charge on the consolidated fund. Failure to settle bills during the year in which they relate to adversely affects the budgetary provisions for the subsequent year to which they have to be charged.

1625. Unresolved Prior Year Matters

1625.1 Irregular Advance Payment for Kimwarer Multipurpose Dam Development Project

As previously reported, the statement of receipts and payments for the year ended 30 June, 2019 reflected proceeds from foreign borrowing of Kshs.3,666,495,236 out of which Kshs.3,485,500,628 was paid to an International Joint Venture firm on

27 September 2018. The payment, which was effected in the books of the State Department on 02 November, 2018 through journal entries was an advance payment for designing, building and transfer of the proposed Kimwarer Multipurpose Dam Development Project. Available information indicates that this matter is unresolved and under investigation by the relevant authorities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1626. Compensation of Employees

1626.1 Staff Under-Establishment

Examination of payroll records revealed that the State Department had an approved staff establishment of eighty-one (81) staff, comprising of Forty-nine (49) posts for technical services cadres and thirty-two (32) posts for support services cadres. However, the Department had a total of fifty-nine (59) staff in post comprising of five (5) technical staff and fifty-four (54) support services staff resulting in an overall under establishment of twenty-two (22). Failure to recruit or retain the required number of staff may result in poor service delivery and may negatively impact on the realization of the Department's goals. This is contrary to Public Service Commission Approval letter Ref. No.PSC/EMCS/13/2/(3) dated 29 September, 2020 which authorized the State Department to have an establishment of eighty one (81).

Consequently, the Management was in breach of Public Service Commission circular.

1626.2 Non-Compliance with Affirmative Action on Gender Ethnicity and Regional Distribution

Examination of Human Resource records for the State Department for Regional and Northern Corridor Development revealed that during the year under review, the Department had a total of fifty-nine (59) employees out of whom twenty-four (24) or 40.68% of the workforce were from one ethnic group. Although Management has explained that they do not have control of the staff ethnic composition as they get their staff from Central Placement Committee of the Public Service Commission, the ethnic diversity was not achieved in the Department's staff composition. This is contrary to the provisions of Section 7(1) and (2) of the National Cohesion and Integration Act, 2008.

Consequently, the Management was in breach of law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1627. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

KIMIRA OLUCH SMALLHOLDER FARM IMPROVEMENT PROJECT (ADF LOAN NO.2100150012296)

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1628. There were no material issues noted during the audit of the financial statements of the Project.

Other Matter

1629. Pending Bills

Disclosed in Annex 2A to the financial statements are pending bills totalling to Kshs.700,656,527 as at 30 June, 2021 and which had been brought forward from 2019 / 2020 financial year. No satisfactory explanation was given by the Management for failure to settle the bills during the year in which they were incurred.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1630. Irregular Payment of Meal Allowances

Disclosed in Note 9.5 to the financial statements under compensation of employees are payments totalling Kshs.25,028,750, being personal allowances paid as part of salary. Included in these payments is an amount of Kshs.937,500 paid to various members of staff as meal allowances while working during lunch hours and late in the night as indicated in the memo dated 17 September, 2020. However, no documentary evidence was provided for audit review in support of the rates used in payment of the meal allowances.

As a result, the validity and regularity of the meals allowances totalling Kshs.937,500 could not be confirmed.

1631. Project Vehicles Not Handed Over by the Consultant

The consultant who was supervising the project procured two motor vehicles with registration numbers KBS 681Z and KBS 682Z at a total cost of Kshs.7,200,000. However, the vehicles were not handed over to the project after the completion of consultancy services. This is contrary to Paragraph 10.0 (IV) of the Service Contract No. KOSFIP/C/2 2020-2011 on consultant fees and payments, which states that after completion of the project, the consultant shall hand over equipment and vehicles to the project.

1632. Outstanding Imprests

Imprests amounting to Kshs.781,450 had not been surrendered at the closure of the year under review contrary to Regulation 93 (5) of the Public Finance Management (National Government) Regulations, 2015 that requires a holder of a temporary imprest to account for or surrender the imprest within seven (7) working days after returning to duty station.

1633. Ethnic Composition of Staff

During the year under review, the project had thirty-four (34) employees out of whom twenty-four representing 75% of the workforce were from the dominant ethnic community in the region. This is contrary to Section 7(1) and (2) of the National Cohesion and Integration Act, 2008 which requires all public entities to represent the diversity of the people of Kenya in employment of staff and not to have more than one third of staff from one ethnic community.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1634. Lack of Audit Committee

The Project had also not established an Audit Committee to assist the Management with responsibilities for issues of risk, internal controls, governance and associated assurance, and follow-up on the implementation of the recommendations of internal and external auditors.

1635. Lack of Staff Establishment

During the year under review, the Project did not have an approved staff establishment and human resource plan to support achievement of goals and objectives in the strategic plan.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1636. As required by the African Development Fund, I report based on the audit, that the Project funds and the counterpart funds have been used in accordance with the conditions of Loan Agreement with due attention to economy, efficiency and effectiveness for the purposes for which they were provided. Further, goods and services financed have been procured in accordance with the Loan Agreement and the Fund`s rules and procedures and necessary supporting documents, records and accounts have been kept in respect of all Project activities. In addition, adequate internal control to monitor expenditure and other financial transactions and ensure safe custody of assets exist and ledgers and fixed assets register for the Project's assets are maintained as required.

STATE LAW OFFICE AND DEPARTMENT OF JUSTICE - VOTE 1252

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1637. Unreconciled Variance Between the Financial Statements and Payroll Records

As disclosed in Note 3 to the financial statements, the statement of receipts and payments reflects expenditure on compensation of employees of Kshs.1,268,188,315 against the payroll records balance of Kshs.1,266,275,599 resulting in unreconciled variance Kshs.1,912,716.

Consequently, the accuracy and completeness of the expenditure on compensation of employees of Kshs.1,268,188,315 could not be confirmed.

1638. Discrepancies Between Balances in the Financial Statements and the Integrated Financial Management Information System (IFMIS)

Comparison of the financial statements balances and IFMIS balances revealed various variances as shown below:

Description of Account Item	Balances in the Financial Statements (Kshs.)	IFMIS (Kshs.)	Variances (Kshs.)
Acquisition of Assets	25,898,894	63,988,512	(38,089,618)
Funds Balance Brought Forward	626,231	4,979,594,344	(4,978,968,113)
Net Cash Flow from Operating Activities	(323,273,245)	458,163,924	(781,437,169)
Net Increase in Cash and Cash Equivalents	(349,172,139)	(4,843,062,818)	4,493,890,679
Adjustment during the year	626,231	484,062,818	(483,436,587)
Cash in Hand	-	2,977,880,892	(2,977,880,892)
Account Payable - Deposits	452,910,021	1,548,803,431	(1,095,893,410)

The variances were not reconciled or explained. As a result, the accuracy and completeness of the balances and amounts reflected against the account items in the financial statements for the year ended 30 June, 2021 could not be ascertained.

Other Matter

1639. Pending Bills

As disclosed in Note 16.1 to the financial statements, the State Law Office and Department of Justice reported pending bills of Kshs.106,678,629 as at 30 June, 2021,

which were not settled during the year but were instead carried forward to the 2021/2022 financial year. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1640. Programme for Legal Empowerment and Aid Delivery

The State Law Office and Department of Justice received an amount of Kshs.45,082,742 from European Delegation, GIZ under Programme for Legal Empowerment and Aid Delivery (PLEAD) during the year under review. However, the Accounting Officer did not prepare and submit the financial statements of the donor funded project for the year ended 30 June, 2021 to the Auditor-General for audit as required by Section 84 of the Public Finance Management Act, 2012.

Management was therefore in breach of the law.

1641. Compensation of Employees

1641.1 Unsupported 3% Commission on Payroll Deductions

During the year under review, the State Law Office and Department of Justice deducted from the payrolls an amount of Kshs.3,934,100 in respect of 3% payroll commission charge but did not record the amount in the books of account as revenue or support the same with an official receipt. This is contrary to Regulation 81(1) of the Public Finance Management (National Government) Regulations, 2015 which provides that the Receiver of Revenue shall promptly deposit into the National Exchequer Account all receipts due to the Consolidated Fund.

1641.2 Non-Compliance with the One Third of Basic Salary Rule

During the year ended 30 June, 2021, twenty-eight (28) employees earned a net salary of less than a third (1/3) of their basic salary contrary to Section 19(3) of the Employment Act, 2007 and Section C.1(3) of the Human Resource Policies and Procedures Manual for the Public Service, 2016. The Management did not provide satisfactory explanation for failure to comply with the law and prevailing policies.

Management was therefore in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1642. Weak Asset Management

Disclosed in Annex 3 to the financial statements is a summary of fixed assets register with historical balances totalling Kshs.184,571,413 as at 30 June, 2021. However, the

assets register was not updated with pertinent details including clear description, date of acquisition, cost, location and unique identification numbers of the assets. In addition, the assets were not tagged with unique identification numbers.

In the circumstances, there existed weak internal control over the assets during the year ended 30 June, 2021.

1643. Lack of an Approved Enterprise Risk Management Process and IT Strategic Committee

As previously reported, the State Law Office and Department of Justice did not have an approved well documented enterprise wide risk management process and policies in place to effectively guide the risk management processes. Further, the Office and Department of Justice did not have an IT Strategic Committee or IT Strategic Plan that supports business requirements. In addition, formally approved IT Security Policy was lacking to ensure data confidentiality, integrity and availability; documented and tested emergency procedures; and IT continuity and disaster recovery plan.

REVENUE STATEMENTS OF THE STATE LAW OFFICE AND DEPARTMENT OF JUSTICE

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

1644. There were no material issues noted during the audit of the revenue statements.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1645. Balance Due for Disbursement

As disclosed in Note 2 to the revenue statements, the statement of receipts and disbursements reflects a balance due for disbursement of Kshs.168,847,855 which includes an amount of Kshs.168,776,500 collected through Huduma Centres and relating to prior years which was not transferred to the Receiver of Revenue for subsequent remittance to the Exchequer. This is contrary to Regulation 64(1)(a) of the Public Finance Management (National Government) Regulations, 2015, that requires Accounting Officers and Receivers of revenue to personally be responsible for ensuring that adequate safeguards exist and are applied for the prompt collection and proper accounting for all National Government revenue and other public moneys relating to their Ministries, Departments or Agencies.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1646. Weakness in Revenue Collection Management

Review of the revenue accounting system at the registration of societies revealed that duties of revenue collection, preparation, checking reconciliations and reporting of revenue received were being handled by one person instead of segregating among other officers. Further, the revenue collected during the year was receipted and not recorded in the revenue books of account. Management did not maintain a collection control sheet (CCS) Form (G.P.163) detailing the collector's name, period, series of receipts, number of receipts, amount, date and signature.

Under the circumstances, the existence of effective internal controls to safeguard against revenue loss and key processes of internal controls capable to provide an audit trail could not be established.

BUSINESS REGISTRATION SERVICE

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1647. Inaccuracies in the Financial Statements

The following errors and omissions were noted in the financial statements and the accompanying explanatory notes for the year ended 30 June, 2021.

i. The statement of cashflows reflects nil increase/(decrease) in prior year balances on working capital adjustments. However, the statement of financial position reflects balances of Kshs.13,051,625 and Kshs.2,448,006 in respect of inventories and trade and other payables which have not been accounted for. Further, purchase of intangible assets amounting to Kshs.1,588,400 has been omitted under cash flow from investing activities. In addition, net cash flow from operating activities has a casting error amounting to Kshs.10,603,619.

ii. The statement of financial position reflects property, plant and equipment balance of Kshs.29,108,571 while the corresponding Note 18 to the financial statements reflects a balance of Kshs.30,532,980, resulting in unexplained variance amounting to Kshs.1,424,409.

iii. As disclosed in Note 19 to the financial statements, the statement of financial position reflects intangible assets balance of Kshs.1,424,409. However, Note 19 omitted the dates, months and years against the description of balances at the beginning, and end of the years reported for the intangible assets.

iv. The statement of financial position reflects long outstanding trade and other payables balance of Kshs.2,448,006. No explanation was provided why the outstanding payables have not been settled.

In the circumstances, the completeness and accuracy of the financial statements for the year ended 30 June, 2021 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

1648. Staff Ethnic Composition

The Business Registration Service had a total of one hundred and thirty (130) staff members as at 30 June, 2021. However, as previously reported, a review of the ethnic composition of the Service revealed that out of the one hundred and thirty (130) staff members, forty-six (46) were from the same ethnic community representing 35% of the total number of staff. This is contrary to Section 7(2) of the National Cohesion and

Integration Act, 2008 which states that no public establishment shall have more than one third of its staff from same ethnic community.

The Management was in breach of the law.

1649. Unauthorized Gratuity Payment

As disclosed in Note 9 the financial statements, the statement of financial performance reflects employee costs amounting to Kshs.216,287,446. Included in the expenditure is an amount of Kshs.17,266,503 paid in respect of staff gratuity through unauthorized and unnumbered voucher and cheque number 003761 of 30 June, 2021. In addition, the payment was being held as unpresented cheque. No explanation was provided by Management for the irregularity.

