



REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR – GENERAL

ON THE

FINANCIAL STATEMENTS FOR

NATIONAL GOVERNMENT

FOR THE YEAR 2013/2014

This Report has two parts, the Report's summary and the detailed Report



REPUBLIC OF KENYA

SUMMARY
OF THE REPORT
OF THE AUDITOR-GENERAL
ON THE
FINANCIAL STATEMENTS
FOR MINISTRIES, DEPARTMENTS,
COMMISSIONS, FUNDS
AND
OTHER ACCOUNTS
OF THE
NATIONAL GOVERNMENT
FOR THE YEAR 2013/2014

OFFICE OF THE AUDITOR-GENERAL

Vision

To be the lead agency in promoting good governance and accountability in the management of public resources

Mission

To provide assurance to stakeholders on the use of public resources through quality and timely audit reports

Our Core Values

Independence | Integrity | Professionalism | Innovation

Motto

Promoting Accountability in the Public Sector

Website: www.kenao.go.ke

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SUMMARY OF THE REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS FOR MINISTRIES, DEPARTMENTS, COMMISSIONS, FUNDS AND OTHER ACCOUNTS OF THE NATIONAL GOVERNMENT FOR THE YEAR 2013/2014

1. General

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

- Office of the Auditor-General is established as an Independent Office under Article 248(3) of the Constitution of the Republic of Kenya.
- The Auditor-General is appointed in accordance with Article 229 of the Constitution.
- The statutory duties and responsibilities of the Auditor-General are given in Article 229(4) (5) (6) and (7) of the Constitution and Public Audit Act (2003).

I have already issued my audit reports to the respective accounting officers for the financial statements for 2013/2014 of their respective Ministries, Agencies, Departments and Funds.

This report provides a Summary of my audit findings of the financial statements of the National Government of the Republic of Kenya for the financial year ended 30 June 2014.

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

1.2. The Audit

I carried out my audit in accordance with International Standards on Auditing. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant

estimates made by accounting officers, as well as evaluating the overall financial statements' presentation. It also includes procedures to determine whether public money has been applied lawfully and in an effective way.

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

The sections below highlight key findings noted during the audit of the financial statements for the year ended 30 June 2014.

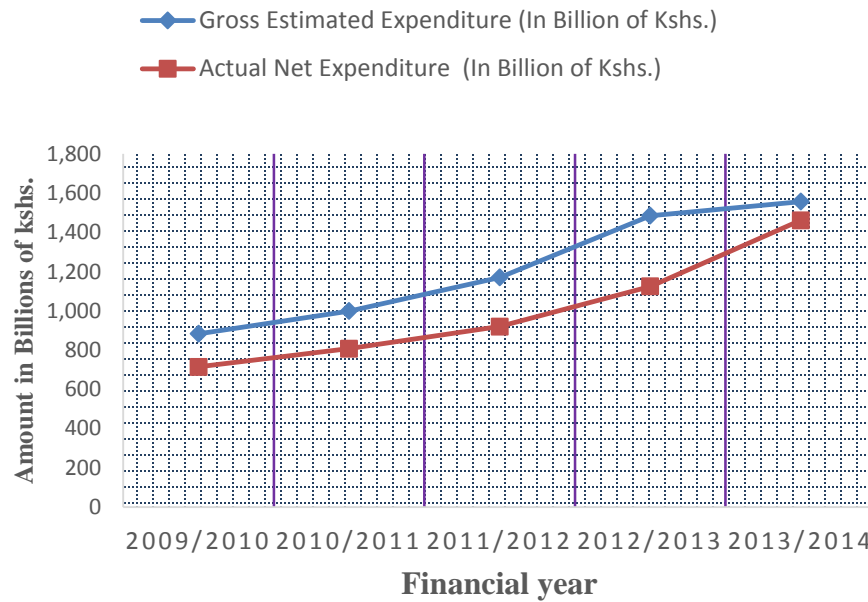
2. Summary of Budgetary Performance for 2013/2014

2.1. Budget Trend Analysis / Scope of Audit

The gross estimated Government expenditure has increased over the years from Kshs.883,774,452,377 in the year 2009/2010 to Kshs.1,557,192,721,388 in the year 2013/2014 representing an increase of approximately 76% over the five year period. Similarly the actual net Government expenditure has also increased over the years from Kshs.714,724,187,126 in the year 2009/2010 to Kshs 1,461,801,832,080 in the year 2013/2014 representing an increase of approximately 105% over the period. This implies that the scope of my audit has also more than doubled over the last five years.

	2009/2010 Kshs.	2010/2011 Kshs.	2011/2012 Kshs.	2012/2013 Kshs.	2013/2014 Kshs.
Gross Estimated Expenditure	883,774,452,377	999,277,657,525	1,170,478,418,074	1,485,438,350,899	1,557,192,721,388
Actual Net Expenditure	714,724,187,126	807,228,599,517	920,024,249,603	1,124,543,040,288	1,461,801,832,080

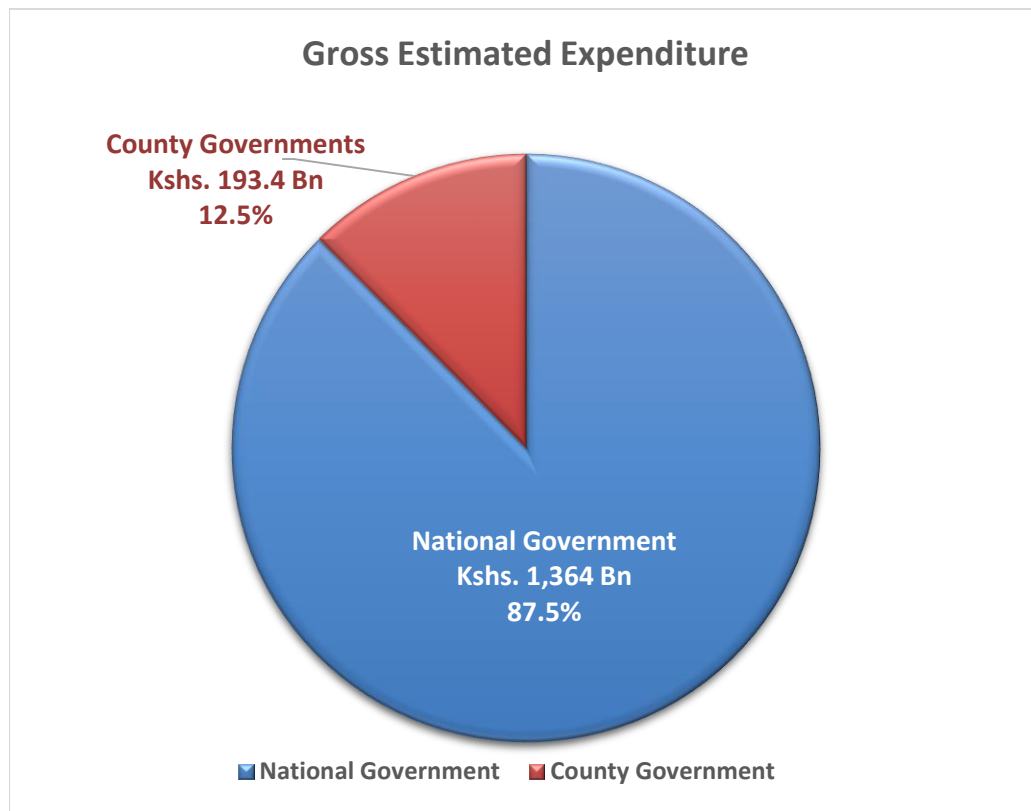
Budget Trend Analysis



2.2. 2013/2014 Budget

The 2013/2014 gross budget of Kshs.1,557,192,721,388 was shared between the National Government and the County Governments at the ratio of 87.5% and 12.5% respectively as shown below:

	Gross Estimated Expenditure Kshs	As a %age of Gross Estimated Expenditure
National Government	1,363,773,995,367	87.5%
County Governments	193,418,726,021	12.5%
Grand Total	1,557,192,721,388	100%



The County Governments allocation of Kshs.193,418,726,021 for the year 2013/2014 was however based on the audited revenue for the year 2010/2011, since the audited financial statements for 2011/2012 and 2012/2013 had not been tabled in the National Assembly. The County Governments expenditure has been accounted for and reported individually by each of the 47 County Governments and the respective audit reports issued for each County Government.

2.3. Expenditure Accounts for 2013/2014

In 2013/2014 the Approved Estimated Gross Expenditure was Kshs.1,557,192,721,388 while approved Appropriations-In-Aid (AIA) was Kshs.203,774,264,770 resulting in Net Approved Expenditure of Kshs.1,353,418,456,618 as shown below:-

	Gross Estimated Expenditure Kshs.	AIA Kshs.	Approved Net Expenditure Kshs.	As a % age of Approved Net Expenditure
Recurrent Votes	682,704,824,076	63,258,296,164	619,446,527,912	46%
Development Votes	415,636,011,795	140,515,968,606	275,120,043,189	20%
Consolidated Fund Services	265,433,159,496	00	265,433,159,496	20%
Sub-total for National Government	1,363,773,995,367	203,774,264,770	1,159,999,730,597	86%
County Governments	193,418,726,021	00	193,418,726,021	14%
Grand Total	1,557,192,721,388	203,774,264,770	1,353,418,456,618	100%

As shown above, 46% of the approved net expenditure was budgeted for meeting the National Government recurrent expenditures and 20% for development expenditures. Consolidated Fund Services including repayments of Public Debt accounted for another 20%, while County Governments accounted for 14% of the total budgeted net expenditure.

2.4 Actual Expenditure for the National Government

2.4.1 The financial statements for the year 2013/2014 for the National Government show total Actual Expenditure of Kshs.1,268,619,710,236 representing 93% of the gross estimated expenditure of Kshs.1,363,773,995,367. In addition, the actual expenditure of Kshs.1,268,619,710,236 represents an increase of Kshs.153,860,238,638 or 14% when compared with actual expenditure of Kshs.1,114,759,471,598 for 2012/2013, as shown below:

Votes	Gross Estimated Expenditure 2013/2014 Kshs	Actual Expenditure 2013/2014 Kshs	Absorption as a %age of Estimated Expenditure 2012/2013	Proportion as a % of total actual 2013/2014	Actual Expenditure 2012/2013 Kshs	% Increase / (Decrease) From 2012/2013
Recurrent and Development combined	1,098,340,835,871	1,008,699,240,052	92%	80%	802,278,837,240	26%
Consolidated Fund Services	265,433,159,496	259,920,470,184	98%	20%	312,480,634,358	(17%)
Totals	1,363,773,995,367	1,268,619,710,236	93%	100%	1,114,759,471,598	14%

2.4.2. The Actual Expenditure of Kshs.1,268,619,710,236 comprised expenditure amounting to Kshs.1,008,699,240,052 or 80% and Kshs.259,920,470,184 or 20% of the total actual expenditure under combined Recurrent and Development Votes and Consolidated Fund Services respectively.

2.4.3. The actual expenditure of Kshs.1,268,619,710,236 represents an increase of 14% when compared to the actual expenditure of Kshs.1,114,759,471,598 incurred in 2012/2013. This increase is occasioned by a combination of an increase of Kshs.206,420,402,812 or 26% of the combined Recurrent and Development Votes and a decline of Kshs.52,560,164,174 or 17% in Consolidated Fund Services.

2.4.4. There was a gross under-expenditure of Kshs.95,154,285,131 made up of under-expenditure of Kshs.89,641,595,819 for combined Recurrent and Development Votes and under-expenditure of Kshs.5,512,689,312 for Consolidated Fund Services as follows:-

	Gross Estimated Expenditure Kshs	Actual Expenditure Kshs	Under Expenditure Kshs	% Under expenditure
Recurrent and Development Votes	1,098,340,835,871	1,008,699,240,052	89,641,595,819	8%
Consolidated Fund Services	265,433,159,496	259,920,470,184	5,512,689,312	2%
Total	1,363,773,995,367	1,268,619,710,236	95,154,285,131	7%

2.4.5. The under-expenditure of Kshs.89,641,595,819 under combined Recurrent and Development Votes was mainly attributed to inadequate exchequer issues and delayed disbursement of donor funds. The under-expenditure of Kshs.5,512,689,312 under Consolidated Fund Services is explained as due to over estimation of the budgeted amount during the year. Detailed reasons for the under-expenditure are provided in the respective financial statements for 2013/2014.

2.5. Revenue Accounts

2.5.1. During 2013/2014 financial year total ordinary revenue recorded as received by the National Government amounted to Kshs.966,898,693,041 representing an increase of Kshs.153,676,026,831 or about 19% when compared to actual collections of Kshs.813,222,666,210 realized in 2012/2013.

2.5.2. Total ordinary revenue of Kshs.966,898,693,041 when compared to total budgeted receipts of Kshs.1,024,768,197,814 resulted in an under-collection of revenue of Kshs.57,869,504,773 or 6%. The total ordinary revenue of Kshs.966,898,693,041 comprised of Kshs.932,034,925,773 and Kshs.34,863,767,268 relating to Recurrent and Development revenues respectively. However, actual Recurrent Revenue collected during the year reflected a shortfall of Kshs.27,819,178,651 or 3% while there was a shortfall of Development Revenue collected of Kshs.30,050,326,122 or 46% as follows:-

Details	Estimated Receipts Kshs	Actual Receipts Kshs	Excess/ (Shortfall) Kshs	Shortfall Percentage %	Actual Receipts 2012/13 Kshs
Recurrent Revenue	959,854,104,424	932,034,925,773	(27,819,178,651)	3%	784,497,879,683
Development Revenue	64,914,093,390	34,863,767,268	(30,050,326,122)	46%	28,724,786,527
Total	1,024,768,197,814	966,898,693,041	(57,869,504,773)	6%	813,222,666,210

2.5.3. The reasons provided for the 46% under-collection of Development Revenue include non-release of funds by development partners and low absorption of funds by projects and programmes.

2.6. The Exchequer Account as at 30 June 2014

2.6.1 The Statement of Receipts into and Issues from the Exchequer Account for 2013/2014 reflects an overall net surplus of Kshs.162,086,139 as at 30 June 2014 compared to a net surplus of Kshs.496,366,817 as at 30 June 2013. The total issues from the Consolidated Fund for both Recurrent and Development Services during the year 2013/2014 amounted to Kshs.1,278,239,603,677 against total receipts of Kshs.1,277,905,322,999 resulting in a deficit of Kshs.334,280,678 as at 30 June 2014. However, when added to the Exchequer balance of Kshs.496,366,817 brought forward from 2012/2013, the result is an overall net surplus of Kshs.162,086,139 as at 30 June 2014 as shown below:

	2013/2014	2012/2013
	<u>Kshs.</u>	<u>Kshs.</u>
Total Receipts	1,277,905,322,999	1,144,213,138,124
Total Issues	<u>1,278,239,603,677</u>	<u>1,144,876,202,395</u>
Surplus/(Deficit) for the year	(334,280,678)	(663,064,271)
Exchequer balance brought forward	<u>496,366,817</u>	<u>1,159,431,088</u>
Exchequer Account Balance as 30 June 2014	<u>162,086,139</u>	<u>496,366,817</u>

2.6.2 Receipts into the Exchequer Account during the year of Kshs.1,277,905,322,999 comprised of Ordinary Revenue and Other receipts in form of Treasury Bills and Bonds, Commercial Loan and Recoveries as follows:-

Sources of Revenue

(i) Ordinary Revenue

(a) Recurrent Revenue	Amount in Kshs.	Total in Kshs.
• Tax Receipts	889,293,317,130	
• Non-Tax Receipts (Profits and Dividends, Immigration Visas, Fines, Penalties & Forfeitures, Miscellaneous Revenue, etc.)	<u>51,656,454,649</u>	<u>940,949,771,779</u>

(b) Development Revenue		
• External Grants	6,431,462,729	
• External Loans	<u>28,432,304,539</u>	<u>34,863,767,268</u>
Total Ordinary Revenue		975,813,539,047
(ii) Domestic Borrowings		
• Treasury Bills	60,300,000,000	
• Treasury Bonds	<u>207,060,000,000</u>	<u>267,360,000,000</u>
(iii) Commercial Loan (Euro bond)		34,648,388,180
(iv) Recoveries from MDAs		
• Recurrent Over-issues	66,395,772	
• Development Over-Issues	<u>17,000,000</u>	<u>83,395,772</u>
Total Receipts		<u>1,277,905,322,999</u>

2.6.3 Issues from the Exchequer Account during the year of Kshs.1,278,239,603,677 comprised of Recurrent, Development, Consolidated Fund Services and County Governments issues follows:-

	Approved Net Expenditure Kshs	Actual Issues Kshs	Variance Kshs	% Variance
Recurrent Votes	619,446,527,912	601,745,585,438	17,700,942,474	3%
Development Votes	275,120,043,189	224,355,607,699	50,764,435,490	18%
Consolidated Fund Services	265,433,159,496	258,792,271,715	6,640,887,781	3%
Sub-total for National Government	1,159,999,730,597	1,084,893,464,852	75,106,265,745	6%
County Governments	193,418,726,021	193,346,138,825	72,587,196	0%
Grand Total	1,353,418,456,618	1,278,239,603,677	75,178,852,941	6%

The underfunding of development budget by 18% was attributed to constraints in revenue collection and delayed disbursement of donor funds.

2.6.4. Revenue not remitted to the Exchequer

The Revenue Statements reflects an amount of Kshs.966,898,693,041 as having been collected during the financial year 2013/2014. The brought forward balance from 2012/2013 amounted to Kshs.8,104,981,276 bringing the total revenue available in 2013/2014 to Kshs.975,003,674,317. The Revenue statements, however, reflects an amount of Kshs.972,246,261,096 as having been paid to the Exchequer during the year leaving a substantial balance of Kshs.2,757,413,221 not remitted to the Exchequer as at 30 June 2014 as follows:-

Vote	Revenue Balance B/fwd Kshs.	Revenue Collection 2013/2014 Kshs.	Total Revenue Available Kshs.	Amount Paid to Exchequer Kshs.	Balance C/fwd Kshs.
Recurrent	8,104,887,172	932,034,925,773	940,139,812,945	937,382,493,829	2,757,319,117
Development	94,104	34,863,767,268	34,863,861,372	34,863,767,268	94,104
Total	<u>8,104,981,276</u>	<u>966,898,693,041</u>	<u>975,003,674,317</u>	<u>972,246,261,096</u>	<u>2,757,413,221</u>

2.6.5. Unexplained variation between revenues statements and Exchequer account balances

The total actual revenue reflected on the individual revenue statements as having been paid to the Exchequer Account of Kshs.972,246,261,096 during the year, however differs from the combined recurrent and development revenue reflected as received in the Exchequer Account of Kshs.975,813,539,047 by Kshs.3,567,277,951. As reported under the respective revenue statements, the discrepancies are mainly due to unexplained and un-reconciled differences between revenue statements balances and the exchequer records maintained at the National Treasury.

From the above differences it is apparent that there are still persistent and disturbing problems in collection and accounting for revenue which have therefore, resulted in most of the statements of revenue for 2013/2014 having qualified audit opinions.

2.6.6. Failure to transfer proceeds from the Sovereign Bond to the National Exchequer Account

Available information indicates that net proceeds from the Sovereign Bond of USD 1,999,052,872.97 out of the total amount of USD 2,000,000,000.00 were received on 24 June 2014 and deposited into an offshore account, contrary to Article 206 of the Constitution of Kenya and Section 17(2) of Public Finance and Management Act, 2012 which requires that all money raised or received by or on behalf of the National Government be paid into the Consolidated Fund. There is the risk of proceeds being appropriated without the authority of the Controller of Budget and also being applied for other purposes other than those the Sovereign Bond was floated.

Out of the balance in the offshore account of USD 1,999,052,872.97 as at 2 July 2014 an amount of USD 395,439,262.50 (Kshs.34,648,388,180.25) was on 3 July 2014 transferred to the Exchequer to fund infrastructure projects and was accounted for in 2013/2014 financial year. On the same date of 3 July 2014 another amount of USD 604,560,737.50 (Kshs.53,201,344,900.00) was withdrawn from the offshore account to fund the repayment of the syndicate loan but was recorded in 2014/2015 financial year books. Authority of the Controller of Budget to incur the expenditure was however not obtained.

The Statement of Receipts into and Issues from the Exchequer Account for 2013/2014 therefore reflects only actual receipts from commercial loan of Kshs.34,648,388,180.25 out of the net proceeds from the Sovereign Bond as a result of failure to pay the full amount of the net proceeds from the Sovereign Bond of USD 1,999,052,872.97 (Kshs.173,917,599,948.39) into the Consolidated Fund during the year.

I have however, not qualified my audit opinion on the Exchequer Account for the year ended 30 June 2014 on the basis of this matter due to the fact that the balance of actual net proceeds from the Sovereign Bond is correctly reflected in the Off-Shore Account and in the Central Bank of Kenya Special Account.

3. Summary of the Audit Results

3.1 Accounting Framework

The Financial Statements for National Government were prepared using the International Public Sector Accounting Standards (IPSAS) framework as prescribed by the Public Sector Accounting Standards Board of Kenya in compliance with Section 83 of the Public Finance Management Act 2012.

3.2. Overall Audit Results

3.2.1. The audit of the financial statements for the year ended 30 June 2014, indicates that out of the audited one hundred and one (101) financial statements, only twenty six (26) financial statements or 26% had a clean (unqualified) audit opinion, fifty (50) or 50% had qualified audit opinion, sixteen (16) financial statements or 16% had an adverse opinion while nine (9) or 9% had a disclaimer of opinion on as detailed below:

Audit Opinions	Financial Year			
	2013/2014		2012/2013	
	No. of Statements	Percentage	No. of Statements	Percentage
Unqualified	26	26%	41	12%
Qualified	50	50%	172	50%
Adverse	16	16%	45	13%
Disclaimer	9	9%	85	25%
Total	101	100%	343	100%

3.2.2. I have expressed the above types of audit opinions based on the following circumstances:-

a) Unqualified Opinion

An unqualified opinion is expressed when I have concluded that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012 and public funds

have been applied lawfully and in an effective manner. The financial statements with unqualified opinion are listed in Appendix A.

b) Qualified Opinion

I have given qualified opinion when the misstatement or limitation on my audit is not as material and pervasive as to require an adverse opinion or a disclaimer of opinion. I have thus expressed an 'except for' opinion based on the effects of the matter(s) to which the qualification relates. The financial statements with qualified opinion are listed in Appendix B.

c) Adverse Opinion

I have expressed adverse opinion when audit matters on the financial statements are so material and pervasive that I have concluded the financial statements are misleading or incomplete. The financial statements with adverse opinion are listed in Appendix C.

d) Disclaimer of Opinion

I was not able to express an opinion where the possible effects of limitations on my audit were so material and pervasive that I was unable to obtain sufficient appropriate audit evidence and accordingly unable to express any meaningful audit opinion on the financial statements. I was not able to establish whether expenditure reflected in the nine (9) financial statements with disclaimer of opinions were incurred lawfully and in an effective way as required by Article 229(6) of the Constitution as detailed in Appendix D.

3.2.3. With the new accounting framework the percentage of unqualified statements improved from 12 % in 2012/2013 to 26 % in 2013/2014. There was no change in the percentage of statements with qualified opinion in the two years which remained at 50%. The percentage of financial statements with disclaimer of opinion improved from 25 % in 2012/2013 to 9 % in 2013/2014. The proportion of financial statements with Adverse Opinion, however increased from 13% in 2012/2013 to 16% in 2013/2014.

3.3 Audit of Revenue Statements

3.3.1. The revenue statements for 2013/2014 indicate total revenue collection of Kshs.966,898,693,041 against estimated total receipts of Kshs.1,024,768,197,814 resulting in an under-collection of revenue of Kshs.57,869,504,773 or 6%. However, I have expressed qualified opinions on some four (4) revenue statements and an adverse opinion on one (1) revenue statement as follows:-

Audit Opinions on Revenue Statements			
Audit Opinion	No of Revenue Statements	Amount Kshs.	Percentage
Unqualified	4	36,962,979,048	3.8%
Qualified	4	929,047,300,549	96.1%
Adverse	1	888,413,444	0.1%
Total	9	966,898,693,041	100%

3.3.2. The above statistics show that out of total revenue recorded during the 2013/2014 financial year of Kshs.966,898,693,041, only revenue amounting to Kshs.36,962,979,048 or 3.8% was collected and fairly recorded and therefore had an unqualified opinion. Revenue amounting to Kshs.929,047,300,549 or 96.1% though also fairly recorded had issues resulting to a qualified opinion while revenue amounting to Kshs.888,413,444 or 0.1% had no proper records and could not therefore be confirmed as accurately reported.

3.3.3. Summary of audit opinions on revenue statements

(i) Unqualified opinion

Collecting Ministry	Amount (Kshs)
National Treasury –Development Revenue	34,863,767,268
Registrar of High Court	2,068,087,822
EAC, Commerce and Tourism	24,439,503
Information, Communication & Technology	<u>6,684,455</u>
Total	<u>36,962,979,048</u>

(ii) Qualified Opinion

National Treasury – Recurrent Revenue	918,309,994,674
Agriculture, Livestock & Fisheries	188,924,424
Interior & National Coordination	10,265,358,890
State Law Office	<u>283,022,563</u>
Total	<u>929,047,300,549</u>

(iii) Adverse Opinion

Land, Housing & Urban Development	888,413,444
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3.3.4. The main reasons for qualified and adverse opinions on the revenue statements include the following:-

- Balances reflected as remitted to the Exchequer in the revenue statements differed with balances recorded at the Exchequer Section of the National Treasury.
- Failure to collect arrears of revenue due and uncollected as at 30 June 2014.
- Failure to prepare revenue statement in accordance with International Public Sector Accounting Standards.
- Failure to surrender revenue balances as at 30 June 2014 to the Exchequer.

3.4. Audit of Expenditure Statements

3.4.1. The Actual Expenditure for the financial statements for the National Government voted provisions (excluding the Consolidated Fund Services) for the year 2013/2014 was Kshs.1,008,699,240,052 compared to Kshs.802,279,107,240 reported in 2012/2013. The expenditure of Kshs.1,008,699,240,052 was recorded in the combined Recurrent and Development Financial Statements which I expressed unqualified, qualified and adverse opinions as follows:-

Summary of Audit Opinions on Combined Recurrent and Development Expenditure

Opinion	No. of Financial Statements	Combined Recurrent and Development Expenditure 2013/2014 (Kshs.)	Percentage
Unqualified	12	12,581,506,707	1.2%
Qualified	23	602,897,473,907	60.0%
Adverse	6	390,266,678,539	38.5%
Other	1	2,953,580,898	0.3%
Total	42	1,008,699,240,052	100%

3.4.2. The table show that out of the total expenditure of Kshs.1,008,699,240,052 expenditure totalling only Kshs.12,581,506,707 or 1.2% was incurred lawfully and in an effective way as detailed in Appendix A. Expenditures amounting to Kshs.602,897,493,907 or 60% had issues hence qualified opinion. I was unable to confirm whether expenditure totalling Kshs.390,266,678,529 was incurred effectively and lawfully as required by Article 229(6) of the Constitution of Kenya as detailed in Appendix C. The other one statement with expenditure of Kshs.2,953,580,898 related to expenditures incurred by my office; Office of the Auditor-General which is audited separately and reported to Parliament by an Independent Auditor.

3.4.3. Main Reasons for Audit Qualifications

The main issues forming the basis of qualifications of the audit opinion on the financial statements are listed below under each type of qualification:-

(i) *Statements with Qualified Opinion*

- Unsupported expenditures
 - Non surrender of imprests
 - Unauthorized expenditures
 - Long outstanding reconciling items in bank reconciliation statements
 - Excess expenditure
 - Misallocation of expenditure items
 - Lack of adequate disclosures
- (See specific details in the Appendix)**

(ii) *Statements with Adverse Opinion*

- Discrepancies between the financial statements and the respective ledgers and the trial balance
 - Differences between 2012/2013 closing audited balances and opening balances for 2013/2014
 - Unsupported balances in the financial statements
 - Failure to prepare financial statements in accordance to International Public Sector Accounting Standards and Treasury instructions
- (See specific details in the Appendix)**

Whereas the reasons cited above generally influenced my opinion on the financial statements, I would like to **detail out** the following issues that were prevalent in the accounts:-

- Unsupported Expenditure
- Excess Expenditure
- Pending Bills
- Management of Imprests
- Maintenance of Bank and Cash Accounts
- Maintenance of Accounting Records

3.5. Unsupported Expenditure

During 2013/2014, a number of Ministries, Departments, Commissions and Funds failed to avail documents in support of various expenditure totalling Kshs.66,782,697,987 appearing in the respective financial statements, as summarized below:-

	Ministry/ Department/ Commission/ Fund	Amount (Kshs)
1	Commission for the Implementation of the Constitution	9,200,000
2	Ministry of Agriculture, Livestock and Fisheries	1,289,737,385
3	Ministry of Defence	74,237,939
4	Witness Protection Agency	79,358,109
5	Ministry of Education, Science and Technology	12,826,647,906
6	Ministry of Energy and Petroleum	2,408,723,869
7	Ministry of Environment, Water and Natural Resources	15,900,000
8	Ministry of Foreign Affairs	1,456,170,114
9	Ministry of Health	22,500,344,808
10	Ministry of Industrialization and Enterprise Development	300,000,000
11	Ministry of Transport and Infrastructure	22,050,510,900
12	National Police Service Commission	59,846,608
13	Office of the Attorney General and Department of Justice	2,705,850,667
14	Teachers Service Commission	128,392,939
15	The Judiciary	463,366,769
16	Government Press Fund	271,742,000
17	National Humanitarian Fund	142,667,974
	Total	<u>66,782,697,987</u>

In absence of the records and documentation, the propriety of the expenditure of Kshs.66,782,697,987 could not be ascertained and therefore these public funds may not have been utilized lawfully and in an effective manner.

3.6. Excess Expenditure

3.6.1. Excess Expenditure incurred during 2013/2014 without Parliamentary approval totalled Kshs.24,566,651,642 compared to Kshs 38,495,253 recorded in the previous year. The Excess Expenditure of Kshs.24,566,651,642 was incurred under eight (8) Ministries/Departments/Agencies/Funds as tabulated below:-

	Ministry/ Commission/ Fund	Amount (Kshs)
1	Agricultural Information Resource Centre Revolving Fund	125,577,505
2	Ministry of Energy and Petroleum	8,336,039
3	Ministry of Health	24,039,402,459
4	Ministry of Transport and Infrastructure	77,153,720
5	National Police Service Commission	1,178,052
6	National Youth Service -Mechanical and Transport Fund	138,127,240
7	Parliamentary Service Commission	171,420,273
8	Prisons Industries Fund	5,456,354
	Total	<u>24,566,651,642</u>

3.6.2. The Excess Expenditure of Kshs.24,566,651,642 has not taken into account pending bills amounting to Kshs.16,638,164,142 which, though relating to 2013/2014 were not settled during the year, but were instead carried forward to 2014/2015, as discussed in the ensuing paragraph.

3.7. Pending Bills

3.7.1. During the year ended 30 June 2014, a number of Ministries and Departments did not settle bills amounting to Kshs.16,638,164,142 comprising Kshs.9,748,225,456 and Kshs.2,685,969,026 under Recurrent and Development Votes respectively and a further Kshs.4,203,969,660 not classified, but were instead carried forward to 2014/2015 financial year as analyzed below:-

Vote	Ministry/ Department/ Commission	Recurrent (Kshs.)	Development (Kshs.)	Others not Classified (Kshs.)	Total Kshs.
103	Devolution & Planning	1,113,380,200			1,113,380,200
106	Education, Science and Technology	7,891,546,180			7891546180
108	Health			2,165,368,641	2165368641
110	Environment, Water and Natural Resources		471,807,164		471807164
111	Land, Housing & Urban Development	392,596,163			392,596,163
113	Sports, Culture and the Arts		143,967,837		143,967,837
116	Agriculture, Livestock and Fisheries	35,857,756	2,070,194,025	575,632,208	2,681,683,989
120	Office of the Attorney General and Department of Justice	17,060,902		2,501,851	19,562,753
121	The Judiciary	297,784,255			297,784,255
203	Independent Electoral and Boundaries Commission			1,460,466,960	1,460,466,960
	Total	9,748,225,456	2,685,969,026	4,203,969,660	16,638,164,142

Most of the pending bills related to the recurrent vote.

3.7.2. Had the bills totalling Kshs.16,638,164,142 been settled during the period and the expenditure charged to the accounts for 2013/2014, six (6) additional Ministries and Departments would have recorded Excess Expenditure against Recurrent and/or Development Votes, as follows:-

Excess Expenditure had the pending bills been paid				
Vote	Ministry/Department	Net Surplus/(Deficit) Kshs	Pending Bills Kshs	Excess Expenditure Kshs
103	Devolution and Planning	108,098,222	1,113,380,200	1,005,281,978
106	Education Science and Technology	1,082,915,442	7,891,546,180	6,808,630,738
108	Health	505,693,962	2,165,368,641	1,659,674,679
116	Agriculture, Livestock and Fisheries	649,082,582	2,681,683,989	2,032,601,407
121	The Judiciary	269,286,893	297,784,255	28,497,362
203	IEBC	(1,731,045,000)	1,460,466,960	3,191,511,960

3.8. Management of Imprests

3.8.1 Review of management of imprest for the National Government revealed imprest balances amounting to Kshs.351,043,211 which ought to have been recovered or accounted for on or before 30 June 2014 but were still outstanding as at that date as tabulated below:-

Vote	Ministry/Department/Commission	Amount in Kshs.
102	National Cohesion and Integration Commission	11,874,702
103	Devolution & Planning	11,978,581
104	Defence	5,959,850
105	Foreign Affairs	23,923,000
106	Education, Science and Technology	13,481,950
108	Health	2,851,348
109	Transport and Infrastructure	2,666,886
110	Environment, Water and Natural Resources	38,982,191
112	Information, Communication and Technology	69,938,612
113	Sports, Culture and the Arts	135,310,107
114	Labour, Social Security and Services	7,565,924
115	Energy and Petroleum	14,682,001
116	Agriculture, Livestock and Fisheries	5,050,728
121	The Judiciary	5,677,844
123	National Intelligence Service	1,005,695
201	Kenya National Commission on Human Rights	93,792
	Total	351,043,211

3.8.2. The total outstanding imprest of Kshs.351,043,211 for the current year significantly reduced by Kshs.282,135,447 or approximately 45% from Kshs.633,178,658 reported as outstanding as at 30 June 2013.

3.8.3. Ministry of Youth Affairs and Sports had the highest amount of outstanding imprests of Kshs.135,310,107.

3.8.4. The audit of imprests, as reported in previous years' reports revealed weaknesses in the management and accounting for imprests as summarized below:-

- Imprest balances reflected in the statements of assets could not agree with the respective imprest registers or the ledgers and there were no reconciliations made.
- Lack of supporting documentation and evidence of material imprest balances relating to previous years but purported to have been cleared during the year 2013/2014.
- Long outstanding imprests not cleared, some of which is held by deceased officers, those who have left service or retirees.
- Lack of analysis making it impossible to determine the holders of these balances

3.9. Maintenance of Bank and Cash Accounts

3.9.1. Maintenance of Cashbooks across the ministries during 2013/2014 was noted to be weak. As reported in the previous years, the Bank Reconciliation Statements for Recurrent, Development, Deposits and Fund Cashbooks as at 30 June 2014 for several ministries and departments continued to reflect material receipts and payments in the Cashbooks not reflected in the Bank Statements and also receipts and payments in the Bank Statements not reflected in the Cashbooks. Several entries in the Bank Statements were not analyzed while others have been outstanding for a very long period of time. Most of the ministries' Cashbooks' balances as at 30 June 2014 have not been reconciled with Paymaster General Account (PMG) in the ledger.

3.9.2. As a result the accuracy and validity as at 30 June 2014 of most of the Bank and Cash account balances could not be ascertained. Detailed observations on the statements are covered under the respective Ministries/Departments/Commissions' reports.

3.10. Statements of Assets

The Statements of Assets as at 30 June 2014, for a number of Ministries and Departments continued to reflect significant balances under various Accounts, which had not been analyzed and/or cleared from the books of account as at 30 June 2014.

As in the previous year, I have not been able to establish what many of these balances represent or whether such balances are represented by actual cash. It is not clear why these balances have not been analyzed and/or cleared.

3.11. Maintenance of Accounting Records

3.11.1. As in the previous years, and as indicated above, there is weak and inadequate maintenance of accounting records observed across a number of Ministries and departments during the year. A number of financial statements differed materially with the Ledgers and Trial Balances from where ideally they ought to have been derived.

3.11.2. In addition, the ministries and departments continued to prepare their respective financial statements on Cash Basis of accounting as instructed by National Treasury. This implies that capital assets are expensed as a result of which Statements of Assets as at the end of each financial year do not show a complete and true and fair view of the ministry's or department's assets. As at 30 June 2014 we do not, as such, know what each ministry/department owns and consequently the net worth of the Government of Kenya as a whole cannot be determined.

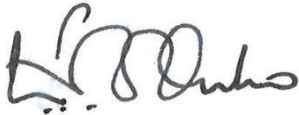
It is my hope that the Government fully implements the newly introduced International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board.

4.0 Conclusion

Detailed report for the National Government Accounts for the year ended 30 June 2014 together with the respective financial statements is contained in the combined report. Specific reports together with my opinions for each financial statement are contained in each respective ministry's audited financial statements for the year ended 30 June 2014 already issued to each Accounting Officer. I appeal to each Accounting Officer to address all the issues pertaining to their respective ministry/department as detailed in my combined report for 2013/2014.

My report has also been posted on the Office of the Auditor General's Website:

www.kenao.go.ke



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

Audit Opinions on the Financial Statements

1. Unqualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements listed in Appendix A, present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

2. Qualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

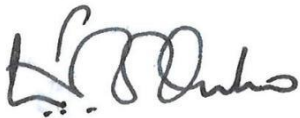
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Details of the basis for qualified opinion are given in Appendix B that accompanies detailed audit Report. These include various unexplained discrepancies and omission of expenditure from the Accounts.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements listed in Appendix B, present fairly in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

3. *Adverse Certificate*

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014, which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

Details of the basis for adverse opinion are as summarized in Appendix. These include various material misstatements, unexplained discrepancies and omission of expenditure from the Accounts.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements listed in Appendix C, do not present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

4. Disclaimer Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed in Appendix D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.


Because of the matters described in the detailed Report for the financial statements contained in Appendix D, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Details of the Basis for Disclaimer of Opinion are as per the accompanying detailed audit Report. These include various unexplained discrepancies, omission of expenditure from the Accounts, lack of documentation to support some of the figures shown in the financial statements listed in Appendix D and failure by the Accounting Officers to provide information and explanation considered necessary for the purpose of the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements contained in Appendix D.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

APPENDIX A

The following is a list of financial statements for which I expressed an unqualified opinion as I was provided with sufficient and accurate information and explanations.

Issues and Receipts into Consolidated Fund Services

Vote

107 Exchequer Account

Ministries/Departments/ Agencies

Vote	Financial Statement
101	The Presidency
119	Ministry of Mining
122	Ethics and Anti-Corruption Commission
126	Registrar of Political Parties
202	National Land Commission
206	Commission on Revenue Allocation
207	Public Service Commission
208	Salaries and Remuneration Commission
212	Controller of Budget
213	The Commission On Administrative Justice
214	National Gender and Equality Commission
215	Independent Policing Oversight Authority

Funds

Vote

- 107 Asiatic Windows and Orphans Pension Fund
- 109 Kenya Roads Boards Fund
- 115 Petroleum Development Levy Fund – Ministry of Energy and Petroleum
- 116 Veterinary Services Development Fund
- 123 Intelligence Service Development Fund
- 126 Political Parties Fund
- 204 Parliamentary Car Loan Scheme Fund
- 204 Parliamentary Mortgage Loan Scheme Fund

Revenue Statements

Vote

- 107 Development Revenue – National Treasury
- 112 Ministry of Information, Communication and Technology- Revenue Statement
- 118 Ministry of East African Affairs, Commerce and Tourism- Revenue Financial Statement
- 121 Judiciary- Revenue Statement

Other Statements

Vote

- 102 Kenya Citizens and Foreign Nationals Service

APPENDIX B

The following is a list of financial statements for which I expressed qualified opinion. I was provided with sufficient and appropriate information and explanations and out of the audit I raised issues which were material but not fundamental.