Consequently, the regularity of the gratuity payment amounting to Kshs.17,266,503 could not be confirmed.

1650. Lack of a Fixed Assets Register

The statement of financial position reflects property, plant and equipment balance of Kshs.29,108,571 (2020 – Kshs.30,672,318). However, the Management did not maintain an assets register contrary to Regulation 143 of the Public Finance Management (National Government) Regulations, 2015. Further, the assets were not tagged for ease of traceability and accountability.

Management was in breach of the law.

1651. Irregular Procurement of Cloud Hosting Services

The Business Registration Services (BRS) procured cloud hosting services from a firm for design, supply delivery, installation, configuration, commissioning and maintenance of cloud hosting services at a contract sum of Kshs.7,340,024. However, review of tender documents revealed that the firm awarded the contract was not among the ten (10) prequalified suppliers for restricted tendering, identified by the Ministry of Information Communication and Technology for maintenance of cloud services under tender number MOICT/SDICT/055/2018-2019.

Further, the contract document between BRS and the firm provided for audit was not dated, signed and stamped. Records provided indicates that BRS had paid an amount of Kshs.6,606,022 or 90% of the contract sum to the firm. However, BRS is not benefiting from the project due to unaddressed cyber security concerns on handling of the government data on private servers.

Consequently, value for money was not realized on the expenditure of Kshs.6,606,022 due to unaddressed cyber security.

1652. [illegible] Goods and Services from Unregistered Supplier

Business Registration Service procured and paid for goods and services amounting to Kshs.76,273,491 in the year under review from various suppliers who were not registered

as required under Sections 56 and 57 of the Public Procurement and Asset Disposal Act, 2015.

Consequently, it was not possible to confirm value for money in the award of the contracts and whether the contracts were sourced competitively in accordance with the Public Procurement and Asset Disposal Act, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1653. Lack of a Disaster Recovery and Continuity Plan

As previously reported, Business Registration Service did not have an approved Disaster Recovery Plan and IT Business Continuity Plan in the year under review. This posed a significant threat to resumption of operations quickly and effectively in case of an emergency or a disaster. Lack of Business Continuity and Data Recovery Plan may affect the operations of the entity.

1654. Use of Unauthorized Accounting System for Handling Government Data

Business Registration Service (BRS) accounting information is being processed through quick books without authority from The National Treasury. Further, there is no contract between the BRS and the supplier or developer of the system setting the terms for the use and upgrading of the system.

In the circumstances, management may have compromised the integrity of the BRS accounting data.

REVENUE STATEMENTS - BUSINESS REGISTRATION SERVICE

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

1655. There were no material issues noted during the audit of the revenue statements of the Service.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1656. Non-Provision of Service Providers' Contracts

As reported in the previous year, the Business Registration Service contracted service providers to collect revenue on its behalf. The service providers include E-Citizen and by

extension Safaricom and the Kenya Commercial Bank among others. However, the respective contract agreements were not provided for audit review.

In the circumstance, it was not possible to establish the legality and performance of the service providers. Further, it was not possible to ascertain the basis of the revenue collected in the absence of supporting contracts.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1657. Lack of a Disaster Recovery and IT Business Continuity Plan

As reported in the previous year, the Business Registration Services did not have an approved Disaster Recovery Plan and IT Business Continuity Plan in the year under review. This posed a significant threat to the core function of the Business Registration Services especially due to the fact that it handles sensitive information about registration of Companies.

1658. Lack of Medium-Term Strategic Plan

As reported in the previous year, the Business Registration Service did not have a Strategic Plan for medium term fiscal framework and the fiscal policy objectives during the year under review.

Under the circumstances, it was not possible to evaluate the performance of the Board of Directors and Management of the Business Registration Service as regards the revenue targets, actual collection, accounting and systems.

BUSINESS REGISTRATION SERVICE - OFFICIAL RECEIVER

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1659. There were no material issues noted during the audit of the financial statements of the Business Registration Service - Official Receiver.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis of Conclusion

1660. Non-Compliance with Reporting Templates and Guidelines

The summary statements of appropriation – recurrent, development and combined together with the budget execution statement by programmes and sub-programmes were

not prepared and submitted as part of the financial statements for the year ended 30 June, 2021. This is contrary to the guidelines and template issued by the Public Sector Accounting Standards Board (PSASB).

1661. Lack of a Fixed Assets Register

As disclosed in Note 6 to the financial statements, the statement of receipts and payments for the year ended 30 June, 2021 reflects an expenditure on acquisition of assets amounting to Kshs.603,600 (2020 – Kshs.3,751,000). However, it was observed that Official Receiver's assets were not tagged which could lead to loss of assets.

Under the circumstances, existences and security of assets as at 30 June, 2020 could not be confirmed.

1662. Payment for Goods and Services from Unregistered Suppliers

Business Registration Service-Official Receiver procured and paid for goods and services amounting to Kshs.41,335,674 from various suppliers who were not registered as required under Sections 56 and 57 of the Public Procurement and Asset Disposal Act, 2015. It was, therefore, not possible to confirm whether the contracts were sourced competitively.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1663. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC TRUSTEE OF KENYA

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1664. Cash and Cash Equivalents

As disclosed in Note 11 to the financial statements, the statement of financial position as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.4,035,072,000. However, a review of bank reconciliation statements for the Public Trustee Administration bank accounts held at the Headquarters and various stations across the country revealed payments in cash book not in bank statement (unpresented cheques) amounting to Kshs.14,973,831. Further, various bank reconciliation statements reflected receipts in bank statements not recorded in cash book totalling Kshs.25,431,528 and payments in bank statements not in cash book totalling Kshs.38,146 whose clearance status as at the time of audit was not provided.

Under the circumstances, the accuracy and validity of cash and cash equivalents balance of Kshs.4,035,072,000 could not be confirmed.

1665. Deposits

As previously reported, the statement of financial position reflects a balance of Kshs.109,400,000 under deposits which, as disclosed in Note 14 to the financial statements, includes an amount of Kshs.72,000,000 held in Imperial Bank Limited. The bank was placed under receivership by the Central Bank of Kenya on 13 October, 2015 and the Kenya Deposit Insurance Corporation appointed as receivers. However, Imperial Bank Limited (In Receivership) informed the Public Trustee of Kenya through a letter dated 7 July, 2021 that an amount of Kshs.4,072,732 had been transferred to the Kenya Commercial Bank for transmission to the Public Trustee of Kenya leaving a balance of Kshs.67,927,268 held at Imperial Bank Limited. Although, the transfer was confirmed by the Kenya Deposit Insurance Corporation, the amount of Kshs.4,072,732 had not been remitted to the Public Trustee of Kenya by the time of the audit. Consequently, recoverability of the balance of Kshs.67,927,268 held at Imperial Bank Limited remains doubtful.

Under the circumstances, the accuracy and existence of deposits balance of Kshs.109,400,000 could not be confirmed.

1666. Investments

As reported in the previous year, the statement of financial position reflects a balance of Kshs.232,160,000 under investments which, as disclosed in Note 15 to the financial statement, includes an amount of Kshs.144,098,000 described as deposits in financial institutions under the management of the Kenya Deposit Insurance Corporation (KDIC) and the Official Receiver. However, no explanation was provided for failure to seek refund of the dormant deposits.

Further, the dormant deposits of Kshs.144,098,000 includes investments totalling Kshs.29,694,000 held in two (2) financial institutions as detailed below:

Institution	Investment Balance (Kshs.)	Managing Institution
Central Finance Limited	22,750,000	Kenya Deposit Insurance Corporation (KDIC)
Allied Credit Limited	6,944,000	Kenya Deposit Insurance Corporation (KDIC)
Total	**29,694,000**	

The two financial institutions were placed in liquidation on 19 May, 1993 and 19 August, 1993, respectively when the Central Bank of Kenya appointed the Deposit Protection Fund Board as the liquidator. Subsequently, the liquidator applied for release due to lack of funds but since no objection had been raised at the expiry of 21 days' notice inviting the creditors to inspect the final accounts, the process of winding up continued.

The winding up and dissolution of the Central Finance Kenya Limited and the Allied Credit Limited was completed on 13 September, 2012 and 15 November, 2007, respectively when the Court ordered for the release of the Liquidator and a certificate of release was granted. The Kenya Deposit Insurance Corporation communicated this decision to the Public Trustee on 8 April, 2019 stating that the balances held in their account could not be paid since the institutions had been dissolved indicating irrecoverability and therefore loss of funds.

Under the circumstances, the accuracy and existence of the balance of Kshs.232,160,000 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1667. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1668. Failure to Automate Beneficiaries Financial Records

A review of financial records revealed that the Public Trustee of Kenya maintained its records in a manual form and had over 50,000 ledgers for beneficiaries in thirteen (13) regional offices. However, the records had aged over the years despite reasonable precautions to guard against damage and the task of updating them was challenging.

Consequently, Public Trustee did not perform periodic risk assessments in relation to beneficiaries' financial records so as to identify threats, assess vulnerability, and design automated systems that could help in keeping up to date beneficiaries' financial records.

1669. Understaffing of Key Staff Positions

A review of staffing in thirteen (13) Regional Offices revealed that six (6) Regional Offices which include Malindi, Kakamega, Kisumu, Kisii, Meru and Embu did not have accountants in service. Further, four posts of records management staff were vacant. This compromised maintenance of effective internal control measures and posed the risk of errors and misstatements in the accounting records.

THE JUDICIARY - VOTE 1261

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1670. Bank Balances

1670.1 Long Outstanding Items

As disclosed in Note 7 to the financial statements, the statement of assets and liabilities as at 30 June, 2021 reflects cash and cash equivalents balance of Kshs.7,118,597,106. The balance includes general deposits held in the Central Bank of Kenya and various commercial banks of Kshs.580,994,217 and Kshs.6,268,178,077, respectively totalling to Kshs.6,849,172,294. In addition, the bank reconciliation statements for the general deposits reflects long outstanding items which include payments in the bank statements not yet recorded in cash book totalling Kshs.87,051,557 and receipts in the cash books not yet reflected in bank statements totalling Kshs.303,074,682.

No explanation was provided for delay in recording the payments in the cash books and the receipts in the bank statements.

1670.2 Loss of Cash Deposits

The bank reconciliation statements for the month of June, 2021 for the bank accounts for Embu, Nakuru and Malindi Court Stations reflects losses amounting to Kshs.2,682,152, Kshs.84,588,258 and Kshs.1,455,800, respectively which occurred in the previous years. However, the nature of the loss, recovery strategies and court proceedings on the matter were not disclosed.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.7,118,597,106 could not be confirmed.

1671. Account Receivables

1671.1 Un-Analyzed Long Outstanding District Suspense and Clearance Accounts

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.41,694,742 which, as disclosed in Note 8 to the financial statements, includes an amount of Kshs.26,306,566 relating to long outstanding district suspense and clearance accounts. Detailed analyses in respect of the long outstanding district suspense and clearance accounts' balances and explanation for failure to clear them were not provided.

In the circumstances, the accuracy, completeness and validity of the balance of Kshs.26,306,566 as at 30 June, 2021 could not be confirmed.

1671.2 Recoverability of Imprests Issued to Non-Employees

Included in the accounts receivables balance of Kshs.41,694,742 are outstanding government imprests totalling to Kshs.14,481,010. The government imprest includes imprests amounting to Kshs.3,108,300 which were issued to non-staff members seconded from Other Government Agencies with some dating back to the financial year 2015/2016. Management did not explain why the long outstanding imprests have not been recovered to date.

In the circumstances, the recoverability of the long outstanding imprests of Kshs.3,108,300 could not be confirmed.

1672. Unconfirmed Accounts Payables

As disclosed in Note 9 to the financial statements, the statement of assets and liabilities reflects an accounts payables balance of Kshs.6,849,172,293. The balance includes general deposits for various Court stations amounting to Kshs.6,268,178,076 out of which an amount of Kshs.348,091,889 relates to deposits for fifty eight (58) Court stations held by the former District Treasuries that have not been paid to The National Treasury. Although the Judiciary had written to the Principal Secretary for The National Treasury to confirm the liability, The National Treasury has not acknowledged the same to date.

In the circumstances, the accuracy and validity of the general deposits-stations balance of Kshs.6,268,178,076 could not be confirmed.

1673. Foreign Travel Charged to Domestic Travel and Subsistence

As disclosed in Note 4 to the financial statements, the expenditure of Kshs.4,256,695,803 on use of goods and services includes amounts of Kshs.819,227,252 and Kshs.15,976,877 relating to domestic travel and subsistence and foreign travel and subsistence, respectively. The foreign travel and subsistence amount includes an expenditure of Kshs.3,093,755 relating to domestic travel and subsistence allowance which was wrongly charged to foreign travel and subsistence item without approval. This is contrary to Regulation 54(1) of the Public Finance Management (National Government) Regulations, 2015.

In the circumstances, the accuracy and fair presentation of the domestic travel and subsistence expenditure of Kshs.819,227,252 and foreign travel and subsistence expenditure of Kshs.15,976,877 could not be confirmed.

1674. Unsupported Contingent Liabilities

As disclosed in Note 14.3 to the financial statements under contingent liabilities, an amount of Kshs.1,138,713,450 was awarded in arbitration to the contractors. However, records provided for audit supported awards totalling Kshs.1,024,122,367, leaving an amount of Kshs.114,591,083 unsupported.