Consolidated Fund Services

Vote

107 CFS Pensions and gratuities

Ministries/ Departments/ Agencies/Commissions

Vote Account

103 Ministry of Devolution & Planning
104 Ministry of Defence
105 Ministry of Foreign Affairs
107 The National Treasury
110 Ministry of Environment, Water and Natural Resources
112 Ministry of Information, Communication and Technology
113 Ministry of Sports, Culture and the Arts
114 Ministry of Labour, Social Security and Services
115 Ministry of Energy and Petroleum
116 Ministry of Agriculture, Livestock and Fisheries
117 Ministry of Industrialization and Enterprise Development
118 Ministry of East African Affairs, Commerce and Tourism
121 The Judiciary
123 National Intelligence Service
124 Directorate of Public Prosecutions

125	Commission for the Implementation of the Constitution
127	Witness Protection Agency
201	Kenya National Commission on Human Rights
203	Independent Electoral and Boundaries Commission
204	Parliamentary Service Commission
205	Judicial Service Commission
209	Teachers Service Commission
210	National Police Service Commission

Other Commissions/Agencies

Vote Financial Statement

102	National Cohesion and Integration Commission
120	Public Trustee

Revenue Statements

Vote

107	Recurrent Revenue – National Treasury
102	Ministry of Interior and Coordination of National Government –Revenue Statement
116	Ministry of Agriculture, Livestock and Fisheries -Revenue Financial Statement
120	Office of the Attorney General and Department of Justice- Revenue Financial Statement

Other Statements

Vote

107	Statement of outstanding Loans
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107 Statement of Outstanding Obligations guaranteed by GOK

Funds

Vote

102 Government Press Fund
103 National Humanitarian Fund
103 National Youth Service -Mechanical and Transport Fund
102 Prison Farms Revolving Fund
102 Prisons Industries Fund
103 Women Enterprise Fund
107 Government Clearing Agency Fund
107 Civil Contingencies Fund
107 Asian Officers Family Pensions Fund
107 European Widows and Orphans Pension Scheme Fund
103 Mechanical and Transport Fund – National Youth Service
109 Mechanical and Transport Fund – Ministry of Transport and Infrastructure
109 Railway Development Levy Fund
111 Civil Servant Housing Fund
115 Kenya Energy Sector Environment & Social Responsibility Programme Fund
115 Petroleum Training Fund
116 Agricultural Information Resource Centre
116 Demonstration Farms Fund

Exceptions which led to expression of Qualified Audit Opinions

(a) Expenditure Exceptions

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
102	Government Press Fund	271,742,000	Breakdown or analysis for the expenditure was not provided for audit review.
102	Ministry of Interior and Coordination of National Government	60,962,052	Accuracy of statement of receipts and payments: Difference between actual expenditure as per the receipts and payment and the trial balance.
103	National Humanitarian Fund	142,667,974	Unsupported/ Unaccounted for AIEs
104	Ministry of Defence	40,889,000	Inaccuracy of account balance: Expenditure was incurred under national space Secretariat which was not yet operational
104	Ministry of Defence	74,237,939	No surrender vouchers to support this expenditure relating to international studies
105	Ministry of Foreign Affairs	180,735,105	Unauthorized: Expenditure not authorized by principal secretary
105	Ministry of Foreign Affairs	5,110,465	Unapproved allocations: Parliamentary approval not given.
105	Ministry of Foreign Affairs	23,766,672	Procurement procedures not followed
105	Ministry of Foreign Affairs	559,695,378	Stalled construction- Islamabad
105	Ministry of Foreign Affairs	185,845,570	Authority for expenditure not seen
105	Ministry of Foreign Affairs	23,787,037	Supporting imprest warrants and register not availed
105	Ministry of Foreign Affairs	1,430,733,890	Supporting documents for Tokyo embassy not availed
105	Ministry of Foreign Affairs	1,649,187	Supporting documents for Beijing embassy not availed

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
109	Mechanical and Transport Fund	3,813,000	The amount was spent by the ministry for a retreat on the promise that they would refund but no refund was done
109	Mechanical and Transport Fund	22,589,200	Purportedly paid for delivered goods but stolen before inspection by the inspection and acceptance committee
110	Ministry of Environment, Water and Natural Resources	15,900,000	Unaccounted for AIC disbursement
112	Ministry of Information, Communication and Technology	84,702,053	Double payment: This was a double payment for goods and services as the office of the president, cabinet office had already paid the supplier
112	Ministry of Information, Communication and Technology	279,872	Omitted Expenditure : Paid as salary, advances but not included in the accounts
114	Ministry of Labour, Social Security and Services	22,098,446	Unsupported Grants transfers
114	Ministry of Labour, Social Security and Services	21,148,852	Inaccurate opening Balance
115	Kenya Energy Environment & Social Responsibility Programme Fund	5,100,000	No supporting documents were made available.
115	Ministry of Energy and Petroleum	8,336,039	This expenditure was over and above the approved development budget
115	Ministry of Energy and Petroleum	2,403,623,869	No documents were availed to support this expenditure
116	Demonstration Farms Fund	131,972,339	Unsupported Acquisition of assets not supported
116	Ministry of Agriculture, Livestock and Fisheries	448,533,457	Unvouched expenditure
116	Ministry of Agriculture, Livestock and Fisheries	48,799,006	Excluded expenditure under transfers to other Government entities and other grants and payments

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
116	Ministry of Agriculture, Livestock and Fisheries	516,149,721	Disbursements to ASCU not accounted for and not supported
116	Ministry of Agriculture, Livestock and Fisheries	8,752,912	Unsupported pending bills
116	Ministry of Agriculture, Livestock and Fisheries	3,278,152	Unsupported expenditure on foreign travel
117	Ministry of Industrialization and Enterprise Development	300,000,000	Loan to micro finance institution not fully accounted for
120	Office of the Attorney General and Department of Justice	87,804,497	No supporting documents
120	Office of the Attorney General and Department of Justice	126,904,309	Unexplained and unaccounted for differences
120	Office of the Attorney General and Department of Justice	5,500,394	Supporting documents not availed for audit review
120	Office of the Attorney General and Department of Justice	133,423,182	Supporting documents not availed for audit review
121	Judiciary	84,267,245	Unsupported payments from deposits account
121	Judiciary	377,382,724	Unsupported expenditure: Domestic travel and subsistence
121	Judiciary	1,716,800	Rents paid without supporting documents
125	Commission for the Implementation of the Constitution	9,200,000	Fraudulent Procurement of goods and services. This matter is under investigations by relevant government bodies.
204	Parliamentary Service Commission	171,420,273	Unapproved variation in construction contract
205	Judicial Service Commission	2,224,524	Irregular payments of allowances.
209	Teachers Service Commission	128,392,939	Unrecovered PAYE amount from KRA which has long been outstanding

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
210	National Police Service Commission	31,117,504	Commission paid the amount without occupying the office space for 16 months
210	National Police Service Commission	139,958,799	The contractor abandoned the site when about 34 % of the work has been done
210	National Police Service Commission	59,846,608	The lease agreement between the landlord and the commission has not been signed
(b) Bank Reconciliations			
103	Ministry of Devolution & Planning	12,629,408,223	Various amounts in bank reconciliation not explained
103	National Youth Service - Mechanical and Transport Fund	157,012,913	Various amounts in bank reconciliation not explained
103	National Youth Service - Mechanical and Transport Fund	93,055,006	Unexplained difference in bank reconciliation
105	Ministry of Foreign Affairs	56,807,853	Uncleared long outstanding items
105	Ministry of Foreign Affairs	748,060,752	Uncleared long outstanding items
105	Ministry of Foreign Affairs	47,378,063	Unceared long outstanding items
105	Ministry of Foreign Affairs	645,773,082	Uncleared long outstanding items
105	Ministry of Foreign Affairs	17,184,649	Unauthorized bank overdraft
110	Ministry of Environment, Water and Natural Resources	266,192,394	Unexplained bank balance following merger of Ministries
110	Ministry of Environment, Water and Natural Resources	1,301,075,820	Outstanding reconciliation amounts not cleared or explained

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
115	Kenya Energy Environment & Social Responsibility Programme Fund	50,000,000	Unexplained difference between bank balance and cashbook balance.
115	Ministry of Energy and Petroleum	10,357,527,379	The current account amount relating to 2012/2013 and prior years not supported with documents
115	Ministry of Energy and Petroleum	1,328,047,730	Amount included in the closing balance for previous accounting year but excluded in the in the cash book opening balance for the current year.
116	Agricultural Information Resource Centre Revolving Fund	43,230,529	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Agricultural Information Resource Centre Revolving Fund	1,930,475	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Agricultural Information Resource Centre Revolving Fund	420,937	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Demonstration Farms Fund	43,230,529	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Demonstration Farms Fund	1,930,475	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Demonstration Farms Fund	420,937	Unreconciled balances resulting in the accuracy of the cash and cash equivalents balances not being verifiable.
116	Ministry of Agriculture, Livestock and Fisheries	306,511,705	Long outstanding uncleared items in the bank reconciliation statements
116	Ministry of Agriculture, Livestock and Fisheries	3,711,150	Long outstanding uncleared items in the bank reconciliation statements
116	Ministry of Agriculture, Livestock and Fisheries	36,304,053	Long outstanding uncleared items in the bank reconciliation statements
116	Ministry of Agriculture, Livestock and Fisheries	2,045,900	Long outstanding uncleared items in the bank reconciliation statements
116	Ministry of Agriculture, Livestock and Fisheries	80,829,544	Long outstanding uncleared items in the bank reconciliation statements

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
117	Ministry of Industrialization and Enterprise Development	15,640,606	Various unreconciled amounts
117	Ministry of Industrialization and Enterprise Development	6,403,000	Loss of cash in 2012/2013 resulting from payment to vendor
120	Office of the Attorney General and Department of Justice	4,573,004	Unreconciled deposits
120	Office of the Attorney General and Department of Justice	3,583,348	cash and cash equivalent not reconciled
120	Office of the Attorney General and Department of Justice	155,815,488	Payment in Bank Statement not recorded in cashbook
120	Office of the Attorney General and Department of Justice	9,359,483	Unexplained amounts in development cashbook
120	Office of the Attorney General and Department of Justice	404,855,177	Cashbook payment not reflected in bank statement
121	Judiciary	269,286,893	Confirmation Certificates for balances not availed for audit review.
201	Kenya National Commission on Human Rights	134,118	Unreconciled bank balances
(c) Revenue			
102	Ministry of Interior and Coordination of National Government	4,842,000	Lose of Revenue resulting from fee charged to issue citizenship certificates being less than the gazetted amounts.
102	Prisons Industries Fund	231,232,518	Difference in records relating to collected revenue and amounts banked not explained.
104	Ministry of Defence	6,103,642,000	Documentary evidence for transfer of receipts from UN mission to the Exchequer not seen.
104	Ministry of Defence	52,137,391	Unreconciled rent collection between the analysis and the Statement of receipts and payments

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
107	National Treasury	164,712,793,633	Arrears of revenue due and uncollected
107	National Treasury	7,276,948,473	Variations between the revenue statement and Exchequer records
107	National Treasury	24,291,410	Variance between balance brought forward figure and balance in audited previous year statement
107	National Treasury	2,668,125,972	Balance omitted in statement of assets and liabilities and also not remitted to exchequer
114	Ministry of Labour, Social Security and Services	368,807,869	Under-collection of Revenue
115	Kenya Energy Environment & Social Responsibility Programme Fund	2,609,533,366	Short term deposits purported to be in a local bank not supported.
115	Kenya Energy Environment & Social Responsibility Programme Fund	80,000,000	Transfer from ministry of Energy and Petroleum that was not accounted for.
115	Ministry of Energy and Petroleum	27,995,732,666	No documents were made available to support the source of these receipts
116	Ministry of Agriculture, Livestock and Fisheries	177,176,889	Revenue not remitted to National Treasury
116	Ministry of Agriculture, Livestock and Fisheries	35,387,939	Revenue not remitted to National Treasury
116	Ministry of Agriculture, Livestock and Fisheries	95,043,598	Unsupported receipts
116	Ministry of Agriculture, Livestock and Fisheries - Revenue Financial Statement	99,422,976	Failure to remit revenue to exchequer as required by financial regulations
120	Office of the Attorney General and Department of Justice	40,901,922	Revenue not remitted to Exchequer
121	Judiciary	2,318,540	Revenue not accounted for

d) Temporary Imprests			
Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
102	National Cohesion and Integration Commission	11,874,702	Imprests not surrendered
103	Ministry of Devolution & Planning	11,978,581	Unsurrendered and unaccounted for imprest
104	Ministry of Defence	56,351,780	Direct expenditure using imprest without proper authorization.
104	Ministry of Defence	19,637,700	Overpayment of imprest: Officers on study tours paid rates higher than approved rates resulting in overpayment
104	Ministry of Defence	5,959,850	Unsurrendered imprest.
104	Ministry of Defence	31,205,156	Unsupported temporary imprest
105	Ministry of Foreign Affairs	23,923,000	Uncleared imprest
110	Ministry of Environment, Water and Natural Resources	15,900,000	unaccounted for AIEs
110	Ministry of Environment, Water and Natural Resources	38,982,191	Unsurrendered imprests
112	Ministry of Information, Communication and Technology	69,938,612	Unsurrendered imprests
114	Ministry of Labour, Social Security and Services	7,565,924	Unsurrendered imprests
115	Ministry of Energy and Petroleum	14,682,001	Unsurrendered imprests
115	Ministry of Energy and Petroleum	13,392,605	Unsurrendered AIE and unrecovered salary overpayments.
116	Ministry of Agriculture, Livestock and Fisheries	5,050,728	Unsurrendered imprests
121	Judiciary	5,677,844	Unsurrendered imprest balance.
123	National Intelligence Service	1,005,695	Unsurrendered imprests

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
125	Commission for the Implementation of the Constitution	11,235,309	Unsurrendered imprests
201	Kenya National Commission on Human Rights	93,792	Long outstanding imprests and advances
205	Judicial Service Commission	2,857,602	Unaccounted for imprest: The amount had no supporting documents
(e) Pending Bills			
103	Ministry of Devolution & Planning	1,113,380,200	Payments not paid during the year but carried forward in respect to construction of civil works, supply of goods and services and staff payables.
110	Ministry of Environment, Water and Natural Resources	471,807,164	Pending bills relating to Recurrent and Development Expenditure
113	Ministry of Sports, Culture and the Arts	143,967,837	Bills not paid during the year but carried forward
116	Ministry of Agriculture, Livestock and Fisheries	2,070,194,025	Bills not paid during the year. The financial statements would have reflected an over expenditure had the bills been paid
116	Ministry of Agriculture, Livestock and Fisheries	35,857,756	The financial statements would have reflected an over expenditure of Ksh.1,460,590,791 instead of the under expenditure of Kshs,649,082,582 now shown had the bills been paid.
116	Ministry of Agriculture, Livestock and Fisheries	8,752,912	Unsupported Pending bills
120	Office of the Attorney General and Department of Justice	17,060,902	Bills not paid during the year.
120	Office of the Attorney General and Department of Justice	2,501,851	Lack of reconciliation

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
121	The Judiciary	297,784,255	Had the bills been settled, the Statement of receipts and payments could have reflected a deficit of Ksh.28,497,362 instead the surplus of Ksh.269,286,893 now reflected.
203	Independent Electoral and Boundaries Commission	1,460,466,960	Bills not cleared by the end of the year
(f) Consolidated Fund Services			
120	Office of the Attorney General and Department of Justice	151,100,290	Amounts omitted from the financial statements
(g) Other Exceptions			
102	Ministry of Interior and Coordination of National Government	105,365,422	Stalled project Laisamis: The project stalled due to death of the contractor.
102	Ministry of Interior and Coordination of National Government	42,158,094	Construction of administration block in Sigomere: Authorization and value for money on the project could not be confirmed due to the variation of contract sum
102	Ministry of Interior and Coordination of National Government	4,270,000	Irregular payments Marsabit CPC: Authenticity and validity of allowances paid to officers could not be ascertained
102	Ministry of Interior and Coordination of National Government	675,000	Over-expenditure Nyakach District: Over-expenditure in respect of AIEs for travel and accommodation.
102	Ministry of Interior and Coordination of National Government	1,895,923	Unaccounted fuel: Work tickets and other supporting documents not availed.
102	Ministry of Interior and Coordination of National Government	2,361,862	Cash purchases- sub-county offices: Cash purchases in excess of authorized ceiling
102	Ministry of Interior and Coordination of National Government	563,200	Irregular procurement of spares at Sololo: Spare parts were not taken on charge and the vehicles were still unserviceable

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
102	Ministry of Interior and Coordination of National Government	799,700	Irregular purchase of spares Kisumu: The marine boat was still unserviceable
102	Ministry of Interior and Coordination of National Government	4,194,270	Cash purchases at prisons: Cash purchases in excess of authorized ceiling.
102	Ministry of Interior and Coordination of National Government	95,758,296	Biogas project prisons: Most of the biogas project are not working
102	Ministry of Interior and Coordination of National Government	62,512,859	Over pricing of stores: Quoted prices were higher than the market prices
102	Ministry of Interior and Coordination of National Government	264,841,063	Pending bills at prisons: Bills were incurred without authorisation of the accounting officer.
102	Ministry of Interior and Coordination of National Government	2,166,750	Unaccounted expenditure Moyale prison: Foodstuff delivered not recorded in prison book (PB) 7
102	Ministry of Interior and Coordination of National Government	2,000,000	Construction of staff houses at Kitui: Construction done without approved plan and bills of quantities
102	Ministry of Interior and Coordination of National Government	65,028,089	Irregular procurement at prisons: Procurement of goods and services without authority of accounting officer
102	Ministry of Interior and Coordination of National Government	2,701,440	Uncollected revenue at Mwea prison: No evidence availed to indicate efforts made to collect the revenue.
102	Ministry of Interior and Coordination of National Government	1,200,000,000	Irregular purchase of land and houses: Failure to involve Government valuers to value the project
102	Ministry of Interior and Coordination of National Government	46,750,000	Irregular supply of entry and exit stamps: Ministry irregularly used restricted method of procurement to avoid competition.
102	Ministry of Interior and Coordination of National Government	2,721,250	Loss of certificates: Physical verification revealed shortfall of certificates
102	Ministry of Interior and Coordination of National Government	3,804,500	Lost cash: Triplicates of receipt books not availed for audit verification

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
102	Ministry of Interior and Coordination of National Government	60,032,000	Unaccounted cash bail refunds: The existence and disposition of the amount could not be ascertained
102	Ministry of Interior and Coordination of National Government	23,304,000	Unclaimed cash bail at Nairobi Headquarters: Miscellaneous receipts not issued to support the amount received
102	Ministry of Interior and Coordination of National Government	10,361,500	Absence of deposit account: No deposit cashbook and account was maintained to monitor receipts and payments.
102	Ministry of Interior and Coordination of National Government	47,865,694	Loss of revenue at NACADA: The fund lost the amount through undercharging and under-banking
102	Ministry of Interior and Coordination of National Government	2,789,500	Forfeitures: No evidence of arrest warrants issued by courts.
102	Ministry of Interior and Coordination of National Government	22,504,000	Construction of a warehouse at APTC: The project was stalled without any record of site meeting.
102	Ministry of Interior and Coordination of National Government	2,641,689,049	Accuracy of pending bills: Records and documents to support these bills not availed.
102	Ministry of Interior and Coordination of National Government	4,671,650,000	Accuracy of statement of assets: Prior year adjustments have not been analysed.
102	Ministry of Interior and Coordination of National Government	11,608,394,822	Acquisition of assets: The ministry did not maintain an updated fixed assets register
102	Ministry of Interior and Coordination of National Government	2,357,300,000	Irregular purchase of residential houses: Title deeds have not been issued to the government.
102	Ministry of Interior and Coordination of National Government	2,677,952	Construction of Lokitaung-Kibish road: Bills of quantities and completion certificates not provided
102	Ministry of Interior and Coordination of National Government	2,903,921	Rehabilitation of Kishaunet Airstrip: No technical evaluation was done during awarding of the contract.
102	Prison Farms Revolving Fund	53,947,131	Long outstanding uncleared balances: Unrecovered debtors.
102	Prison Farms Revolving Fund	15,639,561	Suspense Account: Unsupported and unanalysed suspense account.

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
102	Prison Farms Revolving Fund	110,344,815	Paymaster General Account: Unsupported Paymaster General Account(cash/bank balances)
102	Prison Farms Revolving Fund	37,151,088	Non-current Assets: Unsupported balance for fixed assets.
102	Prisons Industries Fund	22,304,677	Long outstanding uncleared balances: Long outstanding uncollected debts.
102	Prisons Industries Fund	94,524,348	Non-current assets: Unsupported fixed assets balance.
102	Prisons Industries Fund	23,965,557	Suspense account: Unsupported suspense.
103	National Youth Service - Mechanical and Transport Fund	149,918,976	Long outstanding unrecovered domestic debts.
103	National Youth Service - Mechanical and Transport Fund	603,700,824	Long outstanding unrecovered commercial debts.
103	National Youth Service - Mechanical and Transport Fund	124,600,000	Long outstanding debt lent to the ministry of Devolution and planning.
103	National Youth Service - Mechanical and Transport Fund	39,807,204	Unsupported prior year adjustment error: The accuracy and completeness of the financial statement could not be confirmed.
103	Women Enterprise Fund	5,600,000	Unexplained variance between Statement receivables figures and figure in supporting schedules
103	Women Enterprise Fund	64,600,000	Failure to recover loans amounting to Kshs. 64,600,000.
104	Ministry of Defence	73,290,247,000	Inappropriate presentation of financial statements: The amount is represented as a block figure and not classified in accordance with accounting standard.
104	Ministry of Defence	9,999,895	Irregular procurement of library books: Books procured through direct procurement while there is no evidence of urgency of the books.
104	Ministry of Defence	141,686,693	Sub-standard works on proposed completion of MQS at 9KR Eldoret: Poor workmanship on open storm water drain, internal plumbing works, quality of paint work and roofing and rainwater disposal.

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
104	Ministry of Defence	23,254,000	Proposed mechanical piping for strategic fuel tanks: Due to poor workmanship has resulted to fuel leakages from outlet valves.
104	Ministry of Defence	9,005,298	Agency account: Amount not surrendered to various agencies
104	Ministry of Defence	4,529,068	General account of vote: Amount not surrendered to exchequer
104	Ministry of Defence	188,498,393	Suspense Account: Failure to clear huge outstanding balances
104	Ministry of Defence	14,960,160	Advances: Failure to recover outstanding advances
104	Ministry of Defence	22,204,409	Clearance Account: Failure to clear huge outstanding balances
104	Ministry of Defence	132,550,650	Excess Appropriation in Aid: Amount not surrendered to the exchequer
104	Ministry of Defence	1,161,105,809	Prior year matters- Purchase of APCs: Purchase of low quality materials
105	Ministry of Foreign Affairs	95,000,000	Irregular purchase: Purchase and demolition of condemned houses in Pretoria
107	European Widows and Orphans Fund	16,900,000	Doubtful investment: Doubtful investment in insolvent CSFC
107	European Widows and Orphans Fund	9,000,000	Un invested profits: Failure to re-invested proceeds from redemption of stocks.
107	Statement of Outstanding Obligations guaranteed by GOK	164,286,742	Long outstanding balances: Failure to clear the long outstanding balances from the books of account.
110	Ministry of Environment, Water and Natural Resources	4,272,505,276	Variances between grants remitted to government agencies and approved estimates not explained
111	Civil Servant Housing Fund	282,793,851	Unreconciled difference between cash equivalents and operational fund account balances
111	Civil Servant Housing Fund	6,863,091	Payments in cashbook not in bank
111	Civil Servant Housing Fund	24,687,863	Receipts in bank not in cashbook
111	Civil Servant Housing Fund	948,682,911	Failure to avail ownership documents and analysis in support of investment balance

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
112	Ministry of Information, Communication and Technology	1,283,041,039	Long outstanding uncleared balances
112	Ministry of Information, Communication and Technology	5,931,500	Refer to drawer cheques : The unanalysed RD cheques formed part of the cash equivalent
113	Ministry of Sports, Culture and the Arts	21,519,540	No support documentation on how the balances are constituted and when
114	Ministry of Labour, Social Security and Services	251,664,565	Unsupported Fund Closing Balance.
115	Ministry of Energy and Petroleum	12,291,230,719	Long outstanding GAV balance
115	Ministry of Energy and Petroleum	44,636,192	Resource centre handed over in 2012/2013 but unutilized as at the time of audit 2013/2014
115	Ministry of Energy and Petroleum	67,692,280,356	Unsupported assets - No fixed assets register to confirm existence, ownership and valuation of the assets
116	Agricultural Information Resource Centre Revolving Fund	4,892,750	Long outstanding uncleared debtors balances: Unrecovered debts (receivables)
116	Demonstration Farms Fund	1,068,112	Adjustment to books of accounts not supported.
120	Office of the Attorney General and Department of Justice	360,884,795	Unreconciled balances relating to Deposits held in trust
123	National Intelligence Service	89,018,527	Unaccounted for advances: Advances to the ministry of foreign affairs not accounted for to date
203	Independent Electoral and Boundaries Commission	9,838,335	Long outstanding uncleared balances- Advances not cleared
203	Independent Electoral and Boundaries Commission	2,114,658,326	Amounts reflected in Financial statements but not analysed.
203	Independent Electoral and Boundaries Commission	26,944,000	Accounts receivable not cleared, still outstanding

Vote	Financial Statement	Amount Queried (Kshs.)	Reasons for Qualification
203	Independent Electoral and Boundaries Commission	4,420,711,000	Accounts payables not cleared, still Outstanding
204	Parliamentary Service Commission	78,297,642	Long outstanding uncleared balances: Long outstanding unrefunded retention monies
209	Teachers Service Commission	13,415,914	losses of cash and stores which occurred between 1989 and 2000 and not recovered up to the close of the year of audit (2013/2014)
Total in Kshs.		<u>450,429,265,344</u>	

APPENDIX C

The following is a list of financial statements for which I expressed an adverse opinion due to materials misstatements.

Consolidated Fund Services

Vote

107 CFS-Salaries Allowances & Misc. Services-Statement of Expenditure

107 Public Debt

Vote Ministries

106 Ministry of Education, Science and Technology

108 Ministry of Health

109 Ministry of Transport and Infrastructure

111 Ministry of Land, Housing & Urban Development

120 Office of the Attorney General and Department of Justice

Funds

Vote

111 Kenya Slum Upgrading, low Cost Housing and Infrastructure Trust Fund

107 Kenya Local Loans Support Fund

107 Provident Fund

107 Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits

116 Strategic Grain Reserve Trust Fund

107 Treasury Main Clearance Fund

Statements

Vote

107 Statement of Outstanding Public Debt

107 Statement of Subscriptions by the Kenya Government to International Organizations

Revenue

Vote

111 Ministry of Land, Housing & Urban Development-Revenue Statement

Exceptions which led to expression of Adverse Audit Opinions

(a) Expenditure Exceptions

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	19,464,224	Unauthorized reallocations: Irregular inter accounts transfer
106	Ministry of Education, Science and Technology	41,738,406	Irregular expenditure: No competitive tendering
106	Ministry of Education, Science and Technology	429,326	Ineligible expenditure: Charges incurred due to failure by the ministry to apply for duty exemption.
106	Ministry of Education, Science and Technology	493,500	Diverted project funds
106	Ministry of Education, Science and Technology	10,440,000	Under-expenditure in schools (projects)

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	12,826,647,906	The supporting documents were not made available
108	Ministry of Health	1,181,253,329	Expenditure on compensation to an employee omitted in the accounts.
108	Ministry of Health	1,457,153,127	Unauthorized misallocation of expenditure. Unauthorized inter vote transfer
108	Ministry of Health	24,039,402,459	Excess vote – Expenditure incurred in above approved voted provision
108	Ministry of Health	22,500,344,808	Amount reflected as a transfer to PSC but no documents were made available.
109	Ministry of Transport and Infrastructure	6,905,830,316	Omitted expenditure- Payment vouchers were availed but expenditure omitted in the accounts
109	Ministry of Transport and Infrastructure	77,153,720	Overpayment of retention money
109	Ministry of Transport and Infrastructure	37,958,326,888	Unexplained difference between actual and budgeted amounts
109	Ministry of Transport and Infrastructure	22,027,921,700	Expenditures were not supported by the relevant documents
111	Ministry of Lands, Housing & Urban Development	127,059,528	Misallocation of expenditure: Charging expenditure against wrong account codes
111	Ministry of Lands, Housing & Urban Development	1,700,000	Payment for undelivered goods

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
111	Ministry of Lands, Housing & Urban Development	20,000,000	Failure to avail payment vouchers and other supporting documents
111	Ministry of Lands, Housing & Urban Development	161,595,843	Unsupported AIES: Failure to provide expenditure returns supporting AIEs to County directors
111	Ministry of Lands, Housing & Urban Development	178,000,000	Acquisition of land: Failure to avail expenditure returns
111	Ministry of Lands, Housing & Urban Development	677,456,123	Unexplained variation: Difference between figure in financial statements and supporting schedules
116	Strategic Grain Reserve Trust Fund	109,830,561	Unsupported Expenditure relating to purchase of gunny bags where documents to support the procurement process were not availed for audit review.
116	Strategic Grain Reserve Trust Fund	281,439,987	Propriety of expenditure on Storage and fumigation could not be confirmed due to lack of supporting documents.
b) Bank Reconciliations			
106	Ministry of Education, Science and Technology	8,637,320	Uncleared electronic transfers
106	Ministry of Education, Science and Technology	4,738,133	Receipts in bank not recorded in cashbook
106	Ministry of Education, Science and Technology	16,638,470	Unreconciled balance between bank statement and cashbook.

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	4,738,134	Difference between cash balance as per the Accounts and the cashbook balance
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	10,464,002	Unrecorded payments in bank statement not in cashbook
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	331,159,306	Receipts recorded in bank statements not in the cashbook
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	334,886,956	Unrecorded receipts in cashbook not in bank statements
108	Ministry of Health	29,113,962	Stale cheques : cheques not replaced or credited to the cash book
108	Ministry of Health	154,192,895	Amounts not recorded in cashbook.
109	Ministry of Transport and Infrastructure	2,572,451	Stale cheques- Not written back or replaced
109	Ministry of Transport and Infrastructure	557,852,929	Amount in bank account but not reflected in financial statements
116	Strategic Grain Reserve Trust Fund	497,025,129	Accuracy of the cash and cash equivalents balance could not be confirmed

c) Revenue			
Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	309,086,605	Unsupported receivables: Unsupported district/province account receivables
106	Ministry of Education, Science and Technology	2,130,075,442	Under collection of AIA
106	Ministry of Education, Science and Technology	1,225,154	Uncollected rent
108	Ministry of Health	15,578,256,445	Unsupported receipts : Transfers from other government entities. Domestic currency deposits. NB: No documentary evidence has been provided to support these receipts.
108	Ministry of Health	3,417,108,927	The statement of receipts shows AIA for GAVI HSM project while the project accounts do not reflect such receipts
109	Ministry of Transport and Infrastructure	960,324,413	The financial statements reflect more borrowing than the supporting records
109	Ministry of Transport and Infrastructure	6,112,601,109	Amounts reflected in source documents but omitted in financial statements
109	Ministry of Transport and Infrastructure	6,469,478,242	Exchequer records reflected more release than entity's records.
111	Ministry of Lands, Housing & Urban Development- Revenue Statement	523,616,017	Unreconciled entity and exchequer records: Failure to reconcile ministry and exchequer revenue receipts figures

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
111	Ministry of Lands, Housing & Urban Development- Revenue Statement	138,157,827	Failure to explain variance under Rent of Government buildings and housings
111	Ministry of Lands, Housing & Urban Development- Revenue Statement	58,446,011	Unreconciled difference: Unexplained variance between bond statement and cashbook balances.
116	Strategic Grain Reserve Trust Fund	80,422,438	Difference between Fund's financial statements and records at National cereals and produce board. The accuracy of the financial statements could not be confirmed.
(d) Temporary Imprests			
106	Ministry of Education, Science and Technology	1,821,323	Unsurrendered imprest as at 30th June 2014
106	Ministry of Education, Science and Technology	540,000	Unsurrendered imprest as at 30th June 2014
106	Ministry of Education, Science and Technology	11,120,627	Unsurrendered imprest as at 30th June 2014
108	Ministry of Health	2,851,348	Unsurrendered imprest as at 30th June 2014
109	Ministry of Transport and Infrastructure	2,666,886	Unsurrendered imprest as at 30th June 2014

e) Pending Bills			
Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	7,891,546,180	Pending Bills - Had the bills been paid, the financial statements would have reflected a deficit of Kshs. 6,808,630,736 instead of the surplus of Kshs. 1,082,915,444 now shown.
108	Ministry of Health	2,165,368,641	Pending Bills - Had the bills been paid the financial statement would have reflected an increased deficit of Ksh. 2,671,062,603 instead of the Ksh. 505,693,961 now shown
111	Ministry of Lands, Housing & Urban Development	392,596,163	Failure to settle bills. Had bills been charged, net surplus should have reduced to Kshs. 1,454,636,404 instead of Kshs. 1,847,232,567 now shown.
116	Strategic Grain Reserve Trust Fund	566,879,296	Long outstanding bills relating to 2012/2013 and prior years
f) Consolidated Fund Services			
108	Ministry of Health	6,995,194,530	Difference in exchequer releases between controller of budget records and the approved budget.
106	Ministry of Education, Science and Technology	10,251,124,152	No exchequer provision supporting analysis was availed
108	Ministry of Health	8,689,999,999	Ministry records reflected exchequer releases of Ksh. 41,321,908,566 while the statement of receipts and payments for the year reflected exchequer releases of Ksh. 32,631,908,566

d) Other Exceptions			
Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
106	Ministry of Education, Science and Technology	25,628,901	Amount paid for an uncompleted project which is 88% of the contract price. The contract was supposed to have been completed by 1st April 2012
106	Ministry of Education, Science and Technology	1,567,838,117	No documents to support the prior year adjustments
106	Ministry of Education, Science and Technology	264,781	Difference between salary advance figure in records and amount in accounts
106	Ministry of Education, Science and Technology	50,119,297	Expired bank guarantees
106	Ministry of Education, Science and Technology	594,991	No tendering was done
106	Ministry of Education, Science and Technology	323,183,243	60% payment for uncompleted projects whose completion date was March 2013
107	CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations	96,222,556,118	Unreconciled variance: This is unexplained variance between PMG account balance of Kshs. 100,743,071,569 and cashbook balance of Kshs. 4,520,515,450

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
107	CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations	4,800,360,041	Long outstanding balances: Non-clearance of long outstanding balances under items awaiting clearance and sinking fund balances at Kshs. 4,798,266,577 and Ksh.2,093,437 respectively
107	CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations	1,310,179,706	Unreconciled differences: Statement of expenditure and external debt interest differs with payment vouchers, cashbook and bank balance
107	CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations	538,618,436	Expenditure on KENREW loan repayment: Amount incurred on the project that did not take off hence no value for money
107	CFS-Salaries Allowances & Misc. Services-Statement of Expenditure	1,113,554,963	Payments under loan guarantee act : Inability to confirm terms and conditions of take over of loans by government
107	CFS-Salaries Allowances & Misc. Services-Statement of Expenditure	102,441,088	Unexplained variances: This is unexplained variance between exchequer receipts and expenditure incurred during the year.
107	Provident Fund	5,259,639	Share contributions for 5,580,022 shares in EABL not availed for audit review

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
107	Provident Fund	11,310,210	Dividend totalling Kshs. 11,310,210 not transferred to the fund. Some Ksh. 45,321,709 for 2012/2013 was similarly not paid to the Fund
107	Provident Fund	997,655	Balance of 997,655.80 invested in JCF not supported by certificates
107	Provident Fund	3,796,226	Doubtful realization of deposits in CSFC
107	Provident Fund	9,715,111	Pending payable balances not analyzed
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	840,964,209	Failure to surrender the amounts to the exchequer
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	1,971,533	Failure to analyse the suspense account balance
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	3,525,571	Receipts in cashbook not in the ledger
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	1,865,782	Receipts in ledger not in cashbook
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits	1,174,107	Payments in cashbook not in ledger

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
107	Statement of Subscriptions by the Kenya Government to International Organizations	112,733,583,044	Unconfirmed subscriptions: Validity and accuracy not confirmed in absence of documents.
107	Statement of Subscriptions by the Kenya Government to International Organizations	2,601,589	Failure to prepare bank reconciliation: Accuracy of cashbook balance could not be confirmed.
108	Ministry of Health	10,956,114,687	Failure to transfer deposits from the former ministries of medical services and public health and sanitation to the new deposit account under the new Ministry of Health.
108	Ministry of Health	1,320,204	Included as cash deposits from former ministries but there was no documentary evidence.
109	Ministry of Transport and Infrastructure	1,048,643,663	Long outstanding uncleared balances- Balances for 2012/13 and earlier years
111	Kenya Slum Upgrading, low Cost Housing and Infrastructure Trust Fund	12,922,149	Suspense account balance not supported or analysed
111	Ministry of Lands, Housing & Urban Development	757,561,689	Unsupported receipts: Receipts not supported by receipt vouchers and other documents
111	Ministry of Lands, Housing & Urban Development	655,718,742	Receipts in Financial statements and net surplus understated by Kshs. 655,718,742

Vote	Financial Statement	Amount (Kshs.)	Reasons for Adverse Opinion
111	Ministry of Lands, Housing & Urban Development	153,866,978	Unexplained difference in revenue receipts: Failure to reconcile difference between amount transferred from ministry of Devolution and planning to the ministry
111	Ministry of Lands, Housing & Urban Development	13,524,377	Use of deposits money to meet recurrent expenditure.
116	Strategic Grain Reserve Trust Fund	662,576,591	Inventories(Stocks): Unreconciled difference
116	Strategic Grain Reserve Trust Fund	100,000,000	Inventories(Stocks): Opening balance omitted
116	Strategic Grain Reserve Trust Fund	7,030,669,138	Receivables: Unsupported balance
116	Strategic Grain Reserve Trust Fund	204,694,871	Trade and other payables: Unsupported balance
116	Strategic Grain Reserve Trust Fund	84,472,000	Trade and other payables: Unsupported balance owed to farmers
Total (Kshs.)		446,660,398,660	

APPENDIX D

The following is a list of financial statements for which I was unable to express an opinion due to lack of sufficient and accurate information and explanations.

Commission

VOTE

120 Truth Justice and Reconciliation Commission

Funds

VOTE

107 Petroleum Development Levy Fund – National Treasury

107 Rural Enterprise Fund

111 Agricultural Settlement Fund Trust

111 Stores and Service Fund

Statements

VOTE

107 Statement of Investments by the Principal Secretary in Local Companies

111 Township Roads and Drains

120 Official Receiver

107 CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations.

Exceptions which led to Disclaimer of opinion

Vote	Financial Statement	Amount (Kshs.)	Reasons for Disclaimer
107	Petroleum Development Levy Fund	2,792,758,483	Difference between the bank balance and the cashbook balance.
107	Rural Enterprise Fund	397,908,774	Uncleared balances: failure to clear outstanding balances in the wound up fund
107	Rural Enterprise Fund	220,013,037	Failure to analyse loan balance
107	Rural Enterprise Fund	3,348,495	Inability to verify balance existence
107	Rural Enterprise Fund	396,080,386	Unreconciled balance
107	Statement of Investments by the Principal Secretary in Local Companies	586,272,580	Dormant companies: Doubtful investments in some seven dormant companies where government held 29,313,632 shares with a nominal value of 586,272,580
107	Statement of Investments by the Principal Secretary in Local Companies	15,000,020	Excluded investments: Omission of two companies in which the government held 750,000 shares with a nominal value of Kshs.15,000,020
107	Statement of Investments by the Principal Secretary in Local Companies	101,470,580	Missing shares certificate: Share certificate of investment in Ken-rec chemical and fertilizer limited not provided
107	Statement of Investments by the Principal Secretary in Local Companies	11,000,000	Unexplained discrepancy in share holding: Difference in shareholding of 550,000 shares with a value of Kshs.11,000,000 not explained
111	Agricultural Settlement Fund Trust	2,269,565,714	Financial Loss: Fund recorded loss of Kshs. 2,269,565,714 during the year and was unable to meet maturing loans
111	Agricultural Settlement Fund Trust	6,536,423,549	Unsupported fixed assets balances: Failure to provide fixed assets register, purchase and ownership documents for land included in the assets figure

Vote	Financial Statement	Amount (Kshs.)	Reasons for Disclaimer
111	Agricultural Settlement Fund Trust	9,388,736,825	Unsupported equity balances: Balances of Kshs. 1,733,741 and Kshs. 9,387,003,084 against revolving fund-seasonal loans and land purchase grant not supported with any records
111	Stores and Service Fund	7,333,214	Loss on disposal of obsolete items: Failure to avail loss report for audit review
111	Stores and Service Fund	64,069,466	Unrecovered debts: Failure to recover debts relating to 2012/2013 and earlier years.
111	Stores and Service Fund	1,326,987,665	Unconfirmed balances: Failure to avail supporting analysis for suspense and PMG balances
111	Stores and Service Fund	46,574,470	Unsupported balance: Failure to avail supporting analysis for mark-up suspense balance
111	Stores and Service Fund	1,488,670	Unreconciled balance: Failure to reconcile bank and cashbook balances
111	Stores and Service Fund	1,477,005	Failure to reconcile financial statement and trial balance
111	Stores and Service Fund	595,346,515	Unexplained difference: Failure to reconcile inter-stores figures in Trial balance and issues records.
111	Stores and Service Fund	109,984,495	Unsupported balances: Failure to provide supporting stock sheets
111	Township Roads and Drains	276,155	Unsupported cash balance: Balance not supported by cashbook, board of survey or bank certificate.
111	Township Roads and Drains	361,196,634	Unsupported book entry: Clearance of amount not supported and no treasury authority for clearance.
120	Official Receiver	559,217,032	Continental credit finance: No ledger were available to support the balance.
120	Official Receiver	1,900,016,693	Insolvent financial institutions: No ledger were available to support the balance.

Vote	Financial Statement	Amount (Kshs.)	Reasons for Disclaimer
120	Official Receiver	2,963,130	Fixed deposits account: Difference not explained
120	Official Receiver	5,102,841	Current account fund: Difference not explained
120	Official Receiver	83,955,467	Interest earned: Interest earned but not omitted from financial statements.
120	Official Receiver	48,993,000	Continental Credit Finance Ltd: How the buyers were identified remained unknown.
120	Official Receiver	100,000,000	Drive In Estate: Origins of the amounts unknown.
120	Official Receiver	349,863,561	Rural urban credit finance: Unsettled creditors
120	Official Receiver	139,633,235	Irregular sale of Ngumba house
120	Truth Justice and Reconciliation Commission	113,193,760	No supporting documents available
120	Truth Justice and Reconciliation Commission	19,901,953	Assets without ownership documents
Total (Kshs.)		28,556,153,404	

REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF RECEIPTS INTO AND ISSUES FROM THE NATIONAL EXCHEQUER ACCOUNT FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENT

I have audited the Statement of Receipts into and Issues from the National Exchequer Account for the year ended 30 June 2014 in accordance with the provisions of Article 229(4) of the Constitution of Kenya and Section 8 of the Public Act, 2003. I have obtained all information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statement

The Principal Secretary, National Treasury is responsible for the preparation and fair presentation of the Statement of Receipts into and Issues from the National Exchequer Account in accordance with Government Financial Regulations and Procedures and the Public Finance Management Act, 2012 and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

The Principal Secretary, National Treasury is also responsible for the submission of the Statement of Receipts into and Issues from the National Exchequer Account to the Auditor-General in accordance with the provisions of Section 80 of the Public Finance Management Act, 2012 and Section 3 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on this financial statement based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those Standards require compliance with the ethical requirements and that the audit be planned and performed to obtain reasonable assurance that the Statement of Receipts into and Issues from the National Exchequer Account is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates

made by the management, as well as evaluating the overall presentation of the Statement of Receipts into and Issues from the National Exchequer Account.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the statement present fairly, in all material respects, the receipts into and issues from the National Exchequer Account for the year ended 30 June 2014, in accordance with Government Financial Regulations and Procedures and the Public Finance Management Act, 2012 of the Laws of Kenya.

Emphasis of the Matter

Failure to transfer proceeds from the Sovereign Bond to the National Exchequer Account

Available information indicates that net proceeds from the Sovereign Bond of USD 1,999,052,872.97 out of the total amount of USD 2,000,000,000.00 were received on 24 June 2014 and deposited into an offshore account, contrary to Article 206 of the Constitution of Kenya and Section 17(2) of Public Finance and Management Act, 2012 which requires that all money raised or received by or on behalf of the National Government be paid into the Consolidated Fund. There is the risk of proceeds being appropriated without the authority of the Controller of Budget and also being applied for other purposes other than those that the Sovereign Bond was floated.

Out of the balance in the offshore account of USD1,999,052,872.97 as at 2 July 2014 an amount of USD 395,439,262.50 (Kshs.34,648,388,180.25) was on 3 July 2014 transferred to the Exchequer Account to fund infrastructure projects but accounted for in 2013/2014 financial year. On the same date of 3 July 2014 another amount of USD 604,560,737.50 (Kshs.53,201,344,900.00) was withdrawn from the offshore account to fund the repayment of the syndicate loan but recorded in 2014/2015 financial year books. Authority of the Controller of Budget to incur the expenditure was however not obtained.

The Statement of Receipts into and Issues from the National Exchequer Account for the year ended 30 June 2014 therefore reflects only actual receipts from commercial loan of Kshs.34,648,388,180.25 out of the net proceeds from the Sovereign Bond as a result of failure to pay the full amount of the net proceeds from the Sovereign Bond of USD 1,999,052,872.97 (Kshs.173,917,599,948.39) into the Consolidated Fund during the year.

I have however, not qualified my audit opinion on the basis of this matter due to the fact that the balance of actual net proceeds from Sovereign Bond is correctly reflected in the Off-Shore Account and in the Central Bank of Kenya Special Account.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi
18 May 2015

REPUBLIC OF KENYA - THE EXCHEQUER ACCOUNT

RECEIPTS INTO AND ISSUES FROM EXCHEQUER ACCOUNT .

FOR THE YEAR 2013/2014

RECURRENT:-	PRINTED ESTIMATES	ACTUAL RECEIPTS	UNDER/(OVER ESTIMATES)
TAXATION RECEIPTS:-	KSHs	KSHs	KSHs
Opening Balance		496,366,817.30	
Income Tax from Individuals (P.A.Y.E)	251,297,763,000.00	249,872,800,071.60	1,424,962,928.40
Income Tax from Corporations	208,002,378,068.00	199,717,274,126.40	8,285,103,941.60
Refunds	(300,000,000.00)	-	-
Immovable Property	192,816,384.00	-	192,816,384.00
Second Hand Motor Vehicle Pur. Tax	550,478,880.00	-	550,478,880.00
VAT on Domestic Goods & Services	123,456,374,558.00	105,887,839,675.25	17,568,534,882.75
VAT on Imported Goods & Services	113,066,614,005.00	126,910,820,776.00	(13,844,206,771.00)
VAT Refunds	(14,680,944,000.00)	-	(14,680,944,000.00)
Excise Receipts	129,006,729,641.00	102,029,099,204.45	26,977,630,436.55
Refunds	(2,400,000,000.00)	-	(2,400,000,000.00)
Customs Duties	69,345,692,039.00	67,554,636,859.50	1,791,055,179.50
Refunds	(300,000,000.00)	-	(300,000,000.00)
Other Taxes on Int. Trade & Transactions(IDF)	33,575,992,850.00	26,677,868,525.00	6,898,124,325.00
Stamp Duty	10,173,118,248.00	9,986,893,730.25	186,224,517.75
Refunds	(6,000,000.00)	-	(6,000,000.00)
Licences under Traffic Act	1,070,960,007.00	3,322,513,856.40	(2,251,553,849.40)
Licences Under Communications Act	70,885,097.00	-	70,885,097.00
Surplus Funds for Regulatory Authority	8,200,000,000.00	-	8,200,000,000.00
Cont. From Govt. Employees To Social	664,549,407.00	-	664,549,407.00
Grants from Foreign Govt. through Exchequer	10,877,442,657.00	6,431,462,729.60	4,445,979,927.40
Loan from Foreign Govt. through Exchequer	46,042,011,778.00	28,432,304,540.00	17,609,707,238.00
AMISSON grants	10,308,000,000.00	4,694,571,553.20	5,613,428,446.80
Interest Received	906,640,290.00	586,274,004.80	320,366,285.20
Profits & Dividends from C.B.K.	2,000,000,000.00	-	2,000,000,000.00
Other Profits & Dividends	7,500,000,000.00	10,181,256,088.35	(2,681,256,088.35)
Rent of Land	1,651,637,925.00	1,587,972,620.25	63,665,304.75
Rent of Government Buildings and Housing	499,128,472.00	-	499,128,472.00
Conveyance fees	691,696,885.00	-	691,696,885.00
Sales of Market Establishment-Others	2,816,589,716.00	-	2,816,589,716.00
Administrative Fees and Charges			
Fees Under Traffic Act	668,931,476.00	-	668,931,476.00
Motor Drivers Licences	957,892,670.00	-	957,892,670.00
Other Land Revenue	-	-	-
Land Adjudication and Case Fees	-	-	-
Sale of Freehold Interest in Agri. Land	-	-	-
Immigration Visas and Other Consular Fees	1,248,283,522.00	775,477,372.75	472,806,149.25
Work Permit Fees	1,398,416,585.00	1,120,818,540.00	277,598,045.00
Passport Fees	555,360,662.00	169,791,583.75	385,569,078.25
Sale of Tender Documents	4,816,424.00	-	4,816,424.00
Course Fees & Hostel Charges	13,280,580.00	-	13,280,580.00
Kenya Oil Facility Storage Charges	225,769,863.00	-	225,769,863.00
Other Receipts From sales of Non-Financial Assets	1,178,664,541.00	-	-
Fishing Rights	164,900,537.00	-	164,900,537.00
Betting Control	123,952,082.00	-	123,952,082.00
Registration Services	481,191,340.00	129,025,648.40	352,165,691.60
Fees from Trustee Services	28,774,590.00	-	28,774,590.00
Others	604,908,306.00	1,023,411,627.45	(418,503,321.45)
Fines, Penalties & Forfeitures & Other Charges	1,679,276,823.00	1,442,618,801.60	236,658,021.40
Miscellaneous & Sundry Revenue	3,466,583,951.00	26,011,753,852.40	(22,545,169,901.40)
Loans to Non-Financial Public Enterprises	1,377,743,974.00	1,148,098,860.75	229,645,113.25
Loans to Financial Institutions/Re-embursement	22,256,026.00	118,954,397.85	(96,698,371.85)
Net Domestic Borrowing (CBK)	106,700,000,000.00	106,700,000,000.00	-
Commercial Loan	125,072,325,761.00	34,648,388,180.25	90,423,937,580.75
	1,260,253,885,620.00	1,117,161,927,226.25	142,213,293,852.75
Recurrent Recovery Over-issues 2012/2013		66,395,772.30	-
Development Recovery Over-issues 2012/2013		17,000,000.00	-
Treasury Bills/Bonds		160,660,000,000.00	-
Total Revenue		1,278,401,689,815.85	
RECURRENT			
MINISTRY/DEPARTMENT	VOTED PROVISION	ACTUAL ISSUES	
	KSHs	KSHs	
The Presidency	5,368,959,961.00	5,180,000,000.00	188,959,961.00
Ministry of Interior & Coordination of N/Govt	97,429,513,512.00	97,221,115,540.60	208,397,971.40
Ministry of Devolution & Planning	18,354,667,252.00	16,515,641,840.65	1,839,025,411.35
Ministry of Defence	78,118,447,503.00	74,195,000,000.00	3,923,447,503.00
Ministry of Foreign Affairs	11,223,340,891.00	11,060,000,000.00	163,340,891.00
Ministry of Education, Sc. & Technology	80,793,278,444.00	79,815,000,000.00	978,278,444.00
The National Treasury	23,328,685,873.00	22,590,000,000.00	738,685,873.00
Ministry of Health	19,844,514,973.00	15,834,237,522.90	4,010,277,450.10
Ministry of Transport & Infrastructure	2,522,716,954.00	2,140,317,948.00	382,399,006.00
Ministry of Environment Water & Natural Res.	8,487,403,713.00	8,484,713,501.75	2,690,211.25
Ministry of lands, Housing & Urban	4,118,408,067.00	3,710,306,258.00	408,101,809.00
Ministry of Information & Communication	2,156,862,218.00	2,156,862,218.00	-

Ministry of Sports,Culture & Arts	3,510,054,496.00	3,462,000,000.00	48,054,496.00
Ministry of Labour,Social Security & Services	8,246,539,092.00	7,793,447,207.05	453,091,884.95
Ministry of Energy & Petroleum	2,098,798,236.00	2,096,000,000.00	2,798,236.00
Ministry of Agriculture,Livestock & Fisheries	12,113,407,724.00	11,383,750,869.45	729,656,854.55
Ministry of Industrialisation & Enterprise Devt	2,804,154,229.00	2,762,050,414.15	42,103,814.85
Ministry of East African Affairs, Commerce & Tour	4,717,063,245.00	4,489,753,062.40	227,310,182.60
Ministry of Mining	688,572,034.00	452,000,000.00	236,572,034.00
Office of the Attorney General & Dept of Justice	2,592,204,299.00	2,475,000,000.00	117,204,299.00
The Judiciary	11,215,299,342.00	10,995,000,000.00	220,299,342.00
Ethics & Anti-Corruption Commission	1,234,066,500.00	1,130,000,000.00	104,066,500.00
National Intelligence Service	15,686,800,000.00	15,686,800,000.00	-
Directorate of Public Prosecution	1,214,222,397.00	1,110,000,000.00	104,222,397.00
Commission For The Implementation of the constitution	422,531,650.00	421,758,080.00	773,570.00
Registrar of Political Parties	324,726,897.00	320,000,000.00	4,726,897.00
Witness Protection Agency	202,808,999.00	198,000,000.00	4,808,999.00
Kenya national Human Rights & Equality Comm.	263,624,006.00	263,624,006.00	-
National Land Commission	606,087,857.00	605,745,800.00	342,057.00
Independent Electoral & Boundaries Comm.	4,954,872,916.00	3,900,000,000.00	1,054,872,916.00
Parliamentary Service Commission	22,345,000,000.00	22,345,000,000.00	-
Judicial Service Commission	435,804,034.00	236,000,000.00	199,804,034.00
The Commission on Revenue Allocation.	266,437,054.00	266,437,054.00	-
Public Service Commission	664,744,115.00	664,744,115.00	-
Salaries & Remuneration Commission	506,574,066.00	295,000,000.00	211,574,066.00
Teachers Service Commission	166,419,036,232.00	165,619,000,000.00	800,036,232.00
National Police Service Commission	332,924,654.00	322,000,000.00	10,924,654.00
Auditor General	2,650,842,279.00	2,410,000,000.00	240,842,279.00
Controller Of Budget	371,477,789.00	370,000,000.00	1,477,789.00
The Commission on the Administrative justice	297,340,827.00	297,300,000.00	40,827.00
National Gender & Equality Commission	234,025,586.00	224,000,000.00	10,025,586.00
Independent Police Oversight Authority	279,687,996.00	247,980,000.00	31,707,996.00
Total	619,446,527,912.00	601,745,585,437.95	17,700,942,474.05

DEVELOPMENT			
The Presidency	1,529,520,000.00	1,480,000,000.00	49,520,000.00
Ministry of Interior & Coordination of N/Govt	6,349,426,570.00	6,077,718,540.00	271,708,030.00
Ministry of Devolution & Planning	44,512,327,303.00	42,893,437,790.00	1,618,889,513.00
Ministry of Foreign Affairs	291,513,852.00	251,010,000.00	40,503,852.00
Ministry of Education,Sc.& Technology	16,024,960,483.00	6,571,399,275.00	9,453,561,208.00
The National Treasury	14,175,645,013.00	10,045,120,105.00	4,130,524,908.00
Ministry of Health	14,430,468,458.00	13,871,441,931.00	559,026,527.00
Ministry of Transport & Infrastructure	63,153,111,186.00	45,711,186,315.00	17,441,924,871.00
Ministry of Environment Water & Natural Res.	21,254,891,354.00	20,314,861,449.00	940,029,905.00
Ministry of lands,Housing & Urban	13,768,721,761.00	8,227,728,295.00	5,540,993,466.00
Ministry of Information & Communication	4,505,371,354.00	4,474,799,453.00	30,571,901.00
Ministry of Sports,Culture & Arts	905,441,610.00	865,000,000.00	40,441,610.00
Ministry of Labour,Social Security & Services	7,171,748,863.00	5,114,201,090.00	2,057,547,773.00
Ministry of Energy & Petroleum	26,439,020,314.00	22,900,986,031.00	3,538,034,283.00
Ministry of Agriculture,Livestock & Fisheries	28,672,035,899.00	25,440,256,865.00	3,231,779,034.00
Ministry of Industrialisation & Enterprise Devt	3,245,969,403.00	3,218,742,000.00	27,227,403.00
Ministry of East African Affairs, Commerce & Tour	1,335,152,966.00	1,317,000,000.00	18,152,966.00
Ministry of Mining	712,911,000.00	543,150,000.00	169,761,000.00
Office of the Attorney General & Dept of Justice	358,308,300.00	324,412,300.00	33,896,000.00
The Judiciary	2,696,297,500.00	1,686,156,260.00	1,010,141,240.00
Directorate of Public Prosecution	87,000,000.00	46,000,000.00	41,000,000.00
Independent Electoral & Boundaries Comm.	63,200,000.00	63,000,000.00	200,000.00
Parliamentary Service Commission	2,705,000,000.00	2,186,000,000.00	519,000,000.00
Public Service Commission	207,000,000.00	207,000,000.00	-
Auditor General	525,000,000.00	525,000,000.00	-
TOTAL	275,120,043,189.00	224,355,607,699.00	50,764,435,490.00

COUNTIES EXCHEQUER ISSUES

<i>COUNTY GOVERNMENTS</i>	<i>COUNTY ALLOCATION</i>	<i>EXCHEQUER ISSUES</i>	
BARINGO	3,247,853,215.00	3,247,853,215.00	0.00
BOMET	3,442,638,623.00	3,442,638,623.00	0.00
BUNGOMA	6,180,666,881.00	6,180,666,881.00	0.00
BUSIA	3,412,404,160.00	3,412,404,160.00	0.00
ELGEYO/MARAKWET	2,392,011,591.00	2,392,011,591.00	0.00
EMBU	3,066,970,129.00	3,066,970,129.00	0.00
GARISSA	4,405,661,290.00	4,405,661,290.00	0.00
HOMA BAY	4,121,429,825.00	4,121,429,825.00	0.00
ISIOLO	2,235,583,337.00	2,235,583,337.00	0.00
KAJIADO	3,227,409,859.00	3,227,409,859.00	0.00
KAKAMEGA	6,826,813,935.00	6,826,813,935.00	0.00
KERICHO	3,295,019,652.00	3,295,019,652.00	0.00
KIAMBU	5,826,748,612.00	5,826,748,612.00	0.00
KILIFI	5,442,533,482.00	5,442,533,482.00	0.00
KIRINYAGA	2,587,865,089.00	2,587,865,089.00	0.00
KISII	5,399,459,638.00	5,399,459,638.00	0.00
KISUMU	4,550,934,547.00	4,550,934,547.00	0.00
KITUI	5,315,309,833.00	5,315,309,833.00	0.00
KWALE	3,748,952,670.00	3,748,952,670.00	0.00
LAIKIPIA	2,523,013,037.00	2,523,013,037.00	0.00

LAMU			
MACHAKOS	1,500,755,102.00	1,500,755,102.00	
MAKUENI	5,059,146,345.00	5,059,146,345.00	0.00
MANDERA	4,366,239,078.00	4,366,239,078.00	0.00
MARSABIT	6,550,232,929.00	6,550,232,929.00	0.00
MERU	3,795,591,042.00	3,795,591,042.00	0.00
MIGORI	4,932,595,725.00	4,932,595,725.00	0.00
MOMBASA	4,269,095,296.00	4,269,095,296.00	0.00
MURANG'A	4,216,139,971.00	4,216,139,971.00	0.00
NAIROBI	3,917,395,471.00	3,917,395,471.00	0.00
NAKURU	9,505,766,405.00	9,505,766,405.00	0.00
NANDI	6,536,750,748.00	6,536,750,748.00	0.00
NAROK	3,477,901,827.00	3,477,901,827.00	0.00
NYAMIRA	3,867,590,331.00	3,867,590,331.00	0.00
NYANDARUA	3,038,643,767.00	3,038,643,767.00	0.00
NYERI	3,150,207,289.00	3,150,207,289.00	0.00
SAMBURU	3,636,303,976.00	3,636,303,976.00	0.00
SIAYA	2,598,153,222.00	2,598,153,222.00	0.00
TAITA TAVETA	3,653,579,335.00	3,653,579,335.00	0.00
TANA RIVER	2,420,630,003.00	2,420,630,003.00	0.00
THARAKA NITHI	2,914,328,551.00	2,914,328,551.00	0.00
TRANS-NZOIA	2,294,827,947.00	2,294,827,947.00	0.00
TURKANA	3,729,874,627.00	3,729,874,627.00	0.00
UASIN GISHU	7,664,402,594.00	7,664,402,594.00	0.00
VIHIGA	3,796,628,687.00	3,796,628,687.00	0.00
WAJIR	2,831,564,442.00	2,831,564,442.00	0.00
WEST POKOT	5,290,052,180.00	5,290,052,180.00	0.00
	3,155,049,726.00	3,082,462,530.00	0.00
CFS	193,418,726,021.00	193,346,138,825.00	72,587,196.00
Salaries Allowances & Miscellaneous Services			
Public Debt	5,020,440,111.49	3,500,000,000.00	1,520,440,111.49
Pensions & Gratuities	232,265,327,187.10	227,582,271,715.00	4,683,055,472.10
Subscription to International Organisations	28,146,892,198.00	27,710,000,000.00	436,892,198.00
	500,000.00	-	
TOTAL ISSUES	265,433,159,496.59		
SURPLUS FOR THE YEAR 2013/2014		1,278,239,603,676.95	162,086,138.90

DATE.....

30/9/14

DR. KAMAU THUGGE
PRINCIPAL SECRETARY / NATIONAL TREASURY

Detailed Report of the Auditor-General

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THE NATIONAL TREASURY

FINANCIAL STATEMENTS FOR VOTE 107

Basis for Qualified Opinion

1. Under-Expenditure

The National Treasury - Vote 107 summary statements of recurrent and development appropriation accounts reflects a total expenditure of Kshs.31,983,056,143.00 incurred during the year against the approved net estimated expenditure of Kshs.37,504,330,886.00 resulting in a gross under-expenditure of Kshs.5,521,274,743.00 or approximately 15% of the net estimated expenditure. The reasons provided in the footnotes to the accounts for the under-expenditure include; delay in submission of expenditure returns by project coordinators, lengthy procurement procedures, delay in recruitment of key staff for some activities, delay by donors in releasing funds, delay in delivery of goods by suppliers and lack of exchequer funding. The accuracy and completeness of the total expenditure and gross under-expenditure could not therefore be ascertained due to apparent delay in receipt of expenditure returns from the field and capture of the expenditure in the books of account.

2. Outstanding Imprests

The National Treasury - Vote 107 statement of financial assets as at 30 June 2014 reflects an outstanding imprest balance of Kshs.2,123,643.80 which ought to have been recovered or accounted for on or before 30 June 2014. No reasons have, however, been provided for failure to surrender or account for the imprests as of 30 June 2014. Further, the IFMIS report supporting the outstanding imprests balance was not provided for audit review. In the circumstances, the accuracy and completeness of the outstanding imprest balance of Kshs.2,123,643.80 could not be confirmed.

3. Un-cleared Balances

The National Treasury - Vote 107 statement of financial assets as at 30 June 2014 also reflects outstanding balances totalling Kshs.2,040,415,354.15 against District Suspense Accounts, Salary Advance, Advances to other Ministries and Suspense Account of Kshs.141,630,005.65, Kshs.442,588.35, Kshs.1,804,229,228.00 and Kshs.94,113,532.15 respectively. No reasons have been provided for failure to clear the outstanding balances from the books of account.

4. Pending Bills

Bills amounting to Kshs.332,951,186.00 relating to 2013/2014 were not settled during the year but were instead carried forward to 2014/2015 financial year. Failure to settle bills in the year to which they relate adversely affects the subsequent year's provision to which they have to be charged.

5. Bank Reconciliation Statements

5.1 Recurrent Account

The cashbook balance of Kshs.768,757,311.50 as at 30 June 2014 for the National Treasury Recurrent Account No. 1000181467 reflected under Note 24A to the financial statements has not been reconciled with the bank balance of Kshs.703,794,782.00 as at the same date. Consequently, the accuracy of the cashbook balance of Kshs.768,757,311.50 could not be confirmed.

5.2 Development Account

- (i) The bank reconciliation statement for the new development account No.1000181664 as at 30 June 2014 reflects a cashbook balance of Kshs.15,816,391.85 which differs from the cashbook balance of Kshs.16,661,127.05 by Kshs.844,735.20. The resultant difference has not been reconciled or explained.
- (ii) The bank reconciliation statement for the new development account reflects an amount of Kshs.436,704,179.30 being payments in cashbook not yet recorded in bank statement. The reconciliation statement also reflects an amount of Kshs.453,376.00 being receipts in bank statement not in cashbook. Further, the reconciliation statement reflects an amount of Kshs.9,927,285.25 being payments in bank statement not in cashbook. In addition, the statement reflects an amount of Kshs.414,921,900.00 being receipts in cashbook not in bank statement. No explanation has been provided for failure to clear these outstanding balances.
- (iii) Similarly, the bank reconciliation statement for the old development account as at 30 June 2014 reflects an amount of Kshs.543,315,051.60 being payments in cashbook not recorded in bank statement. The statement also reflects an amount of Kshs.185,630,025.15 being receipts in bank statement not in cashbook. The statement further reflects an amount of Kshs.703,509,184.40 being payments in bank statement not in cashbook. In addition, the statement reflects an amount of Kshs.36,113,223.50 being receipts in cashbook not in bank statement. This amount relates to receipts between December 2006 and December 2013. As in the previous instance, no explanation has been provided for failure to clear these outstanding balances.

5.3 Deposits Account

- (i) The bank reconciliation statement for the deposits account as at 30 June 2014 reflects a cashbook balance of Kshs.323,479,304.00 which differs from the cashbook balance of Kshs.323,469,304.00 by Kshs.10,000.00. The difference has not been reconciled or explained.
- (ii) The bank reconciliation statement reflects an amount of Kshs.639,131,690.45 being payments in cashbook not recorded in bank statement. The statement also reflects an amount of Kshs.49,532,914.85 being receipts in bank statement not in cashbook. Further, the statement reflects an amount of Kshs.4,443,791.15 being

payments in bank statement not in cashbook. In addition, the statement reflects an amount of Kshs.258,992,576.55 being receipts in cashbook not in bank statement. As in the previous instances, no explanation has been provided for failure to clear these outstanding balances.

6. Micro Finance Sector Support Credit Project (Financing Agreement No. CKE 3004 01E)

6.1 Unresolved Prior Year Audit Issues

The following issues highlighted in the project's audit report for 2012/2013 have not been explained or resolved to date by the project management

- (i)** The statement of receipts and payments for the year ended 30 June 2013 reflected a balance carried forward of Kshs.8,752,689.00 which was not supported by a bank statement.
- (ii)** An amount of Kshs.11,426,300.00 (US\$ 100,000) withdrawn from the designated special account on 18 June 2013 was not reflected in the project financial statements for the year ended 30 June 2013.
- (iii)** A local bank had not disbursed to the ultimate beneficiaries of the funds an amount of Kshs.76,684,000.00 or approximately 32% of the total disbursements made by the project to the bank of Kshs.241,000,000.00 as at 30 June 2013 contrary to Section 2.9 of the Subsidiary Loan Agreement signed between the Ministry of Finance and the Bank, which was acting as a financial intermediary.
- (iv)** The expenditure of Kshs.3,517,395.00 incurred during the year ended 30 June 2013 was not supported with a detailed note to the financial statements to disclose the nature of consultancy.

6.2 Unsupported Consultancy Contracts

The expenditure of Kshs.11,842,900.00 on consultancies reflected in the project's statement of receipts and payments for the year ended 30 June 2014 relates to a consultancy contract awarded to a local firm at a sum of Kshs.65,700,350.00 in January 2014 and a contract for provision of external audit consultancy services which was similarly awarded to another local firm at a sum of Kshs.1,449,300.00 in February 2012. However, procurement documents and records showing how the consultants were procured, evaluated and awarded were not made available for audit review. In the circumstances, it has not been possible to confirm whether the contracts were procured competitively in compliance with the Public Procurement and Disposal Act, 2005 and relevant regulations.

6.3 Overpayment

The total expenditure of Kshs.11,842,900.00 on consultancies included an amount of Kshs.1,449,300.00 paid to an audit firm for provision of audit services. The supporting payment vouchers, however, show that fee notes P401 and P402 issued by the audit

firm for Kshs.217,395.00 each though both settled on 13 June 2014 had also been paid earlier on 6 June 2012 and 31 August 2012 respectively. Consequently, the total expenditure of Kshs.11,842,900.00 was overstated by Kshs.434,790.00.

6.4 Bank Balances

The project's statement of financial assets as at 30 June 2014 reflect bank balances totalling Kshs.150,479,489.30. However, the amount was not supported by bank confirmation certificates, bank statements and reconciliations as at 30 June 2014. Under the circumstances, the completeness and accuracy of the bank balance could not be confirmed.

7. Technical Support Programme Project (Financing Agreement No. KE/FED/2009/021421)

7.1 Format of the Project Financial Statements

The project management contravened Section 81(3) of the Public Finance Management Act, 2012 by preparing and submitting the Project's financial statements for the year ended 30 June 2014 in a format that did not comply fully with International Public Sector Accounting Standards and guidelines prescribed by the Public Sector Accounting Standards Board. The financial statements did not disclose project information and overall performance including details of registered office, project overview, bankers, auditors, roles and responsibilities, funding summary, summary of overall project performance and summary of project compliance, statement of project management responsibilities; and significant accounting policies used in accounting for transactions and preparing the financial statements.

7.2 Undisclosed Bank Balances

In the Report for 2011/2012, concern was raised about an unspent balance of Kshs.25,964,296.80 as at 30 June 2012 which was held in an account with a local bank but not disclosed separately in the financial statements. A review of the position in 2012/2013 indicated that the amount still held in the account with the local bank stood at Kshs.10,296,825.95 as at 30 June 2013. This amount was again not disclosed separately in the financial statements for the year. Further, it was also not disclosed how an amount of Kshs.15,667,470.85 from the initial balance of Kshs.25,964,296.80 held in the account with the local bank as at 30 June 2012 was used during 2012/2013 financial year.

Further, a review of the position in the year 2013/2014 indicates that an amount of Kshs.4,006,950.95 was still being held in the account with the local bank as at 30 June 2014. This amount was again not disclosed in the financial statements for the year ended 30 June 2014. Further, it was also not disclosed how an amount of Kshs.6,289,875.00 from the balance of Kshs.10,296,825.95 as at 30 June 2013 was used in the year under review. Additional information indicates that a further sum of Kshs.10,211,250.00 was deposited in a new separate account in the local bank on 14 March 2014 from an undisclosed source. Out of this balance, an amount of Kshs.4,699,092.95 had been spent as at 30th June 2014 without disclosing the nature of the expenditure, leaving a balance of Kshs.5,512,157.05 still being held in the new

account with the local bank. The balance of Kshs.5,512,157.05 was again not disclosed separately in the financial statements for the year ended 30 June 2014.

7.3 Unsupported Expenditure

The expenditure of Kshs.108,234,084.00 on consultancies reflected in the Project's statement of receipts and payments for the year ended 30 June 2014, was not supported with procurement documents and records showing the procurement procedure applied, the criteria of award of consultancy contract or identification of the consultants and the determination of their fees. In the circumstances, the propriety of the total expenditure of Kshs.108,234,084.00 could not be confirmed.

Statement of Receipts into and Issues from the National Exchequer Account

Unqualified Opinion

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

Emphasis of the Matter

8. Failure to Transfer Proceeds from the Sovereign Bond to the National Exchequer Account

Available information indicates that net proceeds from the Sovereign Bond of USD 1,999,052,872.97 out of the total amount of USD 2,000,000,000.00 were received on 24 June 2014 and deposited into an offshore account, contrary to Article 206 of the Constitution of Kenya and Section 17(2) of Public Finance and Management Act, 2012 which requires that all money raised or received by or on behalf of the National Government be paid into the Consolidated Fund. There is the risk of proceeds being appropriated without the authority of the Controller of Budget and also being applied for purposes other than those that the Sovereign Bond was floated.

Out of the balance in the offshore account of USD.1,999,052,872.97 as at 2 July 2014, an amount of USD.395,439,262.50 (Kshs.34,648,388,180.25) was on 3 July 2014 transferred to the Exchequer Account to fund infrastructure projects but accounted for in 2013/2014 financial year. On the same date of 3 July 2014, another amount of USD.604,560,737.50 (Kshs.53,201,344,900.00) was withdrawn from the offshore account to fund the repayment of the syndicate loan but recorded in 2014/2015 financial year books. Authority of the Controller of Budget to incur the expenditure was, however, not obtained.

The Statement of Receipts into and Issues from the National Exchequer Account for the year ended 30 June 2014 therefore reflects only actual receipts from commercial loan of Kshs.34,648,388,180.25 out of the net proceeds from the Sovereign Bond as a result of failure to pay the full amount of the net proceeds from the Sovereign Bond of USD.1,999,052,872.97 (Kshs.173,917,599,948.39) into the Consolidated Fund during the year.

I have, however, not qualified my audit opinion on the basis of this matter due to the fact that the balance of actual net proceeds from Sovereign Bond is correctly reflected in the Off-Shore Account and in the Central Bank of Kenya Special Account.

REVENUE STATEMENTS

Basis for Qualified Opinion

9. Unexplained Variance between Revenue Statements and Exchequer Records

The statement of revenues and transfers reflects payments to the exchequer totalling Kshs.924,317,108,176.70 during the year, while records maintained at the exchequer section of the National Treasury show a total amount of Kshs.931,594,056,649.25 against the revenue items. The resultant difference of Kshs.7,276,948,472.55 between the two sets of records has not been reconciled or explained.

10. Unreconciled Balance Brought Forward

The statement also reflects a brought forward balance of Kshs.8,478,667,660.35, which, however, differs by Kshs.24,291,410.09 from the total carried forward balance of Kshs.8,454,376,250.26 shown against the revenue items in the audited statements of revenue for the year ended 30 June 2013. The difference has similarly not been reconciled or explained.

11. Omitted Balance Carried Forward

The statement further reflects a balance carried forward of Kshs.2,668,125,971.50, which is not, however, reflected in the statement of assets and liabilities under the financial statements of the National Treasury Statement for the year ended 30 June 2014. No explanation has been provided for the omission. Further, and as in the previous years, no reason has been provided for the continued failure to remit to the Exchequer Account, the significant balance of Kshs.2,668,125,971.50 as at 30 June 2014.

12. Arrears of Revenue

The financial statements reflect arrears of revenue due and uncollected as at 30 June 2014 of Kshs.164,712,793,632.92 compared to Kshs.135,141,678,594.76 reported as at 30 June 2013. The amount of Kshs.164,712,793,632.92 is made up of arrears for PAYE and Other Income Tax of Kshs.115,595,709,259.00, arrears for VAT and Excise Taxes of Kshs.12,826,655,982.00, arrears for loan redemptions of Kshs.12,136,521,472.63 and arrears for loan interests of Kshs.24,153,906,919.29 respectively. Besides failure to collect the arrears, the balances have not been

analyzed or supported with the relevant documents and as a result, their validity, completeness and accuracy could not be ascertained.

DEVELOPMENT REVENUE

Unqualified Opinion

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

KENYA LOCAL LOANS SUPPORT FUND

Basis for Adverse Opinion

13. Presentation and Disclosure of the Financial Statements

The financial statements of Kenya Local Loans Support Fund as at 30 June 2014 were not prepared in accordance with International Public Sector Accounting Standards (Cash Basis). The financial statements submitted do not include accounting principles used in their preparation and other explanatory information and disclosures.

14. Failure to Redeem Stocks

In the reports for the previous years' reference had been made to stocks valued at Kshs.10,430,700.00 which were past their redemption dates, with the last redemption date for a sum of Kshs.17,400.00 having been on 6 February 2010. The National Treasury has explained that the stocks were redeemed some years ago but erroneously accounted for as revenue. However, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account were not availed for audit review.

15. Winding Up of the Fund

According to information available, the Kenya Local Loans Support Fund is in the process of being wound up in line with recommendations of the Public Accounts Committee and instructions issued by the National Treasury that all dormant funds be wound up. However, no evidence has been availed to show the stage that the process of winding up the Fund had reached as at 30 June 2014.

FINANCIAL STATEMENTS OF GOVERNMENT CLEARING AGENCY FUND

Basis for Qualified Opinion

16. Non-Submission of Financial Statements

The National Treasury has not submitted for audit the financial statements of Government Clearing Agency Fund for the year ended 30 June 2014. This is

contrary to Section 84 of the Public Finance Management Act, 2012 which requires an administrator of a national public fund to prepare and submit for audit financial statements in respect of a fund within three months after the end of the financial year, that is, on or before 30 September of every year. No explanation has been provided for the omission.

CIVIL CONTINGENCIES FUND

Basis for Qualified Opinion

17. Presentation and Disclosures

Contrary to the guidelines issued by the Public Sector Accounting Standards Board pursuant to the provisions of Section 194 of the Public Finance Management Act, 2012, the Civil Contingencies Fund financial statements for the year ended 30 June 2014 submitted for audit do not include a cash flow statement, a statement of comparison of budget and actual amounts and significant accounting policies used in their preparation and other necessary disclosures.

PROVIDENT FUND

Basis for Adverse Opinion

18. Missing Investment Certificates and an Unexplained Provision for Investment

Note 8.2 to the financial statements reflect investment in shares of Kshs.45,860,477.45 representing the gross book value of ordinary share investments in two publicly quoted companies. Out of this balance, a sum of Kshs.14,807,299.00 represents 7,540,140 ordinary shares held in the East African Breweries Company Limited. However, share certificates for 1,960,118 shares only valued at Kshs.9,547,660.00 and relating to the company were presented for audit. Therefore it has not been possible to confirm whether the balance of 5,580,022 shares valued at Kshs.5,259,639.00 invested in the company exists.

A provision of Kshs.482,046.55 off-set against the gross investments balance of Kshs.45,860,477.45 has also not been analyzed or explained.

In view of these discrepancies, it has not been possible to confirm the completeness, value and accuracy of the net investment balance of Kshs.45,378,431.00 reflected in the statement of assets and liabilities.

19. Dividend income not Accounted for in the Fund Account

As disclosed in Note 8.3 to the financial statements, other receivables balance of Kshs.50,115,592.00 includes dividend receivable from Department of Government Investment and Public Enterprises under the National Treasury amounting Kshs.45,321,709.40 and relating to 2012/2013 and earlier years. No explanation

has been given for failure to pay the dividend income which was received directly by the National Treasury into the Fund Account.

Similarly, during the 2013/14 financial year, dividend income from investments amounting Kshs.11,310,210.00 was received from East African Breweries Limited and paid to the National Treasury instead of the Provident Fund Account and neither was the amount accounted for as a receivable in the Fund's books of account as at 30 June 2014.

20. Cash on Deposit – Joint Consolidated Fund (JCF)

Other receivables balance of Kshs.50,115,592.00 reflected in the statement of assets and liabilities includes Cash on Deposit- Joint Consolidated Fund (JCF) balance of Kshs.997,655.80. However, certificates in support of the balance were not submitted for audit review and as a result, it has not been possible to verify the existence and valuation of the deposits or the organizations in which the deposits were held.

21. Cash Deposit - Cereals and Sugar Finance Corporation

Included in other receivables is cash deposit totalling Kshs.3,796,226.00 held in the insolvent Cereals and Sugar Corporation. As reported previously, the Cabinet had given approval on 13 September 2007 for the winding-up of the Corporation and directed the National Treasury to take over its assets and liabilities. No information has been provided regarding the progress attained in winding up of the Corporation as at 30 June 2014. In the circumstances, realization of the amount of Kshs.3,796,226.00 is doubtful.

22. Unanalyzed Balances

The statement of assets and liabilities also reflects other pending payables balance of Kshs.9,715,111.00 made up of Kshs.9,622,726.00 and Kshs.92,385.00 relating to surplus cash remitted by Departments and interest due from Government respectively. These balances are brought forward from previous years but have no supporting analyses.

The National Treasury has explained that documents containing details of the balances were lost in the 1970's and that during the year under review, it constituted a taskforce to reconcile the balances. In the absence of analyses, however, it has not been possible to confirm the accuracy, validity and completeness of these balances.

23. Differences in Comparative Balances

The comparative balances for 2012/2013 reflected in the Fund's financial statements for the year ended 30 June 2014 differs with the balances reflected in the audited financial statements for the year 2012/2013 in respect of the following items:

Item	Comparative Balance 2012/2013 Kshs	Actual Statement 2012/2013 Kshs.	Difference Kshs.
Dividend receivable from DGIPE	104,270,111.00	57,144,536.30	47,125,574.70
Accumulated Surplus	460,564,771.00	413,329,295.75	47,235,475.25
Miscellaneous Receipts	146,187,997.00	99,062,552.30	47,125,444.70

No disclosure has been made in the notes to the financial statements regarding re-statement of these prior period balances including the reasons for the restatement as required under International Public Sector Accounting Standard No.3 on "Accounting Policies, Changes in Accounting Estimates and Errors.

RURAL ENTERPRISE FUND

Basis for Disclaimer of Opinion

24. Uncleared Balances

Following the winding up of the Rural Enterprise Fund through Legal Notice No. 97 dated 29 June 2012, any amounts remaining in the Rural Enterprise Fund was to be paid into the Consolidated Fund. However, the National Treasury has not yet closed the Fund's books of account despite the Legal Notice and has continued to prepare and submit the Fund's financial statements for audit. The Fund's statements of assets and liabilities as at 30 June 2014 presented for audit continue to reflect a total amount of Kshs.397,908,774.30 under assets made up of balances of Kshs.394,559,879.30, Kshs.1,951,920.60, Kshs.108,839.70, and Kshs.1,288,134.70 against Loanees, Cash with D.C.(Loans Repaid), Cash with D.C. (Interest on Loans) and Cash in the D.C'S Miscellaneous Deposit Account respectively. No satisfactory explanation has been given for failure to clear these long outstanding balances.

25. Presentation and Disclosures

Contrary to the guidelines issued by the Public Sector Accounting Standards Board pursuant to the provisions of Section 194 of the Public Finance Management Act, 2012, the Rural Enterprise Fund financial statements for the year ended 30 June 2014 submitted for audit do not include a statement of cash flows, statement of comparison of budget and actual amounts and significant accounting policies used in their preparation and other necessary disclosures.

26. Unresolved Matters in the Report for 2012/2013

A review of the unsatisfactory matters highlighted in the Report for 2012/2013 revealed that they remained unresolved during the year 2013/2014 as indicated below:-

a) Loan Beneficiaries

The Statement of assets and liabilities as at 30 June 2013 reflected a loan balance of Kshs.394,559,879.30, which included an amount of Kshs.220,013,036.70 that was not analyzed to show the names of borrowers, amounts borrowed and amounts outstanding as at 30 June 2013. Consequently, and in absence of the analysis, the completeness and correctness of the balance of Kshs.394,559,879.30 as at 30 June 2013 could not be ascertained. Further, no interest on the loans outstanding as at 30 June 2013 was accrued in the accounts.

b) Unbanked Cash

The statement also reflected unbanked cash balances totalling Kshs.3,348,895.00, brought forward from 2011/2012 and earlier years. According to information available the total amount comprised Kshs.1,951,920.60 representing cash with DC(Loans Repaid); Kshs.108,839.70 Cash with DC (Interest on Loans); and Kshs.1,288,134.70 relating to Cash in the DC'S Miscellaneous Deposit Account. Further, there was no evidence to confirm actual existence of the amount of Kshs.3,348,895.00 at the DC's Office.

In addition, the figure of Kshs.1,951,920.60 under DC (Loans Repaid) included advances amounting to Kshs.207,344.25 in form of IOUs issued in 1997/1998 from the Fund to some five officers working at the DC's Office, Kisumu. The IOUs had not however been surrendered as at 30 June 2013 or 2014, respectively.

c) Unreconciled Balance

The statement of assets and liabilities for deposits 07 as at 30 June 2013 reflected a debit balance of Kshs.1,828,387.65 in respect of the Fund, while the Fund accounts under review showed a figure of Kshs.397,908,774.30 against the item. The significant difference of Kshs.396,080,386.65 between the two sets of records was not reconciled or explained.

TREASURY MAIN CLEARANCE FUND

Basis for Adverse Opinion

27. Presentation of Financial Statements

Contrary to the pronouncements and guidelines issued by the Public Sector Accounting Standards Board and the requirements of International Public Sector Accounting Standards financial reporting under cash basis of accounting framework, the Treasury Main Clearance Fund financial statement prepared and submitted for audit do not include a statement of receipts and payments and a statement of cash flows for the year ended 30 June 2014 respectively. In addition, significant accounting policies adopted in the preparation of the financial statements and other explanatory information have not been disclosed.

28. Sundry Debtors

The Treasury Main Clearance Fund Balance Sheet as at 30 June 2014 reflects like in the preceding year a sundry debtors balance of Kshs.12,503,607,445.65, which includes an amount of Kshs.2,332,170,394.25 that has not been analyzed. Consequently, the completeness, accuracy and collectability of the balance could not be ascertained. Further, no reason has been provided for the inordinate delay in recovery of debts amounting to Kshs.12,503,607,445.65 which have been due for over three years.

29. Sundry Creditors

The Balance Sheet also reflects a sundry creditors balance of Kshs.12,490,478,940.70, which includes amounts of Kshs.523,686.45 under PMG Special Account, Kshs.2,285,511,054.15 under Advance Deposits, Kshs.29,963,830.85 under Advance Deposits – Ministry of Information and Communications and Kshs.93,454.55 under JCF Interest all brought forward from 2012/2013 financial year. However, and as reported in the previous years, these amounts have not been analyzed or supported with relevant documents. Consequently, the completeness and accuracy of the Sundry Creditors balance of Kshs.12,490,478,940.70 as at 30 June 2014 could not be ascertained.

30. Excess Income over Expenditure

Similarly, the Balance Sheet reflects an Excess Income over Expenditure of Kshs.871,495.05 which differs from the calculated balance of Kshs.2,949,863.30 between the amount received of Kshs.10,174,386,914.70 and the payments made of Kshs.10,171,437,051.40 captured in the underlying records. The difference has not been reconciled or explained to date casting doubt on the accuracy of the Treasury Main Clearance Fund balance sheet as at 30 June 2014.

31. Winding Up of the Fund

Although the Treasury Main Clearance Fund is in the process of being wound up in line with the Public Accounts Committee recommendations and Treasury instructions on the requirement to wind up dormant Funds, no evidence was made available to show the extent, to which the winding up process of the Fund had reached as at 30 June 2014.

THE STATEMENT OF ASSETS AND LIABILITIES FOR PENSIONS AND GRATUITIES - FUNDS AND DEPOSITS

Basis for Adverse Opinion

32. Presentation and Disclosures

Contrary to the requirements of International Public Sector Accounting Standards Financial Reporting under Cash Basis of Accounting as prescribed by the Public Sector Accounting Standards Board, the statement of receipts and payments, accounting policies and other explanatory information including disclosures were not prepared and submitted together with the statement of assets and liabilities for pensions and gratuities – funds and deposits as at 30 June 2014.

33. Contributions and Recoveries

The Statement of Assets and Liabilities for Pensions and Gratuities – Funds and Deposit as at 30 June 2014 reflects total contributions and recoveries amounting to Kshs.840,964,209.75 in respect of 2% Contributions for Widows and Children Pension Scheme (W.C.P.S), 31% Contributions, Suspense Abatement – Recoveries, Contributions and Recoveries, CAP Deductions – Recoveries of Kshs.246,409,365.80, Kshs.486,221,192.50, Kshs.85,195,396.55 and Kshs.23,138,254.90 respectively.

However, no evidence has been provided for audit review to confirm that the accumulated contributions and recoveries were surrendered to the Exchequer as at 30 June 2014 or thereafter as required under Government Financial Regulations and Procedures.

34. Other Suspense

The Statement of Assets and Liabilities also reflects an Other Suspense balance of Kshs.1,971,533.15 relating to overpayments of pension made over the years. However, the balance has not been analyzed. In addition, no indication has been given regarding how the Pensions Department intends to recover the amounts overpaid to the pensioners.

35. Paymaster General Account

(i) Unrecorded Receipts and Payments

The Statement of Assets and Liabilities reflects a Paymaster General (PMG) Account balance of Kshs.1,568,246,019.80 which agrees with the ledger balance but differs with the cash book balance of Kshs.1,476,356,051.40. Although the resultant difference of Kshs.91,889,968.40 between these records has been reconciled, no explanation has been provided for failure to record receipts captured in the cash book totalling Kshs.3,525,571.50 not in the ledger, receipts captured in the ledger totalling Kshs.1,865,782.70 not in the cash book; and payments captured in the cash book amounting to Kshs.1,174,107.00 not in the ledger.

36. Bank Reconciliation Statement

Examination of bank reconciliation statement for the Deposits Account (01-0-10-E040) as at 30 June 2014 revealed the following unsatisfactory matters:

(i) Receipts in bank statement not in cash book

The bank reconciliation statement reflects receipts in bank statement totalling Kshs.331,159,306.65 for the period 1 July 2010 to 30 June 2014 which had not been recorded in the cash book as at 30 June, 2014. The receipt include 31% contribution received from government institutions and state corporations in relation to staff seconded from the Civil Service. No plausible explanation has been provided for failure to record the receipts in the cash book.

(ii) Payments in bank statement not in cash book

The bank reconciliation statement also reflects payments in bank statement not recorded in the Cash book totalling Kshs.1,467,772,994.10. Out of the amount payments totalling Kshs.10,464,002.55 represent refer to drawer (R/D) cheques payable to the Pensions Secretary/Director of Pensions in respect of pension contributions and refund of contract gratuities by Ministries and other Government Departments and Institutions for the period 1 April 2004 to 30 June 2014.

The National Treasury has not provided evidence to show the steps taken to recover the amounts from the parties concerned.

(iii) Receipts in cashbook not in bank statement

The bank reconciliation statement reflects receipts in cash book totalling Kshs.334,886,955.70 not recorded in bank statement relating to five years from 2010 to 2014. No explanation has been provided for failure to capture these receipts in the bank statement.

STATEMENT OF INVESTMENTS BY THE CABINET SECRETARY/NATIONAL TREASURY IN VARIOUS COMPANIES

Basis for Disclaimer of Opinion

37. Presentation and Disclosure of Financial Statements

The Statement of Investments by the Cabinet Secretary/National Treasury in various companies as at 30 June 2014 prepared and submitted for audit do not conform fully with the International Public Sector Accounting Standards (Cash Basis) as prescribed by the Public Sector Accounting Standards Board. The Statement of financial assets as at 30 June 2014 and statement of receipts and payments for the year then ended in respect of the investments have not been prepared and submitted for audit. In addition, significant accounting policies adopted in the preparation of the financial statements and other explanatory information have not been disclosed.

38. Dormant Companies

The Statement of Investments by the Cabinet Secretary/National Treasury in Various Companies as at 30 June 2014 reflects total Government shareholding of 19,496,556,717 shares with a nominal value of Kshs.21,377,783,487.00 in local companies, compared to 19,494,609,169 shares with a nominal value of Kshs.24,553,482,578.00 reported as at 30 June 2013. However, the Statement includes seven dormant companies in which the Government held 29,313,632 shares with a nominal value of Kshs.586,272,580.00 as at 30 June 2014.

The value of the investments in these dormant companies is in the circumstances doubtful and may not therefore be recoverable.

Two other dormant companies, East African Sugar Industries (Muhoroni) and Busia Sugar Company in which the Government held 1,735,675 shares with a nominal

value of Kshs.34,713,500.00 as at 30 June 2013 have been excluded from the statement as at 30 June 2014. It has been explained by the National Treasury that the investments were reversed in the books in 2013/2014 because conversion of advances to shareholding had not occurred by the time the companies went under.

39. Excluded Investments

The total investments of Kshs.21,377,783,487.00 reflected in the Statement as at 30 June 2014, do not include investments in Kenya Airfreight Handling Co. Ltd and Kenya Fibre Corporations Ltd in which the Government held 750,001 shares with a nominal value of Kshs.15,000,020.00 according to the Register maintained by the National Treasury.

No explanation has been provided for the above omission.

40. Missing Share Certificates

The Statement also reflects Government shareholding of 5,073,529 shares with nominal value of Kshs.101,470,580.00 in Ken-Ren Chemicals and Fertilizers Ltd. However, the existence and value of these shares could not be confirmed because the relevant share certificates were not provided for audit verification. In addition, information available indicates that the fertilizer company did not take off despite colossal amounts having been paid by the Government for compensation for breach of Ken-Ren contract.

41. Unexplained Discrepancy in Shareholding

The Statement reflects Government shareholding of 26,050,000 shares with nominal value of Kshs.521,000,000.00 in Nzoia Sugar Company Ltd . The Investment Register and share certificate, however, shows Government shareholding of 26,600,000 shares with a nominal value of Kshs.532,000,000.00. The resultant difference of 550,000 shares with a nominal value of Kshs.11,000,000.00 has not been explained.

STATEMENT OF OUTSTANDING LOANS

Basis for Qualified Opinion

42. Non- Repayments of Loans

The total outstanding loans of Kshs.192,082,652,272.94 reflected in the Consolidated Statement of Outstanding Loans as at 30 June 2014 include loans amounting to Kshs.16,652,188,828.16 issued to the following institutions. However, these institutions have not made any efforts to pay their respective loans upon maturity as shown below:-

Institution	Amount Lent (Kshs)	Effective Year of Repayment
Agricultural Finance Corporation	520,433,640.00	Various
Agricultural Settlement Fund & Central Lands Board	70,717,700.00	Various
Associated Sugar Factory Ramisi	15,818,960.00	Various
Co-operative Bank	46,780,491.00	Various
East African Sugar Industries Ltd	172,123,100.00	Various
Muhoroni Sugar Co. Ltd	5,000,000.00	1992
Eldoret Municipal Council	1,058,673,824.12	1993
Halal Meat Products	27,701,420.00	1979
Kenya Industrial Estates	323,154,000.00	Various
Kenya Meat Commission	840,241,100.00	Various
Kenya National Federation of Co-Operatives (KNFC) Ltd	5,595,600.00	Terms not specified
Local Government Loans Authority	7,594,273,720.00	Terms not specified
Miwani Sugar Mills	78,088,180.00	Various
National Water Conservation & Pipeline Corporation	2,460,874,897.00	Various
Nzoia Sugar	158,510,100.00	Various

P.J. Products	2,036,820.00	Terms not specified
Pyrethrum Board	863,368,270.00	2008
Rift Valley Water	1,411,529,796.04	2010
South Nyanza Sugar	47,200,000.00	Various
Kenya Power & Lighting	389,734,841.00	2009
Coffee Board of Kenya	<u>560,332,369.00</u>	2009
Total	<u>16,652,188,828.16</u>	

No reasons have been provided for failure by the institutions to remit their loan repayments to the Treasury.

Emphasis of Matter

43. Outstanding Loans Balance

The Consolidated Statement of Outstanding Loans as at 30 June 2014 reflects total loans issued of Kshs.192,082,652,272.94, out of which an amount of Kshs.10,795,333,453.06 has been repaid, leaving a balance of Kshs.181,287,318,819.88 outstanding as at that date. The total outstanding loans balance of Kshs.181,287,318,819.88 as at 30 June 2014 represents an increase of Kshs.14,347,703,077.45 or approximately 8.6% of total outstanding balance of Kshs.166,939,615,742.43 reported as at 30 June 2013. My opinion is not qualified in respect of this matter.

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT

Basis for Qualified Opinion

44. Presentation of the Financial Statement

Contrary to the guidelines prescribed by the Public Sector Accounting Standards Board, the National Treasury did not prepare and submit for audit financial statements of outstanding obligations guaranteed by the government as at 30 June 2014 in accordance with International Public Sector Accounting Standards (Cash

Basis). The single statement submitted does not include accounting policies used in its preparation and other explanatory information.

45. Long Outstanding Balances

The Statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2014 reflects outstanding contingent liabilities totalling Kshs.164,286,742.60 made up of Kshs.11,814,920.20, Kshs.152,317,825.00 and Kshs.153,997.60 relating to Kenya Railways Corporation, Cereals and Sugar Finance Corporation and Kenya Post Office Savings Bank, respectively. Although these balances have been outstanding for a long period of time, no indication has been given as to when the contingent liabilities will ever crystalize and be cleared from the books of account.