In the circumstances, the accuracy of the contingent liabilities balance of Kshs.1,138,713,450 as at 30 June, 2021 could not be confirmed.

Other Matter

1675. Pending Bills

Note 14 to the financial statements on other important matters reflects pending accounts payable/bills totalling Kshs.1,678,137,276 which were not settled during the financial year 2020/2021 but were instead carried forward to 2021/2022 financial year. Further, the pending bills of Kshs.1,678,137,276 includes an amount of Kshs.49,551,197 which relates to 2019/2020 and earlier years. Failure to settle bills in the year to which they relate distorts the financial statements for the year and also affects the budgetary provisions for the subsequent year.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1676. Judiciary Mortgage Scheme Fund

As disclosed in Note 6 to the financial statements, the statement of receipts and payments reflects an expenditure of Kshs.350,000,000 under other expenses which relates to housing loans to the staff. However, The Judiciary did not prepare and submit for audit the financial statements for the Housing Fund to the Auditor- General. This is contrary to Regulation 18(1) of the Judicial Service (Judiciary Mortgage Scheme Fund) Regulations, 2012 which requires the statement of accounts relating to the Fund to be prepared, signed and transmitted to the Auditor-General in respect of the financial year.

The Management was in breach of the law.

1677. Delayed Completion of Construction of Thirty (30) Courts

As disclosed in Annex 2 to the financial statements and as previously reported, the historical cost of assets of Kshs.29,722,377,272 includes costs incurred on construction works of thirty-nine (39) Law Courts spread across the Country. Construction works for thirty (30) of the law courts were awarded in the financial year 2013/2014 but have taken long to complete due to among other reasons budget constraints, resulting in delays in payment to the contractors and litigations.

Consequently, the value for money on the delayed construction works may not be realized.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1678. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REVENUE STATEMENTS OF THE JUDICIARY

REPORT ON THE REVENUE STATEMENTS

Unmodified Opinion

1679. There were no material issues noted during the audit of the revenue statements of the Judiciary.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1680. Failure to Pay Revenue Collected Promptly into the Consolidated Fund

As disclosed in Note 6 to the revenue statements, the statement of financial assets and liabilities reflects a balance due for disbursement to the Exchequer of Kshs.476,031,828. The unremitted revenue as at 30 June, 2021 relates to collections for the months of May and June, 2021. Failure to disburse the revenue collected promptly to the Exchequer contravenes Regulation 81(2) of the Public Finance Management (National Government) Regulations, 2015 which states that, "the Receiver of Revenue shall promptly pay the revenue received into the Consolidated Fund as soon as possible and in any case not later than five (5) days after receipt thereof."

Consequently, the Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1681. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

JUDICIAL PERFORMANCE IMPROVEMENT PROJECT (IDA CREDIT NO.5181-KE) - THE JUDICIARY

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1682. Loans from External Development Partners

The statement of receipts and payments for the year ended 30 June, 2021 reflects loans from external development partners under receipts and payments controlled by the entity of Kshs.1,003,521,344. However, the corresponding Note 8.3 to the financial statements reflects the amount in loan currency of US dollars 7,356,383 which, in fact relate to the total amount deposited in the special account by IDA instead of the amount withdrawn from the special account of US dollars 7,184,053 in the financial year 2020/2021 and transferred to the Project`s bank account as disclosed in the special deposit account movement schedule under Not 8.7A to the financial statements.

In the circumstances, the accuracy of loans from external development partners' receipts of Kshs.1,003,521,344 deposited into the Project`s bank account as shown in the statement of receipts and payments for the year ended 30 June, 2021, could not be ascertained.

1683. Failure to Reflect Original Budget Figures in the Statement of Comparative Budget and Actual Amounts

The statement of comparative budget and actual amounts for the year ended 30 June, 2021, reflects nil original budget amounts and final budget figures in respect of purchase of goods and services of Kshs.180,334,348 and acquisition of non-financial assets of Kshs.1,023,406,708. No satisfactory explanation was given for failure to reflect the original budget figures in the statement of comparative budget and actual amounts.

In the circumstances, the accuracy and completeness of the statement of comparative budget and actual amounts for the year ended 30 June, 2021 could not be confirmed.

Other Matter

1684. Budgetary Control and Performance

The statement of comparative budget and actual amounts for the year ended 30 June, 2021, reflects actual receipts totalling Kshs.1,159,516,540 against budgeted amount of Kshs.2,265,982,000, resulting in a shortfall of Kshs.1,106,465,460 or 49% of the budgeted receipts.

1685. Pending Bills

Note 8.11 and 8.12 to the financial statements indicates that the Judicial Performance Improvement Project had pending bills totalling Kshs.16,773,401 comprising pending account payables of Kshs.14,334,001 and pending staff payables of Kshs.2,439,400 as at 30 June, 2021, which were not settled in 2020/2021 but were instead carried forward to the 2021/2022 financial year. Failure to settle bills during the year to which they relate, adversely affects the budgetary provisions of the subsequent year to which they have to be charged to.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1686. Irregular Payment of Retention Monies

A review of contract documents revealed that two contractors awarded the contracts to construct Mukurweni and Ol-Kalou law courts were irregularly refunded full retention monies amounting to Kshs.7,067,889 and Kshs.13,506,711, respectively before completing the construction works. Although the management explained that these payments were related to the final sum and release of monies held after the contracts were terminated, sufficient documentary evidence and contractors' payment certificates reconciliations were not provided to support the explanation.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1687. Lack of Fixed Asset Register

No fixed assets register was maintained for the Judicial Performance Improvement Project (JPIP) during the financial year under review. Further, the financial statements presented for audit did not include a summary of the fixed assets register as required under financial reporting template prescribed by the Public Sector Accounting Standards Board. This is therefore an indication of lack of effective control over acquisition, recording and use of fixed assets.

Further, in the absence of the fixed asset register, it was not possible to confirm the accuracy and completeness of cumulative amount of Kshs.6,580,144,502 reflected against acquisition of non-financial assets in the statement of receipts and payments for the year ended 30 June, 2021.

ETHICS AND ANTI-CORRUPTION COMMISSION - VOTE 1271

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1688. There were no material issues noted during the audit of the financial statements of the Commission.

Emphasis of Matter

1689. Financial Performance

During the year under review, the Commission reported a deficit of Kshs.64,475,692 (2019/2020 - a deficit of Kshs.116,545,541). The Management has disclosed in Note 27 to the financial statements that the deficit arose mainly due to depreciation and accrued expenses resulting from unfunded Exchequer. Although the Commission is dependent on Exchequer releases from the national government, persistent under-funding is likely to lead to financial difficulties in future.

My opinion is not modified in respect of this matter.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1690. Staff on Acting Capacity

Examination of payroll and personnel records revealed that an officer was appointed as Acting Deputy Chief Executive Officer on 05 December, 2019 and was still acting in that capacity as at 30 June, 2021. In addition, another officer was appointed as Acting Assistant Director Supply Chain Management on 01 June, 2020 and was still acting in that capacity as at 30 June, 2021.

Information available indicates that the Commission had placed an internal advertisement for these vacancies among others, which closed on 07 July, 2020. According to the Management, a petition No. E040 of 2020 was filed at the Employment and Labour Relations Court, Nairobi in August, 2020 which is stalling the recruitment process.

1691. Valuation of Property, Plant and Equipment

As reported in the previous year, the Commission remitted Kshs.1,518,000,000 to the National Land Commission (NLC) for compulsory acquisition of the Integrity Centre Building which houses the Commission's offices. However, according to a letter reference B35/NB/9720B/VOL.2/67 dated 04 March, 2020 from the State Department for Public Works, copies of the development plans (architectural, structural, electrical, mechanical

and civil works drawings) submitted to the Commission by the NLC in respect of the property were not acceptable on the basis that:

(i) The drawings were copies of structural details and without calculations;

(ii) Architectural drawings were not provided;

(iii) Services drawings were not provided; and

(iv) The structural drawings provided were not the approved ones as required by the Nairobi City County Government.

According to the Management, this has hampered effective planning for the maintenance of essential electro-mechanical services and possible refurbishment and redevelopment of the Integrity Centre Building.

Consequently, it has not been possible to ascertain whether the Commission obtained value for money in the acquisition process of its Headquarters, the Integrity Centre Building.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1692. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL INTELLIGENCE SERVICE - VOTE 1281

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1693. There were no material issues noted during the audit of the financial statements of the Service.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1694. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1695. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE DIRECTOR OF PUBLIC PROSECUTIONS - VOTE 1291

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1696. There were no material issues noted during the audit of the financial statements of the Directorate.

Other Matter

1697. Pending Bills

As disclosed under Note 16.1 to the financial statements, the Office had pending bills totalling Kshs.1,495,850 in respect of supply of goods and services as at 30 June, 2021 that were not settled during the year but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be first charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1698. Staff Car Loan and Mortgage Scheme Fund

The Office of Director of Public Prosecutions created Staff Car Loan and Mortgage Scheme Fund in the financial year 2017/18 and the Fund had received a total of Kshs.572,000,000 as of 30 June, 2021 as analyzed below:

Financial Year	Amount (Kshs.)
2017/2018	175,000,000
2018/2019	75,000,000
2019/2020	130,000,000
2020/2021	192,000,000
Total	**572,000,000**

However, the Administrator of the Fund had not prepared, signed and submitted financial statements of the Fund in respect of each financial year to the Auditor- General contrary to Section 84 of the Public Finance Management Act, 2012.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1699. Lack of a Disaster Recovery and IT Business Continuity Plan

As reported in the previous year, the Office of Director of Public Prosecutions did not have a disaster recovery plan. Further, it was noted that the IT Steering Committee did not hold any meeting during the financial year 2020/2021.

In the absence of a disaster recovery plan and an active IT Steering Committee, the adequacy of the IT governance and the ability of the Office to resume operations effectively after an emergency or disaster could not be confirmed.

OFFICE OF THE REGISTRAR OF POLITICAL PARTIES - VOTE 131

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1700. There were no material issues noted during the audit of the financial statements of the Office.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1701. There were no material issues relating to lawfulness and effectiveness in use of public resource.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1702. There were no material issues relating to effectiveness of internal controls, risk management and governance.

WITNESS PROTECTION AGENCY - VOTE 1321

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1703. There were no material issues noted during the audit of the financial statements of the Agency.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1704. Special Duty Allowance

As disclosed in Note 8 to the financial statements, the statement of financial performance for the year ended 30 June, 2021 reflects employees cost of Kshs.339,263,697 out of which an amount of Kshs.108,491,060 relates to housing benefits and allowances. Included in this balance is an amount of Kshs.2,498,480 in respect of special duty allowance paid to various officers for more than six (6) months. This is contrary to Section 6.10.3 of the Witness Protection Agency Human Resource Policy Manual (May 2011) which states that Special Duty Allowance will not be granted for more than six (6) consecutive months. It further states, during that period, arrangements should be made to fill the higher post in substantive capacity. Further review of records revealed that renewal of extensions for payment of special duty allowance were issued every six months dating back from the year 2017 to 2021.

Consequently, there was Management override of the HR Policy manual resulting to irregular expenditure amounting to Kshs.2,498,480 incurred on special duty allowance.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1705. Under-Staffing

As reported in the previous year, the Agency's Human Resource Policy Manual, 2016 provides for two hundred and ninety-six (296) staff members. However, only one hundred and nine (109) staff members were in post, resulting in a shortfall of one hundred and eighty-seven (187) staff members across the various staffing cadres as at 30 June, 2021.The under staffing may hinder effective delivery of services by the Agency.

KENYA NATIONAL COMMISSION ON HUMAN RIGHTS - VOTE 2011

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1706. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1707. Pending Bills

As disclosed under Note 15.1 to the financial statements, the Commission had pending bills totalling Kshs.8,257,097 in respect of supply of goods as at 30 June, 2021 that were not settled during the year but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be first charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1708. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1709. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1710. Discrepancies between Financial Statements and IFMIS Balances

The financial statements reflects account balances which are at variance with the Integrated Financial Management Information System (IFMIS) reports as detailed below:

Details	Amount as per Financial Statements	Amount as per IFMIS Reports	Differences
	Kshs.	Kshs.	Kshs.
Transfers from other Government Entities	23,368,906,644	0	23,368,906,644
Other Receipts	430,968,597	0	430,968,597
Compensation of Employees	895,675,066	908,445,594	(12,770,528)
Use of Goods and Services	181,495,370	182,934,970	(1,439,600)
Other Payments	20,760,665,076	0	20,760,665,076
Board Expenses	14,210,129	0	14,210,129
Bank Balances	15,484,718,883	1,628,760,665	13,855,958,218
Accounts Receivable	3,302,084	4,399,704	(1,097,620)
Accounts Payables	15,865,604,201	459,943,635	15,405,660,566

Consequently, the accuracy and completeness of the above account balances included in the financial statements for the year ended 30 June, 2021 could not be confirmed.