SUBSCRIPTIONS BY KENYA GOVERNMENT TO INTERNATIONAL ORGANIZATIONS

Basis for Adverse Opinion

46. Presentation and Disclosures of Financial Statements

The financial statements of subscriptions by Kenya Government to international organizations for the year ended 30 June 2014, prepared and submitted for audit do not comply fully with the International Public Sector Accounting Standards (Cash Basis) as prescribed by the Public Sector Accounting Standards Board. The financial statements submitted do not include statement of receipts and payments, statement of financial assets and liabilities, and the accounting policies used in the preparation of the financial statements and other explanatory notes and disclosures.

47. Statement of Subscriptions – Vote R.53

The statement of details of Kenya Government share subscription and capital contribution to International organizations reflects local value of subscriptions totalling Kshs.112,733,583,043.58 as at 30 June 2014. However, documents from these organizations confirming the Kenya Government share subscription and capital contribution as at that date were not made available for audit review. Consequently, it has not been possible to confirm the validity and accuracy of the balance of Kshs.112,733,583,043.58 as at 30 June, 2014.

48. Bank Reconciliation

The Bank reconciliation statement for the balance of Kshs.2,601,589.25 as at 30 June 2014 reflected in the cash book for Recurrent Account No.01-010-R053: Subscription to International Organizations was not provided for audit review. It has not been possible in the circumstances to ascertain the accuracy of the cashbook balance as at 30 June 2014.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

Unqualified Opinion

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

Emphasis of Matter

Note 1.6 under Fund performance accompanying the financial statements indicates that the Fund has been dormant since June 2002 when the only surviving beneficiary died. Further, that the Cabinet through a Memorandum dated 26 June 2012 authorized the Attorney General, Minister of State for Public Service and the Minister for Finance to initiate the process of winding-up of the Fund. The National Treasury, has however, not indicated the progress made in winding up the Fund and as a result, it has not been possible to confirm whether any action was taken to put into effect the directive issued by the Cabinet. My opinion is not qualified in respect of this matter.

ASIAN OFFICERS FAMILY PENSION FUND

Basis for Qualified Opinion

49. Understatement of Pension Payments

The statement of receipts and payments for the year ended 30 June 2014 reflects pension payments totalling Kshs.1,236,763.00 which differ with the sum of Kshs.1,349,196.00 recorded in the cash book and the ledger. As a result, the total payments have been understated by Kshs.112,433.00.

50. Investments

The statement of financial assets and liabilities as at 30 June 2014 reflects investments' balance of Kshs.32,256,737.00. This balance represents shares held in Kenya Power and Lighting Company Limited valued at Kshs.34,238,980.00 net of a provision of Kshs.1,982,243.00. However, the reason for the provision, or what it represents, has not been explained and therefore the fair value of the investments could not be established.

51. Members Contribution

The statement of assets and liabilities reflects members contribution totalling Kshs.37,680,778.95 which is explained under Note 8.7 to the account as consisting of six account balances brought from 2012/2013 and earlier financial years. The six accounts have not been supported with relevant documents or analyses. Consequently, the completeness and accuracy of the members' contribution balance of Kshs.37,680,778.95 could not be ascertained.

52. Capital Account

The statement of financial assets and liabilities further reflects a capital account balance of Kshs.119,356,084.95 brought forward from 2012/2013 and earlier years.

However, no analyses and documents have been provided to support the balance and as a result, it has not been possible to confirm the completeness and accuracy of the balance.

STATEMENT OF ASSETS AND LIABILITIES FOR CONSOLIDATED FUND SERVICES – PUBLIC DEBT, SALARIES, ALLOWANCES & MISCELLANEOUS SERVICES AND SUBSCRIPTIONS TO INTERNATIONAL ORGANIZATIONS

Basis for Disclaimer of Opinion

53. Presentation of the Financial Statement

The Statement of Assets and Liabilities for Consolidated Fund Services as 30 June 2014 submitted for audit was not prepared in accordance with the International Public Sector Accounting Standards Financial Reporting under Cash Basis of Accounting as prescribed by the Public Sector Accounting Standards Board. The Statement submitted does not include statement of receipts and payments and accounting policies used in the preparation of the financial statements and other explanatory information and disclosures.

54. Comparative Balances

The comparative balances for 2012/2013 reflected in the Statement of Assets and Liabilities as at 30 June 2014 differ with the figures reflected in the audited statement for the year 2012/2013 in respect of the following accounts:

Assets	2012/2013 Comparative)	2012/2013 Audited
	(Kshs	(Kshs)
Agency Suspense	3,690,260,615.60	Nil
Paymaster General	100,215,879,765.65	110,124,154,856.60
 Liabilities		
Agency Suspense	Nil	8,891,343,660.80

No satisfactory explanation has been provided regarding the foregoing anomalies.

55. Paymaster General Account

The statement reflects a Paymaster General Account balance of Kshs.100,743,071,569.60 as at 30 June 2014 which differs with aggregate amounts of Kshs.4,520,515,450.90 for the three related cash books as analyzed:

<u>Cash book</u>	<u>Amount (Kshs)</u>
R-050	3,906,017,930.60
R-052	611,895,931.05
R-053	<u>2,601,589.25</u>
	<u>4,520,515,450.90</u>

The resultant difference of Kshs.96,222,556,118.70 has not been explained or reconciled.

56. Long Outstanding Balances

The Statement reflects Items Awaiting Clearance and Sinking Fund balances of Kshs.4,798,266,577.05 and Kshs.2,093,437.50, respectively which have been brought forward over the years. No satisfactory explanation has been provided for non-clearance of these long outstanding balances. In addition, the balances have not been supported with verifiable documents. The completeness and accuracy of these balances could not, therefore, be ascertained.

CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES- STATEMENT OF ESTIMATES AND EXPENDITURE

Basis for Adverse Opinion

57. Presentation of the Financial Statements

The Consolidated Fund Services- Salaries, Allowances and Miscellaneous Services - statement of estimates and expenditure for the year ended 30 June 2014, prepared and submitted for audit do not comply fully with the International Public Sector Accounting Standards (Cash Basis) as prescribed by the Public Sector Accounting Standards Board. The statement of receipts and payments has not been included. In addition, accounting policies used in its preparation and, other explanatory information have not been disclosed.

58. Payment under Loan Guarantee Act

The statement reflects under Sub-Vote 522, Item 980- Payments Under Loan Guarantee Act- Interest and Item 982- Payments Under Loan Act- Redemption, expenditure of Kshs.137,689,426.60 and Kshs.975,886,424.40 respectively, incurred by the Government in relation to loans it guaranteed on behalf of two parastatals and a Local Authority as shown below:

<u>Organization</u>	<u>Principal Amount Kshs.</u>	<u>Interest Amount Kshs.</u>	<u>Total Kshs.</u>
Kenya Broadcasting Corporation	643,068,968.40	92,356,195.20	735,425,163.60
Tana & Athi River Development Authority	258,599,706.00	43,687,332.75	302,287,038.75

Nairobi City Council	<u>74,217,750.00</u>	<u>1,625,011.00</u>	<u>75,842,761.00</u>
Total	<u>975,886,424.40</u>	<u>137,668,538.95</u>	<u>1,113,554,963.35</u>

As similarly reported in 2012/2013, the terms and conditions under which the Government took over these loans have not been seen, and as a result, it has not been possible to establish whether or not the defaulting institutions were required to reimburse the Government the principal and interest it paid on their behalf. It has also not been possible in the circumstances to ascertain whether or not the repayments had complied with the terms and conditions of the take-over.

59. Unexplained Funding

The statement also reflects an amount of Kshs.3,500,000,000.00 as having been received from the Exchequer, against a total expenditure of Kshs.3,602,441,088.95 during the year 2013/2014. It has not been explained how the resultant expenditure difference of Kshs.102,441,088.95 was funded.

EUROPEAN WIDOWS AND ORPHANS PENSION SCHEME FUND

Basis for Qualified Opinion

60. Investment Held in Insolvent Cereals and Sugar Finance Corporation

The statement of assets and liabilities reflects a receivables balance of Kshs.16,900,000.00 relating to a cash investment held in the Cereals and Sugar Finance Corporation. The Corporation is technically insolvent and according to available information the Government has approved its winding up, with a further requirement that the National Treasury takes over its assets and liabilities. The recoverability of the amount of Kshs.16,900,000.00 is therefore doubtful.

61. Un-invested Proceeds from Redeemed Stocks

As highlighted in the report for 2012/2013 and as indicated in Note 8.5 to the financial statements, the Ministry holds in its Deposit Account No. 4-867-102-0021 cash proceeds from the redemption of 11% Kenya Stock 2000 totalling Kshs.9,000,000.00. The Stocks were redeemed in July 2001 and the proceeds were expected to be re-invested immediately but are still being held in the Deposit account to date. Failure to re-invest the funds for the last 13 years has denied the Fund income that would finance the payment of pensions due to its beneficiaries.

CONSOLIDATED FUND SERVICES – PUBLIC DEBT

Basis for Adverse Opinion

62. Presentation of the Financial Statements

The financial statements of consolidated fund Services – public debt for the year ended 30 June 2014 submitted for audit do not include accounting policies used in

preparing these statements. The financial statements do not, therefore, conform fully to the International Public Sector Accounting Standards Cash Basis of Accounting reporting frame work as prescribed by the Public Sector Accounting Standards Board.

63. External Debt Interest

The statement of expenditure reflects under Sub-Vote 501, Item 942- external debt interest, an expenditure of Kshs.17,081,184,346 while payment vouchers, cashbook and bank statements reflects a balance of Kshs.15,771,004,640.38 against the item. The difference of Kshs.1,310,179,705.62 between the two sets of records has not been reconciled or explained.

Emphasis of Matter

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

The Statement of Expenditure – Public Debts reflects actual expenditure of Kshs.228,436,940,189.00 in the year 2013/2014 compared to the previous year's amount of Kshs.284,109,162,495.00 as summarized below:-

Sub Vote	Item	Item Description	Amount (Kshs.) 2013/2014	Amount Kshs) 2012/2013
501	2420000	Internal Debt Interest	17,081,184,346.00	86,283,709,997.00
	2410100	External Debt Interest	117,037,704,912.00	10,571,511,055.00
502	5210000	Internal Debt Redemptions	68,249,400,000.00	162,126,000,000.00
	5210600	External Debt Redemptions	26,068,650,931.00	25,127,941,443.00
Total			228,436,940,189.00	284,109,162,495.00

As similarly observed in the previous year, the expenditure of Kshs.117,037,704,912.00 and Kshs.26,068,650,931.00 incurred on external debt Interest and external debt redemptions respectively, includes amounts of 6,808,652.61 and Kshs.531,809,784.17 incurred on interest and principal loan repayments respectively, towards settlement of Government guaranteed debts incurred in 1970 on account of Ken-Ren Chemical and Fertilizer Company. Although the Government continues to service these debts, it is a matter of concern that a total amount of Kshs.538,618,436.78 was incurred during the year on a project which did not take off and against which no value for money was achieved.

65. Unsustainable Growth in Public Debt

The statement of public debt as at 30 June 2014 reflects an outstanding amount of Kshs.2,250,845,910,286.00 representing an increase of Kshs.483,828,841,265.00 or 27% of the 2012/2013 outstanding debt balance of Kshs.1,767,017,069,021.00.

As in the previous year, the net increase of Kshs.483,828,841,265.00 during the year 2013/2014 has been attributed mainly to disbursements of new loans to the

Government by various development partners and additional borrowing from the domestic market through treasury bonds and treasury bills. My opinion is not qualified in respect of this matters.

CONSOLIDATED FUND SERVICES – PENSIONS AND GRATUITIES

Basis for Qualified Opinion

66. Re-Credited Cheques

The statement of financial assets and liabilities as at 30 June 2014 reflects a payables balance of Kshs.2,299,245,886.00 which includes an amount of Kshs.2,172,347,374.00 in respect of re-credited cheques representing an increase of Kshs.109,166,693.36 over the balance of Kshs.2,063,180,680.64 reflected at the end of the previous financial year. The re-credited cheque balance relates to payments by cheque and electronic fund transfer made to pensioners through various banks and Saccos but which were returned to the Pensions Department due to various reasons such as closed accounts and incorrect bank codes. No evidence has been presented to show how the Pensions Department is addressing the underlying causes of non-payment of pensioners benefits and the subsequent increase of re-credited cheques balance.

Further, as reported in the previous years, a sum of Kshs.270,000,000.00 was paid to the Financial Secretary, Ministry of Finance from a Suspense Account in the CFS Cashbook in 2007/2008. The payment reduced the Re-credited Cheques Account balance from Kshs.450,772,032.70 to Kshs.180,772,032.70 as at 30 June 2008. The amount has not been refunded to the Re-credited Cheques Account to date and as a result, the balance of Kshs.2,172,347,374.00 appearing against the Account as at 30 June 2014, has been understated by Kshs.270,000,000.00.

67. Stale Cheques

The net payables account balance of Kshs.2,299,245,886.00 reflected in the statement of financial assets and liabilities excludes unanalysed stale cheques' debit balance amounting to Kshs.2,360,628.20 brought forward from the previous year. It is not clear why the amount was offset against the payables in the year under review.

68. Excess Expenditure

The statement of financial assets and liabilities reflects a receivables balance of Kshs.2,325,293,795.00. The balance represents accumulated deficit (excess expenditure over budgetary allocations) which the National Treasury should have offset through allocations in subsequent years. The sources of the funds used to finance the deficit have not been disclosed.

69. Service Gratuity

The statement of financial assets and liabilities also includes a balance of Kshs.170,990,760.00 against Service Gratuity, representing contract gratuity of Kshs.151,553,515.15, marriage gratuity of Kshs.727,458.65 and retrenchment gratuity of Kshs.18,709,786.40 all brought forward from 2012/2013 and earlier

financial years. No explanation has been provided by the Pensions Department as to why the amounts remain unpaid to the respective beneficiaries. Further, no analyses to support the balances were made available for audit review and it has not therefore been possible to ascertain their accuracy and validity.

70. Bank Reconciliation Statement for the CFS Cashbook-Account No 01-010R051

a) Receipts in Bank Statement Not in Cashbook

The bank reconciliation statement as at 30 June 2014 shows receipts in bank statement not posted in cashbook totalling Kshs.361,449,039.70. The receipts represent direct credits in the bank, with some dating as far back as 2009, as analyzed below:

Years	<u>Kshs</u>
2009	4,913,915.60
2010	85,024,338.90
2011	45,190,527.10
2012	23,998,309.30
2013	50,137,257.15
2014	<u>152,184,691.65</u>
Totals	<u>361,449,039.70</u>

No explanation has been provided as to why the receipts were not posted into the Cashbook as at 30 June 2014, or when they will be posted.

b) Payments in Bank Statement Not in Cashbook

The bank reconciliation statement shows payments in bank not posted in cashbook totalling Kshs.17,529,944.55. These include:-

- (i)** Cheques totalling Kshs.14,891,204.65 reportedly paid out fraudulently by several employees of the Pensions Department who were later sued by the Government but acquitted by the courts. Recovery of the amount is, therefore, doubtful.
- (ii)** A cheque for Kshs.204,272.30 reversed in the cash book on 6/8/2008 but without corresponding entry in the bank account. No explanation has been provided as to why the department did not follow-up the matter with the Central Bank of Kenya.

- (iii) Amount of Kshs.606,130.60 paid by the bank in 2011 and 2012 to the pensioners listed below but the payments were not posted to the cash book. No explanation has been provided for the omission.

Date	Names	EFT Numbers	Amounts
			Kshs.
22/8/2011	Margret Ongala Amolo	1881125002	55,135.20
22/8/2011	Joram Owino Okara	1881125009	258,172.60
22/8/2011	Absolom Jogoye Asangai	1881125010	279,029.80
3/4/2012	Steven Ouma Ogana	FT12094FPL1L	13,793.00
	Totals		606,130.60

- (iv) Several receipts totalling Kshs.1,497,660.80 credited but later reversed by the bank. However, corresponding reversals were not made in the cashbook. No explanation has been provided for the omission.

71. Receipts in Cashbook Not in Bank Statement

The bank reconciliation statement also reflects receipts in cashbook not in bank statement totalling Kshs.629,763,447.00 which include a balance of Kshs.543,325,872.65 referred to as a CBK Reversal Entry dated 28 June 2010. However, no explanation has been provided as to what the CBK Reversal Entry which occurred during the year 2009/2010 represents, or the reasons for its non-clearance from the books.

Further, no explanation has been provided as to why the difference between the two balances amounting to Kshs.86,437,574.35 was not banked or captured in the bank statement.

PETROLEUM DEVELOPMENT LEVY FUND

Basis for Disclaimer of Opinion

72. Presentation and Disclosure of Financial Statements

The Petroleum Development Levy Fund financial statements prepared and submitted for audit do not conform fully to the International Public Sector Accounting Standards (Cash Basis) as prescribed by the Public Sector Accounting Standards Board. The financial statements do not include a statement of cash flows and a statement of comparative budget and actual amounts, and significant accounting policies adopted in the preparation of the financial statements and other explanatory information and disclosures.

73. Comparative Balances for 2012/2013

The Fund's financial statements for the year ended 30 June 2014 reflects comparative balances for 2012/2013 in respect of Receipts from oil Marketers, Surplus of income Over expenditure and Cash with PMG accounts which differs with the balances reflected under the account items in the audited financial statements for the year ended 30 June 2013 resulting in a constant difference of Kshs.38,756,249.00 for the account items.

No explanation has been given for the above difference or notes provided to the financial statements to indicate retrospective restatement of errors in the previous period for each item if applicable as required under International Public Sector Accounting Standards No.3 (Accounting Policies, Changes in Accounting Estimates and Errors).

74. Paymaster General (PMG) and Cashbook balances

The Fund's balance sheet as at 30 June 2014 reflects a paymaster general (PMG) account balance of Kshs.3,772,445,840.60 while the Fund's cashbook as at the same date shows an amount of Kshs.979,687,357.30 resulting in an unexplained and unreconciled difference of Kshs.2,792,758,483.30. In view of the foregoing material difference, it has not been possible to ascertain the validity and accuracy of the paymaster general (PMG) account balance of Kshs.3,772,445,840.60 as at 30 June 2014.

75. Prior Year Unresolved Audit Issues

- (i) The Fund's income and expenditure account for the year ended 30 June 2013 reflected receipts of Kshs.1,609,499,720.15 from oil marketers while Kenya Revenue Authority records reflected an amount of Kshs.1,667,960,000.00 resulting in an unexplained or unreconciled variance of Kshs.58,460,279.85.
- (ii) The receipts of Kshs.1,609,499,720.15 were also at variance with the receipt vouchers amount of Kshs.1,576,924,762.15 resulting in an unexplained or unreconciled difference of Kshs.32,574,958.00. A review of the position as at 30 June 2014 indicates that a receipt voucher for an amount of Kshs.28,944,943.75 has since been produced leaving a balance of Kshs.3,630,014.25 still unsupported.
- (iii) The statement of assets and liabilities for deposits 07 as at 30 June 2013 reflected a balance of Kshs.3,170,073,064.63 against the Fund compared to the paymaster general (PMG) balance of Kshs.2,695,783,471.40 shown in the Fund's balance sheet, again resulting in an unexplained or unreconciled difference of Kshs.474,289,593.23.
- (iv) The Fund's cashbook balance of Kshs.606,904,878.50 as at 30 June 2013 included payments totalling Kshs.529,283,062.45 not reflected in the bank statement. Excluded also from the cashbook balance Kshs.606,904,878.50 were receipts in bank statement not in cashbook totalling Kshs.3,340,541,408.00. Further, included in the cashbook was an amount of Kshs.2,410,882,797.30 being receipts in the cashbook which were not

reflected in the bank statement. It was, therefore, not possible to ascertain the validity and accuracy of the cash book balance of Kshs.606,904,878.50 as at 30 June 2013.

DONOR FUNDED PROJECTS

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

Basis for Qualified Opinion

76. Inadequate Disclosures

Contrary to the requirements of the International Public Sector Accounting Standards and the Pronouncements of the Public Sector Accounting Standards Board the project's financial statements for the year ended 30 June 2014 submitted for audit do not disclose significant accounting policies applied in accounting for transactions and preparation of the financial statements.

THE PRESIDENCY

FINANCIAL STATEMENTS FOR VOTE 101

Unqualified Opinion

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

MINISTRY OF INTERIOR AND COORDINATION OF NATIONAL GOVERNMENT

FINANCIAL STATEMENTS FOR VOTE 102

Basis of Adverse Audit Opinion

77. Purchase of Land and Houses for General Service Unit paid through Legal Dues, Arbitration and Compensation

During the year under review, the ministry incurred an expenditure totalling Kshs.1,267,666,691.70 in respect of compensation on Legal Dues, Arbitration and Compensation Payments (Account No.0-001-000-2211308) for various court awards involving the Ministry and other parties.

Examination of payment vouchers for Compensation reveals that Attorney General was paid Kshs.1,200,000,000.00 in respect of civil case No. NRB.HCCC 617 of 2012 between Afrison Export & Import Ltd and another versus Attorney General and others for compulsory acquisition of 37.3 acres, being part of land parcel No.L.R.7879/24 whose total size is 96 acres at Drive-In Estate, Ruaraka along Thika Road.

Available records indicate that the then Ministry of State for Provincial Administration and Internal Security purchased 196 housing units constructed on 17.8 acres out of parcel No.L.R.7879/24 from the defunct Kenya Posts and Telecommunications Corporation (KPTC) in 1988 at a consideration of Kshs.64,680,000.00.

However, the Ministry was unable to acquire the title deed for the land because it was held by the Official Receiver on behalf of the Continental Credit Finance Ltd (under receivership).

Additional information further indicates that the General Service Unit (GSU) took possession and fenced off 196 maisonettes together with two (2) show houses and 17 undeveloped plots which the ministry did not pay as they were not part of the sale agreement.

Meanwhile, there were several disputes among various parties over the land and suddenly, several structures belonging to churches, schools, private developers were mushrooming on the remaining 78.2 acres, as the developers had obtained allotment letters from City Council of Nairobi resulting in scenes of violence next to GSU.

In 2006, the then Commandant of GSU hived off an additional 19.5 acres which they intended to purchase from the Official Receiver or the registered proprietors so that they could keep off private developers away from the General Service Unit (GSU).

Available records also indicate that the registered owners, M/s Afrison Export Ltd and Huelands Ltd filed the suit Civil Case No.617 of 2012 on unknown date against Attorney General on behalf of the ministry; the Official Receiver/ Interim Liquidator and Continental Credit Finance Ltd (In Liquidation) claiming sale price and

assessed rental loss/ loss of use arising from illegal occupation of land No. 7879/24 by the then Office of the President.

A judgment entered on 12 February 2012 indicates that the plaintiff was awarded Kshs.4,086,683,330.00 as fair value for the property suit. However, on 15 March 2013, the Attorney General chaired a negotiation meeting between his office, the Ministry and the claimant in which Kshs.2,400,000,000.00 was agreed as full and final settlement of the judgment debt.

Consequently, the Attorney General filed a consent order in court on 12 April 2013 and the initial award was reduced from Kshs.4,086,683,330.00 to Kshs.2,400,000,000.00 and the Ministry paid an advance of Kshs.1,200,000,000.00 to the Attorney General through payment voucher No.363 of 30 June 2014 leaving a balance of Kshs.1,200,000,000.00.

However, audit has revealed that the award of Kshs.4,086,683,330.00 later reduced to Kshs.2,400,000,000.00 as full and final settlement of the judgment debt was based on the average of three (3) valuation reports submitted by private valuers. No explanation has been given for failure to involve Government Valuers employed by Ministry of Lands, Housing and Urban Development.

In addition, the judgment is specific that the then Ministry entered into illegal sale agreement with the defunct Kenya Post and Telecommunication Corporation (KPTC) in 1988 because KPTC is not the registered owner of units and the 37.4 acres in dispute that were purportedly purchased.

In view of these anomalies, it is clearly evident that those responsible for directing and approving the use of public funds contrary to law should be held accountable and liable for the loss as required under Article 226(5) of the Constitution.

78. Examination of Contract for the Supply and Delivery of Entry and Exit Stamps

Examination of Contract Number MIRP/IMM/16/2013/2014 reveals that the Ministry procured Entry and Exit stamps from a supplier purporting that they were security items, therefore, avoided open tendering method of procurement.

However, verification reveals that the procurement was processed by the Ministerial Tender Committee and not Special Security Tender Committee, an indication that stamps are not security items. In addition, there is no evidence that these stamps were included in the dual list of security items as required under section 133 of the Public Procurement and Disposal Act 2005.

Although the Ministry awarded the contract to a supplier and paid Kshs.46,750,000.00, audit has revealed the Ministry irregularly used restricted method to avoid fairness, equity, transparency, competition and cost effectiveness as required by Article 227 (1) of the constitution.

79. Examination of Contract Number APHQS/32/2011/2012 for the Procurement of Security Items

Examination of security contract Number APHQS/32/2011/2012 reveals that six (6) firms were invited to bid for the tender to supply security equipment complete with accessories, which was opened on 14 June 2012. However, only three (3) firms purportedly responded as follows: -

No.	Name	Quantity	Unit Price	Total (\$)	Total (Kshs)
1	China North Ind, NORINCO	2,000.00	705.35	1,410,700.00	126,821,930.00
2	Poly Technologies INC	2,000.00	723.00	1,446,000.00	129,995,400.00
3	Pakistan Ordinance Factories	2,000.00	800.00	1,600,000.00	143,840,000.00

A detailed examination of available records has revealed discrepancies as follows:-

- (i) The Ministry has not provided a dual list under which suppliers of security items are maintained as required under section 133 of the Public Procurement and Disposal Act, 2005, therefore, it is not known how bidders were identified.
- (ii) Further, the validity of tender evaluation minutes cannot be confirmed as they were not signed by the Chairman and the Secretary.
- (iii) In addition, the Ministry of Interior and Coordination of National Government did not undertake a market survey as required by section 8(3) (z) of the Public Procurement and Disposal Regulations, 2006 which states that a procuring entity shall carry out periodic market survey to inform the placing of orders or adjudication by the relevant award committee.
- (iv) A review of the contract indicate that 30% of the contract, an equivalent of Kshs.37,425,149.70 was paid as advance to the supplier and the balance of Kshs.89,396,780.30 was supposed to be paid in two (2) tranches of 50% and 20%. On the contrary, the balance was paid at once through Letter of Credit processed by Voucher number 004766 on 3 December 2013.

It is therefore, not possible to confirm that the Ministry did not pay in excess of the prevailing market prices as required under section 10 (2) (e) of the Public Procurement and Disposal Regulations, 2006.

80. Procurement and Loss of Certificates at the Department of Immigration

(i) Loss of Certificates of Registration as Citizens of Kenya

Examination of details extracted from Stores Ledger and Control Card, S3 No.899021 for Certificate of Registration as Citizens of Kenya has revealed that the Ministry procured 20,000 Certificates of Registration as Kenyan Citizens through Local Purchase Order (LPO) number 1944892 valued at Kshs.3,110,000.00 from a supplier while 2,000 certificates were procured from another supplier at cost of

Kshs.480,000.00 through LPO number 1623546. However, payment vouchers in respect of M/s Punchline Ltd have not been availed for audit review.

A physical verification conducted on 19 March 2014 revealed that only 2,500 certificates of registration as citizens of Kenya were in the store while the stores ledger and control Card (S3) No.899021 reflected a balance of 20,000 certificates resulting in a difference of 17,500 Certificates valued at Kshs.2,721,250.00 which have not been accounted for.

Further, the maximum revenue that could be earned from the sale of 17,500 certificates when accounted for in accordance with Part (b) of the Ninth schedule of the Kenya Citizenship and Immigration Regulations, 2012 at a unit cost of Kshs.200,000.00 is Kshs.3,500,000,000.00.

(ii) Loss of Certificates of Regaining Citizenship

Examination of details extracted from Stores Ledger and Control Card, S3 No.899038 for Certificate of Regaining Citizenship of Kenya has revealed that the Ministry procured 5,000 Certificates of Regaining Citizenship of Kenya through Local Purchase Order (LPO) number 1944892 valued at Kshs.777,500.00 from a supplier while 2,000 certificates were procured from another supplier through LPO number 1623547 at a cost of Kshs.480,000.00.

A physical verification conducted on 19 March 2014 revealed that only 3,000 certificates of regaining citizenship of Kenya were in the store while the stores ledger and control Card (S3) No.899038 reflected a balance of 6,500 certificates resulting in a difference of 3,500 Certificates. Indications are that the first supplier supplied 1,500 certificates instead of 5000 certificates resulting in a shortfall of 3,500 certificates valued at Kshs.544,250.00 which has not been accounted for.

Further, the maximum revenue that could be earned from the sale of 3,500 certificates when accounted in accordance with Part (b) of the Ninth schedule of the Kenya Citizenship and Immigration Regulation 2012 at a unit cost of Kshs.5,000.00 is Kshs.17,500,000.00.

(iii) Under Collection of Revenue

Examination of the Master register in respect of issue of citizenship certificates reveals cases where applicants did not pay the gazette fee or paid less than the required amount resulting in loss of Kshs.4,842,000.00.

In addition, examination of the master register reveals that it was not filled with complete information including miscellaneous receipt number, age and address, an omission which indicates that Kshs.2,053,000.00 was not receipted.

81. Mis-management of Cash Bails at Kenya Police Service Stations in Nairobi

(i) Missing Cash Bail Books

Examination of Counter Receipt Book Register (CRBR) maintained at Kenya Police Service Headquarters indicates that cash bail books were distributed to various police divisions; however, a verification undertaken in sampled police divisions in Nairobi reveals that one hundred and forty four (144) Cash Bail Books were missing at Lang'ata; Karen; Buru Buru; Athi River; Makadara; Traffic Headquarter and Nairobi Area Police Stations.

In this circumstance, therefore, One hundred and forty four (144) Cash Bail Books have not been accounted for. No explanation has been provided about the missing Cash Bail Books.

In addition, examination of cash bail records and returns maintained at Divisional Traffic Officer, Industrial Area revealed that 592 and 421 receipts were missing in cash bail return records during financial years 2013/2014 and 2014/2015 respectively.

In this circumstance, there are chances that 1013 cash bail receipts that are missing could have been used for unauthorized purposes.

(ii) Use of Counterfeit Cash Bail Books

Audit has revealed that two hundred and five (205) Cash Bail Books were in use at Nairobi Area Traffic; Industrial Area; Axle Load Enforcement Unit; Highway Patrol Unit; Road Safety Unit; Kiamumbi; Kasarani and Athi River Police Stations.

However, the source of these Cash Bail Books could not be ascertained, therefore, it is clearly evident that cash bail books are not only being mismanaged but are also being used for unauthorized purposes.

(iii) Lost Cash

Although, triplicate copies of Cash Bail Books totaling Kshs.3,804,500.00 were availed for audit review at Road Safety Unit; Highway Patrol Unit; Buru Buru; Industrial Area and Central Police Stations in Nairobi, the equivalent cash that supported these triplicate copies was not availed for a cash survey. In the circumstance, the existence of Kshs.3,804,500.00 could not be verified and confirmed.

(iv) Forfeitures

Although Court receipts showing forfeited cash bails amounting to Kshs.2,789,500.00 were made available in support of accused suspects that did not appear in courts, no evidence of arrest warrants issued by court was made available for audit verification. In the circumstance, the validity and accuracy of miscellaneous receipts purportedly issued by courts could not be confirmed.

(v) Unaccounted Cash Bail Refunds

Examination of a sample of Cash Bail Books from various Police Stations in Nairobi show a total collection of Kshs.70,467,500.00, out of which Kshs.4,163,500.00 was purported to have been forfeited to courts and Kshs.6,272,000.00 was surrendered to Nairobi County Police Headquarters, while the difference of Kshs.60,032,000.00 is purported to have been refunded to accused persons at Kasarani; Lang'ata; Athi River Weighbridge; Industrial Area; Nairobi Area Traffic and Central Police Stations.

However, an evaluation of the purported refunds shows that they were made at police stations contrary Section 9 (ii) and (x) of chapter 49 of the Kenya Police Service Standing Orders that require such refunds to be made after court proceedings.

Further, the purported refunds were not supported with any evidence of a signature of the witness, court proceedings, stamp and signature of Court Clerk. Instead, the signature of witnesses is those of Police officers making it difficult to confirm that refunds were made in respect of correct recipients.

In the circumstances, the existence and disposition of Kshs.60,032,000.00 could not be ascertained.

(vi) Loss of Unclaimed Cash Bail at Nairobi County Headquarters

Examination of records maintained at sampled Police Stations in and around Nairobi County reveals that unclaimed cash bails amounting to Kshs.23,304,000.00 was submitted to Commandant of Kenya Police, Nairobi County on various dates. However, miscellaneous receipts were not issued in support of the amount of money received and the same transactions were not recorded in a Cash book contrary to Section 8.9 of the Government Financial Regulations and Procedures.

In the circumstances, it was not possible to confirm the existence of Kshs.23,304,000.00.

Further, audit of records indicate that Kshs.14,405,000.00 collected for approval of Public Service Vehicle Licences have not been surrendered to the Ministry's Headquarter for onward transfer to the exchequer.

(vii) Absence of Deposit Account at Kenya Police Service Headquarters

Cash bail collected from various Police Stations in Nairobi and Athi River show that Kshs.10,361,500.00 was surrendered to Kenya Police Headquarters. However, examination of records at Kenya Police Headquarters reveals that no memorandum records/deposit register or deposit cash book and deposit account has been maintained to monitor receipts and payments contrary to Section 8.9.2 of the Government Financial Regulations and Procedures.

In the absence of deposit Cash book and account, Kshs.10,361,500.00 surrendered to Kenya Police Service Headquarters could not be confirmed as it was used among recurrent funds and the same was not accounted for in the statement of assets and liabilities for the Ministry of Interior and Coordination of National Government.

(viii) Failure to Maintain Counterfoil Receipt Book Register and avail records

Audit inspection at Division Traffic Officer, Industrial Area Police Station, Buru Buru Police Station, Karen Traffic Police Office and Central Police Station revealed that Counterfoil Receipt Book Registers (FO13A) is not maintained contrary to Section 9(v) of chapter 49 of the Kenya Police Service Standing Orders.

In the circumstance, it is not possible to account for the police officer authorized to receive and use cash bail books; the dates of issue and completion of cash bail books; and the source and legality of cash bail books that are being used at these police stations.

In view of the total disregard of laid down government accounting controls as well as Kenya Police Service Standing Orders, it is not possible to confirm that Cash Bail Books which are accountable documents are being used for official and intended purposes.

82. Loss of Revenue for Alcoholic Drinks Control Fund at various Districts

A review of the report on the management of Alcoholic Drinks Control Fund commissioned by the National Treasury reveals that the fund lost Kshs.47,865,694.00 through undercharging and under banking by various Deputy County Commissioners as follows: -

Lost cash	Amount (Kshs.)
Under banking/undercharging	17,806,074.00
Missing banking slips	<u>30,059,620.00</u>
Total	<u>47,865,694.00</u>

Although this matter has previously been reported during audit of NACADA for the financial year 2012/2013, no effort has been made to recover the loss through surcharging relevant Deputy County Commissioners and their responsible staff, who are employees of the Ministry of Interior and Coordination of National Government.

In addition, seven hundred and ninety seven (797) licences were lost or plucked off from books and have not been accounted for as follows: -

Number of Licences	Details
257	Plucked licences as reported by NACADA.
240	Original copies plucked out while duplicate and triplicate copies were blank as detected during audit field visit.
300	Six (6) books of 50 licences each were lost at Kakamega Central, Pokot North, Migori, Likoni, Wajir East and Nyeri South Districts.

83. Proposed Construction of a Warehouse at Administration Police Training College – Embakasi (Tender No. NBI-D01/04/2011-2012)

Examination of contract records revealed that a contract for the proposed construction of warehouse at the Administration Police Training College – Embakasi, was awarded, through restricted tendering method, to a construction firm at a sum of Kshs.39,880,000.00 and the agreement was signed on 9 August 2012. However, an approved programme of work required under Section 13 of the conditions to the contract was not availed for audit verification.

Although, the contract period is recorded as twenty four (24) weeks and the final completion date stated as 18 September 2013, the contract has not been completed as at 26 November 2014 when audit inspection was undertaken. No evidence was availed to show that liquidated damages were recovered from the contractor as required under Section 27 of the conditions of contract.

In addition, the Contractor has been paid Kshs.22,504,000.00 or 56% of the contract sum, while an audit inspection undertaken on 26 November 2014 shows that the contract stalled without any record of site meetings and progress reports. The Ministry has not undertaken necessary steps stipulated in the contract to enhance progress, yet the objective upon which the store was being constructed has not been achieved as foodstuff among other goods are being covered in the open fields.

84. Accuracy of the Financial Statements

(i) Accuracy of the Statement of Receipts and Payments

The statement of receipts and payments for Vote 102 for the year ended 30 June 2014 reflects actual expenditure of Kshs.24,164,448,000.00 in respect of use of goods and services, while the trial balance shows an expenditure of Kshs.24,103,485,947.15 against the same item. The difference of Kshs.60,962,052.85 between the two sets of records has not been reconciled or explained.

(ii) Accuracy of the Statement of Assets

a) The statement of assets reflects financial assets totalling Kshs.2,640,455,000.00 represented by fund balance brought forward of Kshs.5,291,248,000.00, surplus for the year of Kshs.2,020,857,000.00 and prior year adjustments of Kshs.(4,671,650,000.00).

However, the prior year adjustments of Kshs.(4,671,650,000.00) relating to balances held in the former Office of the Vice President and Ministry of Home Affairs, Ministry of State for Immigration and Registration of Persons and the Ministry of State for Provincial Administration and Internal Security, have not been analyzed.

b) The total financial assets of Kshs.2,640,455,000.00 consists of cash and cash equivalents made up of bank balances, cash balances, cash equivalents and outstanding imprests. No reason has been provided for omission of the following debit balances reflected in the trial balance.

Account	Description	Balance (Kshs.)
7320100	Salary deductions	2,256,088,801.76
6730101	Advances to overseas organizations	300,000,000.00
6780101	General suspense	1,505,028,742.10

c) The statement of assets reflect a balance of Kshs.1,749,984,000.00 against cash equivalents, consisting of district unaccounted for AIEs/District suspense of Kshs.1,585,451,431.50 and salary advances of Kshs.226,000.00.

However, the trial balance reflects a balance of Kshs.4,406,590,864.80 against District suspense leading to a difference of Kshs.2,821,139,433.30 which has not been explained.

(iii) Accuracy of the Statement of Pending Bills

Annexes 1, 2 and 3 to the reports and financial statements show pending bills totalling Kshs.2,641,689,049.85 while records and documents made available in various departments show bills totalling Kshs.4,339,571,558.50. The accuracy and validity of the bills totalling Kshs.2,641,689,049.85 disclosed in the financial statements could not be confirmed.

(iv) Acquisition of Assets

Examination of the Fixed Assets Register availed for audit show the Ministry acquired fixed assets totalling Kshs.52,900,178.00. However, the Ministry has disclosed in the financial statements for the year ended 30 June 2014 a balance of Kshs.11,661,295,000.00 resulting in unexplained difference of Kshs.11,608,394,822.00. In the absence of updated Fixed Assets Register, it is not possible to confirm the accuracy of Kshs.11,608,394,822.00 disclosed in the financial statements.

85. Irregular Purchase of Residential Houses and Commercial Units

In my report for 2012 / 2013, attention was drawn to the irregular purchase of 368 residential units for Kenya and Administration Police and a commercial unit at a combined total cost of Kshs.2,357,300,000.00.

However, a review of this matter on 29 September 2014 indicates that title deeds have not been issued to the Government despite the fact that full amount of contract sum has been paid.

86. Construction of Lokitaung-Kachoda –Kibish Road at Turkana North District

Examination of payment vouchers indicate that a construction firm was paid Kshs.2,677,952.00 through Payment Voucher No.348 and Cheque numbers 0067 and 0068 at Turkana North District in respect of Lokitaung-Kachoda - Kibish Road.

However, no records were availed to show how works were procured, scope of works determined together with relevant Bills of Quantity and Certification of completed works without involvement of technically qualified field engineers.

In addition, there is no evidence that retention money and withholding tax were recovered from the contractor as required by the conditions of the Contract and Income Tax Act respectively.

Consequently, it is not possible to confirm that value for money was obtained in the expenditure amounting to Kshs.2,677,952.00 purportedly incurred on the Road.

87. Rehabilitation of Kishaunet Airstrip at West Pokot District

Examination of Tender No.WP/DC/037/2013/14 for rehabilitation of Kishaunet Airstrip revealed that the contract was awarded to a contractor at a tender sum of Kshs.2,903,921.00 on 12 June 2014 by Kapenguria Sub County Tender Committee.

However, audit has revealed that the contract was awarded based on the financial evaluation without consideration of technical evaluation contrary to section 16(1) of the Public Procurement and Disposal Regulations, 2006.

A review of payment records further revealed that the contractor was paid the full amount of the contract sum of Kshs.2,903,921.00 on 26 June 2014 which includes 3% withholding tax of Kshs.87,117.60 and 10% retention money of Kshs.290,392.10 without any evidence that contracted works had been undertaken. No reasons have been given for these anomalies.

88. Stalled Project at Laisamis Police Station

Examination of contract records reveals that a local company was awarded a contract to construct Laisamis Police Office Block and a staff apartment for a total sum cost of Kshs.105,365,422.00 on May 2012. The contract duration was indicated as 78 weeks from the date of the contract agreement.

However, an audit inspection undertaken on 14 December 2014 revealed that the project had stalled and the contract period had elapsed by 120 weeks, a situation that the Officer in Charge of the Police Station attributes to stoppage of works due to the death of the contractor in road accident on 26 September 2012.

However, in unexplained circumstances, the contract which had stalled due to the death of the proprietor, was later paid Kshs.15,821,178.30 or 14.46% of the contract

sum without authorization of accounting officer as required by Section 68(1) of the Public Finance Management Act, 2012 as follows:-

Date	Payment Voucher No.	Certificate Number	Amount (Kshs)
12.2.2014	Not indicated	1 (Sub-Contract)	468,087.00
6.2.2014		1 (Builders' Work)	4,869,134.80
14.2.2014	555	1 (Sub-Contract)	444,625.70
6.2.2014	None	2	5,412,188.80
14.2.2014	557	3	<u>4,087,142.00</u>
	Total		<u>15,821,178.30</u>

In the circumstances, it is clearly evident that the Ministry has not acted to avoid risks of unauthorized payments through claims and irregular approvals.

89. Construction of Administration Block at Sigomere Police Station, Siaya County

Examination of contract records has revealed that the contract for construction of Administration Block, Installation of PABX and Generator at Sigomere Police Station in Siaya County was awarded to a contractor on 2 May 2012 at a contract sum of Kshs.62,199,522.00 for a contract period of 52 weeks.

An audit inspection undertaken in November 2014 revealed the following anomalies:-

- (i) Although the contract period was fifty two (52) weeks, more than one hundred and thirty (130) weeks has elapsed without completion of the contract as the contract has stalled.
- (ii) The management of the project which has not been holding site meetings, has not documented progress in reports and has not commenced recovery of liquidated damages from the contractor contrary to clause 27 of the conditions of the contract.
- (iii) The management of the project was weak as it was being supervised by an artisan who doubled as District Works Officer, Ugenya District instead of technically qualified officers of the ministry attached to Siaya County Works Office which includes an Architect and a Quantity Surveyor.

The Ministry claims that the supervision of the project was later changed from Siaya to Kisumu County without considering that projects are conveniently supervised by a team of technocrats based in the county where the project is located.

- (iv) A generator valued and paid at Kshs.3,775,384.00 through Payment Voucher Number 452 dated 20 June 2014 has not been delivered to site.

- (v) PABX machine valued and paid at Kshs.1,500,000.00 through PV No.538 dated 23 June 2014 has not been installed and commissioned.
- (vi) There is clear evidence of a variation of the contract sum without authorization of the accounting officer; however, a copy of the same has not been availed for audit review.

In these circumstances, it is not possible to confirm authorization and value for money in an expenditure totalling Kshs.42,158,094.00 or 68% of the contract sum so far incurred on the project as required by Section 68(1) of the Public Finance Management Act (2012).

90. Irregular Payments by County Police Commander, Marsabit

Examination of Payment Vouchers revealed that Kshs.4,270,200.00 was irregularly paid as allowances to officers purportedly involved in security Operations as follows:-

PV No.	Amount (Kshs)
1470	460,000.00
1360	1,035,000.00
1382	305,200.00
1361	2,075,000.00
1359	<u>395,000.00</u>
Total	<u>4,270,000.00</u>

Further, examination of schedules attached to payment vouchers appear to indicate that signatures appended against various police officers who are purported to have received allowances are similar; therefore, the authenticity and validity of these payments could not be confirmed.

In addition, the purported security operations have not been supported with work tickets of vehicles and fuel consumed.

91. Over Expenditure on Travel and Accommodation by District Criminal Investigation Officer (DCIO), Nyakach District

An examination of payment vouchers made in respect of four (4) AIEs totalling Kshs.144,000.00 for an item of travel and accommodation that was issued to DCIO Nyakach revealed that the actual expenditure against the item was Kshs.819,000.00 resulting in over expenditure of Kshs.675,000.00. Audit further revealed that the over expenditure was irregularly charged to funds for research for which no explanation has been given how the research was eventually done.

92. Unaccounted Fuel

Examination of records maintained at the various counties and sub-counties revealed that payments amounting to Kshs.1,895,923.00 were made to various suppliers for purchase of fuel during the financial year 2013/ 2014 as shown below:-

District/Sub-County	Amount (Kshs)
Mwala DCIO	350,000.00
Mathioya OCPD	1,139,000.00
Nyahururu DAPC	<u>406,923.00</u>
Total	<u>1,895,923.00</u>

However, work tickets, fuel registers and detailed orders in support of Kshs.1,895,923.00 were not made available for audit review to show how the fuel was drawn and utilized. Consequently, the propriety of the expenditure of Kshs.1,895,923.00 could not be ascertained.