1711. Unexplained Negative Working Capital

The statement of assets and liabilities reflects total financial assets of Kshs.15,488,020,967 and total financial liabilities of Kshs.15,865,604,201 resulting in a negative working capital of Kshs.377,583,235 whose cause was not satisfactorily explained. The Management attributed the negative working capital to a large cash outlay of compensation funds incurred which did not correspond with the increase in receipts of the compensation funds during the year. However, given that the Commission's financial statements have been prepared on International Public Sector Accounting Standards (Cash Basis) reporting framework, it was not clarified how the total financial liabilities could exceed the total financial assets.

Consequently, the Commission may experience liquidity problems when settling current obligation.

Other Matter

1712. Pending Bills

The Commission had pending bills amounting Kshs.588,936,595 as at 30 June, 2021 which were not settled in the year under review but carried forward to the financial year 2021/2022. Included in the pending bills is an amount of Kshs.552,726,643 relating to legal fees payable. However, supporting invoices/fee notes for the legal fees were not provided for audit review. As a result, validity of the legal fees payable could not be ascertained. Failure to settle bills during the year in which they relate to distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1713. Slow Process of Compensating Persons Affected By Projects (PAPS)

During the year under review, the Commission received compensation money for twenty five (25) projects all totalling Kshs.1,860,489,954 out of which only an amount of Kshs.662,929,788 was paid to the beneficiaries leaving an unpaid balance of Kshs.1,197,560,166. The slow process of compensating Persons Affected by Projects (PAPs) may have resulted in low absorption of the funds and delayed implementation of the planned projects' activities.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1714. There were no material issues relating to effectiveness of internal controls, risk management and governance.

DONOR FUNDED PROJECT

SUPPORT TO THE ATTAINMENT OF VISION 2030 THROUGH DEVOLVED LAND REFORMS IN COMMUNITY LAND OF KENYA PROJECT NO. GCP/KEN/085/EC (LETTER OF AGREEMENT NO. FAOR 2018/001)

Unmodified Opinion

1715. There were no material issues noted during the audit of the financial statements of the Project.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1716. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1717. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION - VOTE 2031

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1718. Long Outstanding Accounts Receivables

As previously reported, the statement of financial position reflects balances of Kshs.11,160,000 and Kshs.26,193,000 in respect of accounts receivables and car loan accounts receivables, respectively which have been outstanding for more than fourteen (14) years since 2008. As disclosed in Note 10 and Note 11 to the financial statements, the amounts relate to imprests and salary advances held by staff and outstanding car loans to Commissioners of the defunct Electoral Commission of Kenya. The funds were recovered from their final dues but retained by The National Treasury. Management has however indicated that the Commission is engaging The National Treasury with a view of getting the money refunded or obtaining an approval to write it off from the Commission's accounting records but this has not been issued.

In the circumstances, the recoverability of the long outstanding accounts receivables balance and car loans amounting to 37,353,000 could not be ascertained.

1719. Property, Plant and Equipment

As disclosed in Note 12 to the financial statements, the statement of financial position reflects property, plant and equipment balance of Kshs.1,763,349,000. Review of the balance revealed the following unsatisfactory matters:

1719.1 Untitled Land and Buildings

As reported in the previous years, the balance excludes the cost of fifty-six (56) parcels of land on which the Commission's office blocks have been constructed in the counties. Further, the Commission is yet to obtain ownership documents for eighty-five (85) parcels of land allocated by the National and County Governments and whose values have also not been included in the financial statements. The financial statements also excludes the value of a parcel of land located in Mandera whose value has not been determined and is a subject of ownership dispute between the Commission and the County Government of Mandera.

In addition, and as reported in the previous years, the Commission maintained an asset register which was not comprehensive as provided under Regulation 143(2) of the Public Finance Management (National Government) Regulations, 2015.

1719.2 Unconfirmed Ownership and Valuation of Motor Vehicles

The balance includes motor vehicles with a carrying amount of Kshs.57,743,000. However, examination of the motor vehicles status report as at 30 June, 2021 revealed that out of the two hundred and fifty-six (256) motor vehicles, three (3) motor boats and two (2) folk lifts, only the cost of one hundred and fifty-six (156) motor vehicles was included in the balance indicated. Further, two hundred and ten (210) motor vehicles logbooks and still registered under the defunct Electoral Commission of Kenya and have not been transferred to Independent Electoral and Boundaries Commission while eighty-six (86) motor vehicles, three (3) motor boats and one (1) folk lift were grounded with some being unserviceable and having been idle for over three (3) years.

In the circumstances, it has not been possible to ascertain the accuracy, completeness and ownership of the property, plant and equipment balance of Kshs.1,763,349,000.

1720. Undisclosed and Valuation of Inventories

The statement of financial position reflects total assets balance of Kshs.1,950,580,000. However, the Commission held significant quantities of strategic and non-strategic election materials in various stores located in various warehouses at its county and constituency offices. These include items of undetermined values inherited from the defunct Electoral Commission of Kenya. Further, as reported in the previous years, the values of these inventories have not been determined and disclosed in the financial statements.

Consequently, the accuracy and completeness of the total assets balance of Kshs.1,950,580,000 reflected in the statement of financial position as at 30 June, 2021 could not be confirmed.

Other Matter

1721. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1722. Long Outstanding Court Awards

As reported in the previous years, the statement of financial position reflects receivables from non-exchange transactions balance of Kshs.16,837,000 which, as disclosed in Note 9 to the financial statements, includes Appropriations-In-Aid (AIA) receivables amounting to Kshs.5,396,000. The balance relates to amounts due from court cases which were decided in the year 2013 and costs awarded to the Commission. However, Management has not demonstrated the measures taken to collect the amounts awarded or collect the

revenue due as required under Regulation 64(1) of the Public Finance Management (National Government) Regulations, 2015.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1723. Pending Bills

As disclosed in Note 14 to the financial statements, the statement of financial position reflects accounts payables totalling to Kshs.2,299,626,000 as at 30 June, 2021 (2019/2020: Kshs.3,124,814,000) that were not settled during the current financial year but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year in which they relate adversely affects the provisions of the subsequent years to which they have to be charged.

1724. Status of Critical Election Equipment

The Commission procured and distributed forty-five thousand (45,000) KIEMs kits during the financial year 2016/2017. However, the kits status report as at 30 June, 2021 indicated that only forty-four thousand, nine hundred and ninety-three (44,993) kits existed resulting in an unexplained variance of seven (7) kits. Further, the status report indicated that some of the kits had missing components, damaged components and had not been tested for functionality.

In addition, the Commission also procured and distributed a total of fifteen thousand (15,000) Biometric Voters Registration (BVR) kits in the 2012/2013 financial year. However, the data provided at the Headquarters indicated that only eleven thousand and seventy-five (11,075) kits were available, resulting in an unexplained variance of three thousand, nine hundred and twenty-five (3,925) kits. The BVR kits status report as at 30 June, 2021 showed that there were a total of two thousand, four hundred and thirty-five (2,435) kits with various faults.

In addition, the status report as at 30 June, 2021 indicated other critical election equipment items that were missing as follows:

Component	Number Missing
Laptops	392
Hard Disks	1315
Finger print Scanners	116
Webcam Cameras	408
USB Hubs	1062

Component	Number Missing
Chargers	104
Flash disks A&B	8041

In the circumstances, evidence of existence of effective internal controls including security on assets could not be confirmed.

PARLIAMENTARY SERVICE COMMISSION - VOTE 2041

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1725. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1726. Pending Bills

Annex 1 to the financial statements indicates that the Parliamentary Service Commission had pending bills totalling Kshs.82,653,588 as at 30 June, 2021, which were not settled in 2020/2021 financial year but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year in which they relate distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1727. Procurement of Office Supplies and Services, Accommodation and Transport Service at County Offices

The statement of receipts and payments reflects an expenditure of Kshs.2,408,347,233 in respect of use of goods and services which, as disclosed in Note 4 to the financial statements, includes an amount of Kshs.544,757,609 relating to other operating expenses. The latter balance includes an amount of Kshs.12,602,311 incurred on office supplies and services, food and accommodation and transport services at the County offices. The expenditure was paid for in cash contrary to cash purchase threshold of Kshs.50,000 per item per financial year for goods and services as per the second schedule threshold matrix of the Public Procurement and Asset Disposal Regulations, 2020 .

The Management was therefore in breach of the law.

1728. Lack of Assets Register and Ownership Documents

As disclosed in Annex 2 to the financial statements, the summary of fixed assets register reflects assets with a historical cost brought forward and additional amount during the year of Kshs.8,159,400,157 and Kshs.113,388,304 respectively, totalling Kshs.8,272,797,461 as at 30 June, 2021. However, the Parliamentary Service Commission did not maintain an assets register during the year under review to keep track of the assets. This is contrary to Regulation 143 of the Public Finance Management

(National Government), Regulations, 2015. Further, the assets held by the Parliamentary Service Commission are not tagged for ease of traceability and accountability.

Further, and as previously reported in the year 2019/2020, ownership documents for the main Parliament Building, Center for Parliamentary Studies and Training, Juvenile Court House, County Hall and Protection House all owned and controlled by the Commission were not provided for audit review.

Under the circumstances, completeness and legal ownership of assets owned by the Parliamentary Service Commission as at 30 June, 2021 could not be confirmed.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1729. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL ASSEMBLY - VOTE 2042

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1730. There were no issues noted during the audit of the financial statements of the National Assembly.

Other Matter

1731. Pending Bills

Annex 2 to the financial statements indicates that the National Assembly had pending bills totalling Kshs.80,008,601 as at 30 June, 2021, which were not settled in 2020/2021 but were instead carried forward to 2021/2022 financial year. Further, these pending bills comprised an amount of Kshs.18,851,651 relating to 2020/2021 financial year and Kshs.61,156,950 for the previous financial years.

Failure to settle bills during the year to which they relate, adversely affects the budgetary provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1732. Procurement of Office Supplies and Services, Accommodation and Transport Service at Constituency Offices

The statement of receipts and payments for the year ended 30 June, 2021 reflects an expenditure of Kshs.7,901,868,832 in respect of use of goods and services. As disclosed in Note 3 to the financial statements, the amount includes Kshs.2,538,672,137 relating to other operating expenses out of which Kshs.79,721,723 was incurred on office supplies and services, accommodation and transport at the Constituency Offices.

Although the expenditure for the Constituency Offices in various cases were above the threshold for low value procurement method, the Management of the Constituency Offices did not apply alternative procurement methods as required under Section 91 of the Public Procurement and Asset Disposal Act, 2015 but procured the above goods and services directly through cash purchases.

1733. Accounts Receivables - Outstanding Imprests

The statement of assets and liabilities as at 30 June, 2021 reflects accounts receivables amounting to Kshs.11,048,121. As disclosed under Note 9 to the financial statements, the amount includes Kshs. 8,869,990 relating to outstanding imprests which ought to have been accounted for on or before 30 June, 2021. This is contrary to Regulation 93(5) and (6) of the Public Finance Management (National Government), Regulations, 2015.

1734. Lack of Assets Register

Disclosed in Annex 3 to the financial statements is a summary of fixed assets register which reflects historical cost brought forward and additional amount during the year of Kshs.411,381,199 and Kshs.132,355,579 respectively, totalling Kshs.543,736,778 as at 30 June, 2021. However, the National Assembly did not maintain an assets register during the year under review to keep track of the assets. This is contrary to Regulation 143 of the Public Finance Management (National Government), Regulations, 2015.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1735. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PARLIAMENTARY JOINT SERVICES – VOTE 2043

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1736. There were no material issues noted during the audit of the financial statements of the Services.

Other Matter

1737. Pending Bills

As disclosed in Note 14.1 and Annex 1 to the financial statements, the Parliamentary Joint Services had pending bills totalling Kshs.357,688,738 as at 30 June, 2021, which were not settled in 2020/2021 but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year to which they relate adversely affects the budgetary provisions of the subsequent year to which they are charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1738. Assets Register

The summary of fixed assets register under Annex 3 to the financial statements reflects assets with a historical cost of Kshs.1,643,577,283 and additions of Kshs.2,537,047,011 during the year under review. However, the Parliamentary Joint Services did not maintain a detailed up to date assets register to keep track of the assets procured and held. This is contrary to Regulation 143(1) of the Public Finance Management (National Government), Regulations, 2015 which requires an Accounting Officer to maintain a register of assets under his or her control or possession as prescribed by the relevant laws. Further, the assets did not have unique identification or tag numbers for ease of traceability and accountability.

1739. Construction of the Proposed Multi-Storey Office Block

The statement of receipts and payments reflects an expenditure of Kshs.2,537,047,012 under acquisition of assets which, as disclosed in Note 6 to the financial statements, includes an amount of Kshs.2,220,311,155 in respect of construction of buildings which related to payments for the proposed multi-storey office block. The project was estimated to take 42 months from 1 July, 2014 to 31 December, 2017 but was granted the first and second extensions with completion dates of 16 January, 2018 and 23 August, 2020, respectively.

However, by the time of the audit inspection in November, 2021, the construction of the office block had not been completed. Further, the contractor had sought the services of an arbitrator over a dispute to determine when to start charging interest on delayed payments and payment certificates rates/ratios of 80:20 in US dollars and Kenya shillings, which may increase the total cost of the project significantly. In addition, due to non-completion of the project, the Parliamentary Joint Services continued to pay rent amounting to Kshs.39 205,511 for the leased offices during the year under review.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1740. There were no material issues relating to effectiveness of internal controls, risk management and governance.