93. Unexplained Obsolete Inventory at Government Press

Inspection of Government Press disclosed that Inventory relating to old District Development Plans; Proposed Constitution of Kenya (2010) and uncontrolled stocking of paper valued at Kshs.612,255,463.00; Kshs.569,467,404.00 and Kshs.583,019,000.00 were obsolete in stores during the financial years 2011/2012, 2012/2013 and 2013/2014 respectively. No explanation has been provided for the continued maintenance of huge inventory that is underutilized.

94. Irregular Purchases through cash

(i) Cash Purchases at Sub County Offices

Examination of records at various Districts and Sub County offices revealed that expenditure totaling Kshs.1,572,162.00 was incurred on cash purchase of goods and services in excess of authorized ceiling as detailed below: -

District / Sub County	Amount (Kshs.)
Kisii Central Sub County Commissioner	845,852.00
Kisii Central Commander of Police	726,310.00
TOTAL	<u>1,572,162.00</u>

(ii) Irregular Procurement of Spare Parts through cash by Deputy County Commissioner, Sololo District

Examination of records show that assorted spare parts valued at Kshs.563,200.00 were purchased through cash by Deputy County Commissioner, Sololo District.

Further, physical verification on 5 December 2014 indicated that spare parts were not taken on charge, counter receipts and issue voucher S11 were not maintained and vehicles that these spare parts were intended for, were still unserviceable. It is

therefore not possible to ascertain the propriety of Kshs.563,200.00 incurred in purchase of spare parts.

In addition, audit revealed that an officer, was irregularly issued with imprests amounting to Kshs.100,000.00 through imprest warrant No.1050674 dated 16 May 2014 to purchase spare parts, which is above the ceiling for cash purchases, instead of competitive bidding required by the Public Procurement and Disposal Act, 2005.

(iii) Irregular Purchase of Spare Parts through Cash Imprest by County Police Commander, Kisumu

Examination of records reveal that the County Police Commander incurred a cash expenditure totalling Kshs.799,700.00 on purchase of spare parts for a Marine boat. However, audit verification confirmed that the marine boat is unserviceable; therefore, the value for money on Kshs.799,700.00 could not be confirmed.

(iv) Cash Purchases at Government Prisons

Examination of records at various prisons revealed that expenditure totalling Kshs.4,194,270.00 was incurred on cash purchases of food, drugs and firewood among others in excess of authorized ceilings without clear policy guideline as follows: -

Prison	Amount (Kshs.)
Kisii Main Prison	791,250.00
Kisii Women Prison	381,000.00
Nanyuki Prison	988,310.00
Machakos Prison	<u>2,033,710.00</u>
	<u>4,194,270.00</u>

95. Biogas Project at Kenya Prisons Service

Examination of records maintained at the Kenya Prisons Services indicates that biogas projects were initiated in fourteen (14) prisons across the country at an estimated cost of Kshs.122,129,538.00 out of which an expenditure of Kshs.95,758,296.00 has so far been incurred.

Audit verification in sampled prisons revealed various anomalies as follows:-

- (i)** Out of the fourteen (14) Biogas projects, only four projects are partially operational at Embu Main, Embu Women, Kisumu Main and Kitui Main Prisons while the rest are either incomplete or not operational.
- (ii)** Evidence made available for audit indicates that the biogas plant at Bungoma Prison was allocated Ksh.4,533,923.00 out of which Kshs.3,928,551.00 or 87% of the entire allocation has so far been spent by the prison department

while only 10% of works has been completed. It is therefore clearly evident that the biogas project is not only being mismanaged but the overall objective is not attainable.

- (iii) The Ministry did not undertake a feasibility study to determine the viability, cost and sustainability of the biogas plants before implementation of the project, an omission that could be contributing to failure of a noble project.
- (iv) An audit inspection undertaken at Nairobi Remand and Allocation on 17 March 2015 revealed that the biogas plant is not operational yet the contractor who has since abandoned the site has been fully paid Kshs.7,500,724.00.
- (v) Although the management indicated that it has formed a task force that was supposed to evaluate and submit status report on the bio gas plants, the same has not been availed for audit review.
- (vi) A sum totalling Kshs.46,481,255.00 or 93% of the contract sum has so far been paid for four (4) Biogas plants contracted to private companies. However, none is working as follows: -

Prison	Contractor	Contract Sum (Kshs.)	Amount Paid (Kshs)
Nairobi Remand and allocation	Floliz Contractor Ltd	7,500,724.00	7,500,724.00
Shimo La Tewa Main	Gactor Enterprises Ltd	11,528,602.00	11,528,602.00
Kibos Main	Siluma Enterprises	11,900,000.00	8,150,000.00
Kamiti Main	Great Grace Agencies	<u>19,301,929.00</u>	<u>19,301,929.00</u>
Totals		<u>50,231,255.00</u>	<u>46,481,255.00</u>

Under the circumstances, it is not possible to confirm that Kshs.95,758,296.00 so far spent on all the fourteen (14) biogas plants was lawful and effective as required by Article 229(6) of the Constitution of Kenya, 2010.

96. Overpricing of Stores Resulting in Loss of Kshs.62,512,859.00

During the year under review, the Kenya Prisons Service procured goods from suppliers at prices stipulated in the tender but a market survey done and a comparison with known market prices shows that the quoted prices were far much higher and above the prevailing market prices resulting in loss of Kshs.62,512,859.00 contrary to Section 30 (3) of the Public Procurement and Disposal Act 2005, and Section 8(3) (z) of Public Procurement and Disposal Regulations, 2006 which states that a procuring entity shall carry out periodic market survey to inform the placing of orders or adjudication by the relevant award Committee and Section 10(2) (e) of Public Procurement and Disposal Regulations, 2006 which requires that a procuring entity should not pay in excess of the prevailing market price.

97. Pending Bills at Government Prisons

Records maintained at various GK Prisons indicate that bills totalling Kshs.264,841,063.30 were incurred in various Prisons during the financial year 2013/2014 without authorization of accounting officer as required by Section 68(1) and (2) of the Public Finance Management Act 2012.

In addition, the Ministry was allocated Kshs.680,000,000.00 by National Treasury to clear pending bills, however, field prison officers have not submitted these bills to the Ministry's headquarter for verification and validation by auditors before payments are made.

This omission has contributed to further accumulation of pending bills and casts doubt on the validity and legality of these pending bills at Kenya Prisons.

98. Unaccounted Expenditure at Moyale Main Prison

Although payments amounting to Kshs.2,166,750.00 were made in respect of food and ration, an audit verification revealed that food stuff delivered were not recorded in Prison Book (PB) 7 and there was no evidence of authorization by the accounting officer and that the expenditure was lawful as required by Section 68(1) of the Public Finance Management Act (2012). It was, therefore, not possible to confirm that the expenditure was lawful as required under the Act.

99. Construction of Staff Houses at Kitui Main Prison

An examination of AIE No.A779473 and related records indicate that Kshs.2,000,000.00 was incurred in construction of staff houses which were completed without approved plan and Bills of Quantities. Under this circumstance, it is not possible to evaluate and confirm that the value for money was obtained in an expenditure totalling Kshs.2,000,000.00.

100. Irregular Procurement of Goods and Services at Government Prisons

Examination of records at various prisons revealed that expenditure totalling Kshs.65,028,089.00 was incurred on procurement of goods and services without authority of the Accounting Officer as required by Section 68(1) of the Public management Act (2012) as follows:-

Prison	Amount (Kshs.)
Kibos Main Prison	48,747,721.00
Rumuruti Prison	6,171,500.00
Nanyuki Prison	10,108,868.00
	<u>65,028,089.00</u>

Further, examination of records at Kibos main prison revealed that the irregularly procured goods and services in respect to food and firewood were purchased from non-qualified suppliers and some had no supporting documents as detailed below:-

Description	Amount (Kshs)
Purchase from Non-prequalified suppliers	26,407,601.00
Purchase without LPOs	<u>22,340,120.00</u>
Total	<u>48,747,721.00</u>

In this circumstance, it is not possible to confirm that these payments were lawful and effective as required by Article 229 (6) of the Constitution of Kenya, 2010.

101. Uncollected Revenue of Kshs.2,701,440.00 at Mwea Prison

Revenue amounting to Kshs.2,701,440.00 had not been collected as at 30 June 2014. The revenue was earned by the Prison from the sale on credit of various farm produce to institutions and individuals. Although, the credit sales date back to 1995, no evidence was availed to indicate any efforts made to collect the revenue.

Conclusion

In view of the significance of audit observations summarized above, it is not possible for me to confirm that Revenue amounting to Kshs.3,524,395,000.00 was accounted for.

STATEMENT OF REVENUE

Basis for Qualified Opinion

102. Difference between the Ministry's Revenue Receipt Ledger and Revenue Statement

Examination of the revenue statement and the Ministry's revenue receipt ledger for the year ended 30 June 2014 shows that the Ministry collected revenue of Kshs.10,265,358,890.00 and Kshs.6,183,051,576.00 respectively, resulting in a difference of Kshs.4,082,307,314.00 between the two (2) sets of records which has not been reconciled or explained .

103. Excess Surrender of Revenue

Examination of the revenue statement shows that the Ministry surrendered revenue amounting Kshs.10,107,024,785.00 while the Ministry's Deposit cashbook for the year ended 30 June 2014 shows that the Ministry surrendered revenue totalling Kshs.9,084,292,920.55 resulting in an excess surrender of revenue amounting to Kshs.1,022,731,864.45 which has not been supported with any records. In this circumstance, it has not been possible to confirm the accuracy of Kshs.10,107,024,785.00.

104. Inaccuracy of the Ledger

Although revenue amounting to Kshs.9,074,190,789.85 was collected in six (6) departments and surrendered to the Ministry's Headquarters, the ledger reflects a receipt of Kshs.5,372,562,939.75 resulting in a difference of Kshs.3,701,627,850.10 which has not been recorded. In the absence of accurate records, it is not possible to confirm the accuracy of the revenue statement presented for audit.

105. Un-surrendered Revenue

Further, audit of records maintained by all the eleven (11) sub-collectors of revenue has revealed that the actual revenue collected and surrendered to the Ministry's Headquarters is Kshs.9,619,700,825.60. However, the Ministry's Deposit cashbook indicates that revenue amounting to Kshs.9,084,292,920.55 was surrendered to the Financial Secretary of the National Treasury, resulting in a difference of Kshs.535,407,905.05 which has not been accounted for or reconciled.

Further, the revenue statement reflects Kshs.495,198,024.00 against revenue balance carried forward which has not been supported by an analysis. No explanation has been given for failure to surrender revenue totalling Kshs.495,198,024.00 to the Exchequer.

106. Loss of Revenue by Kenya Police County Commander, Nairobi

Examination of revenue records maintained at the offices of Kenya Police County Commander, Nairobi, revealed that revenue amounting to Kshs.4,360,200.00 from approval of public service vehicle licenses was collected during the financial year 2013 / 2014 but was not surrendered to the Ministry's Headquarters for onward transfer to the exchequer.

In addition, the County Commander does not maintain a cashbook. Therefore, it was not possible to undertake a cash survey.

In this circumstance, revenue totalling Kshs.4,360,200.00 was not surrendered contrary to Section 6.8.3 and 8.6.2 of the Government Financial Regulations and Procedures, therefore, its existence could not be confirmed.

NATIONAL COHESION AND INTEGRATION COMMISSION

Basis for Qualified Opinion

107. Outstanding Imprests

The statement of financial position reflects receivables from non-exchange transactions of Kshs.11,975,000.00 which included Kshs.11,874,702.00 being imprest due as at 30 June 2014. By the time of audit, only Kshs.768,690.00 had been surrendered leaving a balance of Kshs.11,106,012.00 as un-surrendered imprests.

As a result, it has not been possible to confirm the reasons for not accounting for the outstanding imprests.

KENYA PRISONS FARMS REVOLVING FUND

Basis for Qualified Opinion

108. Suspense Account

The statement of financial position reflects a balance of Kshs.15,639,561.00 against suspense account which has not been analysed or explained. The management has attributed the suspense to disparities in the stock taking methods applied in different stations and also indicated that verification of stocks is ongoing to reconcile physical stock take and ledger cards. However, management has not instituted guidelines on stock taking. In the circumstances, the accuracy of account balance of Kshs.15,639,561.00 could not be confirmed.

109. Paymaster General Account

The statement of financial position for the year ended 30, June, 2014 reflects a cash balance of Kshs.110,344,815.00 against Paymaster General Account (PMG). The balance of Kshs.110,344,815.00 as at 30 June 2014 has not been supported with cashbook, bank certificate and bank statement balances. Under the circumstances, the accuracy of this balance could not be confirmed.

110. Debtors

The statement of financial position as at 30 June, 2014 reflects a balance of Kshs.53,947,131.21 against debtors. This balance represents the value of farm produce supplied to various prisons to feed prisoners. However, the Parent Ministry had not reimbursed the same to the Fund as at the end of the financial year.

111. Fixed Assets Register

Although the statement of financial position reflects Kshs.37,151,088.00 as at 30 June 2014 against fixed assets, the management of the Fund did not avail the fixed assets register for audit review.

In addition, the statement reflects Kshs.5,212,600.00 against farm machinery, whose condition appears to be obsolete. In the circumstances, therefore, it was not possible to confirm the existence and values of the fixed assets as at 30 June 2014.

112. Illegal Encroachment

At Kamiti Prisons, audit verification revealed that un-specified pieces of land were under cultivation of maize and vegetables by unspecified/unknown persons. No evidence was produced to show that such persons had any agreement with Prisons Department. The pieces of land under cultivation, therefore, appear to have been illegally encroached posing a security threat to the prisons.

PRISONS INDUSTRIES FUND

Basis for Qualified Opinion

113. Unaccounted for Revenue

Examination of records revealed that the Prisons Industries and Farms Funds closing account balance as at 30 June 2013 that were held in the former Vice President and Ministry of Home Affairs deposit account was Kshs.175,987,430.51.

During the year 2013/2014, the former Vice President and Ministry of Home Affairs was merged into the Ministry of Interior and Coordination of National Government and these Funds continued collecting revenue between 1 July 2013 and 3 October 2013 when a separate but combined account was opened for the Fund. Examination of records revealed that the total revenue collected during this period was Kshs.173,970,762.35.

The total amount of money that ought to have been deposited in the new bank account for the two (2) Funds between 1 July and 3 October 2013 is Kshs.349,958,192.90 comprising of Kshs.175,987,430.51 carried forward from the previous year and Kshs.173,970,762.35 collected in the year under review instead of Kshs.118,725,674.40 deposited.

No satisfactory explanation has been given for failure to bank the difference of Kshs.231,232,518.50.

114. Sustainability of the Fund

Examination of records maintained for the Fund has revealed that the Fund is not self-sustainable and made losses amounting to Kshs.5,456,354.00 during the year.

Further, operational expenses including staff compensation, electricity, rent, water, transport and maintenance costs which were paid through the Ministry's Development Votes were not disclosed in the financial statements, contrary to IPSAS 23. Therefore, it is not possible to objectively assess the Fund's ability to continue meeting its service delivery obligations.

Although the Fund Manager has explained that materials are used for training of prisoners and trade tests, and that these funds are not for revenue generating, the explanation does not consider the fact that when the cost of production is higher than earnings, the Fund cannot meet its purpose and objectives, and is therefore not sustainable.

115. Un-analysed Suspense Account

The statement of financial position reflects a balance of Kshs.23,965,577.00 against suspense account explained in note 10 as representing a balancing figure in the books of accounts. Although, the management has explained the figure as due to failure to reconcile physical stock take and ledger cards, no analyses was provided.

116. Non-Recovery of debts

The statement of financial position as at 30 June, 2014 reflects a debtors balance of Kshs.22,304,677.00 out of which Kshs.21,835,455.00 relates to Government

Agencies dating back to 2012/2013 financial year. There was no evidence that management has made efforts to recover these debts from the Government Agencies.

117. Non-maintenance of Fixed Assets Register

The statement of financial position reflects fixed assets balance of Kshs.94,524,348.69. However, the management of the Fund did not maintain a fixed assets register. Further, the fixed assets also includes machinery worth Kshs.72,073,023.00 most of which have since become obsolete. In addition, there is no policy instituted by management on depreciation and replacement of assets.

Other Matters

118. Cash Management of Prisons Industries Revolving Fund

I would wish to draw your attention to cash management weaknesses which were noted during the audit, in which earnings (money) is transported from various prisons across the country and deposited at Kenya Prisons Headquarters instead of depositing directly to the Prisons Industries Revolving Fund accounts. In addition, the Prisons submit deposit slips to Prisons Accounts' team in Nairobi for reconciliation, issue Miscellaneous Receipt then prepare financial statements. The result of these long and laborious procedures and deposits in a combined account for two (2) separate funds create a high risk in potential loss of earnings which need to be properly safeguarded.

GOVERNMENT PRESS FUND

Basis for Qualified Opinion

119. Non-disclosure of Receipts and Payments

Examination of records maintained at the Government Press show that the Fund received goods and services through Recurrent and Development Votes of Kshs.520,141,771.45 and Kshs.116,191,345.00 respectively which were utilized in revenue generation through the purchase of printing /production papers, maintenance of printing/production machines, vehicles and employee compensations.

However, these receipts and payments were not disclosed in the financial statements as required under IPSAS 23.

120. Unsupported Expenditure on Printing and Other Materials

The statement of financial performance reflects that an amount of Kshs.271,742,000.00 was incurred on printing and other materials. However, the breakdown or analysis for this expenditure was not provided for audit review. In the circumstances, it was not possible to confirm the accuracy and propriety of the expenditure of Kshs.271,742,000.00.

Management Act, 2012, and the Exchequer and Audit (Government Press Fund) Regulations, 1988.

KENYA CITIZENS AND FOREIGN NATIONALS MANAGEMENT SERVICE

Unqualified Opinion

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

DONOR FUNDED PROJECTS

ASSISTANCE TO CAPACITY BUILDING OF THE KENYAN REFUGEE AND ASYLUM SYSTEM PROJECT (GRANT NO.104.A.1.0.1-KENYA)

Basis for Qualified Opinion

121. Unsupported payments

According to note 9.5 on purchase of goods and services and the trial balance, an amount of Kshs.31,849,010.00 described as other operating expenses was paid through account number 2640201-0000-1001-0617702-0000001 for emergency relief which include food, medicine, blankets, cash grants, tents and other temporary shelter. However, out of the Kshs.31,849,010.00, only payment vouchers amounting to Kshs.29,056,010.00 were availed for audit review, leaving unexplained and unreconciled balance of Kshs.2,793,000.00. It was therefore, not possible to confirm the propriety on the unsupported expenditure of Kshs.2,793,000.00 as required under Section 68 (1) of the Public Finance Management Act (2012).

122. Acquisition of Non-financial Assets

Included in the Statement of Receipts and Payments is expenditure on acquisition of non-financial assets amounting to Kshs.4,953,849.00 shown under note 9.6 as construction of civil works. The management availed payment vouchers for only Kshs.2,750,000.00 in respect of a perimeter wall in Dadaab. The payment vouchers in support of the balance of Kshs.2,203,849.00 were not availed for audit review. It was therefore not possible to determine the validity and propriety of the expenditure of Kshs.2,203,849.00.

MINISTRY OF DEVOLUTION AND PLANNING

FINANCIAL STATEMENTS FOR VOTE 103

Basis for Qualified Opinion

123. Prior Year Matters

The Ministry did not capture all issues raised in the previous Auditor-General's report as required in the template provided by the Public Sector Accounting Standards Board. Only three (3) issues were captured under Note 20 on the progress on follow up of the Auditor's recommendations. No explanation has been provided for failure to comply with the template provided by the Board.

124. Lack of a Trial Balance

The balances reflected in the financial statements have not been supported with a consolidated trial balance as at 30 June 2014. Consequently, the source, accuracy and completeness of the financial statements balances could not be ascertained.

125. Unsupported Comparative Figures for 2012/2013

The Ministry did not provide summary by item to support the comparative figures for the previous year. Consequently, the accuracy and completeness of the financial statement balances could not be ascertained.

126. Unexplained Variances

The figures reflected in the financial statements and the appropriation summary by item for various items are not in agreement. Further, proceeds from domestic and foreign grants and journal entries figure of Kshs.7,627,521,353.00 and the financial statements figure of Kshs.7,621,149,449.00 deferred by Kshs.6,371,904.00 that has not been reconciled. Consequently, the accuracy and completeness of the financial statement balances could not be ascertained.

127. Variances between Actual and Budget figures

Under Head - 103005300 Planning and Development- Headquarters, the Ministry spent Kshs.1,964,426,798.00 as transfer to other Government Units which had not been budgeted for. The Ministry, therefore, did not adhere to the budget provisions and no explanations and mitigating measures were provided. Consequently, the propriety of the amount could not be confirmed.

128. Unsupported Assets

During the year under review, the Ministry acquired non-financial assets without disclosing the various classes to the tune of Kshs.8,036,371,566.00 against budgeted amount of Kshs.11,372,218,703.00 resulting to an under expenditure of Kshs.3,335,487,137.00.

Further, the supporting payment vouchers were not provided including a summary of fixed assets register.

129. Incomplete construction Project

The Ministry awarded a tender for the construction of proposed flats at National Youth Service Vocational Training Institute - Industrial area, at an estimated cost of Kshs.49,105,721.10. The contract between the Ministry and the contractor was signed on 22 February 2013 and was estimated to take 52 weeks from 08 April 2013 to 07 April 2014. The Contractor was paid Kshs.7,111,432.26 in respect of certificate No. 1. and a physical verification carried on 17 February 2015 showed that the work was abandoned at foundation level. Information on site minutes were not provided for audit and the Project therefore appears to have stalled.

Further, the Ministry did not provide the contract documents for the ongoing construction works at the National Youth Service (N.Y.S) Institute of Business. Correspondences from the Contractor indicate that the original contract period expired but there is no evidence whether an extension was given. Consequently, the continued works on the Project could not be confirmed.

130. Unconfirmed Transfer To Other Government Entities

The financial statements of the Ministry reflect recurrent and development combined transfer to other Government entities of Kshs.2,871,368,369.00 which was not budgeted for . This amount includes Kshs.2,151,010,210 reflected in the financial statements as transfer to Ministry of Land, Housing and Urban Development which has not been supported. Consequently, the accuracy of transfer to other Government entities amount Kshs.2,871,368,369.00 could not be confirmed.

131. Outstanding Imprests

The cash and cash equivalents balance of Kshs.786,967,051.00 as at 30 June 2014 includes an amount of Kshs.11,978,581.00 in form of outstanding imprests. Some imprests holders are deceased, retired or have been transferred elsewhere, while some officers took large amounts of imprests and others had multiple imprests. No reasons have been provided for failure to account for the outstanding imprests.

132. Unanalysed Domestic Currency and Domestic Deposits

Deposits held in trust show a negative balance of Kshs.183,522,381 as at 30 June 2014. No analysis or evidence was availed to support the negative balance of Kshs.183,522,381.00. Further, no explanation was provided on the cause of the negative balance. Consequently the accuracy of the deposits balance could not be confirmed.

133. Cash and Cash Equivalents

a) Bank Reconciliation Statement for the Recurrent Cashbook

(i) Payments in Cashbook not in Bank Statement

The bank reconciliation statement reflect payments in cashbook not in bank statement of Kshs.1,905,460,392.60 as at 30 June 2014.

No explanation has been provided for failure to clear the outstanding items.

(ii) Receipts in Bank Statement not in Cashbook

The bank reconciliation statement reflect receipts in bank statement not in cashbook of Kshs.97,946,037.55 as at 30 June 2014.

No reason has been provided for failure to record the receipts in the cashbook as at 30 June 2014.

(iii) Payments in Bank Statement not in Cashbook

The bank reconciliation statement reflect payments in bank statement not in cashbook of Kshs.98,669,055.90 as at 30 June 2014.

No reason has been provided for failure to update the cashbook.

(iv) Receipts in Cashbook not in Bank Statement

The bank reconciliation statement reflects receipts in cashbook not in bank statement of Kshs.1,811,382,066.85 as at 30 June 2014.

No reason has been given for failure to bank the receipts as at 30 June 2014.

b) Bank Reconciliation Statement for the Development Cashbook

(i) Payments in Cashbook not in Bank Statement

The bank reconciliation statement reflect payments in cashbook not in bank statement of Kshs.4,444,546,451.55 as at 30 June 2014.

No explanation has been provided for failure to clear the outstanding items.

(ii) Receipts in Bank Statement not in Cashbook

The bank reconciliation statement reflect receipts in bank statement not in cashbook of Kshs.551,579.00. No reason has been provided for failure to record the receipts in cashbook as at 30 June 2014.

(iii) Payments in Bank Statement not in Cashbook

The bank reconciliation statement reflect payments in bank statement not in cashbook of Kshs.37,700,618.00 as at 30 June 2014.

No reason has been provided for failure to update the cashbook.

(iv) Receipts in Cashbook not in Bank Statement

The bank reconciliation statement reflect receipts in cashbook not in bank statement of Kshs.4,233,152,021.75 as at 30 June 2014.

No reason has been given for failure to bank the receipts as at 30 June 2014.

134. Pending Bills

The Ministry reported pending bills amounting to Kshs.1,113,380,200.65 comprising of Kshs.120,321,544.00, Kshs.839,292,958.20, Kshs.135,190,012.00 and Kshs.18,575,686.45 for Construction of Civil Works, supply of goods, supply of services, staff payables respectively. However, the list provided for audit review totaling Kshs.4,271,256,913.46 leading to a difference of Kshs.3,157,876,712.81 which was not explained. In addition, important details such as account charged and current status are not included. Further the register for pending bills was not provided and no explanation has been given for the difference between the two figures. Consequently the accuracy of the pending bills is doubtful.

NATIONAL HUMANITARIAN FUND

Basis for Qualified Opinion

135. Cash and Cash Equivalents – Unaccounted for A.I.Es

The cash and cash equivalents balance of Kshs.767,435,450.00 as at 30 June 2014 includes Kshs.142,667,974.00 against imprests and advances which represent Authority to Incur Expenditure (A.I.Es) issued to various Government Agencies. No explanation has been provided for failure to account for the AIEs outstanding balance of Kshs.142,667,974.00.

In the circumstances, it has not been possible to confirm the accuracy of cash and cash equivalents of Kshs.767,435,450.00 as at 30 June 2014.

NATIONAL YOUTH SERVICE MECHANICAL AND TRANSPORT FUND (MTF)

Basis for Qualified Opinion

136. Un-valued Non- Current Assets

The statement of financial position reflects an amount of Kshs.2,248,970,109.00 under non-current assets made up of Kshs.834,166,139.00 for commercial trucks, Kshs.165,577,096.00 for small vehicles and Kshs.1,249,226,874.00 for plant and machinery which have not been re-valued while others have not been depreciated. No reason has been provided by the management for the failure to re-value and depreciate the assets.

137. Receivables

a) Un-cleared Domestic Debts

The Fund's statement of financial position reflects an amount of Kshs.149,918,976.00 which includes a balance brought forward of Kshs.92,383,044.00. During the year an amount of Kshs.11,630,000.00 relating to Director, National Youth Service was transferred to domestic debts. No explanation has been provided as to why the outstanding balance of Kshs.149,918,976.00 has not been cleared from the Fund's records. Consequently, the accuracy and

completeness of the domestic debts balance of Kshs.149,918,976.00 as at 30 June 2014 could not be ascertained.

b) Un-cleared Commercial Debts

The statement of financial position reflects an amount of Kshs.671,153,508.00 relating to Tana Road project debt of Kshs.657,345,769.00 and other debts of Kshs.13,807,739.00. Out of Kshs.671,153,508.00, an amount of Kshs.603,700,824.00 relates to 2012/2013 and earlier years and only Kshs.16,023,283.00 or 2% of the total commercial debts was paid during the year. No explanation has been provided for the non clearance of the debts over the years.

c) Unauthorised Lending

According to records of the Fund, an amount of Kshs.124,600,000.00 was borrowed from the Fund account no. 1128674548 at Kenya Commercial Bank, Moi Avenue by the Ministry of Devolution and Planning. The money had not been refunded to the Fund as at 27 April 2015. It appears there is no documented policy or authority given to borrow from the Fund.

d) Un-reconciled Paymaster General - MOYAS Deposit

As reported in the previous year, the statement of financial position also reflects a PMG – MOYAS Deposit balance of Kshs.247,530,867.00 which differs with the balance of Kshs.17,963,412.00 reflected in the Ministry's deposits cash book by Kshs.229,567,454.96. The difference has not been reconciled or explained by the management.

e) Cash and Cash Equivalents

(i) Bank Reconciliation

The bank reconciliation statement as at 30 June 2014 reflects payments in cash book not in bank statement of Kshs.24,214,816.00, receipts in bank statement not in cash book of Kshs.82,537,462.00, payments in bank statement not in cash book of Kshs.4,415,649.00 and receipts in cash book not in bank statement of Kshs.45,844,986.00. No explanation has been provided for failure to clear the long outstanding items.

(ii) Unreconciled Difference

The statement of financial position reflects a figure of Kshs.286,178,165.00 which comprises of Ministry of Youth Affairs and Sports (MOYAS) deposit balance of Kshs.247,530,867.00 and cash and bank balance of Kshs.38,647,298.00 while the statement of cash flows reflects Kshs.379,233,171.00. The difference of Kshs.93,055,006.00 has not been explained or reconciled.

f) Sustainability of the Fund and debts

The Fund reported a loss of Kshs.138,127,238,240.00 for the year ended 30 June 2014 down from Kshs.157,811,636.00 in 2012/2013. Further the Fund reported uncollected debts comprising of domestic debts of Kshs.149,918,976.00,

commercial debts of Kshs.671,153,508.00 and borrowings of Kshs.124,600,000.00 by the Ministry of Devolution and Planning. The total debt owed to the fund was Kshs.945,672,484.00, approximately 27% of total reported equity of Kshs.3,472,241,535.00.

The long outstanding debts have an impact on the going concern of the Fund. No reason has been given by the management for failure to collect the long outstanding debts.

g) Fund Balance

The statement of financial position reflects a balance of Kshs.3,472,241,535.00 as at 30 June 2014 for total equity/net assets. Included in the notes to the statements is a prior year adjustment error of Kshs.39,807,204.00. No explanation or supporting documents were provided for audit review.

WOMEN ENTERPRISE FUND

Basis for Qualified Opinion

138. Financial Position

The Fund realized a deficit of Kshs.121,546,694.00 (2012/2013–Kshs.152,229,181.00) during the year under review which brought the accumulated surplus to Kshs.697,753,923.00 (2012/2013-Kshs.819,300,617.00). Though management has indicated that they are lobbying the National Treasury to commit some funds to meet the Fund’s operational expenses, no meaningful effort appears to have been made.

139. Receivables from Exchange Transactions

The statement of financial position as at 30 June 2014 reflects receivables from exchange transactions balance of Kshs.1,870,296,598.00 which is at variance with the supporting schedules balance of Kshs.1,864,696,598.00 resulting to unreconciled or explained difference of Kshs.5,600,000.00.

Further, the receivables from exchange transactions balance of Kshs.1,870,296,598.00 includes an amount of Kshs.696,573,700.00 loaned to Financial Intermediaries (FI Partners). Included in the loans is an amount of Kshs.64,600,000.00 due from non- performing loans which has been outstanding over the years and the Fund seems unable to recover the same. No evidence has been provided to show the efforts being made to recover these loans. Under the circumstances, it has not been possible to confirm the recoverability of the Kshs.64,600,000.00 and that the receivables balance of Kshs.1,870,296,598.00 is fairly stated as at 30 June 2014.

**COMMUNITY EMPOWERMENT AND INSTITUTIONAL SUPPORT PROJECT
(CEISP) P-KE-IZO-001**

Basis for Qualified Opinion

140. Stolen Vehicle - GKA 661Y

As previously reported in the last financial year, examination and verification of the motor vehicle register and related records revealed that GK A 661Y (White) Isuzu D Max valued at a cost of Kshs.1,611,200.00 was stolen on 8 April 2013 through violent robbery. However there is no documentary evidence to show the measures the Ministry has taken to safeguard the assets of the Project.

**CAPACITY DEVELOPMENT PROGRAMME (CDP) PROJECT NO.P-KE-IZO-001
GRANT NO.2100150015794**

Basis for Qualified Opinion

141. The cash and cash equivalents balance of Kshs.136,612,540.00 as at 30 June, 2014 reflected in the financial statements differs with the cash book balance of Kshs.137,352,560.35 and certificate of bank balance of Kshs.153,345,872.05. Further, the monthly bank reconciliation statements were not provided for audit verification and the differences between the cash book balance, certificate of bank balance and the financial statement balance have not been explained or reconciled. In the circumstances, therefore it was not possible to confirm the accuracy and completeness of the financial statements of the Project for the year ended 30 June, 2014.

**SOUTHERN NYANZA COMMUNITY DEVELOPMENT PROJECT (IFAD LOAN
No. 620 KE AND 763 KE)**

Basis for Qualified Opinion

142. Outstanding Imprests

The cash and cash equivalents figure of Kshs.275,039 disclosed under note 8.12 includes outstanding imprests and advances of Kshs.222,005 which had not been retired or accounted for at the close of the Project. Although, Management has explained that the defaulters names had been forwarded to the Principal Secretary, Devolution and Planning for recovery, the same had not been effected at the close of the Project.

143. Irregular Payment of Re-location Allowance

The Project management paid Kshs.590,000 to its employees as re-location allowance at the end of their contract with the project. A no objection for the payments was sought and approved by the donor. However, the approval was granted contrary to Section 9 of the Project implementation guidelines support for GOK/IFAD funded projects where the allowance applies to only newly recruited Project staff moving to the field at the beginning of project implementation.

MINISTRY OF DEFENCE

FINANCIAL STATEMENTS FOR VOTE 104

Basis for Qualified Opinion

144. Mismanagement of Imprests at the Ministry of Defence

Examination of imprest records for the financial year 2013/2014 in respect of the Ministry of Defence shows that different officers were issued with imprest for foreign and local travel, training, clearance of KRA taxes and hospitality. However, unsatisfactory matters were observed as follows: -

145. Unaccounted for Expenditure Relating to International Studies

Examination of records indicate that the Ministry of Defence issued imprests being per diem payments for international study tours amounting to Kshs.74,237,939.00 to officers travelling to United Kingdom (UK), Sweden, Canada, Cuba, South Korea, Malaysia, Oman and Kuwait. However, available information and records show that the forty two (42) officers did not travel outside the country during the purported period, an indication that a claim of Kshs.74,237,939.00 does not comply with principles of Public Finance Management, 2012 as stipulated in Article 201 (a) of the Constitution of Kenya, 2010.

In addition, no surrender vouchers have been availed for audit verification contrary to Section 37 of Public Audit Act, 2003.

a) Unsupported Payment of Imprests

Examination of records indicate that the Ministry issued imprests amounting to Kshs.11,003,556.00 for clearance of military goods imported through port of Mombasa and Kshs.20,201,600.00 for accommodation of Yugo Import SDPR J.P team from Serbia. However, no documentary evidence was obtained in terms of surrender payment vouchers to confirm that the total expenditure totalling Kshs.31,205,156.00 was authorized, lawful and that value for money was obtained as required under section 68 (1) and (2) of the Public Finance Management Act, 2012.

In addition, no explanation has been given for the direct procurement of accommodation, transport and provision of food for the Yugo Import team through imprest.

b) Direct Expenditure

Although, Section 5.6 (d) of the Government Financial Regulations and Procedures require the accountant in charge of imprest section to certify on the imprest warrant (form F.O 24) that the applicant does not have an outstanding imprest and that he/she has recorded in the imprest register the amount of imprest applied for, the Ministry of Defence expensed imprests totalling Kshs.56,351,780.00 without imprests warrants and authorization of the accounting officer as required under section 68 (1) of the Public Finance Management Act, 2012.

In the absence of an imprest warrant or any documentary evidence coupled with the fact that supporting documents attached to payment vouchers are not signed, it is not possible to confirm that the officers received and used Kshs.56,351,780.00 for hotel accommodation in Mombasa, Nakuru, Eldoret, Gilgil, Isiolo, Rwanda, Ethiopia, France, Tunisia, United Kingdom, Addis Ababa, Southern Sudan and China.

However, the Ministry later availed signed schedules in support of payment vouchers which reveal that same officers were receiving imprests using different Identification card numbers in different payment vouchers. In addition, our letter Ref NS/AUDIT/24/87 dated 11 December 2014 requesting for the Program of Work and reports submitted during the year under review that would justify the expenditure had not been responded to at the conclusion of the audit.

c) Overpayment of allowances

Examination of documents attached to availed payment vouchers in support of expenditures relating to regional and local study tours revealed that members of the four (4) teams were paid based on rates which were above the approved rates resulting in over payment amounting to Kshs.19,637,700.54. No explanation or evidence of recovery has been provided for audit review.

d) Irregularities in Procurement of Library Books for Kenya Navy Training School

Although books valued at Kshs.9,999,895.00 were procured through LPO number 216892 dated 26 May 2014 and paid through payment voucher number 586 on 26 June 2014, audit has revealed the following anomalies: -

- (i)** The procurement process was done through direct procurement method despite the fact that Kenyatta University is not the only supplier who could urgently supply these books.
- (ii)** Verification on 10 October 2014 revealed that these books had not been delivered, an indication that invoice No. KU/BSHP/Inv/Mn4122014 dated 28 May 2014 purportedly issued by Kenyatta University may not be genuine.
- (iii)** Further, there are indications that there was no urgency in the procurement of these books as they have not been delivered as at the date of audit which is one hundred and thirty two (132) days later.

146. Proposed Completion of Married Officers Quarters (Mqs) at 9KR Eldoret

a) Award of Contract and Contract Period.

Examination of contract documents for the proposed completion of Officers MQS at 9KR Eldoret, indicate that the contract was competitively awarded to a contractor through Tender No. DODWKS/005/09/10 at a Contract sum of Kshs.141,686,693.00 on 9 June 2010 for a contract period of 52 weeks ending on 1 July 2011.

However, due to delays occasioned by the contractor, works delayed by one (1) year and three (3) months, were officially handed over on 5 October 2012. Meanwhile, the Project remained under the contractor for maintenance for another

seven (7) months when all defects are reportedly rectified and the certificate for making good all defects was issued on 13 June 2013.

Scope of Works

The scope of works consists of completion of 2 No. Commandants' and 10 No. Majors/Captains' Houses in Eldoret, which include Civil, Mechanical and Electrical works as per specifications and Bills of Quantities (BOQ).

b) Payments

According to records, the project was handed over on 13 June 2013. However, payment vouchers amounting to Kshs.141,686,693.00 were not availed for audit verification.

c) Audit Inspection

An audit inspection undertaken on 22 May 2014 revealed the following unsatisfactory matters: -

(i) Open storm water drain

Despite Kshs.4,203,210.00 was spent on open storm water drain in accordance with the BOQ, the quality of workmanship does not meet required specifications as evidence of cracks was observed.

(ii) Internal plumbing works and internal drainage

It was also observed that internal plumbing works and Internal drainage valued at Kshs.3,435,306.00 were carried out in accordance with the BOQ, however, bathroom drainage was blocked while taps and pipes were leaking, thereby casting doubt on the quality of materials used. In the circumstances, therefore, the value for money obtained from the amount spent of Kshs.3,435,306.00 could not be confirmed.

(iii) Quality of paint work

Although the BOQ provided for an amount of Kshs.6,345,660.00 for paint work, audit inspection revealed that the paint was already peeling off.

(iv) Roofing and rainwater disposal

Although the BOQ provided for rainwater and disposal valued at Kshs.2,749,335.00 for all the twelve (12) houses, an audit inspection revealed that there was a leakage at the chimneys and gutters.

147. Proposed Mechanical Piping and Associated Civil Works for Strategic Fuel Tanks

a) Background

There was an urgent need to have sufficient and readily available fuel in strategic tanks for the on going "Operation Linda Nchi" to ensure the tempo of the Operation was not interrupted. However, the existing fuel pipes connecting them to the link

span were corroded and unserviceable, therefore, it was necessary to replace the rotten pipes to enable direct delivery of fuel into the tanks.

b) Award of Contract

Examination of contract documents for the proposed Mechanical Piping and Associated Civil Works For Strategic Fuel Tanks indicates that the contract was awarded to a contractor through direct procurement vide Tender No.DODWKS/076/11/12 at a contract sum of Kshs.19,445,018.00 on 23 February 2012.

c) Scope of Works

The scope of works consists of mechanical pipe installations including concrete supports, fencing for the strategic tanks, gates, road kerbs and channels, a new pump house and associated electrical works as per specifications and Bills of Quantities (BOQ).

The completion date for the works was 11 June 2013 for a period of thirty (30) weeks starting from 23 February 2012.

d) Audit Inspection

An audit inspection undertaken on 28 May 2014 revealed that over 240,000 litres of diesel with a value of Kshs.23,254,000.00 was delivered to the tanks. However, due to serious fuel leakages from the outlet valves, it was not possible to confirm that the fuel was properly stored and utilized for the intended purposes. In addition, leaking fuel causes pollution to the local environment.

Although the project is reported to have been handed over on 14 June 2013, payment vouchers amounting to Kshs.15,474,150.00 were not availed for audit verification. Consequently, the accuracy and validity of the expenditure could not be confirmed.

148. Audit of Financial Statements

a) Inappropriate Presentation and Disclosure of the Statement of Receipts and Payments

The Kenya Defence Forces did not keep books and records of account, and did not provide for audit the income and expenditure statement, statement of assets and liabilities and cash flow statement. This is in breach of Section 289 (1) and (2) of the Kenya Defence Forces Act, 2012,

Similarly, the statement of receipts and payments for the current year 2013/2014 reflects total payments of Kshs.81,262,885,000.00, out of which payments totalling Kshs.73,290,247,000.00, or approximately 90 % of the total payments are shown as a block figure relating to military expenditure. The nature of this expenditure was not disclosed in terms of compensation of employees, use of goods and services, transfers to other Government units, acquisition of assets and other payments as required by the International Public Sector Accounting Standards (IPSAS) which

provides that payments should be classified according to the nature and their function. Consequently, it is not possible to confirm its accuracy and completeness.

In addition Electronic documents like soft copy of bank statements for Camp Administration Unit A/c No. 100100902600 where Kshs.2,246,229,396.15 was transferred during the month of June 2014 from the Ministry's Recurrent Account No.1000181435 has not been availed for audit review. Therefore, the Ministry of Defence is in breach of section 37(a) (i) and (ii) of the Public Audit Act, 2003.

Consequently the validity and propriety of transferred amounts during the financial year 2013/2014 could not be confirmed.

b) Inaccuracy of Statement of Assets

The statement of assets for the year reflects a net financial position of Kshs.392,178,000.00 against cash and cash equivalents balance of Kshs.386,342,000.00 resulting in un- explained difference of Kshs.5,836,000.00.

c) Inaccuracy of Account Balance

Note 5 to the financial statements on use of goods and services indicates that a total expenditure of Kshs.159,562,000.00, includes Kshs.54,532,000.00 incurred under other operating expenses. however, verification of the ledger submitted for audit revealed that Kshs.6,046,000.00 relates to other operating expenses while Kshs.40,889,000.00 relates to item 2630100-National Space Secretariat which was established through a gazette notice number 5563, but is not operational.

In addition, the Ministry has been making budgetary provisions as follows 2011/2012 for Kshs.500,000,000.00, 2012/2013 for Kshs.550,000,000.00 2013/2014 for Kshs.558,000,000.00 and 2014/2015 for Kshs.605,000,000.00. There appears to be no justification for reserving huge financial resources to a Secretariat which is not operational.

Further, payment vouchers in support of these expenditures were not produced for audit verification. Consequently, it was not possible to confirm the validity of the expenditure incurred in National Space Secretariat.

d) Other Receipts from UN and Deposits

The statement of receipts and payments reflects a receipt of Kshs.6,103,642,000.00 from UN Mission. However, evidence of actual transfer to the exchequer through bank statements and G-Pay records have not been made available for audit review.

e) Understatement of Revenue

The statement of receipts and payments shows receipts from rent totalling Kshs.226,374,000.00 which differ by Kshs.52,137,391.85 from Kshs.278,511,392.15 reflected in the analysis of rent revenue provided. No explanation or reconciliation has been provided for audit review.

f) Unsupported Clearances

The statement of assets and liabilities for Recurrent Vote 104 as at 30 June 2013 reflected balances under the Exchequer and General Account of Vote (G.A.V) accounts of Kshs.4,740,017,784.00 and Kshs.4,529,149,068.86 respectively. Out of these balances, the Ministry only carried forward balances in respect of 2010/2011 of Kshs.258,661,000.00 and Kshs.66,067,000.00 for Exchequer and G.A.V accounts respectively, implying that 2012/2013 balances were cleared during the year. However no Treasury authority was sought for these clearances.

149. Prior Year Matters

a) Purchase of Armoured Personnel Carriers (APCs)

Audit of the procurement process of APCs disclosed unsatisfactory matters summarized as follows: -

b) Purchase of Thirty Two (32) APCs

The Ministry awarded the contract Ref. No. DOD/423/256/2005/2006 to a firm through restricted tendering at a contract sum of USD.16,368,703.66 or Kshs.1,161,105,809.79 on 6 June 2006.

A final contract material inspection report which was to include a performance of quantitative, visual quality inspection and equipment serviceability state checks, has not been made available for audit review although the contract sum was fully paid.

c) Quality of Material Delivered

The Ministry has explained through a letter Ref. No. DOD/FIN/218 VOL. I/005 dated 26 September 2013 and a letter Ref. No. MOSD/11/12A VOL. XV/70 dated 5 November 2013 that the firm won the tender competitively, the contract was signed and executed to the Ministry's satisfaction and the firm was paid in full.

However, available records indicate that 32 APCs supplied in 2008 were deployed in Southern Sudan as part of the Kenyan contingent in UNMISS and are still there to date.

The United Nations identified some flaws with the APCs in the field which included: -

- (i)** The design of the vehicles on the top part allows water to enter into the vehicle which accumulates inside and has to be drained. The ingress of water could adversely affect the normal functioning of various systems in the vehicle which could only be corrected by covering them during rainy seasons by a canopy.
- (ii)** The pneumatic system especially on the braking system was found to be faulty causing leakages in a few of the APCs because the manufacturer used plastic fiber at the pipe joints instead of using metallic parts which can withstand high pressure transmission.