JUDICIAL SERVICE COMMISSION - VOTE 2051

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1741. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1742. Pending Bills

According to Annex 1 to the financial statements, the Commission had pending bills totalling to Kshs.18,656,969 as at 30 June, 2021, which were not settled in 2020/2021 but were instead carried forward to 2021/2022 financial year due to inadequate Exchequer allocations. Failure to settle bills during the year to which they relate adversely affects the budgetary provisions of the subsequent year to which they are charged as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1743. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1744. Lack of Logbooks

Disclosed in Annex 2 to the financial statements is a summary of fixed assets register which reflects transport equipment having a historical cost brought forward and additions during the year amounting to Kshs.38,604,415 and Kshs.16,632,415 respectively, all totalling to Kshs.55,236,830 as at 30 June, 2021. However, the Commission did not provide logbooks for a motor vehicle acquired in the year 2019/2020 and a motor cycle acquired in the year 2020/2021.

In the circumstances, existence of effective controls on assets records management could not be confirmed.

COMMISSION ON REVENUE ALLOCATION - VOTE 2061

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1745. There were no material issues noted during the audit of the financial statements of the Commission.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1746. Non-Compliance with the Law on Fiscal Responsibility - Wage Bill

The statements of receipts and payments reflects an expenditure of Kshs.190,087,159 on compensation of employees representing 55% of the total receipts of Kshs.346,390,074. This is contrary to the provisions of Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015, which requires that compensation of employees not to exceed 35% of revenue.

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

1747. Irregular Promotion of Staff Based on an Unapproved Salary Structure

Examination of human resource records revealed that during the year under review, the Commission implemented a new salary structure and accorded direct promotion to fourteen (14) staff members without the necessary approval from the Salaries and Remuneration Commission, (SRC) contrary to Article 230 Clause 4(b) of the Constitution of Kenya which provides that the power and function of SRC shall be to advise the National and County Governments on the remuneration and benefits of all other public officers.

Although Management has explained that the Commission had sought approval from The National Treasury on the structural reorganization of the budget which was granted, The National Treasury had advised that the changes in salary structure should be approved by the Salaries and Remuneration Commission (SRC). It is however, noted that the Commission sought for the advisory opinion from the SRC on structural reorganization and staffing but went ahead and implemented the unapproved structure before receiving the advisory claiming that the Salaries and Remuneration Commission was only to provides advisory services and that they are at liberty to accept or reject the advisory. By the time of the audit in the month of November 2021, the SRC advisory opinion had not been provided for audit review.

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

1748. Irregular Issuance of Salary Advance to Commissioners

As disclosed in Note 12(c) to the financial statements, review of the statement of financial position for the year ended 30 June, 2021 indicates that the receivables from non-exchange transactions balance of Kshs.42,251,095 constitutes an outstanding salary advance of Kshs.2,558,624 which includes salary advances to two Commissioners amounting to Kshs.1,200,000. Review of records revealed that the Commissioners had applied the provisions under the Commission on Revenue Allocation (CRA) Human Resource Manual to irregularly access salary advances despite the fact that their salaries are drawn from the Consolidated Fund as per Article 250(7) of the Constitution of Kenya, 2010 and have been servicing it through their allowances from the Commission's budget.

Management has however stated that the Commission is committed to expunge the clause which earlier allowed Commissioners to access salary advances and engage The National Treasury to consider facilitating future requests from Commissioners.

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1749. There were no material issues relating to effectiveness of internal controls, risk management and governance.

PUBLIC SERVICE COMMISSION - VOTE 2071

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1750. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1751. Delay in Exchequer Releases

Review of Exchequer records revealed that the Public Service Commission received an amount of Kshs.401,567,003 or 18% of the allocated amount in form of Exchequer releases from The National Treasury in the month of June, 2021 as detailed below:

Date Funds Released by The National Treasury	Exchequer Ref. No	Vote	Amount Received (Kshs.)
2 June, 2021	166/17/20/21	Recurrent	63,099,867
21 June, 2021	175/18/20/21	Recurrent	4,137,366
24 June, 2021	179/49/20/21	Recurrent	152,009,129
28 June, 2021	181/30/20/21	Recurrent	121,744,613
30 June 2021	187/30/20/21	Recurrent	56,786,268
30 June 2021	153/21/20/21	Development	3,789,760
Total			**401,567,003**

The delayed Exchequer releases may have negatively affected timely implementation of the programmes of the Commission and provision of services to the public.

1752. Accounts Payables

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities reflects a balance of Kshs.13,896,633 in respect of retention monies for contractors. However, the schedule for the retention funds indicated that some of the withheld funds date back to 2013/2014 financial year which is beyond the defect's liability period of six (6) months. No effort appears to have been made by the Management to pay the contractors or provide satisfactory explanations for the delay in refunding the retention monies.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1753. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1754. There were no material issues relating to effectiveness of internal controls, risk management and governance.

SALARIES AND REMUNERATION COMMISSION - VOTE 2081

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1755. There were no material issues noted during the audit of the financial statements of the Commission.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1756. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1757. There were no material issues relating to effectiveness of internal controls, risk management and governance.

TEACHERS SERVICE COMMISSION - VOTE 2091

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1758. Long Outstanding Accounts Receivables - Cash Losses

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.867,537,156 which includes cash losses amounting to Kshs.2,928,398. As previously reported, the cash losses occurred between the years 1988 and 2000 and the matter was investigated whereby the Director of Public Prosecutions directed the suspect be charged with the offence of stealing by servant contrary to Section 280 of the Penal Code. Review of the matter during the year under review indicates that all teachers are paid by electronic funds transfers through their respective bank accounts and the Commission has reported that there are no longer cash losses reported. However, the lost cash had not been recovered.

In the circumstances, the recoverability of cash loss amounting to Kshs.2,928,398 could not been confirmed.

1759. Property, Plant and Equipment Schedule

As disclosed in Annex XV - other important disclosures to the financial statements, property, plant and equipment balance of Kshs.4,764,948,850 as at 30 June, 2021 includes a balance of Kshs.88,096 being the residual value of one (1) motor vehicle procured in 2004 at a cost of Kshs.2,085,869. Review of the matter in January, 2018 revealed that the vehicle had earlier been auctioned by auctioneers after obtaining a duplicate log book No.20063490279 from the Kenya Revenue Authority. Although the Commission repossessed the vehicle, the case is still pending in court.

In the circumstances, it has not been possible to confirm whether property, plant and equipment balance of Kshs.4,764,948,850 is fairly stated.

1760. Unauthorized Expenditure on Insurance Costs

As disclosed in Note 5 to the financial statements, the statement of receipts and payments reflects use of goods and services balance amounting to Kshs.763,764,040. The amount includes insurance costs of Kshs.47,793,308 which further includes payments amounting to Kshs.7,005,775 in respect of compensation under the Work Injury Benefits Act (WIBA), 2007. However, the paid claims were approved for payment by the Chief Executive Officer in 2018 and 2019, but the claims had not been included as pending bills in the financial year 2019/2020. Further, no documentation was provided to indicate the approved budget reallocation to support the payment.

Consequently, the validity of the insurance costs of Kshs.7,005,775 could not be ascertained.

1761. Unsupported Accounts Payables

As disclosed in Note 10 to the financial statements, the statement of assets and liabilities as at 30 June, 2021 reflects accounts payables balance of Kshs.459,795,093 which includes a clearance account balance of Kshs.405,647,139. The balance constitutes unexplained sundry creditors balance of Kshs.46,013,489, unsupported returned salaries of Kshs.25,958,415, returned EFT payments of Kshs.36,765,251, and unsupported stale cheques amounting to Kshs.4,509,310 which have been supported by listings indicating outstanding transactions, dating back to financial year 2015/2016 and earlier. The clearance accounts of Kshs.405,647,139 has minimal movement over the last twelve months and no explanation was provided for the same.

Further, the balance of Kshs.459,795,093 includes an Inter-Ministerial Agency Accounts balance of Kshs.45,738,914. However, the reported amounts differs with the corresponding amounts in the State Department for Early Learning and Basic Education's financial statements balance of Kshs.9,537,963 leading to an unreconciled variance of Kshs.36,200,951.

In the circumstances, the accuracy of the accounts payable balance of Kshs.459,795,093 could not be confirmed.

1762. Accounts Receivables

1762.1 Long Outstanding Salary Advances

As disclosed in Note 9 to the financial statements, the statement of assets and liabilities reflects accounts receivables balance of Kshs.867,537,156 which includes an amount of Kshs.10,531,874 in respect of salary advances. However, the salary advances balance includes an amount of Kshs.2,125,414 described as undefined recoveries whose composition and support documents were not provided for audit review. Further, an amount of Kshs.4,264,665 in respect of one hundred and forty-five (145) staff had no movement over the last twelve months. It was noted that some of the staff with outstanding balances had received additional salary advances during the year under review. Management did not give any reason for non-recovery of the salary advances.

1762.2 County Disbursements

Further, the accounts receivables balance of Kshs.867,537,156 includes a balance of Kshs.475,068,169 in respect of disbursements to Counties. However, the breakdown of the amounts owed by each county was not provided for audit review. Available records revealed that the reconciled county and regional bank balances totalled to Kshs.34,575,199 representing un-surrendered AIEs issued to the counties. The amount has however not been reconciled to the outstanding county disbursement balance of Kshs.475,068,169.

1762.3 Other Receivables

The account receivables balance of Kshs.867,537,156 also includes an amount of Kshs.370,924,085 in respect of other receivables which further includes an amount of

Kshs.352,853,152 relating to salary overpayments. However, the origin and the build-up of the salary overpayments have not been explained. The balance further includes receivables totalling to Kshs.10,416,781 which had no recoveries or repayments in the last twenty-four months casting doubts on the recovery or realization of the amount.

In the circumstances, the accuracy and completeness of the accounts receivables balance of Kshs.867,537,156 reflected in the statement of assets and liabilities as at 30 June, 2021 could not be confirmed.

Other Matter

1763. Budgetary Control and Performance

The summary statement of appropriation - development reflects final receipts budget and actual on comparable basis of Kshs.240,000,000 and Kshs.40,000,000, respectively resulting to an under-funding of Kshs.200,000,000 or 83% of the budget. Further, the statement reflects final expenditure budget and actual on comparable basis of Kshs.240,000,000 and Kshs.117,677,710, respectively resulting to an under-expenditure of Kshs.122,322,290 or 51% of the budget. The under-funding and under-expenditure affected the planned activities of the Commission and may have impacted negatively on service delivery to the public.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1764. Failure to Deduct and Remit Pay-As-You-Earn (PAYE) from Employees

During the year under review, Management did not deduct Pay As You Earn (PAYE) tax due from five thousand and twelve (5412) Commission's staffs and twenty-five (25) Secretariat's staffs with a gross pay amounting to Kshs.2,194,204,398 and Kshs.12,608,086 respectively.

Review of the Commission's payrolls revealed that employees with special needs, as prescribed under Section 11(3) of the Persons with Disabilities Act, 2003 are denoted by codes 2-9 under the special needs field in the Integrated Payroll and Personnel Database (IPPD), but the above referenced employees code was zero (0), denoting that they are not people with special needs and had not been exempted from paying income tax by the Kenya Revenue Authority. Failure to deduct and remit Pay As You Earn (PAYE) tax is contrary to the Income Tax Act CAP 470.

Consequently, Management was in breach of the law.

1765. Non-Compliance with Public Finance Management Act, 2012

During the year under review, Management granted a rent waiver of Kshs.621,622 to one of the Commission's tenants due to COVID-19 challenges which had affected its

business. The tenant was supposed to pay an annual rent of Kshs.1,896,060 as per the lease agreement but this was reduced to Kshs.1,274,438. The Commission did not provide any evidence of seeking authority from The National Treasury. This is contrary to Section 77 of the Public Finance Management Act, 2012 which requires an entity to seek authority from The National Treasury for any waiver or write-off for any amount owing.

Consequently, Management was in breach of the law.

1766. Irregular Issuance of Imprest

The statement of assets and liabilities reflects an accounts receivables balance of Kshs.867,537,156 which, as disclosed in Note 9 to the financial statements, includes outstanding imprests balance of Kshs.11,013,028 out of which a balance of Kshs.1,255,655 was owed by eight officers who had more than one imprest. This contravenes Regulation 93(4)(b) of the Public Finance Management (National Government) Regulations, 2015 which requires the accounting officer to ensure that the applicant has no outstanding imprests before issuing additional imprests.

Consequently, Management was in breach of the law.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Basis for Conclusion

1767. Recovery of Salary Overpayments

Review of the detailed analysis of the payroll provided for the financial year 2020/2021 revealed that, thirty-two (32) teachers had an outstanding 'salary overpayment' balance amounting to Kshs.33,780,614. However, the repayment period for the recovery of the outstanding amounts is beyond the retirement age of the respective teachers. The recoverability of the balance is therefore doubtful.

In the circumstances, the existence of an effective internal control to safeguard loss of public resources could be confirmed.