- (iii) No provision was made for spare tyres for the APCs, and the tyres available cannot withstand a puncture for any extra time since operational vehicles are expected to have self-sealing tyres which can go some distance after the puncture.
- (iv) The recovery vehicle lacks a rear door for easy access during stationery working, an omission which could only be corrected through modification to have a rear door for efficient use during recovery duties.
- (v) Faults in gear selection system and power source problems.
- (vi) Rust of some of internal parts which require greasing and repainting.
- (vii) The cover for the turret was worn out for all APCs and should be replaced with new ones to guard against damage as a result of direct exposure to sunlight and rain.

In the absence of a final inspection report together with the uncorrected flaws observed, it was not possible to confirm that the contract was executed to the satisfaction of the Ministry and that value for money was obtained from the expenditure amounting to USD.16,368,703.66 or Kshs.1,161,105,809.79.

150. Purchase of Seventy Five (75) APCs

The Ministry awarded contract Ref. No. DOD/SYS/015/2007/2008 to a firm through restricted tendering at a contract sum of Euros 22,406,926.00 on 24 June 2008. Although the Ministry has now explained through article 19.2 of the Agreement that the contract lapsed because it was not fulfilled within four months, the explanation contradicts an earlier one which indicated that the contract was terminated due to lack of funds. In view of this, it is not clear how the contract could be awarded without funds and mutually wound without damages.

In addition, an examination of the Agreement indicates that a termination clause was not included among the General Contractual Conditions. Consequently, it has not been possible to confirm the circumstances under which the contract was terminated and that the Ministry did not incur any losses arising from contract claims.

151. Purchase of Seventy Six (76) APCs

(i) Award of Contract

The Ministry awarded the contract Ref. No. MOD/SYS/029/2012/2013 to a firm through direct procurement, at a contract sum of USD.51,584,235.00 on 15 October 2012.

The Ministry accepted that it used direct procurement method because APCs are Security items and are not 'off the shelf' items and therefore, have to be tailored and manufactured as per specifications and that the contracted firm is the only entity which could supply APCs being procured in accordance with Section 74 (2) (a) of the Public Procurement and Disposal Act, 2005.

However, the Ministry has failed to justify the relevance of the initial purchases which were done through restricted tendering as required by Section 133 of the Public Procurement and Disposal Act, 2005 for procurement of security items, while the subsequent purchases of the same material were procured through direct procurement method. Although, the Ministry has explained that the firm is the only one which could supply APCs and had been tried and tested by KDF for the supply of the same in a UN Mission to South Sudan, the audit observed that the firm had earlier supplied 32 APCs which had numerous flaws and deficiencies, a confirmation that it was more logical to subject the contract to a competitive bidding process in accordance with the procurement law.

(ii) Contract Payments

The firm has so far been paid Kshs.3,982,824,974.46 in accordance with Article 6 on payment terms. However, the contract did not protect the interest of tax payers as Kshs.3,107,337,338.05 was made based on the receipt of documents relating to delivery and not actual delivery of contracted materials.

These documents are listed as commercial invoice of equivalent sum; Bank guarantee of equivalent sum; Bill of Lading; Packing list; Insurance policy; Pre-shipment inspection certificate and Manufacturer's certificate of origin. Further USD.46,425,812 or 90% of the contract sum has so far been paid to the seller, an amount which is not commensurate with forty (40) APCs which have so far been delivered representing 52% of the contracted quantity.

(iii) Lack of Market Survey

The Ministry of Defence did not undertake a market survey as required by Section 8 (3) Z of the Public Procurement and Disposal Regulations, 2006 which states that a procuring entity shall carry out periodic market survey to inform the placing of orders or adjudication by the relevant award committee. Instead, the contracted firm, also interested in winning the contract, purports to have established market prices for APCs which confirmed that its bid prices were cheaper.

In view of the foregoing, it is clear that the firm dictated prices of APCs and usurped the role and responsibilities of the Ministry's staff. It is therefore, not possible to confirm that Kshs.3,982,824,974.46 which has so far been paid is in excess of the prevailing market prices as required under Section 10(2)(e) of the Public Procurement and Disposal Regulations, 2006.

(iv) Variation of Spare Parts Price

An examination of contract records show that the seller was single sourced to quote for the supply of spare parts for 76 pieces of APCs for three (3) years at a cost of USD.5,915,781.00. However, during an unspecified meeting, it is reported that the seller was advised to work out the cost of spare parts based on a one year period and present in a subsequent meeting. During a follow up meeting, the technical committee members authorized the firm to supply spare parts for the 76 pieces of APCs for 1 year at a cost of USD.2,995,235 without any justification.

152. Statement of Assets and Liabilities for Recurrent

(i) Variance between PMG balance and Board of Survey Report

The statement of assets and liabilities for Vote R108 shows Paymaster General Account debit balance totalling Kshs.195,414,261.55 while the Board of Survey report as at 30 June 2013 reflects an amount of Kshs.255,423,214.30 resulting in a difference of Kshs.60,008,952.75 which has not been reconciled or explained.

In addition, the Ministry has not availed soft copies of the bank statements despite several requests, therefore, it is not possible to confirm the correctness of the reconciled cashbook balance.

(ii) Outstanding Temporary Imprest

The statement reflects outstanding imprests amounting to Kshs.5,959,850.00 as at 30 June 2013 in contravention of Section 5.6.5 of Government Financial Regulations and Procedures.

(iii) Agency Account

The statement reflects a balance of Kshs.78,758,520.80 against Agency Account, which includes an amount of Kshs.9,005,298.80 which was received in 2012/2013 but was not utilized since the projects had been closed. These amounts ought to have been surrendered to various agencies on or before 30 June 2013. No explanation has been given for failure to surrender the same to the respective Agencies.

(iv) General Account of Vote

The statement reflects an uncleared General Account of Vote (GAV) credit balance of Kshs.4,529,068.00 as at 30 June 2013.

(v) Suspense Account/Bank Reconciliation

Although analysis has been availed in support of Suspense Account balance of Kshs.188,498,393.34, the reasons provided for failure to honour cheques include invalid account number, invalid account name and difference in account name. These reasons are not adequate and relevant to justify failure to clear the huge outstanding balances.

(vi) Advances

The statement reflects a debit balance of Kshs.14,960,160.45 against advances which have not been recovered in accordance with Section H.11 of the Code of Regulations.

No reasons have been given for failure to recover the advances.

(vii) Clearance Account

The statement also shows a salary clearance account balance of Kshs.27,395,422.50 which includes an amount of Kshs.22,204,409.00 relating to 2011/2012 and earlier years which has not been cleared. No reason has been given for non-clearance of these balances.

(viii) Excess Appropriation-In-Aid

The statement further shows excess Appropriation-In-Aid amounting to Kshs.132,550,650.50 relating to 2010/2011 and previous years which has not been surrendered to the Treasury. No reasons have been provided for failure to surrender the excess Appropriation-In-Aid to the Exchequer.

MINISTRY OF FOREIGN AFFAIRS AND INTERNATIONAL TRADE

FINANCIAL STATEMENTS FOR VOTE 105

Basis for Qualified Opinion

153. Unsupported Expenditure

The domestic and foreign travel and subsistence expenditure of Kshs.91,959,000.00 and Kshs.1,836,444,000.00 in note 7 to the accounts includes unsupported expenditure of Kshs.23,787,037.00 comprising of Mission and Embassies as follows; Tokyo Kshs.7,398,375.00, New Delhi Kshs.4,731,715.00, Islamabad Kshs.1,285,813.00, Beijing Kshs.5,448,079.00, Windhoek Kshs.3,407,475.00 and Abuja Kshs.1,515,580.00 whose supporting imprest warrants and register were not availed for audit verification. Further, the domestic and foreign travel and subsistence expenditure of Kshs.23,787,037.00 was expensed contrary to regulations which require that officers going outside their duty station for official duty be issued with temporary imprest which they are required to account for upon return.

154. Unauthorized Expenditure

(i) The expenditure on goods and services of Kshs.5,055,529,000.00 in the statement of receipts and payments includes payment for rentals of produced assets amounting to Kshs.1,935,302,000.00. Included in the rentals of produced assets was unauthorised rents and rates expenses of Kshs.180,735,105.00 comprising of Missions and Embassies as follows; Tokyo Kshs.24,668,135.00, Beijing Kshs.16,579,000, Islamabad Kshs.32,950,602.00, New Delhi Kshs.45,084,323.00, Abuja Kshs.36,320,955.00 and Washington Kshs.25,132,090.00. This is contrary to section F.5 of Foreign Service Regulation which require all leases exceeding three months to be authorized by the Principal Secretary. In addition, the inspection reports and certificates on the condition of the household items were not availed for audit verification.

(ii) The statement of receipts and payments reflects unapproved reallocation of funds totalling to Kshs.5,110,465.00 to various expenditure accounts. The amount was charged to purchase of specialised plant, equipment and machinery instead of hospitality (Kshs.584,408.00) foreign travel (Kshs.1,492,725.00) and carrier services (Kshs.3,033,332.00). However, no parliamentary approval was availed to support the reallocation of expenditure in line with Section 10.19 (a) of the Government Financial Regulations and Procedures.

Consequently, the propriety of the expenditure of Kshs.185,845,570.00 for the year ended 30 June 2014 could not be confirmed.

155. Property, Plant and Equipment

(i) Assets Register

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

(ii) Capital Projects

a) Purchase of Tokyo Embassy Chancery and Ambassador's Residence

(i) The Ministry purchased Tokyo Embassy Chancery and Ambassador's residence in 2009/2010 at the cost of Kshs.1,430,733,890.00 while the Commissioner of Lands valued the property at Kshs.1,245,231,000.00 leading to unexplained variance of Kshs.185,502,890. Further, the Embassy contracted an independent valuer who valued the property at Kshs.1,196,883,849.00 against the purchase price of Kshs.1,430,733,890.00 leading to unexplained variance of Kshs.233,850,041. In addition, out of the Kshs.1,430,733,890.00, the Embassy withdrew cash totalling Kshs.1,342,018,446.00 from the bank to pay for the property. However, the supporting payment voucher, cheque counter foils, electronic fund transfer details and bank statement of Kshs.1,430,733,890.00 paid for Chancery and Ambassador's residence were not availed for audit verification. No explanation has been provided for paying Kshs.1,342,018,446.00 in cash.

(ii) On 13 February 2010, the Ambassador's newly acquired residence was completely burnt down. Both the Chancery and Ambassador's residence were not insured. No explanation was provided as to why the two buildings were not insured. Consequently, the propriety of the expenditure of Kshs.1,430,733,890.00 incurred on the purchase of Chancery and Ambassador's residence in 2009/2010 could not be confirmed.

b) Renovation of Beijing Embassy Chancery Basement and Construction of Visa Office

The Ministry renovated Beijing Embassy Chancery basement in 2010/2011 at a cost of Kshs.1,375,137.00 and also incurred Kshs.274,050.00 in the construction of the visa receiving and issuing office that never took place. Documents in support of these expenditures were never availed for audit review. In addition the embassy has no title deed for the Chancery and Ambassador's residence building. Consequently, the ownership of the building and the propriety of Kshs.1,649,187.00 incurred on Chancery basement renovation could not be confirmed.

c) Construction of Islamabad Mission Chancery, Ambassador's Residence and Auxiliary Works

The Ministry commenced the construction of the Islamabad Mission Chancery, Ambassador's residence and auxiliary work at a cost of Kshs.446,570,100.00 in May 2008. The project was to be completed within eighteen months. To date, the project is still far from completion yet the mission had incurred a total expenditure of

Kshs.559,695,378.00 including four variations of Kshs.113,125,278.00 (25%) on the project. The contractor has since abandoned the project.

d) Purchase of Condemned Residential Houses at Pretoria

The Ministry purchased eight (8) residential houses in Pretoria. Out of the eight residential houses, two (2) houses were condemned immediately after they were purchased while the remaining six (6) houses are in deplorable conditions. Further, out of the eight (8) houses, seven (7) of the houses were purchased at a cost Kshs.95,000,000.00 while the value and the date of purchase of house no. 281 located at Waterloof/Crown Street was not availed. In addition, the Ministry has approved the demolition of the two condemned houses No.318 located at Waterkloof/Polaris street which was acquired at Kshs.3,960,000.00 and No.281 located at Waterkloof/Crown street. No explanation has been provided for purchasing condemned houses and then almost immediately approving their demolition.

156. Irregular Procurement of Air Charter Transport Services

The expenditure on goods and services of Kshs.5,055,529,000.00 in note seven (7) to the accounts includes expenses incurred in respect of foreign Air Charter Transport Service of Kshs.23,766,672.00 The service was single sourced contrary to the requirements of the Public Procurement and Disposal Act, 2005. Consequently, the propriety of the Air Charter Transport Services of Kshs.23,766,672.00 for the year ended 30 June 2014 could not be confirmed.

157. Cash and Cash Equivalents

(i) The cash and cash equivalent balance of Kshs.844,839,000.00 as at 30 June 2014 excludes recurrent payment in the cashbook not in bank statement of Kshs.748,060,752.00 and receipts in bank statement not in cash book of Kshs.47,378,063.00. Further, the bank balance of Kshs.844,839,000.00 includes payments in bank statement not in cash book of Kshs.56,807,853.00 and receipts in cash book not in bank statement of Kshs.645,773,082.00. No explanation has been provided as to why these long outstanding items have not been cleared. In addition, the cash and cash equivalents balance of Kshs.844,839,000.00 includes cash in hand of Kshs.33,301,073.00 whose board of survey certificates were not availed for audit verification.

(ii) The cash and cash equivalents balance of Kshs.844,839,000.00 excludes unauthorized bank overdraft of Kshs.17,184,649.00 comprising of Dar-es-salaam Kshs.280,866.00, Los Angeles Kshs.15,284,270.00 and Kuwait Kshs.1,619,513.00 contrary to Government Financial Regulations that prohibits any public bank account to be overdrawn. No explanation has been provided for breaching the regulations. Further, the cash and cash equivalents balance of Kshs.844,839,000.00 also excludes unsupported prior year adjustments of Kshs.60,044,000.00.

(iii) The cash and cash equivalents balance of Kshs.844,839,000.00 includes long outstanding imprest balance of Kshs.23,923,000.00 as detailed in note thirteen (13) of the financial statements. No explanation has been provided for failing to recover this long outstanding imprest as required.

DONOR FUNDED PROJECTS

BUILDING CAPACITY OF DIASPORA AFFAIRS DIRECTORATE PROJECT (IDF GRANT NO.TF098214) FOR THE FIFTEEN MONTHS PERIOD ENDED 30 SEPTEMBER 2014

Basis for Qualified Opinion

158. Amount withdrawn and not claimed

The Special account reconciliation statement for 2013/2014 reflects US\$16,743.97(Kshs.1,506,957.30) as amounts withdrawn and not claimed as at 30 September, 2014. Further, out of the US\$16,743.97 withdrawn, US\$11,674.95 relates to the year 2013/2014 while the balance ofUS\$5,069.02 has remained unclaimed/unaccounted for since 2011/2012. No explanation has been provided as to why the amount withdrawn of US\$16,743.97(Kshs.1,506,957.30) has not been claimed or accounted for to date.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

FINANCIAL STATEMENTS FOR VOTE 106

Basis for Adverse Opinion

159. Inaccurate Financial Statements

The statement of receipts and payments reflect subsidies figure of Kshs.21,652,694,498.00 which includes an amount of Kshs.20,770,464,383.00 in respect of Free Secondary Education which differs with the ledger amount of Kshs.20,755,778,149.10 resulting to a variance of Kshs.14,686,233.90 which has not been explained or reconciled.

160. Cash and Cash Equivalents Balance

The financial statements cash and cash equivalents balance of Kshs.380,850,223.00 as at 30 June 2014 could not be confirmed due to the following omissions:

a) The statement of assets as at 30 June 2014 reflects a bank balance of Kshs.376,688,069.00 which differs with the combined balances reflected in the Development, Recurrent and Deposits cashbooks amounting Kshs.360,079,599.00 resulting to unexplained/unreconciled variance of Kshs.16,608,470.00.

In addition, the bank reconciliation statement for the Recurrent Vote reflects a reconciled cashbook balance of Kshs.120,648,210.85 which differs with the closing cashbook balance of Kshs.123,068,846.00 as at 30 June, 2014 resulting to unreconciled variance of Kshs.2,420,635.15. In the circumstances, it has not been possible to confirm the accuracy of the cashbook balance of Kshs.120,648,210.85 as at 30 June 2014.

Further, the bank reconciliation statement for the month of June 2014 for the Recurrent cashbook reflects electronic transfer amounts totalling Kshs.8,637,320.00 some of which date back to August 2013. No satisfactory explanations have been provided as to why these electronic payments were not cleared as at 30 June 2014 yet the G-pay provides reconciliation reports on a daily basis.

b) The statement of assets as at 30 June 2014 reflects a balance of Kshs.232,852,190.00 under the domestic currency and domestic deposits which is at variance with the cash book balance of Kshs.228,114,056.00 resulting to unreconciled difference of Kshs.4,738,134.00. Further, the supporting schedule of the amount of Kshs.232,882,190.00 was not availed for audit review.

c) As reported in the year 2012/2013, the statement of assets and liabilities for deposits as at 30 June 2013 for the former Ministry of Education (Vote 131) and Ministry of Higher Education Science and Technology (Vote 143) reflected Kshs.166,867,833.00 and Kshs.123,664,547.00 as the closing PMG balances against cashbook balances as at the same date of Kshs.165,280,719.55 and Kshs.123,855,765.45 respectively resulting to unreconciled variances of

Kshs.1,587,113.00 and Kshs.191,218.00 respectively. Since no reconciliation or adjustment has been made in the financial statements or cashbooks, the accuracy of the opening deposits cashbook balance for the new merged Ministry of Education, Science and Technology as at 1 July 2013 could not be ascertained.

Further, the bank reconciliation statement for the deposits account as at 30 June 2014 reflects receipts in bank statement not in cashbook dated November 2013 totalling to Kshs.4,738,133.35. No explanation has been availed as to why these receipts have not been recorded in the cashbook.

In the circumstances, it has not possible to confirm that the cash and bank balance of Kshs.380,850,223.00 as at 30 June 2014 is fairly stated.

161. Under-Collection of Appropriations-In-Aid

Records available for audit review indicated that the Recurrent and Development appropriation accounts for the year ended 30 June 2014 realized Appropriation-in-Aid of Kshs.20,343,814,019.80 under the Recurrent Vote and Kshs.4,134,373,061.50 under the Development Vote against approved estimates of Kshs.20,815,800,000.00 and Kshs.5,790,462,523.00 respectively, resulting into under-collection of Kshs.471,985,980.20 and Kshs.1,656,089,462.00 or approximately 2.3% and 28.6% respectively. No satisfactory explanation has been given for the under collections.

162. Unsupported Prior Year Adjustments

The statement of assets as at 30 June 2014 reflects prior year adjustment of Kshs.1,567,838,117.00 whose supporting documents were not availed for audit review. Consequently, it has not been possible to confirm the nature of the prior year adjustment figure of Kshs.1,567,838,117.00 as at 30 June, 2014.

163. Unsupported Account Receivables and Payables

Note 18 to the financial statements reflects, under receivables, a District/Province account balance of Kshs.309,086,605.00 and Exchequer provisioning account balance of Kshs.10,251,124,152.00 whose supporting analysis were not available for audit review. Further, the supporting documents in respect to General Account of Vote (GAV) provisioning balance of Kshs.10,723,922,476.00 under payables were also not availed for audit verification. In the circumstances, It has not been possible to confirm the validity and accuracy of the account receivable and payables balances of Kshs.10,560,210,757.00 and Kshs.10,723,922,476.00 respectively as at 30 June 2014.

164. Irregular Purchase of Airtime

The financial statements under note 9, communication, supplies and services figure of Kshs.44,192,245.00 includes an amount of Kshs.15,633,205.00 paid to a firm in respect of supply of airtime during the year. However, examination of procurement records revealed that the contract was awarded through direct procurement as opposed to open tendering. No explanation for the use of direct procurement was

provided. In the circumstances the Ministry contravened the provisions of section 74 of the Public Procurement and Disposal Act, 2005.

165. Nugatory Expenditure - Construction of Bondo Technical Training Institute

During the year under review, the Ministry paid Kshs.33,194,724.00 to a supplier vide payment voucher No.1,066 in respect of certificate No.10 for construction of Bondo Technical Training Institute. Included in the amount of Kshs.33,194,724.00 is Kshs.3,785,556.00 being penalties for late payments of the previous certificates. No satisfactory explanations were provided as to why the Ministry failed to pay the contractor on time in order to avoid the penalty of Kshs.3,785,556.00.

166. Staled Construction work at Masai Technical Training Institute

The statement of receipts and payments reflects other grants and transfers figure of Kshs.67,003,247,753.00 in respect of grants and transfers to Educational Institutions. Included in Kshs.67,003,247,753.00 is an amount of Kshs.6,788,842.00 disbursed to Masai Technical Training Institute. Records made available at Masai Technical Training Institute indicate that a tender for the proposed erection and completion of a food and beverage unit was awarded in 2010 for a contract sum of Kshs.28,976,992.56 and signed on 1 March 2011 for a period of fifty two (52) weeks.

As at 30 June 2014, the Institute had paid Kshs.25,628,901.00 or approximately 88% of the contract price. A physical verification of the project on 22 August 2014 revealed that the building was still incomplete and no latest progress report by the quantity surveyor was availed for audit review. Further, no evidence of extension of the completion period was availed for audit review. No satisfactory explanations were provided as to why the contract was not fully executed even after making payments totalling Kshs.25,628,901.00 or 88% of the contract price.

167. Unsupported Expenditure - Scholarship and Other Educational Benefits

Included under other grants and transfers figure of Kshs.67,003,247,753.00 under note 12 to the financial statements is an amount of Kshs.1,390,452,756.00 in respect of scholarships and other educational benefits disbursed to various educational institutions through Constituency Bursary Fund Committees. Documentary evidence in form of returns and list of beneficiaries including amounts awarded was not made available for audit review. Under the circumstances, the propriety of the expenditure of Kshs.1,390,452,756.00 could not be confirmed.

168. Current Grants, and Transfers to Government Agencies and other Levels of Government

Included in other grants and transfers figure of Kshs.67,003,247,753.00 under note 12 to the financial statements is an amount of Kshs.65,369,305,403.00 in respect of current grants and transfers to government agencies and other levels of government. Included in Kshs.65,369,305,403.00 are disbursements totalling Kshs.21,524,382,508.00 to seventeen (17) sampled Universities and other government agencies out of which Kshs.21,305,546,361.00 was confirmed

received. The resultant variance of Kshs.218,836,147.00 has not been explained or reconciled. Consequently, it has not been possible to ascertain the accuracy and validity of the disbursements of Kshs.65,369,305,403.00 for the year ended 30 June 2014.

169. Outstanding Imprest

Although note 18 to the financial statements reflects temporary imprest figure of Kshs.1,331,044.00, records availed for audit review indicates that imprests totalling Kshs.11,120,627.90 some of which date back to 1990 remain outstanding as at 30 June 2014 contrary to Government Financial Regulations and Procedures. The resultant variance of Kshs.9,789,583.90 has not been explained or reconciled. In the circumstances, it has not been possible to confirm the accuracy, validity and completeness of the outstanding temporary imprest figure of Kshs.1,331,044.00 as at 30 June 2014.

170. Unrecovered Salary Advance

Note 18 to the financial statements reflects salary advance figure of Kshs.774,162.00 which is at variance with the Ministry's salary advance records figure of Kshs.479,381.00 as at 30 June, 2014. The resultant variance of Kshs.264,781.00 has not been explained or reconciled.

171. Pending Bills

Note 1.5 to the financial statements indicates that bills totalling to Kshs.7,810,055,625.95 for the year ended 30 June 2014 were not settled but were carried forward to 2014/2015 financial year. Out of the Kshs.7,810,055,628.95, bills amounting to Kshs.345,445,698.00 relate to Recurrent Vote while Kshs.7,464,609,927.85 relate to Development Vote. It was further, noted that:

a) Included in the pending bills is an amount Kshs.30,000,000.00 due to a supplier in respect of provision of Microsoft Software Licenses and upgrades for the Ministry and various schools under a contract which was entered into on 1 January 2011 for thirty six (36) months ending on 13 December 2013 at a contract price of Kshs.30,817,301.70 per year. No documentary evidence in form of records of Computers installed with the softwares and upgrades and their location was availed for audit verification. In the circumstances, it has not been possible to establish that the amount payable of Kshs.30,000,000.00 is a proper charge to public funds.

b) Further, an amount of Kshs.457,000.00 due to Kenya Education Management Institute whose invoice was based on budgeted number of 190 persons instead of actual number of attendance of 130 persons resulting to an excess billing of Kshs.138,000.00 which has not been explained.

172. Audit of Secondary Schools

The statement of receipts and payments reflects subsidies of Kshs.21,652,694,498.00 which includes an amount of Kshs.20,770,464,383.00 in respect of Free Day Secondary Education (FDSE) funding that was disbursed to

secondary schools. During the year under review, an audit inspection carried out on the Free Day Secondary schools in Nairobi, Kiambu, Kajiado and Machakos counties revealed the following unsatisfactory matters:

a) Rent Income Arrears

As at the time of this audit, thirty (30) secondary schools had outstanding rent arrears amounting to Kshs.5,909,747.60 due from teachers and other members of staff. It was however noted that the schools had not put in place appropriate measures to recover the arrears. As at March, 2015 some schools had recovered Kshs.4,684,593.50 leaving an outstanding balance of Kshs.1,225,154.10 in nine (9) schools.

b) Institutional Creditors

Examination of records maintained by forty four (44) schools revealed that there were accumulated creditors totalling Kshs.230,365,053.74 as at 30 June, 2014. A review of the position of creditors in March 2015 revealed that some schools had settled a total of Kshs.148,874,499.95 leaving outstanding balance of Kshs.81,490,553.79 in twenty one (21) schools. No clear explanations were provided for failure to promptly pay for goods and services procured.

c) Outstanding Imprest

Examination of imprests records maintained in eleven (11) schools established that imprests amounting to Kshs.1,821,323.00 which ought to have been surrendered or otherwise accounted for within forty eight (48) hours after completion of the purpose for which the imprest was issued remained outstanding as at 30 June, 2014. As at March 2015, imprests amounting to Kshs.1,701,228.00 had been surrendered leaving an outstanding balance of Kshs.120,095.00.

d) Irregular re-allocation of funds

Scrutiny of the financial documents in twenty four (24) schools revealed that schools funds were transferred from one account to another without the requisite authority. The virements were from either operations or tuition accounts to the main accounts or across the GoK funded accounts contrary to financial procedures. A total of Kshs.15,790,562.00 in four (4) schools had been transferred irregularly as at 30 June, 2014. A review of the position in March 2015 revealed that some schools had refunded Kshs.13,796,232.00 to the original accounts leaving an outstanding amount of Kshs.1,994,330.00 in five (5) schools. The funds were spent on other purposes, other than for which they were intended.

In the circumstances the schools violated the financial procedures and related financial management circulars issued thereon.

e) Irregular Procurement of Goods and Services by Secondary Schools

Examination of schools records during the year under review showed that thirty six (36) schools awarded tenders worth Kshs.26,105,201.00 through direct

procurement instead of open tendering method as required by the Public Procurement and Disposal Act 2005. Further, some schools awarded tenders to suppliers who were not prequalified by the tender committees contrary to Section 23 of the Public Procurement and Regulations of 2006. As at March 2015 expenditure worth Kshs.23,310,098.00 had been appropriately responded to resulting to a balance of Kshs.2,795,103.00 in three (3) schools.

The schools have not provided sufficient justifications for use of direct procurement, which clearly denied them the benefits of competitive bidding. It is therefore, doubtful if the schools got the value for their money in the above transactions.

f) Misallocation Charged Expenditure

Examination of expenditure documents revealed that fourteen (14) schools utilized the grants amounting Kshs.3,374,662.00 under the free secondary education subsidy for other purposes. A review of the position in March, 2015 indicated that Kshs.2,869,540.00 had been sufficiently explained occasioning an unexplained balance of Kshs.505,122.00. No explanation has been given for this anomaly.

g) Overstated Enrolment

Examination of enrollment records in the Ministry used for disbursement of Free Day Secondary Education revealed that J.G. Kiereini Secondary School had a student population of eight hundred (800) between term three (3) in 2013 and term one (1) in 2014. However, examination of the school's student registers and other enrolment records in the school reveal that the student population stood at 597 students resulting in an overstatement of 203 students leading to excess disbursements to the School of Kshs.1,468,838.00. The extra receipt of Kshs.1,468,838.00 is therefore irregular.

h) Unsupported Expenditure

Examination of expenditure documents at Beth Mugo Secondary School revealed that payments amounting to Kshs.608,904.00 were not supported by relevant documents such as payment vouchers, cash sale receipts and invoices. In the circumstances, the propriety of expenditure of Kshs.608,904.00 incurred at the school cannot be confirmed as a proper charge to public resources.

i) Unutilised Economic Stimulus Project Funds

In the financial year 2012/2013 the Ministry of Education through the Economic Stimulus Project (ESP) disbursed Kshs.440,000.00 to Beth Mugo School for ICT facilities. The funds were meant for purchase of LCD projectors, a laptop, local area network setup and internet connectivity for one year. The amount of Kshs.440,000.00 remained unutilized as at the date of this report, contrary to the Ministry's requirements under ESP.

j) Unutilized infrastructure Funds

Examination of records at Precious Blood Girls, Riruta in March 2014 revealed that an amount of Kshs.10,000,000.00 which had been disbursed by electronic transfer

in February 2013 in respect of construction of two storey classroom block project had not been utilized as at the date of this report. No satisfactory explanations have been provided as to why the school had not embarked on the project.

k) Overpayment of Construction work at Kamukunji Secondary

Information made available indicates that Kamukunji Secondary School contracted a firm to construct four (4) classrooms at a contract sum of Kshs.4,011,220.00 under the ADB infrastructure project. As at the time of audit, the contractor had been paid Kshs.5,879,967.00 yet the works were incomplete. The school management has however not explained why the contractor was paid Kshs.1,868,747.00 over and above the original contract sum of Kshs.4,011,220.00 before completion of the works.

In addition, a review of the Engineer's report identified structural weaknesses in the building that rendered it inhabitable unless corrective action is undertaken.

In the circumstances it has not been possible to confirm that the stakeholders got the value for their money from the above project.

l) Irregular Allowances

It was observed that the Principal at Chania Girls had been drawing a monthly untaxed commuter allowance of Kshs.15,000.00 for six (6) years resulting in a total payment of Kshs.1,080,000.00. As per the Board of Management minutes, the principal was supposed to cease drawing the allowance immediately a new van was purchased. Although the school purchased a new van registration number KBL 573G in the year 2011 for the principal, payment of the commuter allowance was not stopped resulting into irregular payment. No recovery for the irregular payment paid has been made and no satisfactory explanation has been given for non-recovery

173. DONOR FUNDED PROJECTS

a) Support for Technical, Industrial, Vocational and Entrepreneurship Training (TIVET) Project.

(i) Non Delivery of Equipment

Information available indicates that on 30 December 2013, the Ministry signed contracts with various firms for the supply, delivery, installation, commissioning and training on use and maintenance of various equipment to eight (8) new Technical Institutes at a total cost of Kshs.363,135,374.00. However, a review of procurement documents availed for audit review indicated that the Ministry had not paid the contractors and as a result the equipment had not been supplied to the intended Institutes as at the date of this report, contrary to Section 6 of the Contract Agreement which required goods to be delivered at the project site not later than eight (8) weeks after signing the contract and completion date not later than twelve (12) weeks after contract signing. No satisfactory explanations have been provided by the Ministry for not paying the contractors. The non-performance of the contract for delivery of the equipment impacts negatively on the cardinal objective of the

Project to improve access, quality and relevance of skills development opportunities for the youth in Kenya.

(ii) Delays in Completion of Civil Works

In October 2011, the Ministry contracted several contractors for the construction of workshops in eleven (11) Technical Institutes at a total contract sum of Kshs.838,482,812.78. In March 2012, the Ministry further undertook to construct additional eight (8) workshops in eight (8) new Technical Institutes, and engaged contractors at a total contract sum of Kshs.763,442,178.49. In total the Ministry had committed to construct 19 workshops at a total cost of Kshs.1,601,924,991.27. According to contracts signed between the Ministry and various Contractors, the works were to commence immediately and be completed within fifty two (52) weeks in October 2012 and March 2013 respectively.

As at 30 June 2014, the Ministry had paid a total of Kshs.1,122,712,476.86 or approximately 70.085% of the total contract sum of Kshs.1,601,924,991.27.

However, a review of the Project at the time of this audit revealed that seven (7) out of the nineteen (19) contracts with a total contract sum of Kshs.546,071,441.00 had not been completed despite the contractors having been paid Kshs.323,183,243.00. The Ministry did not provide reasons for the delay in project completion and has not explained if and when the Project will be completed.

(iii) Non-Renewal of Bank Guarantees

A review of contract documents for the construction of workshops for selected technical institutes revealed that eighteen (18) contractors signed performance bond at 10% of the contract sum in compliance with the contract agreement. The bonds executed were between Kshs.1,000,000.00 and Kshs.11,585,380.50. The bonds were to run for a period of one year and the contractors were to renew them upon expiry. A review of the Project status on 23 October 2014 revealed that six (6) bonds totalling Kshs.50,119,297.30 had expired and had not been renewed hence exposing the Ministry to risk of financial loss in case of non-performance of this magnitude. No explanation was provided for this anomaly.

(iv) Expired Contract Periods

The Project status report as at 30 November 2013 indicates that contract period for eighteen (18) contracts expired on various dates within 2011/2012 financial year. Although the Ministry did not give extensions of the contracts, a review of the status as at 23 October, 2014 revealed that seven (7) Contractors continued with the works without valid contracts in violation of Section VII Clause 2.2 of the Contract Agreements that provide for renewal of contract period upon expiry. In the circumstances, the Ministry was in breach of the terms of the contracts by allowing the Contractors to continue with the works without valid contracts.

(v) Advance Payment for Equipment and Works

As previously reported, the statement of receipts and payments for the year 2011/2012 reflected payment of Kshs.299,606,679.05 against goods and works. The figure included Kshs.34,532,180.70 in respect to equipment which were to be supplied and installed in three (3) Technical Institutions, and works which were to be done in eight (8) Technical Institutions within the country. The amount of Kshs.34,532,180.70 also included advance payments of Kshs.29,519,983.90 which comprised of Kshs.2,338,296.90 paid to three (3) suppliers of equipment before delivery of the items, while the balance of Kshs.27,181,687.00 was paid in advance to three (3) contractors before the works had commenced.

In addition, no valid bank guarantees for these payments were provided for audit review. It was therefore not possible to ascertain how the Ministry would be indemnified in case of breach of contract. As at 30 June 2014, the Ministry had not provided information on the status of the issue as raised in the previous year's report.

b) Support to Enhancement of Quality and Relevance in Higher Education, Science and Technology Project

(i) Delay in Delivery of Goods

The project management signed twenty six (26) contracts with various suppliers between October 2013 and December 2013, to supply equipment to various Universities' at a contract sum of Kshs.2,022,137,271.00. However, documents availed for audit review as at 30 September 2014 revealed that only equipment relating to five (5) contracts amounting to Kshs.239,626,858.00 had been delivered to the respective institutions while the balance worth Kshs.1,782,510,413.00 from twenty one (21) contracted firms had not been delivered as at 30 June 2014. As at 1 August, 2014 the Ministry had paid Kshs.197,010,696.00 to the contractors. It is not clear when the remaining equipment will be supplied.

(ii) Ineligible Expenditure

The project's statement of receipts and payments reflects operating costs amounting to Kshs.23,317,184.00, which includes an amount of Kshs.1,928,398.00 made to a contracted company in respect of supply of Technical Equipment. The payment of Kshs.1,928,398.00 also includes an amount of Kshs.429,326.00 incurred in respect to demurrage, detention and customs warehouse rent as a result of delay by the Ministry to apply for duty exemption and IDF fees payable, contrary to the provision of Section 68(1) of the Public Finance Management Act 2012. No explanation was provided for the delay which resulted to avoidable extra charges. In the circumstances, the propriety of expenditure of Kshs.429,326.00 for the year ended 30 June 2014 could not be confirmed.

(iii) Exchange Rate Differences

Scrutiny of foreign exchange transactions under the project indicated that foreign currencies were converted using predetermined fixed rates throughout the year at

Kshs.83.8208 for one (1) US dollar and Kshs.129.9970 for one (1) GBP, contrary to the accounting policies of the project at note 8.1(vi) to the financial statements which requires foreign currency to be converted using the exchange rates prevailing at the dates of the transactions. As a result, the project's financial statements were therefore understated by Kshs.4,091,292.00. If the management had applied the accounting policies as per note 8.1(vi) to the financial statements, then the project would have realized a loss of Kshs.4,091,292.00 for the year ended 30 June 2014.

c) GoK/UNICEF Education for Young People Programme

(i) Unsupported Expenditure

The project's statement of receipts and payments reflects total expenditure of Kshs.213,294,834.00, out of which Kshs.205,054,534.00 or 96% of the total expenditure was not supported with the relevant documentation

In the absence of the supporting documents, it has not been possible to confirm the propriety of the total expenditure totalling Kshs.205,054,534.00 for the year ended 30 June 2014.

d) GoK/WFP Food Assistance to Primary and Pre-primary Schools in Semi-Arid Areas and Disadvantaged Urban Children Project (WFP Project)

(i) District Expenditure Unaccounted for

The statement of receipts and payments reflect an expenditure of Kshs.1,030,519,980.00 for purchase of goods and services. However, the amount of Kshs.1,030,519,980.00 included Authority to Incur Expenditure (A.I.Es) amount of Kshs.103,213,510.00 which were issued during the year to District Education Officers in Arid and Semi-Arid Lands (ASAL) areas for various activities, but only expenditure returns from 95 Districts totalling Kshs.74,311,471.00 were availed for audit review resulting to a balance of Kshs.28,902,039.00 which had not been accounted for as at 30 June 2014.

(ii) Irregular Expenditure

Examination of payment voucher no. 8311 dated 27 June 2014 and the related supporting documents revealed that an amount of Kshs.493,500.00 was paid as per diem to various officers participating in the Kenya Secondary Schools Heads annual delegates conference held in Mombasa, under Head 0018 – School Feeding Programme instead of the respective directorates accounts. Further, no satisfactory explanations were provided for diverting project funds to school Heads annual delegates conference. In the circumstances, it has not been possible to confirm the propriety of expenditure of Kshs.493,500.00 paid to participants attending the school Heads annual delegates conference.

174. Prior Year Unresolved Matters

As reported in the report for 2012/2013, the following matters remain unresolved as at 30 June 2014.

a) Current Grants to Government Agencies and Other Levels of Government

The Appropriation Account for vote R 131 for the year 2012/2013 reflects under various Heads, expenditure totalling Kshs.15,260,677,549.00 under Item 2630100 – Current Grants to Government Agencies and Other Levels of Government, representing funds released to various Government Educational Institutions, Colleges and Schools during the year ending 30 June, 2013. Out of this amount, an amount of Kshs.10,005,615,240.00 has been confirmed received in the respective Institutions leaving a balance of Kshs.5,255,062,309.00 sent to thirteen (13) institutions. Under the circumstances, the propriety of the expenditure of Kshs.5,255,062,309.00 incurred in the year 2012/2013 could not be confirmed.

b) Unsupported Expenditure on Sanitary Towels

Examination of records maintained at the Ministry's Headquarters revealed that the Ministry entered into contracts with three (3) firms for the supply of sanitary towels to schools in seven (7) provinces. As at 30 June, 2013, the Ministry had paid the firms a total of Kshs.297,990,193.20 for the towels. However, although the receiving documents (S12's) were attached to the payment vouchers as proof of delivery of the goods to the Ministry, information available indicates that this was done as a formality as the goods were delivered by the suppliers directly to the schools with the supervision of District Education Officers (DEOs). No supporting documents including returns from the respective DEOs Offices and recipient schools confirming receipt of the sanitary towels were made available for audit review. In the absence of these documents, the expenditure of Kshs.297,990,193.20 could not be confirmed.

c) Uncleared Balances

The statement of assets and liabilities for Deposits 131 as at 30 June, 2013 reflects long outstanding debit and credit balances amounting to Kshs.6,877,929.10 and Kshs.174,348,364.85 respectively against various accounts as indicated here below:-

Debits	Amount (Kshs.)
Temporary Imprest	1,056,221.15
Agency-Ministry of Home Affairs	3,678,726.25
Agency-Suspense	293,393.75
Clearance Account (Research)	137,400.00
District Suspense	1,712,152.95
Funds and Schemes-Research	35.00
Total	6,877,929.10

Credits

Nararas Singh Trust Fund	2,202.00
Mrs Kamelgoan Bhatt Trust	15,412.50
Dulverton Scholarship Fund	3,441.25
Esso Scholarship Fund	196.55
Headquarters Deposits	166,227,232.25
Mombasa-Non Existing Deposit	294,792.70
Posting to Non Existing Accounts	7,805,087.60
Total	174,348,364.85

No reason has been given for the non-clearance of these balances from the books of accounts.

d) Unsupported Expenditure

The Appropriation Account for Vote R 143 for the year ended 30 June 2013, reflected under various Heads, Item 2110100- Basic Salary, an actual and estimated expenditure on basic salary of Kshs.203,164,142.00 and Kshs.190,450,045.00 respectively resulting to an over-expenditure of Kshs.12,714,097.00. However, although the Ministry has explained that the over expenditure was due to Government re-organization which resulted in payment in lieu for exiting officers and entry of other officers who were not budgeted for, a list of officers who exited and those who entered was not made available for audit review.

e) Current Grants to Government Agencies and Other Levels of Government

The Appropriation Account further reflects under various Heads and Sub Heads, Item 2630100 – Current Grants to Government Agencies and Other Levels of Government, expenditure totalling Kshs.43,302,668,963.00. The figure includes grants totalling Kshs.28,639,728,054.00 representing funds disbursed to some thirty five (35)institutions during the year. However, the 2012/2013 financial statements for these institutions reflected grant receipts totalling Kshs.24,680,920,204.90 resulting to an overall difference of Kshs.3,958,807,849.10. Further, included in the Kshs.3,958,807,849.10 were over-disbursements to various institutions totallingKshs.155,456,132.50. No explanation or reconciliation has been provided for the above variances.

f) Long Outstanding Balances

The Statement of assets and liability for vote 143 further, reflects long outstanding debit and credit balances amounting to Kshs.1,746,932,680.00 and Kshs.3,373,382,679.95 respectively against various accounts as indicated below:

Debit balance	Amount (Kshs)
Exchequer	1,725,485,166.00
PMG	21,447,513.95
	1,746,932,680.00
Credit balance	
GAV	3,373,382,679.95

No reasons have been provided for failure to clear the long outstanding balances from the books of account.

175. DISTRICT EXPENDITURE

a) Machakos District

(i) Unsurrendered Imprest

Examination of imprest records revealed that various Ministry officials had outstanding imprests amounting to Kshs.540,000.00 which was overdue for surrender as some were dating back to October 2013. This is contrary to the laid down regulations on issuance of imprest which should be surrendered within forty eight (48) hours after completion of the intended purpose for which the imprest was issued and further, no imprest should be issued before surrender of the earlier imprests held by the officer.

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

(ii) Unsupported Payments

The District Education Officer-Yatta District made various payments amounting to Kshs.122,989.00 whose payment vouchers were not supported with relevant documents, such as copies of work tickets and fuel detail orders.

Further, the office in Athi River District made payments amounting to Kshs.15,270.00 for services that were not provided and another payment of Kshs.1,429,780.00 for construction of twin workshop which was not supported with relevant contract documents. Consequently, the propriety of these payments could not be confirmed.

b) North Pokot District

(i) Cash Purchases

During the year under review, the District Education officer made various cash purchases worth Kshs.339,300.00 which exceeded the limit of Kshs.10,000.00 allowed for low value procurement under the Public Procurement and Disposal Act, 2005. No reasons were provided for not following the procurement Act.

(ii) Unsupported Expenditure

During the year under review, the District Education officer made payments to schools co-curricular activities amounting to Kshs.400,000.00. The money was paid to Pokot County Schools Activity account for use on co-curricular activities. It was however noted that, the payment was not supported with necessary documents. Further, no expenditure returns detailing how the grant was utilized were provided for audit verification. Under the circumstances, the propriety of the expenditure could not be confirmed.

(iii) Unauthorized Re-allocation of Funds

Records maintained at Kapenguria District Education office further indicated that expenditure amounting to Kshs.300,000.00 was incurred on purchase of fuel from a petrol station in Kapenguria town. The expenditure was however charged under Head R106 item 2210604 – Hire of Transport instead of item 2211201 – Fuel, Oil and Lubricants issued vide AIE No.A599714 dated 13 August, 2013. No Treasury authority approving re-allocation of funds was provided for audit verification.

(iv) Repair of Motor Vehicle

Examination of records maintained at North Pokot Education office revealed that the department made payments totalling Kshs.208,650.00 to a garage based in Kitale town for the service carried out on motor vehicle registration No. GK S394. However, the payments were not supported by a technical report from Ministry of Public Works detailing the defects of the vehicle prior to carrying out the service. Further, Local Service Order (LSO) No.A862704 for the service was raised on 25 May, 2014 after the service of the vehicle had been carried out according to invoice No.164 dated 4 April, 2014 from the garage.

No explanation was provided for the anomalies noted. In addition, motor vehicle work tickets were not made available for audit review. Consequently, the propriety of the expenditure of Kshs.208,650.00 could not be confirmed.

(v) Doubtful Payment on Hire of Transport

Examination of records maintained by the office further revealed that two private transporters were hired at a total cost of Kshs.2,702,428.00 to transport School Feeding Programme (S.F.P.) foodstuffs to various Primary Schools in North Pokot District. A review of invoices and other documents attached to the payment

vouchers, however, indicated that the foodstuffs were delivered and left at a central primary school from where the beneficiary schools collected the items. The schedule of payment further showed that the transporter charged for the whole distance to the beneficiary school instead of the central point where the items were delivered. As a result, hire of transport totalling Kshs.418,065.00 paid to transporters could not be confirmed as a proper charge to public funds.

c) West Pokot District

(i) Domestic Travel and Accommodation Allowance

Examination of payment records maintained at West Pokot District Education office revealed that an amount of Kshs.854,250.00 incurred on domestic travel and accommodation were not supported by relevant documents including work tickets, bus fare tickets, invitation letters and were not acknowledged by the payees as a sign of receipt of the payment. The expenditure therefore, could not be confirmed as a proper charge to public funds and was not accounted for contrary to Section 5.5.14 (c) of the Government Financial Regulations and Procedures which requires the accounting officer to ensure that all payments are supported by relevant certificates and documents.

d) Central Pokot District

(ii) Unaccounted for Expenditure

During the year under review, the District Education officer of Central Pokot District made payments to schools co-curricular activities amounting to Kshs.580,000.00. The money was paid for use on co-curricular activities. It was however noted that, the payment was not supported with necessary documents. Further, no expenditure returns detailing how the grant was utilized were provided for audit verification. Under the circumstances, the propriety of the expenditure could not be confirmed.

e) Cash Purchases

During the year under review, the District Education officer incurred an expenditure amounting to Kshs.355,691.00 on various items and services. The procurement of the goods and services was done on cash basis although the value exceeded the maximum ceiling of Kshs.10,000.00 allowed under low value procurements, contrary to the provisions of Section 90 of the Public Procurement and Disposal Act, 2005. Under the circumstances therefore, it has not been possible to confirm that the expenditure of Kshs.355,691.00 is a fair charge to public funds.

f) Murang'a East District

(i) Unsupported Subsistence Allowance

The County Director of Education office incurred expenditure amounting to Kshs.1,117,000.00 in respect of staff subsistence allowances during 2013/2014 co-curriculum activities. This expenditure included Kshs.494,000.00 subsistence

allowances paid to members of staff during primary schools athletics championship held in Mombasa with effect from 11 June to 15 June, 2014 and Handball, Rugby, Athletics and Netball games held in Kisii with effect from 6 June to 15 June, 2014.

Further, the County Director of Education office incurred expenditure amounting to Kshs.1,260,000.00 in respect of subsistence allowances paid to members of staff during Secondary Schools National Drama Festival held in Nyeri from 6 April to 16 April, 2014.

However, there was no evidence that the officers paid qualified for subsistence allowances since supporting documents to actual travel and participation such as motor vehicle work tickets or bus tickets/receipts were not availed for audit review. Therefore the expenditure of Kshs.1,754,000.00 could not be confirmed as a proper charge to public resources

g) Mathioya District

(i) Construction of Mathioya District Education Office Block

A review of records available for audit indicated that an amount of Kshs.1,438,975.00 was incurred in respect of construction of phase II of the Mathioya District Education Office Block during the year 2013/2014. Which was labour based. The supply of construction materials and labour worth Kshs.1,255,725.00 was from suppliers who were not prequalified contrary to Public Procurement Regulations, 2006.

Further, the bills of quantities for the project and inspection and acceptance certificates were not availed for audit verification. In the circumstances it has not been possible to confirm that the stakeholders got value for their resources.

h) Kitui County

(i) Unaccounted for Funds

The County Director of Education, Kitui County paid Kshs.1,100,000.00 to Kitui County Primary Schools heads Association and a further Kshs.511,000.00 to the County Secondary Schools Activities Association to cater for co-curricular activities. However, no expenditure returns detailing how the funds were utilized were made available for audit review. Therefore the propriety of expenditure of Kshs.1,611,000.00 could not be confirmed.

GOK/UNICEF EDUCATION FOR YOUNG PEOPLE PROGRAMME

Basis of Adverse Opinion

176. Presentation of Financial Statements

The financial statements availed for audit review do not contain a statement of comparative budget and actual amounts and the notes to the accounts. Additionally, the statements do not have explanations for the variances between the budget and actual amounts. Also the notes to the accounts failed to give a breakdown of the balances of receipts and payments, contrary to the requirements of International Public Sector Accounting Standards.

177. Bank Balances

The statement of financial assets and liabilities as at 30 June 2014, reflects bank balance of Kshs.8,525,190.00. However, the balance of Kshs.8,525,190.00 was not supported with the respective bank reconciliation statements as required by International Public Sector Accounting Standards. Further, a review of the cash book availed for audit review indicated that bank charges of Kshs.6,296 incurred during the year was excluded from the balance of Kshs.8,525,190.00 hence overstating the same by Ksh.6,296 as at 30 June 2014.

In the circumstances, it has not been possible to confirm the validity and accuracy of the bank balance of Kshs.8,525,190.00 as at 30 June 2014.

GOK/OPEC BASIC EDUCATION IMPROVEMENT PROJECT (OPEC LOAN NO. 910 P)

Basis of Qualified Opinion

178. Presentation of the Financial Statements

The financial statement submitted for audit review did not contain statement of comparative budget and actual amounts and notes to the accounts, contrary to the requirements of International Public Sector Accounting Standards.

179. Cumulative to-date surplus

The statement of receipts and payments for the year ended 30 June 2014, reflects Kshs.1,109,632,640.00 and Kshs.1,103,044,396.00 under accumulative to-date receipts and payments respectively, resulting into cumulative to-date surplus of Kshs.6,588,244.00. The statement however reflects accumulative to-date surplus of Kshs.368,588.00 resulting into unexplained/unreconciled variance of Kshs.6,219,656.00. In the circumstances, it has not been possible to confirm the

accuracy of the statement of receipts and payments for the year ended 30 June 2014.

180. Cash and Cash Equivalents

The statement of assets and liabilities reflects cash and cash equivalents balance of Kshs.931,166.00 represented by cash at bank and cash in hand of Kshs.562,578.00 and Kshs.368,588.00, respectively. However, a bank reconciliation statement availed for audit review reflected a bank balance of Kshs.562,578.00 and a cash book balance of Kshs.368,588.00. However, the cash survey reflected a NIL Cash in hand balance as at 30 June 2014. Therefore, the cash and cash equivalents balance of Kshs.931,166.00 is overstated by Kshs.368,588.00 as at 30 June 2014. In the circumstances, it has not been possible to confirm the validity and accuracy of the cash and cash equivalents balance of Kshs.931,166.00 as at 30 June 2014.

181. Delay in Project Completion

The GOK-OPEC Basic Education Improvement Project Agreement Loan No 910P was signed on 29 October 2002 between OPEC Fund for International Development and the Republic of Kenya and was expected to be completed by September 2005. Due to implementation challenges, several extensions were granted covering up to 29 February 2012. However, no information has been provided to show that the project was extended beyond February, 2012. The project has been dormant with no activities being undertaken over the last three (3) years. A comprehensive project evaluation progress report to show the current project status was not availed for audit review as at 30 June 2014. Management has not given explanation on the expected completion date.

182. Non-Accounted for Assets

As reported in the previous years, project assets includes a digital video camera, a dell YX 2805D computer and two motor vehicles (Land Rover Defender S11) bought at Kshs.141,900.00, Kshs.504,000.00, and Kshs.5,346,000.00 respectively, all totalling Kshs.5,991,900.00. However, the digital video camera has since not been availed for physical verification. Management has not explained how the proceeds from disposal of the computer has been accounted in these financial statements. In addition, no progress report had been availed for the two motor vehicles which were indicated as having been taken for repairs as at the time of the audit. The project management has not disclosed the particular garage the vehicles were taken to as the vehicles were not available for physical verification as at the time of the audit.

KENYA EDUCATION SECTOR SUPPORT PROGRAMME (KESSP)

Basis of Adverse Opinion

183. Non-Submission of the Special Account Statement

Treasury Circular No. MF/AG.3/088 Vol.5/ (84) dated 1 September, 2008 requires the External Resources Department to prepare annual statement of special account

which shall form an integral part of the financial statement for that particular financial year. However, the 2013/2014 project financial statements did not include the special account statement contrary to this requirement. In the circumstances, the accuracy and completeness of the transactions of the special accounts for 2013/2014 could not be confirmed.

184. Prior Year's Unresolved Issues

(i) Overpayment to Suppliers

As reported in the previous years, three (3) schools in Western, Nyanza and Coast Provinces made payments to suppliers in respect of stationeries and text books at a rate higher than that of the contracted suppliers or approved price list in the year 2010/2011, resulting to an overpayment totalling Kshs.98,725.00. As at 30 June, 2014, the overpayment of Kshs.98,725.00 had not been recovered or explained.

(ii) Unaccounted for Advance

As reported in the previous years, a payment of Kshs.100,000.00 was made to a Principal of a Secondary School in Coast province from Government grants to the school in February, 2011. However, as at 30 June, 2014, the funds had not been accounted for and indications are that the money may have been embezzled.

(iii) Irregular Procurement of Goods and Services

As reported in the prior years, four (4) schools purchased various goods and services worth Kshs.5,072,032.00 from various suppliers, without inviting quotations, contrary to Public Procurement and Disposal Act, 2005, and therefore denying the Government the benefits of competitive bidding. A review of the four (4) schools in 2013/2014 revealed that one (1) school had documents showing that it procured laboratory furniture and grill door amounting to Kshs.151,300.00 through a competitive process. However the remaining three (3) schools with purchases totalling Kshs.4,920,732.00 used single sourcing and the issue was still outstanding as at 30 June, 2014. It is doubtful if the stakeholders got the value for their money.

(iv) Early Childhood Development Education (ECDE)

As reported in the prior year, the statement of receipts and payments for the year ended 30 June 2011, showed nil expenditure under Early Childhood Development Education component and a cumulative expenditure of Kshs.1,256,496,964.00. However, the figure of Kshs.1,256,496,964.00 includes a grant of Kshs.223,000.00 disbursed to a school in Eldoret, but which had not been accounted for. A review of the position in 2013/2014 financial year showed that the amount had still not been accounted for or recovered as at the date of this report.

(v) Education Management Information System (EMIS)

As previously reported, the statement of receipts and payments for the year ended 30 June 2011, further showed a cumulative expenditure figure of Kshs.27,217,823.00 under Education Management Information System (EMIS). The cumulative balance, however, included an expenditure of Kshs.1,030,300.00

relating to transport reimbursements which had in 2008/2009 been considered as ineligible. This particular expenditure had not been recovered as at the date of this report.

(vi) Grants to Disadvantaged Groups

As reported in the prior years, the statement of receipts and payments for the year ended 30 June 2011 also showed a cumulative expenditure figure of Kshs.923,464,397.00 under Grants to Disadvantaged Groups. However, and included in the cumulative figure of Kshs.923,464,397.00 is an amount of Kshs.1,793,595.00 disbursed in 2008/2009 to seven (7) privately owned schools. Although this amount was considered as constituting ineligible expenditure, no action appears to have been taken to resolve the matter as at the date of this report.

(vii) In addition, it was reported that an audit verification carried out during 2009/10 revealed that a sum of Kshs.7,117,887.00 incurred in various primary and secondary schools was not spent as per the Joint Financing Agreement as follows:

a) Unaccounted for Grants

Examination of expenditure documents and other related records revealed that five (5) schools could not provide documents including invoices, payment vouchers, or cash sale receipts to support expenditures amounting to Kshs.5,499,440.00 incurred between July and December, 2008. A review of the matter during the year under review indicated that the money was not spent on the intended purposes and may have been misappropriated. Therefore, public resources amounting to Kshs.5,499,440.00 may have gone into waste.

b) Irregular Payments

As previously reported, Kimorori Primary School in Central province made payments amounting to Kshs.1,262,918.00 to a contractor between January and June 2008 for supply of building materials. An inspection conducted by the Ministry of Education in July, 2008 however revealed a loss of Kshs.302,820.00 which had been occasioned by overpricing of goods and services and a recovery for the loss was ordered. Subsequently, an amount of Kshs.275,573.00 was recovered, leaving a balance of Kshs.27,247.00 outstanding as at 30 June 2014.

c) Nugatory Payments

As previously reported, a payment of Kshs.193,900.00 was made on 21 July, 2008 to a supplier in Kuria East District for the supply of construction materials for Kurutiyange Primary School before the items were delivered. There was no evidence that the materials were delivered at the school, and indications are therefore that the expenditure of Kshs.193,900.00 is nugatory.

EDUCATION III PROJECT – STRENGTHENING AND EXPANDING ACCESS TO APPROPRIATE SECONDARY EDUCATION AND SKILLS ACQUISITION (PROJECT No. P-KE- IAZ-001)

Basis for Adverse Opinion

185. Cash at Bank

Note 8.12A to the financial statements reflects bank balance amounts of Kshs.4,693.00 as at 30 June 2014. However, bank balances confirmation certificates availed for the same account indicated a total amount of Kshs.1,286,066.00 resulting to unexplained or reconciled variance of Kshs.1,281,373.00 . In the circumstances, it has not been possible to confirm the validity and accuracy of cash at bank balance of Kshs.4,693.00 as at 30 June 2014.

186. Non-Financial Assets

As reported in the financial year 2012/2013, the cumulative balance of non-financial assets of Kshs.1,646,113,939.00 excludes assets totalling Kshs.1,594,898,306.00 omitted from the financial statements. It is not clear and the management has not explained why assets worth Kshs.1,594,898,306.00 are omitted in these financial statements. In the circumstances, it has not been possible to confirm the accuracy and completeness of the non-financial assets cumulative balance of Kshs.1,646,113,939.00 as at 30 June 2014.

187. Unaccounted for Assets – Photocopy Machines

As reported in 2012/2013, an amount of Kshs.16,878,000.00 was paid to a firm to transport, install and train on the use of 374 photocopy machines to various secondary schools. However, no confirmation of receipt of these services by the beneficiary institutions were availed for audit verification. In addition, a list of personnel trained on the use of the photocopying machines was not availed for audit verification. Further, although documents in support of the payment indicate that 374 machines were dispatched, the number of beneficiaries was indicated as 350 institutions therefore leaving a balance of 24 machines worth Kshs.1,077,240.00 unaccounted for as at the date of this report.

188. Furniture, Books, Computers and Other Equipment

Further, as reported in the financial year 2012/2013, goods worth Kshs.953,970,360.35 were procured for distribution to various learning institutions. These goods included furniture, books, machines, computers and other equipment. Although the ministry has maintained the distribution list at the Ministry's Headquarters, no confirmation of receipt by the beneficiaries was availed for audit verification.

In addition, included in the above amount is Kshs.44,445,395.70 and Kshs.5,516,000.00 for the supply of 15,267 two-seater school desks and storage boxes respectively to non formal learning institutions mainly in major urban centres. However, full details of these institutions including their contacts and physical

locations were not availed for audit verification. In the circumstances, it has not been possible to ascertain if the assets worth Kshs.953,970,360.35 were actually received by the intended beneficiaries.

GOK/WFP FOOD ASSISTANCE TO PRIMARY AND PRE-PRIMARY SCHOOLS IN SEMI-ARID AREAS AND DISADVANTAGED URBAN CHILDREN PROJECT (WFP PROJECT No. CP 106680)

Basis for Adverse Opinion

189. Inaccuracy in Financial Statements

The statement of receipts and payments for the year ended 30 June, 2014 reflects transfers from government entities of Kshs.1,030,519,980.00 while the Ministry's records as at the same date shows Kshs.1,118,586,300.00 resulting into unexplained/reconciled difference of Kshs.88,066,320.00. In the circumstances, it was not possible to confirm the accuracy of the transfer from Government entities totalling Kshs.1,030,519,980.00 for the year ended 30 June 2014.

190. Prior Year Unresolved Matters

(i) The statement of receipts and expenditure for the year ended 30 June, 2013 reflected total receipts of Kshs.1,931,862,528.00 and expenditure of a similar amount while the Ministry's ledger reflected an amount of Kshs.1,931,892,647.00 for both receipts and expenditure resulting to a difference of Kshs.30,119.00 which has not been explained or reconciled. Further, the statement of receipts and expenditure and the Ministry's ledger as at 30 June 2013 reflected World Food Programme's funding of Kshs.1,065,000,000.00 while the records maintained by World Food Programme reflected an amount of Kshs.1,164,676,479.00 resulting to an unexplained and unreconciled variance of Kshs.99,676,479.00. The above variances remained unreconciled as at 30 June 2014.

(ii) The statement of comparative of budget and actual amount for the year ended 30 June 2013 reflected budgeted receipts amounting to Kshs.1,931,862,528.00 and expenditure of a similar amount. However, the ledger as at the period end reflected budgeted receipts of Kshs.2,066,998,268.00 and expenditure of a similar amount resulting into an unexplained/unreconciled difference of Kshs.135,135,740.00 between the two sets of records. These differences still remained unreconciled as at 30 June 2014.

191. Unaccounted for District and Headquarters Expenditure's

As previously reported, the statement of receipts and payments for the year ended 30 June 2013 reflected actual total expenditure of Kshs.866,862,528.00 under services. Included in this amount is an expenditure Kshs.66,996,187.00 spent on food transportation, storage and project monitoring, out of which Kshs.66,378,808.00 was expended from the Ministry's Headquarters leaving a balance of Kshs.617,379.00 expended from the Districts. However, records maintained by the Ministry reflects actual

AIEs disbursed to the Districts as Kshs.33,039,472.00 resulting to a variance in expenditure of Kshs.32,422,093.00.

Further, the Ledger reflected expenditure of Kshs.866,275,268.00 while payment vouchers showed an expenditure of Kshs.823,347,494.00 under headquarter services. The difference of Kshs.42,927,774.00 between the two sets of records was not explained or reconciled as at 30 June 2014.

192. Un-reconciled Food Records

(i) Further, the statement of receipts and payments for the year ended 30 June 2013, under commodities in note 8.4 indicates that food commodities amounting to Kshs.1,065,000,000.00 were donated by the World Food Programme (WFP) while records by the WFP, showed that commodities worth Kshs.1,164,676,479.00 were disbursed. The resultant difference of food commodities amounting to Kshs.99,676,479.00 between the World Food Programme records and the Ministry of Education has not been reconciled or explained as at 30 June 2014.

(ii) Records held by the World Food Programme (WFP) further showed that 21,122.81 Metric Tonnes of food commodities were released to the Project during the year, while the disbursement schedules by the Ministry showed that 20,185.075 MT were allocated and distributed to the Districts under the Project. The difference of the balance of 937.74 MT food commodities had not been explained as at 30 June 2014.

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

Basis of Adverse Opinion

193. Inaccuracy of the Financial Statements

The statement of receipts and payments for the year ended 30 June 2014 reflects loan from ADF direct payments figure of Kshs.248,789,369.00 which is at variance with ADF disbursements figure of Kshs.122,979,826.00 obtained from the statement of confirmed disbursements and the trial balance figure Kshs.214,553,422.00 resulting to unexplained/reconciled variances of Kshs.125,809,543 and Kshs.34,235,947.00 respectively. In the circumstances, the validity and accuracy of the loan from ADF, for direct payments could not be confirmed for the year ended 30 June 2014.

194. Government Counterpart Funding Budget

The statement of comparative budget and actual amounts failed to disclose government counterpart funding under both original and final budget amounts, against actual on comparable basis figure of Kshs.23,317,184.00. This is contrary to the loan agreement Article V Section 5.02 which requires the borrower to have a budget in every fiscal year when the project will be implemented starting not later than fiscal year 2013/2014

MINISTRY OF HEALTH

FINANCIAL STATEMENTS FOR VOTE 108

Basis for Adverse Opinion

195. Exchequer Releases

The statement of receipts and payments for the year ended 30 June 2014 reflects exchequer releases balance of Kshs.32,631,908,567.00 while Ministry records indicate that a total of Kshs.41,321,908,566.00 was received from the National Treasury, resulting to unexplained difference of Kshs.8,689,999,999.00. Records in the Controller of Budget on the other hand show total exchequer releases to the Ministry amounted to Kshs.39,631,908,566.00 against total approved provisions of Kshs.32,636,714,036.00 resulting to unexplained/unreconciled amount of Kshs.6,995,194,530.00 being more than the approved net estimates.

196. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments for the year ended 30 June 2014 reflects proceeds from Domestic and Foreign Grants totalling Kshs.3,417,108,927.00. Included in this figure is Appropriations-In-Aid totalling Kshs.641,350,952.00 in respect of Nutrition Department and Moi Referral Hospital. Although the receipts were journalized and captured in the statement, the journal entries were not supported with relevant documentary evidence. The balance of Kshs.3,417,108,927.00 further include Appropriations-In-Aid for GAVI HSM Project. However the audited project financial statements for 2013/2014 show nil receipts for the project during the year. Consequently, in the absence of supporting documentation, the accuracy and completeness of total proceeds from domestic and foreign grants of Kshs.3,417,108,927.00 could not be confirmed.

197. Transfer from Other Government Entities

The statement of receipts and payments also reflects Transfer from other Government Entities balance of Kshs.15,508,270,273.00. However, no documentary evidence has been provided in support of these receipts. In the absence of documents, it has not been possible to confirm the accuracy and completeness of the receipts balance of Kshs.15,508,270,273.00.

198. Unsupported Receipts

The statement of receipts and payments further reflects a negative domestic currency and deposits balance of Kshs.69,986,171.60.00. However, the Ministry has not provided supporting documents for the amount. In the circumstances, it has not been possible to ascertain the validity and accuracy of the negative balance of Kshs.69,986,171.60.00.

199. Expenditure without Parliamentary Approval

The statement of receipts and payments reflects total expenditure of Kshs.56,676,116,490.00 against total approved voted provision of Kshs.32,

636,714,036.00 resulting to an excess vote of Kshs.24,039,402,454.00. The Ministry has not provided parliamentary approval for excess expenditure or explained the source of the extra funds.

200. Cash and Cash Equivalent

(i) Un-surrendered Old Deposits Balances from Former Ministries

Included in the statement of financial assets as at 30 June 2014 is cash and cash equivalent amount of Kshs.188,295,002.44 out of which a deposit amount of Kshs.1,320,203.65 had no supportive documentary evidence. In the absence of supporting documents, the accuracy and validity of the deposits balance could not be confirmed.

Further information revealed that deposits totalling Kshs.10,956,114,687.00 that were held in former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged to form Ministry of Health were never transferred to the new deposit account contrary to Treasury Circular No.AG/CONF.17/01/65 of September, 2013 which required deposits in former Ministries to be analysed and transferred to new account. Consequently, the cash and cash equivalent balance of Kshs.188,295,002.44 is understated by the deposits balance of Kshs.10,956,114,687.00 not transferred from the former Ministries.

(ii) Outstanding Imprest

The statement of financial assets also reflects imprests totalling to Kshs.1,680,197.32 which ought to have been accounted for on or before 30 June 2014 but still outstanding as at that date. However, a schedule of outstanding imprests provided indicate an amount of Kshs.2,851,348.00. No explanation or reconciliation has been provided for this difference. The Ministry did not also provide imprest register for audit review. In the absence of an imprest register, it was not possible to confirm the accuracy and validity for the two balances. Further, it was also observed that various officers were issued with new imprests before accounting for the previous ones contrary to Government Financial Regulations and Procedures governing the issue of imprest.

(iii) Bank Reconciliation

a) The bank reconciliation statement for the deposit cash book as at 30 June 2014 reflects payments in cash book not recorded in the bank statement totalling Kshs.1,972,763.10, which include an amount of Kshs.257,728.80 in respect of stale cheques. No reason has been given for failure to replace the cheques or having the same credited back in the cash book. The statement also reflects receipts in the bank statement not recorded in the cash book totalling Kshs.2,477,262.30 out of which an amount of Kshs.13,176.00 has been outstanding for more than six months. No reason has been given for delay in entering the amount in the cash book.

The statement further reflects payments in bank statement not in cash book totalling to Kshs.2,040,701.60 out of which Kshs.1,261,023.20 has been outstanding for more than six months. No reason has been provided for the delay in recording

these payments in the cash book. Also the statement reflects receipts of Kshs.1,823,465.00 in the cash book but not recorded in the bank statement. As in the previous instance, no explanation has been given for the inordinate delay.

b) Recurrent

The bank reconciliation statement for the recurrent cash book as at 30 June 2014 reflects payments in cash book not recorded in the bank statement (unpresented cheques) totalling Kshs.7,249,541,253.48.00, which include stale cheques amounting to Kshs.28,822,528.50. No reason has been given for failure to replace or reverse them in the cash book.

The statement also reflects receipts in the bank statement not recorded in the cash book totalling Kshs.181,936,929.20 out of which Kshs.48,376,591.85 has been outstanding for more than six months. No reason has been given for delay in updating the cash book.

The statement also reflects payments in bank statement not in cash book totalling to Kshs.447,136,277.88 out of which Kshs.152,931,872.40 has been outstanding for more than six months. No reason has been provided for the delay in recording these payments in the cash book.

c) Development

The bank reconciliation statement for the development cash book as at 30 June 2014 reflects payments in cash book not recorded in the bank statement (unpresented cheques) totalling Kshs.1,083,350,901.18, which include stale cheques amounting to Kshs.33,703.50. The cheques have not however been replaced or reversed in the cash book and no reason has been given for the anomaly.

201. Compensation of Employees

The statement of receipts and payments reflects compensation of employees' balance of Kshs.19,499,439,768.00 while the Integrated Payroll Processing Database and other payroll records indicate that a total of Kshs.20,680,693,097.00 was incurred under compensation of employees. No reconciliation or explanation has been provided for the difference of Kshs.1,181,253,329.00. Further, included in the figure Kshs.20,680,693,097.00 is total expenditure of Kshs.18,513,377,463.00, in respect of employees who had been devolved to the county governments. Though the Ministry has explained that was advised by Treasury to pay these salaries of devolved staff, no documentary evidence has been availed for audit review to show that Treasury approved this expenditure and whether the county governments refunded the same to the Ministry.

Unsupported expenditure

Component in F/S	Total amount	Supported	Un-supported
	Kshs	Balances	Balances
	Kshs	Kshs	Kshs
Other Grants and transfers	24,053,720,579.05	23,154,328,367.05	899,392,212.00
Social security benefits	394,093,952.10	-	394,093,952.10
Acquisition of Assets:-			
Ngong (Radio-active waste processing facility)	257,384,938.00	180,069,361.00	77,315,577.00
Government Chemist	123,640,071.00	68,566,427.00	55,073,644.00
KNH	9,981,800.00	-	9,981,800.00
MOH HQS	21,386,536.00	-	21,386,536.00
Purchase of computers & Specialized equipment	514,280,279.00	-	514,280,279.00
Purchase of Motor Vehicles	43,999,491.00	8,999,491.00	35,000,000.00
Other Payments	2,872,776,865.25	1,405,904,665.30	1,466,872,199.95
		-	
Total			3,473,396,200.05

202. Irregular Transfer of Funds

The statement of receipts and payments reflects expenditure totalling Kshs.8,851,341,331.00 in respect of use of goods and services incurred during the year 2013/2014 which includes Kshs.15,993,544.00 transferred from the Ministry of Health Recurrent Vote 108 to Parliamentary Service Commission. Although it is indicated that the Ministry sought approval from National Treasury, no evidence has been availed for audit review. This action contravenes Section 43(1) of the Public Financial Management Act, 2012 which prohibits reallocation of funds from one Government Entity to another. Available information indicates that this amount was to cater for the expenses of one Honourable Member of Parliament's medical expenses. Further information revealed that the National Assembly was required to reimburse the Ministry of Health the whole amount. No evidence has been availed to show that the amount has since been refunded.

203. Authority to Incur Expenditure

The Statement of receipts and payments for the year ended 30 June 2014 reflects use of goods and services balance of Kshs.8,851,341,331.00. Included in this is an amount of Kshs.99,490,000.00 in respect of Authority to Incur Expenditure issued to the Medical Superintendent of Mama Lucy Hospital during the year under audit. However, no expenditure returns have been availed for audit verification in support of this expenditure. Further, it has not been clarified why the National Government/Ministry had to meet this cost as health is a devolved function.

Also information available indicated that the use of goods and services balance of Kshs.8,851,341,331.00 includes Authority to Incur Expenditure of Kshs.60,000,000.00 issued to the Government Chemist to finance construction of office branches in Kisumu and Mombasa. However according to expenditure returns, a total of Kshs.42,201,062.45 was spent and the unspent balance of Kshs.17,798,937.55 returned to the Ministry. No explanation has been given for expensing the entire AIE resulting to an overstatement of the total expenditure of the Ministry by Kshs.17,798,937.55.

204. Unsupported Expenditure

The statement of receipts and payments for the year ended 30 June 2014 reflects total expenditure balance of Kshs.56,676,116,490.00. Included in this balance is expenditure amounting Kshs.3,473,396,200.00 whose payment vouchers and other related records were not produced for audit review as detailed below.

In the absence of the supporting payment vouchers and other records, the propriety of the expenditure of Kshs.3,473,396,200.00 could not be ascertained.

205. Misallocation of Expenditure

Examination of payment vouchers revealed that a total of Kshs.512,336,201.00 was misallocated and irregularly charged against wrong account codes. Apart from failure to comply with the printed estimates as approved by parliament, the charge was contrary to Section 15.12 of Government Financial Regulations and

Procedures which stipulate inter alia that no expenditure for which no provision has been included in the estimates may be incurred. In addition, no evidence of approval of these reallocations by the National Treasury was provided for audit review.

206. Failure to Provide Footnotes for Material Variances

Contrary to the requirements of Section 11.7 of Government Financial Regulations and Procedures, the Ministry did not provide footnotes to the account for material variances between approved estimates and actual expenditure on various items. No reason has been provided for failure to provide the footnotes.

207. Pending Bills

Records maintained by the Ministry of Health indicate that bills totalling Kshs.2,165,368,641.00 were not settled during the year 2013/2014 but were instead carried forward to 2014/2015. Had the bills been paid and the expenditure charged to the account for 2013/2014 the statement of receipts and payments for the year would have reflected an increased deficit of Kshs.2,671,062,603.00 instead of Kshs.505,693,961.00 now shown.

208. Expenditure on Non- Existent Consultancy Services – Reinforcement of 15 Health Facilities in Northern Kenya – Grant ORIO 10/KE/01

The reinforcement of fifteen (15) health facilities in Northern Kenya project was conceptualized through an MOU of 17 June 2010 and Grant Agreement of 30 August 2011 between the Government of Netherlands and the Government of Kenya. According to available information (Article 6 of MOU), the development phase of the project was to be financed at 50% by the ORIO Grant facility and of the Ministry's contribution shall have been provision of office space and staff. However, available records indicate that the Ministry paid Flambert Holdings Limited Kshs.34,070,876.00 for conducting feasibility study for Reinforcement of 15 Health Facilities in Northern Kenya and the expenditure charged to construction of civil works at Kenyatta National Hospital. Further, the audit findings revealed the following status of affairs:-

- (i) The payment voucher had not been supported by the relevant procurement documents including advertisement for proposal, evaluation criteria, technical and financial evaluation minutes and scores, tender committee minutes' approval, contract Agreement, LPO and report of services offered.
- (ii) According to the invoice in support of the expenditure of Kshs.34,070,876, .00 the feasibility study was conducted between October 2009 to April 2010 long before the MOU and Financing Agreement was signed.
- (iii) No reason has been given as to why the Ministry had to pay when the agreement had a provision that it will provide staff and offices.
- (iv) The expenditure had not been budgeted for and parliamentary approval was not availed for audit review.

- (v) The consultancy report was not availed for audit review to verify the work done.

In the absence of documentary evidence, it has not been possible to ascertain that the procurement was done in line with the Public Procurement and Disposal Act, 2005 and related procurement regulations.

Consequently, the propriety of the expenditure of Kshs.34,070,876.00 on the above project could not be ascertained as at the time of this audit.

209. Supply and Fitting of Ward Partitioning Curtains at Othaya District Hospital

Information availed for audit review indicated that the contract for the supply and fitting ward partitioning curtains at Othaya District Hospital was awarded to Pebble General Agency at a contract sum of Kshs.12,080,500.00. However, the payment voucher has not been supported by copy of quotations, evaluation and tender committee minutes, contract agreement and certificate from the acceptance committee confirming that the curtains were actually received and were of the right specification. In absence of these documents, it has not been possible to confirm that procurement was competitively sourced and procurement regulations were followed and that the hospital obtained value for money.

Further information revealed that at the time of the supply of these curtains, the construction of Othaya District Hospital had not been completed for the curtains to be fitted. It would therefore, appear that the curtains were procured without any specific user requirement and the expenditure of Kshs.12,080,500.00 arising from this procurement was not necessary as the curtains have never been used but lying in the store. In addition, according to public works certificate of completion of work dated 14 June 2013, the order for this work was vide LPO No. 1889864 of 18 April 2013 but a copy of the LPO attached to the payment voucher is LPO No.1889514, again raising contradictions on the procurement.

210. Rehabilitation Works at Ahero Sub-District Hospital- Nyanza Province

The Italian Government through Italian Cooperation entered into a contract with Trapezoid Construction and Civil Engineering on 22 July 2010 for rehabilitation Works at Ahero Sub District Hospital - Nyanza Province at a contract sum of Kshs.18,624,848.00. The duration of the project is indicated as 150 days from the commencement date of the works. Available information revealed that the cost of the project escalated to Kshs.32,505,407.00. The escalation of costs for the project is attributed to an increase in the scope of works due to an error in computing the Bills of Quantities, lack of details and inadequate provisions in the contract Bills of Quantities. Out of the total cost of the projects, the Italian Government paid Kshs.19,456,048.00 leaving a balance of Kshs.13,049,359.00. The Ministry eventually on 25 March 2014 paid the balance of Kshs.13,049,359.00 and irregularly charged the expenditure to transfer of grants to other Government Agencies.

Further, the audit findings revealed the following:-

- (i) No reason has been provided by the Ministry for paying the contractor since they had no contract with the contractor.
- (ii) Approval for price variation of over 25% of the contractual sum has not been availed for audit review.
- (iii) No evidence has been given to show that there was a provision in the estimates for this expenditure or whether Treasury approval was sought and obtained for this reallocation.
- (iv) Also no reasons have been given as to why there were errors in computing the Bills of Quantities, lack of details and inadequate provisions in the contract Bills of Quantities.

In view of the foregoing the propriety of the expenditure of Kshs.13,049,359 could not be ascertained.

211. Grants to Kenyatta National Hospital, Kenya Medical Supplies Authority and Kenya Medical Training College

The Ministry's statement of receipts and payments under Other Grants and Transfers balance of Kshs.24,053,720,579 for the year ended 30 June 2014 includes grants totalling Kshs.10,684,998,553 disbursed to Kenyatta National Hospital, Kenya Medical Supplies Authority and Kenya Medical Training College during the year. However, the 2013/2014 audited accounts for these organizations reflects grants totalling Kshs.10,421,062,930 as having been received from the Ministry resulting to a difference of Kshs.263,935,623. The difference between the two sets of records has not been reconciled or explained.

212. Stalled Projects

(i) Proposed Upgrading of Othaya District Hospital Phase I

The Ministry awarded a contract for the upgrading of facilities at Othaya Sub District Hospital to M/S Jaswant Singh and Brothers at a price of Kshs.436,300,798.80 which was later revised to Kshs.501,745,918.50. The initial completion period was 85 weeks but was extended to 123 weeks with new completion date being 25 October 2012. A status report dated 21 February 2014 indicates cumulative payments of Kshs.501,574,915.50 representing 99.9% of the revised contract sum of Kshs.501,745,917.70 while the percentage of work done stood at 95%, with works on Floor tiling and grouting, Wall tiling, Window glazing, Window stays and fasteners, Ceiling, Fixing of door leaves, locks, and glazing, Internal and external painting, Ramp and staircase finishes, Worktop and counter finishes, Road drainage and Medical gas installation, still outstanding.

At this time, 192 weeks had elapsed out of contract period of 123 weeks. No proper justifiable reason has been provided for the overpayment of Kshs.24,916,294.00 or why full payment was made to the contractor before the completion of the project.

Consequently, it could not be ascertained whether the Government obtained value for money for the expenditure of Kshs.501,574,915.00. An inspection of the project on November 2014 revealed that the contractor and sub-contractors were not on site. Although it is indicated that the project had been terminated on a mutual agreement, no documentary evidence was made available for audit verification. Further no evidence has been provided that the performance guarantee had been recalled and discharged against uncompleted works.

(ii) Proposed Upgrading of Facilities at Othaya Level IV Hospital Phase 2

Records maintained by the Ministry of Health indicate that M/S AAKI Consultants Architects and Urban Development were awarded contract for provision consultancy services for Othaya Level IV Hospital phase 2. Examination of the project expenditure records disclosed that a sum of Kshs.43,108,011.00 had been paid to the consultants during the year under review and the expenditure charged to construction of buildings. However, there was no budgetary provision for this project in voted provision since National Treasury had declined to provide funds as this was a devolved function. No explanation has been provided for incurring expenditure without parliamentary approval.

213. Construction of Proposed Central Radioactive Waste Processing Facility at Ololua, Ngong

Records maintained at the Ministry indicate that M/S Vaghjiyani Enterprises Limited was awarded a contract for the construction of the proposed Central Radioactive Waste Processing Facility at Ololua Ngong at a contract price of Kshs.518,490,508.16. The contract commenced on 4 January 2010 for a contract period of 156 weeks and was scheduled to be completed on 8 January 2013. Although, according to the site inspection report as at 30 June 2014, the contractor had been paid a total of Kshs.459,129,546.44 or 88.6% of the contract sum and the time elapsed was 249 weeks against the period of 156 weeks, no evidence has been provided for extension of time.

214. Inter-Vote Transfers

Available information revealed that the Ministry irregularly transferred Kshs.699,750,000.00 from recurrent account to development account. It was also observed that another balance of Kshs.245,066,926.00 was similarly transferred from Recurrent Vote to Development Vote. The Ministry has not provided approval for these transfers totalling Kshs.944,816,926.00. Consequently, it was not possible to confirm that these transfers were approved by Treasury.

215. Failure to Submit Fund Accounts

The financial statements in respect of Health Services Fund and Medical Services Fund have not been submitted for audit contrary to Section 8 of the Public Audit Act, 2013. No reason has been provided for failure to comply with this requirement.

DONOR FUNDED PROJECTS

GAVI HEALTH SYSTEMS STRENGTHENING PROJECT

Basis for Disclaimer of Opinion

216. Deficit brought forward

As reported in 2012/13 audit report, the statement of receipts and payments reflected a balance of negative Kshs.2,604,445.60 carried forward as at 30 June 2013 while the cash book balance carried forward as at the same time reflected cash at bank balance of Kshs.544,410.65. A review of the position in 2013/2014 shows that the deficit of Kshs.2,604,445.60 was cleared during the year. However, no documentary evidence was availed to explain how the deficit of Kshs.2,604,445.60 was cleared. In the circumstances, it has not been possible to confirm the validity of the figures in these financial statements.

217. Bank Balances

The statement of financial assets and liabilities as at 30 June 2014 reflects a bank balance of Kshs.644,993.00. However the bank confirmation certificate, bank reconciliation statement and the respective cash book were not availed for audit review. Consequently, the validity and accuracy of the bank balance of Kshs.644,993.00 as at 30 June 2014 could not be confirmed.

IGAD REGIONAL HIV/AIDS PARTNERSHIP PROGRAM (IRAPP) - NATIONAL AIDS CONTROL COUNCIL

Basis for Qualified Opinion

218. Trade and Other Receivables

The trade and other receivables balance of Kshs.452,321.00 as at 30 June 2014, include advances of Kshs.105,985.00 and Kshs.310,378.00 extended to the Kenya Long Distance Truck Drivers Association (KLDTD) in May 2010 and District Medical Officer of Health in Turkana North respectively. The advances had not been accounted for as at 30 June 2014. Further, the trade and other receivables of Kshs.452,321.00 include advances of Kshs.35,958.00 to Project sub-implementers carrying on HIV activities which have similarly been outstanding for a long time.

In the circumstances, it has not been possible to confirm the recoverability of the advances of Kshs.452,321.00 as at 30 June 2014.

**UNITED NATIONS DEVELOPMENT (UNDP) PROJECT NO. KEN/99/001/A/01/99
- NATIONAL AIDS CONTROL COUNCIL**

Basis for Qualified Opinion

219. Trade and Other Receivables

In the report of 2012/2013 reference was made to the trade and other receivables balance of Kshs.19,985.00 relating to an advance to a volunteer with the United Nations office attached to National Aids Control Council (NACC) in year 2008 and which had not been recovered. A review of the position in 2013/2014 revealed that the advance is still outstanding. In the circumstances, it has not been possible to confirm the recoverability of the advance of Kshs.19,985.00 as at 30 June 2014.

**GLOBAL FUND PROJECT KEN-708-G09-H - NATIONAL AIDS CONTROL
COUNCIL**

Basis for Qualified Opinion

220. Trade and Other Receivables

The trade and other receivables balance of Kshs.116,440.00 as at 30 June 2014 includes an amount advanced on 30 June 2004 to the Kenya Consortium to Fight Aids, Tuberculosis and Malaria (KECOFATUMA) out of which Kshs.84,350.00 had not been accounted for as at 30 June 2014. In the circumstances, it has not been possible to confirm the recoverability of the amount of Kshs.84,350.00 as at 30 June 2014.

221. Trade and Other Payables

The trade and other payables balance of Kshs.7,382,553.00 as at 30 June 2014 includes provision for gratuity for staff and other payables of Kshs.3,871,547.00 and Kshs.3,371,806.00 respectively. It is not clear, and the management has not explained the circumstances under which the implementer settled the liabilities on behalf of the Project and why the same have not been refunded to National Aids Control Council (NACC). In the circumstances, it has not been possible to confirm the validity of the trade and other payables provision for gratuity and other payables totalling of Kshs.7,243,353.00 as at 30 June 2014.

GLOBAL FUND – EXPANDING HIV PREVENTION CARE AND TREATMENT SERVICES TO REACH UNIVERSAL ACCESS PROGRAM GRANT NO. (KEN-H-MOF)

Basis for Qualified Opinion

222. Statement of Receipts and Payments

The statement of receipts and payments for the year ended 30 June 2014 reflects proceeds from domestic and foreign borrowing balance of Kshs.186,520,676.00 while the special account statement shows that a total of Kshs.206,181,572.00 was drawn and transferred from the special account to the project account. No explanation or reconciliation has been provided for the difference of Kshs.19,660,896.00.

HEALTH SECTOR SUPPORT PROJECT (HSSF COMPONENT 1) IDA CREDIT NO: 4771-KE

Basis for Qualified Opinion

223. Unsupported Cash Balances

The statement of financial assets and liabilities as at 30 June 2014 reflects bank balance figure of Kshs.1,122,664,021.16. Included in this balance is Kshs.826,600,731.40 in respect of bank balances from 3,473 facilities. However, bank confirmation certificates, bank reconciliation statements and cash books in support of these balances have not been availed for audit review. Consequently, the validity and accuracy of the cash and cash equivalent balance of Kshs.1,122,664,021.60 as at 30 June 2014 could not be ascertained.

224. Statement of Receipts and Payments

The statement of receipts and payments for the year ended 30 June 2014 reflects loan from external development partners of Kshs.680,000,000.00 while the special accounts statement availed for audit review shows that a total of Kshs.682,508,120.00 was drawn from the special account and transferred to the project account resulting to unreconciled/explained variance of Kshs.2,508,120.00 as at 30 June 2014.

GLOBAL FUND MALARIA ROUND 4 (GRANT NO. KEN-405-G06-M)

Basis for Qualified Opinion

225. The statement of financial assets and liabilities as at 30 June 2014 reflects imprests and advances balance of Kshs.987,919.00. Included in this balance are multiple imprests totalling Kshs.281,868.67 issued to one officer which has been outstanding since 2011. No explanation has been given for having not recovered

the imprests from the officer's salary as required by Government Financial Regulations and Procedures.

RURAL HEALTH PROJECT III (ID.NO. P-KE-IBO-001 ADF LOAN NO.2100150007894)

Basis for Qualified Opinion

226. Un-Delivered Project Goods

As previously reported, the project management unit in 2011/2012 procured medical equipment worth Kshs.271, 839,096.20 reflected in the financial statements for that year for onward distribution to the health facilities which were being developed and improved by Rural Health III Project. The equipment and other items were procured and warehoused in a contracted private godown and were supposed to be distributed by a contracted firm within a period of two (2) months (March and April 2012). It was further reported that out of the Kshs.271,839,096.20, medical equipment and other assorted items worth Kshs.18,799,926.70 delivered in 2012/2013 were confiscated while in a private warehouse which was put out of bound for the ministry officials for unexplained reasons. Physical verification in 2013/2014 revealed that the medical equipment and other assorted items had not been distributed by 30 June 2014. In the circumstances, it has not been possible to confirm the value for money of Kshs.18,799,926.70 worth of goods confiscated reflected as purchase and goods and services cumulative to date balance of Kshs.1,858,516,622.65 in the statement of receipts and payments for the year ended 30 June 2014.

227. Abandoned Civil Works

As reported in the year 2012/2013, expenditure on civil works amounting to Kshs.413,878,229.45 reflected in the statement of receipts and payments for the year ended 30 June 2013 relate to rehabilitation and upgrading of Dispensaries and Health Centres in eight districts namely Tharaka, Kirinyaga, Nyandarua, Uasin Gishu, Trans Nzoia, Trans Mara, Kajiado and Loitokitok districts. Works comprised demolition of some parts of the existing structures, construction of new foundations, walling, and construction of new roofs, joinery fittings, electrical and plumbing among other works.

Records availed for audit review showed that as at 30 June 2014, out of the contract sum of Kshs.2,222,137,646.50, a cumulative total of Kshs.2,168,737,129.00 had been certified by the project consultants for payment as at 30 June 2014. Examination of budgetary estimates for the ministry for 2013/2014 financial year showed that the project was to receive Kshs.124,000,000.00 to be expensed on civil works. However, audit verification revealed that only Kshs.19,894,315.95 was utilized as reflected under acquisition of non-financial assets resulting in a balance of Kshs.104,105,684.05 not utilized. Physical verification of some facilities in 2013/2014 revealed that they were at different levels of completion but the contractors had abandoned the sites.