DONOR FUNDED PROJECT

SECONDARY EDUCATION QUALITY IMPROVEMENT PROJECT (IDA CREDIT NO. 6138-KE)

REPORT ON THE FINANCIAL STATEMENTS

Basis for Qualified Opinion

1768. Receivables - Unspent Balances in the Counties

Note 11.4 to the financial statements shows an amount of Kshs.31,029,206 as other receivables. The balance represents AIEs issued to thirty County Directors that had not been surrendered as at 30 June, 2021. The funds are deposited in a designated project bank account where all the payments are made from and a cash book maintained for each account. However, two bank accounts held at National Bank in Murang'a and West Pokot reported to hold Kshs.149,210 had no bank reconciliation provided for audit review. Further, twenty eight bank accounts statements reconciliations revealed that there were unexplained variances between the reported bank balance and the reconciled cash book balance all amounting to a net of Kshs.10,835,630.

Under the circumstances, the accuracy of the reported receivables balance could not be confirmed.

Other Matter

1769. Budgetary Control and Performance

The statement of comparative budget and actual amounts indicates that the Project received an amount of Kshs.200,000,000 or 100% of the approved budget. However, the Project utilized only Kshs.99,773,248 on use of goods and services resulting into under expenditure of Kshs.100,226,752 or 50% of the budget. Management has attributed the under-absorption of the budget was a result of the COVID-19 pandemic which prevented conducting of physical training of teachers on school based teacher support system. The Commission with the approval of the World Bank resulted to virtual trainings. The cost of this mode of training was lower than the cost of conducting the envisioned face to face training. This resulted in the under-absorption of the budget.

In the circumstances, the under absorption of the approved budget is an indication of the activities not implemented by the Project Management leading to non-provision of services to the stakeholders.

1770. Project Performance

The Project has been in place for 45 months representing 60% of the Project timeline. The Project had donor commitment of Kshs.2,428,630,100 but the utilization to date amounts to Kshs.385,642,094 representing 15% utilisation. The Project is unlikely to achieve the target goal due to low funds absorption as it implies some of the activities will not be undertaken.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1771. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1772. There were no material issues relating to effectiveness of internal controls, risk management and governance.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1773. As required by Financing Agreement No. IDA 6138-KE I report based on my audit, that I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit. Further, adequate accounting records have been kept and the Project's financial statements are in agreement with the accounting records and returns.

NATIONAL POLICE SERVICE COMMISSION - VOTE 2101

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1774. There were no material issues noted during the audit of the financial statements of the Commission.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

1775. Leasing of Counselling Centre in Karen Nairobi

The Commission entered into a six-year lease agreement with Swara Safari Hotel Limited from 1 January, 2019 for a building erected on L.R. No. 12251/13 together with a vacant plot on L.R. No 12251/12 in Karen at a monthly rent of Kshs.1,590,273 for use as a counselling centre. A review of documents provided for audit revealed that L.R. Nos. 12251/12 and 12251/13 were registered in the names of Swara Safari Hotel Limited and Amazing Tours Ltd, respectively. However, through a letter dated 23 November, 2020, a law firm issued the Commission with a notice to vacate the plot on L.R. No 12251/13 on the claim that it was registered to Elicona Holdings Limited.

In March, 2021, Elicona Holdings Limited sued the Commission, alleging that the Commission had trespassed on its property L.R. No. 12251/13 and had refused to vacate. A ruling was made by the Court in August, 2021 requiring the Commission to vacate the property and pay Elicona Holdings Kshs.750,000 monthly rent with effect from 18 December, 2018 (a total Kshs.24,750,000 for the period) plus the costs of the suit, which the Commission has since appealed. The contingent liability has, however, been disclosed in the notes to the financial statements.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1776. There were no material issues relating to effectiveness of internal controls, risk management and governance.

OFFICE OF THE CONTROLLER OF BUDGET - VOTE 2121

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1777. There were no material issues noted during the audit of the financial statements of the Office.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1778. There were no material issues relating to lawfulness and effectiveness in use of public resources.

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

Conclusion

1779. There were no material issues relating to effectiveness of internal controls, risk management and governance.

THE COMMISSION ON ADMINISTRATIVE JUSTICE - VOTE 2131

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1780. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1781. Pending Bills

As disclosed in Note 13.1 to the financial statements, the Commission had pending bills totalling Kshs.2,545,903 as at 30 June, 2021 that were not settled during the year 2020/2021 but were instead carried forward to 2021/2022 financial year. Failure to settle bills during the year to which they relate adversely affects provisions of the subsequent year as they form a first charge.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1782. There no material issues relating to lawfulness and effectiveness in use of public resoruces.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1783. There were no material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL GENDER AND EQUALITY COMMISSION - VOTE 2141

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1784. There were no material issues noted during the audit of the financial statements of the Commission.

Other Matter

1785. Pending Bills

As disclosed under Note 13 to the financial statements, the Commission had pending bills totalling Kshs.962,325 as at 30 June, 2021 that were not settled during the financial year 2020/2021 but were instead carried forward to 2021/2022. Management attributed the delay in settlement of pending bills to late submission of invoices and late supply of goods and services. Failure to settle bills during the year to which they relate adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1786. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1787. There were no material issues relating to effectiveness of internal controls, risk management and governance.

INDEPENDENT POLICING OVERSIGHT AUTHORITY - VOTE 2151

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

1788. There were no material issues noted during the audit of the financial statements of the Authority.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

1789. There were no material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

1790. There were no material issues relating to effectiveness of internal controls, risk management and governance.

APPRECIATION

I wish to sincerely thank the entire staff of the Office of the Auditor-General for their commitment, passion and professionalism in carrying out their duties despite the challenges posed by lack of adequate funds and the Covid-19 pandemic. Special appreciation goes to the team that prepared this Consolidated Audit Report.

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 April, 2022

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
1.	The Executive Office of the President
2.	Ministry of Defence
3.	State Department for Post Training and Skills Development
4.	State Department for Infrastructure
5.	State Department for Shipping and Maritime
6.	State Department for Housing and Urban Development
7.	State Department for Co-operatives
8.	State Department for Trade and Enterprise Development
9.	State Department for Youth Affairs
10.	State Department for East African Community
11.	State Department for Regional and Northern Corridor Development
12.	Ethics and Anti-Corruption Commission
13.	National Intelligence Service
14.	Office of the Director of Public Prosecutions
15.	Office of the Registrar of Political Parties
16.	Witness Protection Agency
17.	Kenya National Commission on Human Rights
18.	Parliamentary Service Commission
19.	National Assembly
20.	Parliamentary Joint Services

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
21.	Judicial Service Commission
22.	Commission on Revenue Allocation
23.	Public Service Commission
24.	Salaries and Remuneration Commission
25.	National Police Service Commission
26.	National Cohesion and Integration Commission
27.	Office of the Controller of Budget
28.	The Commission on Administrative Justice
29.	National Gender and Equality Commission
30.	Independent Policing Oversight Authority
31.	Consolidated Fund Services – Public Debt
32.	Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services
33.	Consolidated Fund Services - Subscriptions to International Organizations
34.	Statements of Revenue - Ministry of Defence
35.	Revenue Statements (Development)
36.	Revenue Statements of the Pensions Department
37.	East Africa Tourist Visa Fee Collection Account
38.	Revenue Statements of the State Law Office and Department of Justice
39.	Revenue Statements of The Judiciary

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
40.	Revenue Statements of Business Registration Service
41.	National Exchequer Account
42.	Business Registration Service - Official Receiver – State Law Office and Department of Justice
43.	Financial Sector Support Project (IDA Credit No. 5627-KE) – The National Treasury
44.	Infrastructure Finance and Public Private Partnership Project - IDA Credit No. 5157-KE – The National Treasury
45.	Study and Capacity Building Fund Project (Credit No. CKE 6015 01K, CKE 1043 01F AND CKE 1047 01K) – The National Treasury
46.	Public Debt Management Support Project – ADB Grant Agreement No. 5500155013708 – The National Treasury
47.	Technical Support Programme (Financing Agreements No. KE/FED/2009/021421; No. KE/FED/023-733 and No. KE/FED/037-941) – The National Treasury
48.	Micro Finance Sector Support Credit Project (Credit No. CKE 3004 01E and CKE 6010 01E) – The National Treasury
49.	Programme for Rural Outreach of Financial Innovations and Technologies (Profit) (IFAD Loan No.814-KE and Grant No.1218-KE) – The National Treasury
50.	Additional Financing for the Infrastructure Finance and Public Private Partnership Project (IDA Credit No. 6121-KE) – The National Treasury
51.	Financing Locally-Led Climate Action Program (Preparation Advance No. IDA V319-KE) – The National Treasury
52.	Public Financial Management Reforms Program (Credit Nos. DANIDA FY06, SIDA 51110081, IDA GESDEK- 6133-KE & KDSP-5765-KE) – The National Treasury

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
53.	UNICEF – Kenya Generation Unlimited (GenU) Project (Programme No. 2400/A0/A6) - Executive Office of the President
54.	Technical Assistance to Enhance the Capacity of the President's Delivery Unit (ADB Grant No.5500155012902) – The Executive Office of the President
55.	Kenya - EU Partnership for The Implementation of The National Strategy To Counter Violent Extremism In Kenya - National Counter Terrorism Centre
56.	Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No. 5638-KE) - Kenya Revenue Authority
57.	Data Collection and Database Development Project (UNFPA-KEN7P32A) - Kenya National Bureau of Statistics
58.	Multiple Indicator Cluster Survey Project - UNICEF - Kenya National Bureau of Statistics
59.	Kenya South Sudan Link Road Project (Ref. No.202062065 and BMZ No.202083939) – Kenya National Highways Authority
60.	Kenya Italy Debt for Development Program (KIDDP) – State Department for Vocational and Technical Training
61.	Support to Technical Vocational Education and Training for Relevant Skills Development Project - Phase II (Loan No.2100150033295) - State Department for Vocational and Technical Training
62.	East Africa Skills for Transformation and Regional Integration Project (EASTRIP) IDA Loan Credit No.6334-KE - State Department for Vocational and Technical Training
63.	Promotion of Youth Employment and Vocational Training In Kenya Project, Loan Reference: BMZ No.2016 67 211 & BMZ No.2016 65 298 And Project Grant Reference No.1930 05 527 - State Department for Vocational and Technical Training
64.	East Africa Skills Transformation and Regional Integration Project (EASTRIP) – Grant/Credit No. IDA 6334-KE - Kisumu National Polytechnic

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
65.	East Africa Skills Transformation and Regional Integration Project (Credit Number: IDA 6334-KE) – Kenya Coast National Polytechnic
66.	Africa Center of Excellence in Sustainable Use of Insects as Food and Feeds Project (IDA Credit No. 5798-KE) – Jaramogi Oginga Odinga University of Science and Technology
67.	Eastern and Southern Africa Higher Education Centers of Excellence (ACE II) Project (Credit No. 5798-KE) – State Department for University Education
68.	East Africa Public Health Laboratory Networking Project (EAPHLN) Credit No.5616-KE – Ministry of Health
69.	East Africa's Centre of Excellence for Skills and Tertiary Education in Biomedical Sciences – Phase 1 (Loan No.2100150031997) Project – Ministry of Health
70.	Global Fund Tuberculosis Grant Programme (Grant No.KEN-T-TNT-854 and KEN-T-TNT-1548) - Ministry of Health
71.	Global Fund Malaria Round Control Programme Grant/Credit No.KEN-M-TNT-1546 and Round 10 No. KEN-011-G13-M – Ministry of Health
72.	Support of The Health Care Financing Strategy - Reproductive Health - Output Based Approach Project (Credit BMZ No. Kenya 201065853) – Ministry of Health
73.	Kenya Health Sector Programme Support III (Danida Ref. 104. Kenya.810.300 - Grant) - County Government of Kisii
74.	East Africa Skills for Transformation and Regional Integration Project (Credit No. 6334-KE) - State Department for Infrastructure
75.	Support to Road Sector Policy: 10th EDF Rural Roads Rehabilitation Project in Kenya (Agreement No. KE/FED/023-571) – Kenya Rural Roads Authority
76.	Roads 2000 Phase Two Project (AFD Credit No. CKE 101201B, Credit No. CKE 1046 01 J and Credit No. CKE 1094 01 M) – Kenya Rural Roads Authority

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
77.	Nuno-Modogashe Road Project – Kenya National Highways Authority
78.	Kenol-Sagana-Marua Highway Improvement Project (P-KE-DBO-037) Credit Nos.5050200000901 and 20020004504 – Kenya National Highways Authority
79.	Nairobi Outer Ring Road Improvement Project No. P-KE-Db0-020 – Kenya Urban Roads Authority
80.	Kapchorwa-Suam-Kitale and Eldoret Bypass Roads (Kenya) Project ID No. P-Z1-DB0-183 – Kenya National Highways Authority
81.	Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase III (Turbi - Moyale) No. P-ZI-DB0-095 Loan No. 2100150025546 – Kenya National Highways Authority
82.	EPC / Turnkey Construction of Five Footbridges and T-Mall Flyover in Mombasa and Langata Road Credit No. KEN-01001-19 and No. KEN-02001-19 – Kenya National Highways Authority
83.	Timboroa-Eldoret Road Rehabilitation Project No. P-KE-DB0-019 (Loan No. 2100150023344) – Kenya National Highways Authority
84.	Nairobi-Thika Highway Improvement Project Lot I and II (Credit No. 2100150015544) – Kenya National Highways Authority
85.	Multinational Arusha-Holili/Taveta-Voi Road Corridor Development Project Phase I – Loan No.2100150028894 – Kenya National Highways Authority
86.	Port Reitz/Moi International Airport Access (C110) Road (FIDIC EPC/Turnkey Based) – Kenya National Highways Authority
87.	East Africa Trade and Transport Facilitation Project (IDA Credit No. 4148-KE) – Kenya National Highways Authority
88.	Northern Corridor Rehabilitation Programme Phase III – Kenya National Highways Authority
89.	Kenya Transport Sector Support Project Credit No.4926-Ke and No.5410-KE – Kenya National Highways Authority

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
90.	Regional Roads Component (Merille-Marsabit Road) (KE/001/09) Project Loan Agreement No.KE/FED/2009/021-655 – Kenya National Highways Authority
91.	Nairobi Missing Links Road and Non Motorised Transport Facilities (KE/001/09) EDFX – Kenya Urban Roads Authority
92.	Nairobi Southern Bypass Project Loan No. China Exim Bank PBC No.(2011) 32 Total No.(183) No.(14203030520112115 28) – Kenya National Highways Authority
93.	Kenya Nairobi-Thika Highway Improvement Project (Lot 3) Government Concessional Loan Agreement No.(2009) 39 Total No.(290) – Kenya National Highways Authority
94.	National Urban Transport Improvement Project - IDA Credit No. 5140 - KE – Kenya National Highways Authority
95.	Regional Mombasa Port Access Road Project (Loan No. 27459, Credit No. 84010 and Grant No. 202061919) – Kenya National Highways Authority
96.	Upgrading of "Gilgil Machinery" Road Project – Kenya Rural Roads Authority
97.	Arusha-Namanga-Athi River Road Development Project No. P-Z1-DB0-040 – Kenya National Highways Authority
98.	Coordination of Population Policy Implementation Project (UNFPA Project No. KEN08POP) – National Council for Population and Development
99.	East Africa Trade and Transport Facilitation Project Ida Credit No. 4148-KE and Credit No. 4977-KE (MOT Component) - State Department for Transport
100.	East Africa Trade and Transport Facilitation Project (MOT/KRC Component) Credit No.4148-KE and Credit No. 4977-KE – State Department for Transport
101.	Northern Corridor Transport Improvement Project Credit No.4571-KE and 3930-KE (MOT Component) - State Department for Transport
102.	National Urban Transport Improvement Project Credit No. IDA 5140-KE (KRC Component) – Kenya Railways Corporation

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
103.	Kenya Aviation Modernization Project (Preparation Advance No. V0440) - Kenya Airports Authority
104.	Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and 5410-KE) - Kenya Civil Aviation Authority
105.	Instruments for Devolution Advice and Support Project - Grant No.KE/FED/024/230 – State Department for Devolution
106.	Safe Roads/Usalama Barabarani Programme (EU Grant No. KE/FED/037-778) - National Transport and Safety Authority
107.	Kenya Informal Settlement Improvement Project No. P113542 – State Department for Housing and Urban Development
108.	Nairobi Metropolitan Services Improvement Project (IDA Credit No. 5102-KE) – State Department for Housing and Urban Development
109.	Upper Tana Catchment Natural Resources Management Project (UTaNRMP) IFAD Loan No.1-867-KE; IFAD Additional Financing Loan No. 2000002597-KE; and Spanish Trust Fund Loan No. 1-E-8-KE - Ministry of Water, Sanitation and Irrigation
110.	Coastal Region Water Security and Climate Resilience Project (IDA Credit. No.5543-KE) – Ministry of Water, Sanitation and Irrigation
111.	Thwake Multi-Purpose Development Program Phase I (AfDB Loan No. 2100150029993, No. 2000200003351 and No. 5050200000501; and AfDB Grant No. 2100155025973) – Ministry of Water, Sanitation and Irrigation
112.	Kenya Italy Debt for Development Programme - Ministry of Water, Sanitation and Irrigation
113.	Kenya Water Security and Climate Resilience Project (IDA Cr. No. 5268/5674-KE – Ministry of Water, Sanitation and Irrigation
114.	Water and Sanitation Development Project (IDA Credit. No.6029/6030-KE) - Ministry of Water, Sanitation and Irrigation

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
115.	Lake Victoria Water Supply and Sanitation Program - (Phase II) Project No. P-Z1-EA0-004 (ADF Grant No.2100155019967) - Lake Victoria South Water Works Development Agency
116.	Trilateral Development Cooperation in Kenya, Water and Sanitation Sector Project (Credit No. BMZ 201365352) – Lake Victoria South Water Works Development Agency
117.	Lake Victoria Water and Sanitation Project – Number Convention AFD CKE 1093 02 M – Lake Victoria South Water Works Development Agency
118.	Kenya Towns Sustainable Water Supply and Sanitation Program (Loan No.2000200000501) - Athi Water Works Development Agency
119.	Support to Water and Sanitation Services in Peri-Urban Area Project (Loan No.BMZ 2013.6543.6) – Athi Water Works Development Agency
120.	Nairobi Water Distribution Network Project (Credit No. BMZ 2020.82.527/KV26833) – Athi Water Works Development Agency
121.	Northern Collector Phase 1 and Additional Rehabilitation and Development of the Network Project - Athi Water Works Development Agency
122.	Kenya Urban Water and Sanitation OBA Project Fund for Low Income Areas - Water Sector Trust Fund
123.	Sound Chemicals Management Mainstreaming and UPOPs Reduction in Kenya Project (Grant No.99820) – Ministry of Environment and Forestry
124.	Kenya Institutional Strengthening Project Phase XI (NO.UNEP/KEN/SEV/80/INS/63) - Ministry of Environment and Forestry
125.	National Action Plan on Artisanal Small – Scale Gold Mining No. AFR/NAP ASGM Project/C/10-2016 - Ministry of Environment and Forestry
126.	Green Growth and Employment Thematic Programme (GGETP) – Danish Embassy File No.2015 - Ministry of Environment and Forestry

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
127.	System for Land Based Emissions and Estimation in Kenya (SLEEK) Project – Ministry of Environment and Forestry
128.	Green Zones Development Support Project Phase II (Credit No.P.KE-AAD-005) - Kenya Forest Service
129.	National Information Platform for Food Security and Nutrition Project-Food/2017/393-022 - Kenya National Bureau of Statistics
130.	Northern Kenya Conservation Project Credit No. CKE 1036 01 H – Kenya Wildlife Service
131.	Water and Sanitation Services Improvement Project (IDA Credit No.5103 KE) - Athi Water Works Development Agency
132.	Kenya Urban Support Program (IDA Credit No.6134-KE) - State Department for Housing and Urban Development
133.	Green Growth and Employment Thematic Programme (Cr No:2015-39789) - National Environment Management Authority
134.	Integrated Programme to Build Resilience to Climate Change and Adaptive Capacity of Vulnerable Communities In Kenya - National Environment Management Authority
135.	GCF Project Preparation Facility: "Devolved Climate Change Governance to Strengthen Resilience of Communities' in Target Counties" - National Environment Management Authority
136.	GCF Readiness and Preparatory Support: "NEMA Capacity Strengthening Programme Towards Accessing Climate Finance From Green Climate Fund" - National Environment Management Authority
137.	Eastern Africa Regional Transport, Trade and Development Facilitation Project (IDA Credit No.5638-KE) - Information and Communication Technology Authority
138.	Kenya Electricity Modernization Project (IDA Cr. No. 5587 KE) – Ministry of Energy

Appendix A: Unmodified Opinion

NO. MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS

139. Kenya Off-Grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) - Ministry of Energy

140. Kenya Off-Grid Solar Access Project for Underserved Counties (IDA Cr.No.6135-KE) - Rural Electrification and Renewable Energy Corporation

141. Water and Sanitation Services Improvement Project (IDA Cr. No.5103-KE) – Lake Victoria North Water Works Development Agency

142. Multinational - Kenya Section of Interconnection Project of Electricity Grids of Nile Equatorial Lakes Countries (ADF Loan No. 2100150022643) - Kenya Electricity Transmission Company Limited

143. Multinational Kenya-Tanzania Power Interconnection Project (Kenyan Component) (ADF Loan No.2100150032846) - Kenya Electricity Transmission Company Limited

144. Last Mile Connectivity Project (Loan No.2100150032195) – Kenya Power and Lighting Company PLC

145. Last Mile Connectivity Project II (Loan No.2000200000152) – Kenya Power and Lighting Company PLC

146. Eastern Electricity Highway Project (Ida Credit No. 5148-KE; AFD Loan No: CKE 1030 01B and ADF Loan No: 2100150027845) - Kenya Electricity Transmission Company Limited

147. Rural Electrification in Five Regions Project (Cr.No.11/597KE, 1407PKE) - Rural Electrification and Renewable Energy Corporation

148. Olkaria-Lessos-Kisumu Transmission Lines Construction Project (JICA Loan No. KE-P28) – Kenya Electricity Transmission Company Limited

149. 220KV and 132KV Transmission Lines and Substations (Exim Bank of India Funded) Projects - Kenya Electricity Transmission Company Limited

150. Kenya Electricity Modernisation Project (IDA Credit 5587-KE) – Rural Electrification and Renewable Energy Corporation

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
151.	Nairobi Ring Transmission Line Project (AFD Credit No. CKE6012.01, AFD Credit No. CKE1068 01, AFD Credit No. CKE1030.01.B, EIB Credit No.25.367/KE and GOK) – Kenya Electricity Transmission Company Limited
152.	Power Transmission System Improvement Project (ADF Loan No.2100150023752) - Kenya Electricity Transmission Company LTD
153.	Menengai Geothermal Project - Geothermal Development Company Limited
154.	Africa Centre of Excellence (ACE II) in Phytochemicals, Textiles and Renewable Energy (PTRE) Project (IDA Credit No. 5798-KE) – Moi University
155.	Regional Pastoral Livelihood Resilience Project (IDA Credit No. KE 53880-KE) – State Department for Livestock.
156.	Kenya Cereal Enhancement Programme - Climate Resilient Agricultural Livelihood Window (EU Grant No.200000623 EU, Grant No.2000001522, IFAD No. Loan 2000001121, and ASAP Grant No.2000001122) – State Department for Crop Development and Agricultural Research
157.	Improvement of Rural Roads and Market Infrastructure in Western Kenya Project Credit No. BMZ 2007-65 123 (KFW) – Kenya Rural Roads Authority
158.	Capacity Development Project for Enhancement of Rice Production in Irrigation Scheme in Kenya - (Project Grant/Credit No: 1161001009) - State Department for Crop Development and Agricultural Research
159.	National Agricultural and Rural Inclusive Growth Project (IDA Credit No.5900-KE) - State Department for Crop Development and Agricultural Research
160.	Enable Youth Kenya Program – (ADF Loan No. 2100150038895) - State Department for Crop Development and Agricultural Research
161.	Agricultural Sector Development Support Programme II (SIDA Grant No. 51110109) - State Department for Crop Development and Agricultural Research
162.	Kenya Marine Fisheries and Socio-Economic Development Project (IDA Credit No.65400-KE) – State Department for Crop Development and Agricultural Research

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
163.	Aquaculture Business Development Programme (IFAD Loan No.2000002052) - State Department for Fisheries, Aquaculture and the Blue Economy
164.	Mwea Irrigation Development Project (Loan No. KE-P27) – National Irrigation Authority
165.	Strengthening Fertilizer Quality and Regulatory Standards In Kenya Project (Agra Grant No. 2013 Ship 001) – State Department for Crop Development and Agricultural Research
166.	Kenya Petroleum Technical Assistance Project (IDA Credit No.5526-KE and Grant No. TFOA 3418) – State Department for Petroleum
167.	Kenya Industry and Entrepreneurship Project (Credit No. IDA 6268-KE) – State Department for Industrialization
168.	Kenya Youth Employment and Opportunities Project (IDA Credit No.5812-KE) - Micro and Small Enterprise Authority
169.	Global Fund HIV/AIDS Project Grant No. KEN-H-TNT-1547 – National Aids Control Council
170.	Kimira Oluch Smallholder Farm Improvement Project (ADF Loan No. 2100150012296) - State Department for Regional and Northern Corridor Development
171.	Support to the Attainment of Vision 2030 Through Devolved Land Reforms in Community Land of Kenya Project No. GCP/KEN/085/EC (Letter of Agreement No. FAOR 2018/001) – National Lands Commission
172.	Support of the Health Financing Strategy - Output Based Approach (OBA) Programme (Credit No. 201065853) – Ministry of Health
173.	Horn of Africa Gateway Development Project - State Department for Infrastructure
174.	Horn of Africa Gateway Development Project (IDA Credit No.6768KE) - State Department of Transport
175.	Horn of Africa Gateway Development Project (IDA Credit No. 6768) - Kenya Revenue Authority

Appendix A: Unmodified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
176.	Horn of Africa Gateway Development Project Loan No.6768-KE – Kenya National Highways Authority
177.	Horn of Africa Gateway Development Project (IDA Credit No. 6768 KE) – National Transport and Safety Authority
178.	Kenya GPE Covid-19 Learning Continuity in Basic Education Project GPE Grant Number TFB 3336 - State Department for Early Learning and Basic Education
179.	Kenya Gold Mercury Free ASGM Project Grant/Project NO.GEF/UNDP/GOK-00108253 - Ministry of Environment and Forestry
180.	Kenya Special Project for BRSM And SAICM – Ministry of Environment and Forestry
181.	Emergency Locust Response Project (IDA Credit No.6648-KE) - State Department for Crop Development and Agricultural Research
182.	Integrated Health & Environment Observatories and Legal and Institutional Strengthening for the Sound Management of Chemicals in Africa (NO. AFR/CHEMOBS PROJECT/C/07-2017) - Ministry of Environment and Forestry
183.	Kenya Electricity Expansion Project (OFID CR.NO.1487P) - Rural Electrification and Renewable Energy Corporation
184.	Bura Rehabilitation Development Project (Loan Numbers: BADEA 3530:LA/763, KUWAIT 752, OPEC 1154P) - National Irrigation Authority
185.	Kenya Urban Support Program - Kisii Municipality
186.	Rwabura Irrigation Development Project – National Irrigation Authority
187.	Nairobi Rivers Basin Rehabilitation and Restoration Program: Sewerage Improvement Project Phase II (AfDB Loan No. 2000200003407 and ADF Loan No. 2100150040550) - Athi Water Works Development Agency
188.	Ethiopia – Kenya Electricity Highway Project (ADB LOAN No. 2000200003502-Mariakani Substation Project ID NO: P-ZI-FA0-162) - Kenya Electricity Transmission Company Limited

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
1.	State Department for Interior and Citizen Services
2.	State Department for Correctional Services
3.	State Department for Devolution
4.	State Department for Development of the Arid and Semi-Arid Lands (ASALS)
5.	Ministry of Foreign Affairs
6.	State Department for Vocational and Technical Training
7.	State Department for University Education and Research
8.	State Department for Early Learning and Basic Education
9.	The National Treasury
10.	State Department for Planning
11.	Ministry of Health
12.	State Department for Transport
13.	State Department for Public Works
14.	Ministry of Environment and Forestry
15.	Ministry of Water, Sanitation and Irrigation
16.	Ministry of Lands and Physical Planning
17.	State Department for Information, Communication Technology and Innovation
18.	State Department for Broadcasting and Telecommunications
19.	State Department for Sports
20.	State Department for Culture and Heritage

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
21.	Ministry of Energy
22.	State Department for Livestock
23.	State Department for Fisheries, Aquaculture and the Blue Economy
24.	State Department for Crop Development and Agricultural Research
25.	State Department for Industrialization
26.	State Department for Labour
27.	State Department for Mining
28.	State Department for Petroleum
29.	State Department for Tourism
30.	State Department for Wildlife
31.	State Department for Gender
32.	State Department for Public Service
33.	State Law Office and Department of Justice
34.	The Judiciary
35.	National Land Commission
36.	Independent Electoral and Boundaries Commission
37.	Teachers Service Commission
38.	CFS-Pensions and Gratuities
39.	Revenue Statements - State Department for Interior and Citizen Services
40.	Revenue Statements (Recurrent) - The National Treasury

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
41.	Revenue Statements for the Ministry of Lands and Physical Planning
42.	Revenue Statements of the State Department for Fisheries, Aquaculture and The Blue Economy
43.	Revenue Statements of the State Department for Mining
44.	Public Trustee - State Law Office and Department of Justice
45.	Business Registration Service
46.	Global Fund Programmme - To Accelerate the Reduction of TB, Leprosy and Lung Disease Burden Through Provision of People Centered, Universally Accessible, Acceptable and Affordable Quality Services In Kenya (Grant No. KEN-T-TNT 1548) – The National Treasury
47.	Global Fund Program - To Reduce Morbidity and Mortality Caused by Malaria in the Various Epidemiological Zones by Two Thirds of the 2015 Level by 2020 Program-Grant Agreement-KEN-M-TNT No.1546 – The National Treasury
48.	Global Fund Program-To Contribute to Achieving Vision 2030 Through Universal Access To Comprehensive HIV Prevention, Treatment and Care Project - KEN-H-TNT, GA No. 1547 - The National Treasury
49.	Kenya Symbiocity Programme-Grant No.51110060 - Council of Governors
50.	East Africa Skills for Transformation and Regional Integration Project (IDA Loan No. 6334-KE) – Meru National Polytechnic
51.	United Nations Population Fund (UNFPA) 9th Country Programme for Kenya – Ministry of Health
52.	Covid-19 Emergency Response Project Grant/Credit No.6598-KE – Ministry of Health
53.	Kenya Youth Employment and Opportunities Project (KYEOP) IDA - 5812-KE - National Industrial Training Authority (NITA)
54.	Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project (ID No. P-KE-IAD-001 - Loan Agreement No.2100150027993) – State Department for University Education

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
55.	Establishment of Kenya Advanced Institute of Science and Technology (KAIST) Project No. KEN-4 – Ministry of Education - State Department for University Education
56.	International Partnership Programme – Forest 2020 Project - Kenya Forest Service
57.	Kenya Primary Education Development Project (Grant No. TFO18863) – State Department for Early Learning and Basic Education
58.	GOK/UNICEF Education for Young People Programme – State Department for Early Learning and Basic Education
59.	Kenya Health Sector Support (EMMS/KEMSA COMPONENT) Project (IDA Credit No.4771 and Credit No. 50340 – KE) – Ministry of Health and KEMSA
60.	Kenya Health Sector Support Project - Health Sector Services Fund (Grant No.4771-KE and TF-16027) - Ministry of Health
61.	Transforming Health Systems for Universal Care (THS-UC) Project Grant IDA Credit No.5836-KE, TFOA2561, TFOA2792 and Credit No.P152394 - Ministry of Health
62.	Global Fund HIV AIDS Program Grant No. KEN-H-TNT GA 1547 - Ministry of Health
63.	Health Sector Support Project (Credit No.4771-KE) – Kenya Medical Supplies Authority (KEMSA)
64.	A Case Study on Integrated Delivery of Selected Non-Communicable Diseases in Kenya (PHGF Grant No. TFOA5636) - Moi Teaching And Referral Hospital
65.	Capacity Development Project for Sustainable Forest Management in the Republic of Kenya (CADEP Grant No.22) - Kenya Forest Service
66.	Eastern Africa Regional Transport, Trade and Development Facilitation Project Credit No.5638-KE IDA – State Department for Infrastructure
67.	Kenya Water Tower Project – Ministry of Environment and Forestry
68.	Centre of Excellence In Sustainable Agricultural and Agribusiness Management (CESAAM) Credit No.5798-KE - Egerton University

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
69.	Mombasa-Nairobi-Addis Ababa Road Corridor Development Project No. P-ZI-DBO-018 (Isiolo/Merille/Moyale Road) – Kenya National Highways Authority
70.	Kenya Transport Sector Support Project (IDA Credit No. 4926-KE and No. 5410-KE) - State Department for Infrastructure
71.	Kisumu Urban Project (Project Advance Account)-CKE 1035.01.G - County Government of Kisumu
72.	Secondary Education Quality Improvement Project (IDA Credit No.6138-KE) - Teachers Service Commission
73.	Kenya Towns Sustainable Water Supply and Sanitation Program (AFDB Loan No.2000200000501) – Tana Water Works Development Agency
74.	Kenya Towns Sustainable Water Supply and Sanitation Programme - Rift Valley Water Works Development Agency
75.	Kisii Water Supply and Sanitation Project (Grant No. ORIO11/KE/21) - Lake Victoria South Water Works Development Agency
76.	Northern Corridor Transport Improvement Project IDA Credit No.3930-KE and No.4571-KE – Kenya National Highways Authority
77.	Lake Victoria Environmental Management Project Phase III (LVEMP III) Project Preparatory Advance No. V1570 – KE) - Ministry of Environment and Forestry
78.	Multi-National Drought Resilience and Sustainable Livelihoods Programme in the Horn of Africa (ADF Loan No. 2100150028345) – State Department for Crop Development and Agricultural Research
79.	Supporting Agricultural Input and Output Marketing Policy and Regulatory Reforms to Improve the Enabling Business Environment for Agriculture in Kenya Project (Agra Grant No. 2018 KE 005) - State Department for Crop Development and Agricultural Research
80.	Kenya Youth Employment and Opportunities Project (IDA Credit No. 5812-KE)-State Department for Youth Affairs
81.	Judicial Performance Improvement Project (IDA Credit No.5181- KE) - The Judiciary
82.	Bogoria Silali Geothermal Project (Loan No.2013.66.103) - Geothermal Development Company Limited

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
83.	Mombasa–Mariakani Highway Project Lot 1 (Mombasa-Kwa Jomvu) Loan No. 2100150032743 – Kenya National Highways Authority
84.	Dualling of Nairobi - Dagoretti Corner Road Phase 2 - Kenya Urban Roads Authority
85.	Mombasa Port Area Road Development Project - Kenya National Highways Authority
86.	Upgrading of Kibwezi-Mutomo-Kitui Road Project - Kenya National Highways Authority
87.	Secondary Education Quality Improvement Project (Credit No.6138-KE) - State Department for Early Learning and Basic Education
88.	Kenya Development of Solar Power Plant in Garissa Project (GCL No.2015(10) - Rural Electrification and Renewable Energy Corporation
89.	National Urban Transport Improvement Project Credit No. 5140- KE (MOT Component) - State Department for Transport
90.	East Africa Public Health Laboratory Networking (EAPHLN) Project Credit No.4732-KE – Kenya Medical Supplies Authority
91.	Health Sector Support Project – SWAp Secretariat (IDA Cr. No. 4771-KE and Cr. No.5367-KE) – Ministry of Health
92.	Small-Scale Irrigation and Value Addition Project (ADF Loan No.2000130014530 and Grant No.5570155000751) – State Department for Crop Development and Agricultural Research
93.	Multi National Rural Livelihoods Adaptation to Climate Change in The Horn of Africa (ADB/ADF Grant No.5550155001201) - State Department for Crop Development and Agricultural Research
94.	Kenya Climate Smart Agriculture Project (IDA Credit No. 5945-KE) - State Department for Crop Development and Agricultural Research
95.	Multi-National Lake Victoria Maritime Communications and Transport Project (ADF Loan No. 2100150036247) – Kenya Maritime Authority

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
96.	Kenya Social and Economic Inclusion Project IDA Cr No. 6348-KE – State Department for Social Protection
97.	Kenya Nairobi Western Bypass Project Credit No. China Exim Bank GCL No. (2017) 28 Total No. (633) – Kenya National Highways Authority
98.	Dualling of Magongo Road Phase 2 Project - Kenya National Highways Authority
99.	Nairobi Sanitation Output Based Aid Project (IDA Grant No. TF014251 and No. TF0A5607) - Nairobi City Water and Sewerage Company Limited
100.	Sirari Corridor Accessibility and Road Safety Improvement Project: Isebania-Kisii-Ahero – (A1-Road Rehabilitation) – Kenya National Highways Authority
101.	Mombasa-Nairobi-Addis Ababa Road Corridor Project Phase II (Marsabit-Turbi Road) ID No. P-Z1-DBO-027 – Kenya National Highways Authority
102.	Eastern Africa Regional Transport, Trade and Development Facilitation Project-(IDA CR-5638) – Kenya National Highways Authority
103.	Kenya Development Response to Displacement Impacts Project (IDA Credit No.6021-KE - State Department for Development of Arid and Semi-Arid Lands (ASALS)
104.	Kenya Off-Grid Solar Access Project for Underserved Counties (IDA Cr. No. 6135-KE) - Ministry of Energy and SNV Netherlands Development Organization
105.	Bagamoyo-Horohoro-Lunga Lunga-Malindi Road Project (Phase I) ID NO: P-ZI-DBO-129 – Kenya National Highways Authority
106.	Mombasa Gate Bridge Construction Project Loan Agreement NO.KE-P34 - Kenya National Highways Authority
107.	Water Sector Development Programme Lake Victoria South (Kericho, Kisii, Nyamira and Litein) Loan No. BMZ 2010 65 861 and Grant No. BMZ 2010 70 457– Lake Victoria South Water Works Development Agency
08.	Kenya Youth Employment Opportunity Project Credit No.58120-KE - State Department for Labour

Appendix B: Qualified Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
109.	Combating Poaching and Illegal Wildlife Trafficking In Kenya Through Integrated Approach (IWT-Kenya) Project – State Department for Wildlife

Appendix C: Adverse Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
1.	State Department for Social Protection, Pensions and Senior Citizens Affairs
2.	Revenue Statements – Government Investments and Public Enterprises
3.	Kisumu Urban Project (Cash Expenditure Fund)-CKE 1035.01.G – County Government of Kisumu

Appendix D: Disclaimer of Opinion

NO.	MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)/DONOR FUNDED PROJECTS
1.	Statement of Outstanding Obligations Guaranteed by the Government of Kenya – The National Treasury
2.	Kenya Social and Economic Inclusion Project No.P164654, IDA Credit No.63480 and Grant No.TFA9527 – National Drought Management Authority