In the circumstances, it has not been possible to confirm when the remaining works will be completed. Further, it has not been possible to ascertain the status and completeness of the medical facilities covered by the project and the appropriateness of the total cumulative expenditure of Kshs.2,168,737,128.00 for the period ended 30 June 2014.

228. Cash and Cash Equivalent

The statement of financial assets and liabilities reflects a bank balance Kshs.76,466,974.00. However, this balance included receipts of Kshs.3,409,646.95 and payments of Kshs.516,769.35 not recorded in the cash book.

In the circumstances, it has not been possible to confirm the validity and correctness of the bank balance of Kshs.76,466,994.00 reflected in the statement of financial assets and liabilities as at 30 June 2014.

TOTAL WAR ON AIDS (TOWA) PROJECT – IDA CREDIT NO.4336-KE and CREDIT NO.4841-KE - NATIONAL AIDS CONTROL COUNCIL

Basis for Qualified Opinion

229. Results of the Audit of the Financial Statements

(i) Trade and Other Receivables

Trade and other receivables figure of Kshs.127,458,655.00 as at 30 June 2014 includes advances to the Financial Management Agency amounting to Kshs.109,752,890.00 (Per note 7 to the Financial Statements) which form the bulk of the receivables. According to the 3 Addendum to the contract for consultants' services (lump-sum) between NACC and FMA dated 18 January 2013, the contract was extended to 30 June 2013. The final FMA report was received in January 2014. However, the contractual obligation for the Financial Management Agency to account for the advances was affected by the lapse of time stipulated in the contract document which put into jeopardy the legal redress available to NACC to recover the advances from the Agency. Further, the receivable figure includes Kshs.13,015,733.00 due from field officers and Kshs.2,773,583.00 in respect of Constituency AIDS Coordinating Committee (CACC) advances whose recoverability is also doubtful as the project has come to an end. In addition the receivables figure includes staff imprests of Kshs.58,000.00 due from an officer who no longer works for NACC. The remaining imprest of Kshs.603,600.00 was due from the current NACC officers but no recoveries had been made from their salaries by 30 June 2014, as required by the Government Financial Regulations and Procedures.

In the circumstances, it has not been possible to confirm the recoverability of trade and other receivables balance of Kshs.127,458,655.00.

(ii) Trade and Other Payables

Included in the trade and other payables balance of Kshs.103,651,872.00 as at 30 June 2014 is an amount of Kshs.14,536,712.00 attributed to GOK-D control account which was incurred for TOWA project activities from the account without authority from the Treasury. This amount was not budgeted for and had not been reimbursed by the donor to GOK account as at 30 June 2014. In the circumstances, the reimbursement of Kshs.14,536,712.00 to GOK is doubtful as the project has already closed.

230. Results of the Audit of Funds Distributed to SPIs by Appointed Auditors

(i) Audit of NACC and FMA

Delay in Project Fund Disbursements

Review of the Project disbursements indicated that the FMA during the financial year ended 30th June 2014, applied for Kshs.13,720,019.00 based on approved proposals and work plan. However, the total amount applied for was not disbursed by the close of the project. The implication of this observation is that proposals reviewed and approved for funding in the FY 2013/2014 were not funded as planned. These delays in disbursement heavily distorted the project implementation plans, resulting in poor project impact.

(ii) Audit of Ministries and other SAGAs involved in TOWA Project Implementation

Audit of sampled Ministries and SAGAs revealed that the said entities incurred unsupported expenditure amounting to Kshs.300,000.00 and had un-applied balance of Kshs.4,958,234.00. Results of a sample selection of 22 out of a population of 56 entities were as follows:

<u>Expenditure Category</u>	<u>Amount</u> <u>(Kshs.)</u>
Eligible	18,160,582.00
Ineligible	-
Unsupported	300,000.00
Unplanned	18,447.00
Unaccounted for	56,779.00
Balance not yet applied	<u>4,958,234.00</u>
Total Disbursement	<u>23,494,042.00</u>

During the year under review Kshs.120,269,301.00 was disbursed to Ministries and SAGAs. Thus if the above sample findings are extrapolated to the entire population the results will be as tabulated:

NACC and SAGAs

Expenditure findings 2013/2014

Expenditure Category	Sample Expenditure Kshs.	Extrapolation Kshs.	% age
Eligible	18,160,582.00	92,966,570.00	77%
Ineligible	-	-	0%
Unsupported	300,000.00	1,535,742.00	1%
Unplanned	18,447.00	94,433.00	0%
Unaccounted	56,779.00	290,660.00	0%
Balance not yet applied	4,958,234.00	25,381,896.00	21%
Totals	23,494,042.00	120,269,301.00	100%

In the circumstances, out of the total expenditure of Kshs.120,269,301.00, Kshs.27,302,731.00 may not have been properly utilized for the project implementation.

(iii) Audit of Project Sub-Implementers (SPIs)

Audit of Expenditure of the Project Sub-Implementers revealed the results tabulated below:

<u>Financial results</u>	<u>Total (Kshs.)</u>
Eligible	29,088,519.00
Ineligible	1,253,292.00
Unsupported	2,774,629.00
Unplanned	353,698.00
Unaccounted for	5,829,936.00
Balance not yet applied	<u>4,226,036.00</u>
Total Disbursement	<u>43,526,110.00</u>

Extrapolated Expenditure

During the year under review, the total disbursements to SPIs stood at Kshs.408,534,657.00. If from the above sample the amounts are extrapolated the results will be as shown below:-

Expenditure findings 2013/2014

<u>Expenditure</u>	<u>Sample (Kshs)</u>	<u>Extrapolation(Kshs)</u>	<u>%age</u>
Eligible	29,088,519.00	273,023,896.00	67%
Ineligible	1,253,292.00	11,763,358.00	3%
Unsupported	2,774,629.00	26,042,578.00	6%
Unplanned	353,698.00	3,319,798.00	1%
Unaccounted	5,829,936.00	54,719,590.00	13%
Balance not yet applied	<u>4,226,036.00</u>	<u>39,665,437.00</u>	<u>10%</u>
Total	<u>43,526,110.00</u>	<u>408,534,657.00</u>	<u>100%</u>

From the above Kshs.35,510,761.00 or 33% of the total expenditure may not have been properly used for the project implementation.

(iv) Management issues

a) Poor Book Keeping

Of the sampled 421 PS1s, it was noted that poor record keeping was the most prevalent control weakness among the PSIs. 256 of the 421 PSIs did not keep proper books of Account. This translates into 61% of the population.

Failure to keep proper books of Account may result in some Project Funds not being accounted for.

b) Lack of Accounting Records

Of the 421 PS1s sampled 183 or 43% of them did not keep accounting records at all. This is a major control weakness as funds may not have been accounted for.

c) Bank Reconciliations

106 of the 421 PSIs, did not perform bank reconciliations. This translated to failure by 25% of the sampled population to adhere to a key control procedure.

d) Non – Existence of SPIs

Fifty four (54) SPIs were found not to exist. This may have resulted in project funds being disbursed to ghost SPIs.

e) Other control weaknesses

- Seven (7) of the sampled and existing PSI did have written procedures.
- Two (2) PSI did not have asset registers.
- Twenty one (21) PSIs did not have established Headquarters
- Twenty eight (28) SPIs did not have qualified staff
- Fifty seven (57) SP1s did not have terms of reference
- Eighty six (86) SPIs did not have registration certificates
- Sixty six (66) SPIs incurred unauthorised expenditure
- Ninety three (93) SPIs did not support their expenditure
- Fifty one (51) PSIs did not have contract documents
- Fourteen (14) SPIs did not refund their balances

231. Ineligible Expenditure

From the audit review ineligible expenditure incurred by SAGAs and the Ministries is recoverable by World Bank. However, World Bank may consider mitigating factors in deciding recoverability of ineligible expenditure by PSIs due to:

- (i)** Inherent weakness in the design and architecture of Community Driven Development Projects (CDD) where audit trail is difficult to execute.
- (ii)** There are no elaborate structures to achieve adequate internal and accounting controls at the tail end of Project Implementation.

MINISTRY OF TRANSPORT AND INFRASTRUCTURE

FINANCIAL STATEMENTS FOR VOTE 109

Basis for Adverse Opinion

232. Accuracy of Financial Statements

a) Statement of Receipts and Payments

(i) Examination of the statement of receipts and payments for the year ended 30 June 2014 revealed that there were positive and negative variances between some items in the financial statements and the trial balance amounting to Kshs.18,487,277,650.71 and Kshs.33,733,343.25. In addition, there were variances between items in the financial statements and the same in ledger balances totaling to Debits of Kshs.18,429,059,056.63 and Credits of Kshs.3,337,998.85.

(ii) The statement of receipts and payments further shows a balance of Kshs.1,787,668,217.00 under use of goods and services while audited balance of goods and services under note 10 to the financial statements shows a casted balance of Kshs.1,807,677,993.00. The variance of Kshs.20,009,776.00 has not been explained or reconciled.

(iii) Included also in the Kshs.19,937,838,723.00 transfer to Other Government Entities under note 11, is expenditure incurred by Government Clearing Agency amounting to Kshs.49,079,203.00 which differs with the Trial Balance figure of Kshs.48,931,573.00 by Kshs.147,630.00 which has not been reconciled and/or explained.

(iv) The financial statements reflect an amount of Kshs.67,572,720,817.00 for Development Vote under grants to other government agencies while the Trial Balance has an amount of Kshs.67,468,366,516.35 resulting in a variance of Kshs.104,354,300.65 which has not been explained or reconciled.

(v) The Statement of receipts and payments comparative figure for 2012/2013 reflects total payments of Kshs.93,376,211,011.00 while additions of items constituting payments amount to Kshs.90,375,211,011.00. The difference of Kshs.3,001,000,000.00 has not been explained or reconciled.

(vi) Exchequer releases in the statement of receipts and payments shows a figure of Kshs.47,851,504,263.00 while additions of exchequer release (Recurrent of Kshs.2,143,817,948.00 and Development of Kshs.45,711,186,315.00 add up to Kshs.47,855,004,263.00 The difference of Kshs.3,500,000.00 has not been explained or reconciled.

(vii) The general ledger shows an entry on 29.08.13 of Kshs.1,370,530,356.95 for proceeds from domestic borrowing. However, the supporting payment voucher

No.000175 has an amount of Kshs.137,530,356.95 resulting in an overstatement of Kshs.1,233,000,000.00 which has not been explained or reconciled.

(viii) The Financial statements amount of Kshs.23,049,817,874.00 under proceeds from domestic borrowing is different from the supporting summary which has a balance of Kshs.23,441,555,797.00 resulting in a difference of Kshs.391,737,923.00. The amount also differs from the trial balance figure of Kshs.22,945,463,575.40 by Kshs.104,354,298.00. No explanation or reconciliation has been provided.

(ix) The financial Statements show a balance of Kshs.3,745,571,249.00 under proceeds from foreign borrowing while the trial balance shows Kshs.3,637,912,211.05 resulting in a difference of Kshs.107,659,037.95 which has not been explained or reconciled.

b) Statement of Assets

The Statement of Assets reflects prior year adjustment of Kshs.207,150,724.00 and Kshs.436,708,309.00 under 2012-2013 and 2013-2014 financial years respectively. No documents or details were availed to support the adjustments.

c) Statement of cash flows

The Statement of Cash flows had the following inaccuracies;

(i) The net cash flows from operating activities for 2012/2013 is reflected as negative Kshs.4,438,383,622.00 instead of positive Kshs.4,438,383,622.00.

(ii) Net cash flow from investing activities for 2012/2013 is reflected as negative Kshs.4,008,544,962.00 while additions of items constituting investing activities amounts to negative Kshs.4,017,544,962.00. The difference of Kshs.9,000,000.00 has not been explained/reconciled.

(iii) Cash flow from borrowing activities for 2012/2013 reflects repayment of principal on domestic and foreign borrowing of Kshs.164,310,177.00 as cash inflow instead of cash outflow.

(iv) Net increase in cash and cash equivalent for 2013/2014 is reflected as negative Kshs.667,011,891.00 while addition of net cash flows from operating, investing and borrowing activities amount to negative Kshs.670,511,891.00. The difference of Kshs.3,500,000.00 has not been explained or reconciled.

(v) The Statement of Cash flows shows adjustments during the year of Kshs.433,208,310.00 for 2013-2014 financial year while note 18 to the financial statements on prior year adjustments shows bank accounts adjustment of Kshs.436,708,309.00 for 2013-2014. The difference of Kshs.3,499,999.00 has not been explained. Further, no documents were availed to support the adjustment.

233. Unsupported Receipts and Payments

- (i)** The Statement of receipts and payments shows a balance of Kshs.391,737,923.00 under domestic currency and domestic deposits which has not been supported.
- (ii)** Note No. 8 to the Financial Statements reflects under Other Receipts a balance of Kshs.712,022,725.00 being receipts from sales by Non-Market Establishments Road and Structural Tests but which has not been supported.
- (iii)** The Statement of assets shows outstanding imprests of Kshs.437,965.00 and Kshs.2,228,921.00 for 2013/2014 and 2012/2013 respectively. However the outstanding imprest of Kshs.2,228,921.00 that was cleared in 2013/2014 could not be ascertained since no documents were availed to show how the imprests were accounted for.
- (iv)** The financial statements reflect Kshs.11,254,135,320.00 in relation to construction of civil works. However, payment vouchers presented in support of this account amounted to Kshs.8,067,331,919.00. The variance of Kshs.3,186,803,401.00 was not supported.
- (v)** An amount of Kshs.17,254,379,553.80 in relation to Grants to Other Government Agencies was not supported.
- (vi)** The documents provided in support of proceeds from domestic borrowing figure of Kshs.23,049,817,874.00 was Kshs.21,985,139,162.20 leaving unsupported balance of Kshs.1,064,678,711.80.

234. Other Receipts

a) Discrepancy in Receipts from Administrative Fees and Charges – Collected as A.I.A

Examination of records, documents and receipt vouchers relating to Receipts from Administrative Fees and Charges – Collected as A.I.A at Materials Department show that while the Trial Balance and the Recurrent Appropriation Account as at 30 June 2014 reflect a balance of Kshs.19,324,521.00, the receipt vouchers availed amounted to Kshs.17,287,455.00. The variance of Kshs.2,037,066.00 between the two set of records has not been explained.

Further, receipt vouchers examined shows that Kshs.21,154,166.55 Receipts from Administrative Fees and Charges was collected as AIA in the year ended 30 June 2014. However, the Ministry's Financial Statements reflect a balance of Kshs.19,630,521.00 resulting in a variance of Kshs.1,523,645.55 which has not been explained or reconciled.

b) Discrepancy in Mechanical Transport Fund income reflected in Recurrent Appropriation Account and MTF Statement of Comprehensive Income

The Trial Balance and Recurrent Appropriation Account for the year ended 30 June 2014 shows under item 1450101 Sundry Revenue a balance of Kshs.1,231,025,274.30. However, the Mechanical and Transport Fund financial statements for the year ended 30 June 2014 show the fund income of Kshs.1,303,874,073.68. The difference of Kshs.57,151,200.62 has not been reconciled and/or explained.

235. Proceeds from Domestic and Foreign Grants

a) Discrepancy between Fuel Levy Received from KRB and the Amount Recorded

The Reports and Financial Statements for the year ended 30 June 2014 reflect under proceeds from Domestic and Foreign Grants a balance of Kshs.25,010,822,521.00. Included in this balance is Kshs.18,383,177,454.00 being funds received from Road Maintenance Levy Fund. However, records maintained by Kenya Roads Board show that the Board released to the Ministry Kshs.24,790,004,495.30. The resultant discrepancy of Kshs.6,406,827,041.30 between the two set of records has not been explained.

b) Further, the Road Maintenance Levy Fund balance disclosed in the Financial Statements is understated by Kshs.24,102,516,994.00 contained in receipt vouchers examined by Kshs.5,719,339,540.30 which has not been explained.

c) In addition, the total receipt vouchers examined fall short of the funds recorded by KRB as being released by Kshs.687,487,501.30. This difference has not also been explained or reconciled.

236. Grants to Semi-Autonomous Government Agencies

a) Current Grants to Semi-Autonomous Government Agencies

The Reports and Financial Statements for the Ministry under Note 11 – Transfer to Other Government Agencies reflect Current Grants to Government Agencies and other levels of Government amounting to Kshs.19,937,838,723.00. Examination of records, documents and payment vouchers relating to this component has revealed the following issues:

(i) Discrepancy between Financial Statements and Payment Vouchers

Included in the Kshs.19,937,838,723.00 balance is disbursement of Road Maintenance Levy funds amounting to Kshs.17,936,401,362.30 which differs with Kshs.24,842,239,678.30 fuel levy transfers payment vouchers examined. The difference was not explained or reconciled.

(ii) Discrepancy between Grants Received from Kenya Roads Board and Grants Disbursed to Roads' Authorities

The Recurrent Appropriation account under Kenya Roads Board shows that the current Grants to Semi-Autonomous Government Agencies balance of Kshs.17,936,401,362.30 varies with the Road Maintenance Levy funds received of Kshs.18,383,177,453.80 by Kshs.446,776,091.50 which has not been reconciled or explained.

(iii) Discrepancy between funds disbursed to Semi-Autonomous Agencies and amount reflected in the agencies' financial statements.

A comparison between the records of the Ministry and the Agencies' financial statements revealed the following variances:-

Government Agency	Agency's financial statement amount	MOTI-financial statements	Difference
DEVELOPMENT VOTE	- Kshs.	Kshs.	Kshs.
Kenya Urban Roads Authority	4,353,969,070.00	3,853,050,662.00	500,908,408.00
Kenya Rural Roads Authority	14,541,840,647.00	16,783,984,368.00	(2,242,143,721.00)
Kenya Civil Aviation Authority	136,800,000.00	64,237,990.00	72,562,010.00
Kenya Airports Authority	998,797,590.55	415,070,846.00	583,726,744.00
Kenya Ports Authority	3,179,872,000.00	3,712,297,600.00	(532,425,600.00)
Kenya Railways Corporation	700,000,000.00	365,989,904.00	334,010,096.00
RECURRENT VOTE			
Kenya Urban Roads Authority	5,305,804,292.00	4,716,493,722.00	589,310,570.00
Kenya Rural Roads	9,417,802,837.00	9,408,226,837.00	9,576,000.00

Authority

Kenya Ferry Services	364,000,000.00	376,000,000.00	12,000,000.00
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237. Budget Realization

- a) The approved estimates for transfer to other Government agencies was Kshs.105,531,047,705.00 while the actual amount transferred as per the financial statements fell short of the budget by Kshs.37,958,326,888.00 or 35%.
- b) Amount budgeted for proceeds from Domestic borrowing was Kshs.28,080,744,704.00 against the realized amount of Kshs.23,049,817,874.00. There was thus under realization of receipts by Kshs.5,030,926,830.00 or 18%.
- c) Amount budgeted on proceeds from foreign borrowing was Kshs.8,950,000,000.00 against the realized amount of Kshs.3,745,571,249.00, resulting in a variance of Kshs.5,204,428,751.00 or 58%.
- d) Amount in the budget under tax receipts was Kshs.450,000,000.00 against actual receipts of Kshs.100,000,244.00 resulting in an under realization of Kshs.349,999,756.00 or 88%.

238. Erroneous 2012/13 Comparative Balances

The 2013/2014 financial statements reflects comparative balances of Kshs.93,434,588,770.00 in respect of seven items under receipts and Kshs.90,375,211,011.00 in respect of some other seven items under payments. However, the audited 2012/2013 financial statements reflected balances of Kshs.55,710,639,839.00 under receipts and Kshs.93,350,676,738.00 under payments for the same items. The resultant difference of Kshs.37,723,948,931.00 in respect of the receipts and Kshs.2,975,468,727.00 in respect of the payments have not been reconciled or explained.

Component	2013 Financial statements comparative balances figures in 2014	2013 Financial Statements	Audited	Differences
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RECEIPTS

Tax Receipts	430,125,288.00	400,000,000.00	30,125,288.00
Proceeds from Foreign & domestic	30,308,092,413.00	32,918,342,413.00	-2,610,250,000.00

grants

Exchequer Release	41,358,938,305.00	4,792,088,375.00	36,566,849,930.00
Proceeds from foreign borrowing	-	224,310,177.00	-224,310,177.00
Proceeds from Sale of Assets	4,031,853.00	4,031,853.00	-
Domestic Borrowing	-	17,341,741,733.00	-17,341,741,733.00
Other receipts	21,333,400,911.00	30,125,288.00	21,303,275,623.00
Total	93,434,588,770.00	55,710,639,839.00	37,723,948,931.00

PAYMENTS

Compensation of employees	1,353,898,155.00	1,353,898,155.00	-
Use of goods & services	2,178,169,434.00	1,889,055,980.00	289,113,454.00
Transfer to Government Units	82,527,988,587.00	85,743,758,136.00	-3,215,769,549.00
Social Security Benefits	23,101,358.00	21,544,912.00	1,556,446.00
Acquisition of assets	4,012,576,815.00	4,226,287,535.00	-213,710,720.00
Repayment of principal on borrowing	163,310,177.00	-	163,310,177.00
Other payments	116,166,485.00	116,166,485.00	-
Total	90,375,211,011.00	93,350,679,738.00	-2,975,468,727.00

239. Bank Reconciliation Statements

a) Recurrent Bank Reconciliation Statement

The Ministry's Recurrent bank reconciliation statement for the month of June 2014 shows payments in cash book not in bank statement totalling Kshs.383,575,179.55 out of which cheques totalling Kshs.2,572,451.00 were stale as at 30 June 2014.

240. Undisclosed Deposits Bank Balance

a) The Ministry of Transport and Infrastructure account No. 1000182188 held at Central Bank of Kenya had a credit balance of Kshs.557,852,929.25 as at 30 June 2014. However, the Ministry's financial statements for the year ended 30 June 2014 have neither reflected the balance in the bank balance nor disclosed the total amount in the notes to the financial statements.

In the circumstances, the bank balance as at 30 June 2014 is understated by Kshs.557,852,929.25.

b) Irregular Payments from Deposits Cash Book

Examination of Deposits Cash Book revealed that the Ministry paid Kshs.8,869,610.00 from the deposits accounts which ought to have been paid from either Recurrent or Development cash books. No reasons were provided for the irregular payments.

c) The Ministry did not disclose the balances for Deposits in the financial statements for the year ended 30 June 2014, and no evidence was given on how the previous years issues included in the report for 2012/13 were resolved.

d) The Statement of Assets and Liabilities for deposits for the former Ministry of Roads reflected the following debit and credit balances relating to 2012/2013 and earlier years which besides being un-cleared for a long time had not been analyzed or supported:

Account	Amount (Kshs)
Debits	308,062,239.45
Credits	740,396,723.45

e) The statement reflected 10% retention money account credit balances totalling Kshs.1,192,886,514.85 which included a credit balance of Kshs.1,185,498,016.85 relating to 2010/2011 and earlier years. However out of the Kshs.1,438,823,266.35 reported in 2011/2012 an amount of Kshs.1,431,064,185.67 relating to 2009/2010 could not be verified from the retention money register since serial numbers of the receipts accounting for the retention moneys were not indicated. Further as reported in 2011/12 an amount of Kshs.11,822,080.15 released to a contractor was supported by receipts that had not been issued for use in the Ministry's accountable documents.

f) The schedule supporting the retention money's closing balance of Kshs.1,192,886,514.85 as at 30 June 2014 reflected debit balances under various accounts. This implies that there were unclear over refunding of retention money amounting to Kshs.233,311,537.07. One contractor was paid Kshs.17,213,703.00 when the account already had a debit balance of Kshs.59,940,016.67 resulting in an overpayment of Kshs.77,153,719.67. Payment voucher no.008618 for the amount of Kshs.17,213,703.00 paid was not availed for audit review.

g) As reported in the previous year, the 2011/2012 statement reflected a credit balance of Kshs.1,911,588.55 in respect of Transformative E.I conference account which was at variance with the ledger credit balance of Kshs.1,511,361.00 as at 30 June 2012. The difference of Kshs.400,227.55 between the two sets of records was not explained.

h) Debit balances reflected in the 2011/2012 statement of Kshs.2,181,697,190.45 differed with balances of Kshs.10,288,638,370.05 shown in the Ministry's trial balance as at 30 June 2012 by Kshs.8,109,411,796.60. Similarly, the credit balances totaling Kshs.2,181,697,190.45 differed with the trial balance totals of Kshs.3,335,760,495.65 by Kshs.1,154,063,305.20. Additionally several accounts totaling Kshs.72,528,192.23 and credit balances of Kshs.16,549,108,680.20 shown in the trial balance were excluded from the statement of assets and liabilities as at 30 June 2012.

All the above issues remained unresolved as at 30 June 2013 and there was no evidence on how the same were cleared in 2013/2014.

KENYA ROADS BOARD FUND

Unqualified Opinion

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

MECHANICAL AND TRANSPORT FUND

Basis for Qualified Opinion

241. Travel and Subsistence allowance

Included in the Travel and Subsistence Allowance expenditure of Kshs.43,574,068.40 reflected in the fund's statement of financial performance for the period ending 30 June 2014 is an expenditure of Kshs.3,813,000.00 incurred to cater for a Ministerial Team Building Retreat at the Great Rift Valley Lodge held from 17 to 20 July 2013 on the premise that the same would be refunded to the Fund by the parent Ministry.

However, as at 30 June 2014 there was no evidence that the same had been refunded by the parent Ministry and therefore the total expenditure of Kshs.3,813,000.00 is ineligible and should not be a charge to the Fund's Account.

242. Supply of Computers and Related Equipment

Included in the pending bills of the financial statements of Kenya National Highways Authority for the year ended 30 June 2014 is Invoice No. 812 from a supplier of computers dated 19 November 2013. The supplier was competitively awarded the contract for the supply of the three (3) Rack-Mount type computer servers; ninety four (94) Standard Desktop Computers; twelve (12) Touch Smart Desktop Computers; eight (8) Laptop Computers and forty six (46) Integrated Service Routers on 13 June 2013 at the tender sum of Kshs.25,564,350.00 all of which were purchased for Mechanical and Transport Fund under Northern Corridor Transport Improvement Project, IDA Credit Nos. 3930 - KE and 4571- KE.

The supplier is said to have delivered the goods to Mechanical and Transport Fund of Ministry of Transport and Infrastructure on 19 November 2013 vide delivery note No. 1063. The Inspection and Acceptance Committee inspected and accepted only eight (8) laptop computers and nineteen (19) Integrated service routers all valued at Kshs.2,975,150.00. It's reported that the rest of the goods though delivered were stolen before they could be inspected by the Inspection and Acceptance Committee.

Despite the forgoing and although the Goods Received Notes were not issued, Kenya National Highways Authority paid for all the goods vide Payment Voucher Number 17690 dated 23 July 2014 for Kshs.22,589,200.00.

In the circumstances, no value for money was obtained from the expenditure of Kshs.22,589,200.

RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

Basis for Qualified Opinion

243. Failure of the National Treasury to submit Railway Levy Fund Account

As disclosed at page 8 of the financial statements for the year, the management has stated that the National Treasury maintains the Railway Levy Fund Account while the Ministry of Transport and Infrastructure maintains an operations account which is funded only when an invoice for payment arises.

However, the National Treasury didn't prepare and submit the Railway Levy Fund Account for audit reflecting the total disbursements to the Railway Development Levy Fund (Operations Account) for the year ended 30 June 2014.

In the circumstances, it has not been possible to confirm the accuracy and correctness of actual receipts for the year ended 30 June 2014.

DONOR FUNDED PROJECTS

KENYA TRANSPORT SECTOR SUPPORT PROJECT IDA CREDIT NO. 4926 – KE AND 5410 – KE - KENYA AIRPORTS AUTHORITY

Basis for Qualified Opinion

244. Special Account Statement Reconciliation

The Statement of Receipts and Payments for the year ended 30 June 2014 reflects Loan from external development partners of Kshs.37,000,000.00 while the Special Account Statement prepared and submitted by National Treasury reflects Kshs.87,982,128.00 resulting to a variance of Kshs.50,982,128.00.

In the circumstances, it has not been possible to confirm the correctness and accuracy of the total receipts amounting to Kshs.38,464,000.00 for the year ended 30 June 2014.

JOMO KENYATTA INTERNATIONAL AIRPORT EMERGENCY INTERIM TERMINAL CONSTRUCTION PROJECT – LOAN AGREEMENT NO. 2100150015544 - KENYA AIRPORTS AUTHORITY

Basis for Qualified Opinion

245. Loan Agreement No. 2100150015544 between African Development Fund and the Republic of Kenya signed on 24 December 2013

On 24 December 2013, the Republic of Kenya signed amendment to Loan Agreement No. 2100150015544 with African Development Fund to finance the cost of Jomo Kenyatta International Airport Emergency Interim Terminal Construction after the August 2013 inferno which caused damages and losses to the airport facilities.

However, the financial statements for the year ended 30 June 2014 submitted for audit have described the total funds amounting to Kshs.339,201,000.00 received during the year from African Development Bank as a grant.

In the circumstances, it has not been possible to confirm the correctness and the accuracy of the receipts during the year ended 30 June 2014.

**NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT (NCTIP) -
CREDIT NO. 3930/4571- KE - KENYA AIRPORTS AUTHORITY**

Basis for Qualified Opinion

246. Construction of Terminal IA (Formerly Terminal 4) Building, Parking Garage, Grade Parking and Other Associated Works

As reported in the previous year, the contract for construction of Terminal IA (formerly Terminal 4) building, Parking garage, Grade parking and other associated works was awarded to a contractor at a contract sum of Kshs.4,147,677,412.88 with an estimated completion dates of 30 June 2011, 30 November 2011 and 31 May 2012 for Grade Parking, Parking garage and Terminal IA (Formerly 4) building respectively. However, although the Grade Parking, Parking garage and Terminal IA building were taken over by the employer (KAA) on 25 September 2012, 9 August 2013 and 12 August 2014 respectively, various outstanding works for architectural, mechanical, electrical as well as general works as detailed in the list (booklet) dated 12 August 2014 by the Consultant remained outstanding as at 12 August 2014 and were to be completed during Defects Notification Period.

In the circumstances, it has not been possible to confirm that the various outstanding works listed will be completed to the satisfaction of the Authority and whether value for money will be obtained.

247. Special Account Statement Reconciliation

The Statement of Receipts and Payments for the year ended 30 June 2014 reflect Loan from external development partner of Kshs.537,596,000.00 while the Special Account Statement prepared and submitted by the National Treasury reflects Kshs.317,472,939.80 as disbursed resulting to a variance of Kshs.220,123,060.80 which has not been reconciled or explained.

In the circumstances, it has not been possible to confirm the accuracy and correctness of total receipts of Kshs.544,790,000.00 reflected in the statement of receipts and payments for the year ended 30 June 2014.

**EAST AFRICA TRADE AND FACILITATION PROJECT CREDIT NO. 4148 KE
(IDA) - KENYA NATIONAL HIGHWAYS AUTHORITY**

Basis for Qualified Opinion

248. Delay in Project Implementation

(i) Construction of One Stop Border Post at Malaba

As reported in the previous audit report, the contract was awarded on 26 April 2012 at a contract sum of Kshs.555,686,786.00. The contract commenced 10 July 2012 to run for a period of 15 Months with the expected completion date of 9 October

2013. A review of the Project during the audit revealed that as per progress report of 30 July 2014, time elapsed was 109% against 80% of builders work, 60% of mechanical and plumbing work and 20% of civil works completed, implying that the works are still behind schedule. Although management has explained that the Project contract period had been extended to 30 September 2014, as at 30 November 2014, the Project had still not been completed.

(ii) Construction of One Stop Border Post at Busia

As reported in the previous audit report, the contract was awarded on 26 April 2012 at a contract sum of Kshs.533,139,168.90. The contract commenced on 10 July 2012 to run for a period of 15 Months with the expected completion date of 9 October 2013. A review of the Project has revealed that as per progress report of 30 July 2014, time elapsed was 98% while 80% of builders work and 25% of civil works had been completed, implying that the works are behind schedule. Although management has explained in the letter dated 10 December 2014, that the contract period was extended for 110 days effective 22 October 2014, the Project still remains behind schedule and it is not clear when it will be completed.

**KENYA TRANSPORT SECTOR SUPPORT PROGRAMME IDA CREDIT NO. 4926
– KE - KENYA NATIONAL HIGHWAYS AUTHORITY**

Basis for Qualified Opinion

249. Rehabilitation of Kisumu-Kakamega Road Section (Lot 1)

The contract was awarded at a contract sum of Kshs.4,452,053,438.28 for a period of two years. The project commenced on 5 January 2013 and is scheduled to be completed on 4 January 2015 with an addition of one year of defects liability period.

Monthly progress report Number.17 for June 2014 shows that the percentage of time elapsed is 49.44% while the physical works completed was 24% an indication of delayed project implementation which may lead to escalation of Projects costs.

250. Rehabilitation of Webuye-Kitale Road (Lot 3)

The project was awarded at a contract sum of Kshs.3,315,343,990.75 for a period of 24 Months. Monthly progress report Number.18 of June 2014 shows that the percentage of physical works completed was 49% while percentage time elapsed was 73%, an indication of delay in project implementation. The slow progress in Project Implementation may lead to escalation of Project costs.

251. Rehabilitation of Kakamega-Webuye Road (Lot 2)

The above contract was awarded on 18 January 2012 at a contract sum of Kshs.2,505,924,536.66. The works commenced on 1 April 2013 for a contract period of 24 months with a completion date of 31 March 2015. The project is financed by the World Bank and the Government of Kenya at 75% and 25% respectively.

Evidence available indicates that a notice of termination of the contract was issued on 08 May, 2014 due to contractor's non-performance. However, the Contractor obtained a court injunction stopping the employer from evicting the contractor from the site. By the time termination was issued, 53% of the contract period had elapsed and the contractor had only achieved 1% physical progress despite having been paid an advance of Kshs.205,974,052.89 or 82% of the contract price for mobilization and cash flow support. As at 30 November 2014, the status of the Project implementation had not been determined and it was not clear the effect the termination may have on the Project costs.

EAST AFRICAN TRADE AND TRANSPORT FACILITATION PROJECT – IDA CREDIT NO. 4148-KE - KENYA PORTS AUTHORITY

Basis for Adverse Opinion

252. Payments of Non-Current Assets

The statement of receipts and payments reflect payments amounting to Kshs.184,708,128.00 in respect of Non-Current assets. Although the payments were supposed to have been supported by an interim certificate from the consulting engineer, the relevant documents in support of these payments were not availed for audit verification. Further, no evidence was availed for audit verification to confirm that the payments were approved by the Project Implementation Team. Consequently, it was not possible to ascertain that the supervising engineer and the Project Implementation Team performed their duties as stipulated in the Project appraisal document to justify the expenditure and propriety of the payment amounting to Kshs.184,708,128.00.

253. Purchase of Equipment

A review of documents availed for audit verification indicated that as at 30 June 2014, the Project had twenty-two metal detection gates installed throughout the institution and four in store at a total cost of Kshs.18,668,286.00. All these detection gates are yet to be operationalized since the position where they are installed as at 15 November 2014 are not manned or monitored. In addition, five Optical Character Readers (OCR) valued Kshs.75,037,500.00 had been installed as at 30 June 2014 at three gates that are supposed to record the container details as they enter and leave the Port. However, the installed Optical Character Readers are inadequate since most of the gates with more than two operational lanes had only one OCR installed in one lane. Due to the highlighted inadequacy, not all the containerized cargo entering and leaving the Port is scanned by these equipment. In addition, it was not possible to obtain the recorded data that has so far been captured by this equipment. In the circumstances, it has not been possible to ascertain whether the equipment were actually functional.

Similarly, two x-ray screening systems costing Kshs.11,863,146.00 installed as at 30 June 2014 at gate 8 and gate 12 were not in use at the time of the audit.

Consequently, it was not possible to ascertain if the Authority obtained value for money in procurement of the assets amounting to Kshs.105,568,932.00.

254. Total Receipts and Payments

The statement of receipts and payments indicate that both total receipts and payments amounted to Kshs.204,940,644.00. However, during the same period the project's local bank account reflect unsupported receipts amounting Kshs.859,167,671.20 and payments amounting Kshs.3,880,951,604.61 in which the management explained that the funds were transferred into the project's bank account by the parent Ministry. It is not clear how the Ministry could have transferred funds which do not relate to the Project.

Consequently, the accuracy of statement of receipts and payments for the year ended 30 June 2014 could not be ascertained.

255. Unremitted Withholding Tax:

During the year under review, the management paid consultant fees amounting Kshs.20,232,516.00 without deducting and remitting to KRA withholding tax amounting Kshs.4,011,732.96. Further, and as in the previous year's report, withholding consultancy tax and contractor's fee totalling Kshs.16,972,117.00 is yet to be recovered and this contravenes the Income Tax Act and may attract fines and penalties.

256. Statement of Comparative Budget and Actual Amounts

The statement of comparison of budget against actual amounts reflects actual receipts totalling Kshs.204,940,644.00. However, the statement did not reflect the corresponding budget figures contrary to the requirement of International Public Sector Accounting Standards (Cash Basis). Further, the management failed to avail for audit review the approved budget for the period under consideration. It was therefore not possible to appraise the actual financial project performance against the target for the year ended 30 June 2014.

NORTHERN CORRIDOR TRANSPORT IMPROVEMENT PROJECT (IDA CREDIT NOS. 3930 – KE AND 4571 – KE) – KENYA NATIONAL HIGHWAYS AUTHORITY

Basis for Qualified Opinion

257. Contract for Rehabilitation of Kericho – Mau Summit Road

As reported in the previous audit report, the contract was awarded to a contractor on 26 October 2009 at a contract sum of Kshs.6,832,657,486.36. The contract commenced on September 2010 for a contract period of 24 Months with the expected completion date of 15 September 2012. The contractor has, however, been awarded extension of time for 759 days thus revising the completion date to 14 October 2014.

According to the Progress Report No. 45 for August 2014, 1445 days had elapsed representing 97% of the revised contract period, while the actual progress of works stood at 81% thus implying that the works are still behind schedule.

In addition, a nugatory payment of Kshs.33,144,940.23 has been incurred as payment of interest on delayed payments which was avoidable if payments were made within the stipulated timelines.

258. Rehabilitation of Nyamasaria – Kisumu – Kisian and Kisumu Bypass Roads

The project is financed by World Bank and Government of Kenya at 67% and 33% respectively. The contract was awarded to a construction company on 31 March 2011 for a contract sum of Kshs.5,788,202,418.54 being the second lowest bidder and the contract signed on 31 August 2011.

The project commenced on 9 February 2012 for a contract period of 30 months with an expected completion date of 8 August 2014. According to the progress report no. 27 for June 2014, achieved progress is approximately 88% compared to 97% of contract period elapsed. In addition, the contract period has since elapsed and no evidence for extension of contract period was seen.

Further, the Contractor has so far presented eighteen (18) Interim Payment Certificates (IPC's) amounting to Kshs.4,632,740,214.90 for works done and materials on-site. Included in the certificate is an amount of Kshs.59,032,806.67 certified for payment as interest on delayed payments which is an avoidable charge to public funds if payments are made within the agreed timelines.

259. Emergency Restoration of Public Works Offices in Homabay and Kisumu Counties.

The contract for the above works was awarded to an Engineering Company on 12 November 2012 following international competitive bidding. However, examination of records and documents related to the contract revealed that the Authority in August 2014 procured the services of a Consulting Engineering firm for supervision at a cost of Kshs.23,857,720.00 through direct procurement contrary to the Public Procurement and Disposal Act, 2005, thereby contravening the law. It is not therefore possible to ascertain whether value for money was obtained from this service.

260. Supply of Computers and Related Equipments

Included in Annex 2A –Analysis of Pending Bills is Invoice No. 812 from an ICT Company dated 19 November 2013. The supplier was competitively awarded the contract for the supply of computers and related equipments on 13 June 2013 at their tender sum of Kshs.25,564,350.00.

The supplier is said to have delivered the goods to Mechanical and Transport Department of Ministry of Transport and Infrastructure on 19 November 2013 but the Inspection and Acceptance committee inspected and accepted equipments only

valued Kshs.2,975,150.00. It was reported that the rest of the goods whose value was Kshs.22,589,200.00 though delivered, were stolen before they could be inspected by the inspection and acceptance committee.

Despite the forgoing and although the goods received notes were not issued, the Authority paid for Goods valued at Kshs.22,589,200.00 and whose delivery in good condition and as per the contract could not be confirmed.

In the circumstances, no value for money was obtained from the expenditure of Kshs.22,589,200 paid to the supplier.

**NORTHERN CORRIDOR REHABILITATION PROGRAMME PHASE III
(ELDORET TURBO-WEBUYE MALABA ROAD IMPROVEMENT PROJECT) –
KENYA NATIONAL HIGHWAYS AUTHORITY**

Basis for Qualified Opinion

**261. Rehabilitation of Eldoret-Turbo-Webuye (A 104) Road -Contract No.
KeNHA/ICB/51/2010**

- (i) The contract was awarded to a contractor on 19 November 2010 at a contract sum of Kshs.3,383,387,115.63 while the contract agreement was signed on 26 November 2010. The contractor commenced work on 26 January 2011 and the contract duration was 18 months. However the contract was not completed within the stipulated time and the contractor was awarded two extensions under claims 1 and 2 of 45 and 115 days respectively. Although the contract was supposed to have been completed by 9 February 2013, as at 30 November 2014, the works had not been completed.
- (ii) Further, although the original project length was 59km at a contract sum of Kshs.3,383,387,115.63 the length was reduced by 18 km to 41km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately. It is doubtful if the Authority got the value for its money.
- (iii) Evidence available now indicates that through Addendum No. 1 dated 20 June 2014, the contract sum for the Project has been revised up wards by Kshs.2,005,552,882.86 or 59.3% to Kshs.5,388,939,997.86. This Addendum No. 1 is for the completion of the 18 kilometers earlier scaled down as reported in 1.2 above and the works are expected to take 15 months with a commencement date of 01 August 2014 and a completion date of 31 October 2015.

It is not clear and the management has not satisfactorily explained the rationale of scaling down the Project and awarding an addendum with variation of the contract sum by 59.3% thereby breaching the Public Procurement and Disposal Act, 2005.

In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.

**262. Rehabilitation of Webuye-Malaba (A104) Road-Contract
NO.KENHA/ICB/52/2010**

- (i) The contract was awarded to a contractor on 19 November 2010 at a contract sum of Kshs.3,848,928,516.25. The contract agreement was signed on 26 November 2010 with a commencement date of 26 January 2011. The project was scheduled for completion on 31 August 2012 when the eighteen (18) months contract period expired. However, the contract was not completed in time and the contractor was awarded two extension of time totaling to twelve and half (12.5) months. According to monthly Progress Report No. 40 of June 2014, works completed stood at 87.57% against certified payments of Kshs.3,469,656,939.41 representing 90% of the original contract sum.
- (ii) Further, although the original contract length was 61km at a contract sum of Kshs.3,848,928,516.25, the length was scaled down by 8 km to 53km but the contract sum remained the same instead of being renegotiated and revised downwards proportionately.

In the circumstances, it is doubtful the Authority will get value for its money.

- (iii) Evidence available now indicates that through Addendum No. 1 dated 23 July 2014, the contract sum for the Project has been revised up wards by Kshs.2,106,120,003.46 or 55% to Kshs.5,5,955,048,519.47. Addendum No. 1 is for among other things completion of the 8 kilometers earlier scaled down as reported in 2.2 above and the works are expected to take 12 months with a commencement date of 14 August 2014 and a completion date of 13 August 2015.

It is not clear and the management has not satisfactory explained the rationale of scaling down the Project and awarding an addendum with variation of the contract sum by 55% thereby breaching the Public Procurement and Disposal Act, 2005.

In the circumstances, it has not been possible to confirm that the Authority will obtain value for money in implementing the above Project.

263. Nugatory Payment of Interest

The Authority paid the contractor an amount of Kshs.9,529,382.69 vide interim certificate No. 19 being interest on delayed payments on completed works. If payments had been made within the stipulated period, the Authority would have made a saving on Public resources of Kshs.9,529,382.69.

REGIONAL ROADS COMPONENT (MERILLE-MARSABIT ROAD) PROJECT NO. KE/001/09 (LOAN AGREEMENT NO. KE/FED/2009/021-655) - KENYA NATIONAL HIGHWAYS AUTHORITY

Basis for Qualified Opinion

264. Interest on delayed payments

The Authority has not been paying the Contractor's dues as and when they fall due. As at 30 June 2014, the contractor had claimed interest on delayed dues amounting to Kshs.19,330,667.40. The interest on delayed payments is a nugatory expenditure which should have been avoided had the Authority made the contractor's dues on time.

Emphasis of Matter

265. Delay in Project Implementation

The Project was awarded to a Contractor at a contract price of Kshs.13,718,688,331.73 on 5 November 2012 for a period of 36 months. The project commenced on 28 January 2013 and is expected to be completed on 27 January 2016. It was, however, observed as per progress report No. 17 of June 2014, that 47.22% or 17 months of contract period had elapsed while the overall physical progress was 21.5%. Further, as per progress report No. 19 of August 2014, 52.78% or 19 months of contract period had elapsed while the overall physical progress was at 25.25%.

MOMBASA-NAIROBI-ADDIS ABABA ROAD CORRIDOR PROJECT NO.P-ZI-DB0-027 PHASE II (MARSABIT-TURBI ROAD) - KENYA NATIONAL HIGHWAYS AUTHORITY

Basis for Qualified Opinion

266. Delay in Project Implementation

In the report for the year ended 30 June 2013, reference was made to the slow progress of work of the above Project. A review of the progress under review revealed that the original completion date of 4 April 2014 was extended to revised completion date of 20 April, 2015.

However, as per monthly progress No. 40 of September 2014, 86% (1269 days) of the revised contract time had elapsed against 68.2% completed works.

In the circumstances, the Project is way behind schedule and may still not be completed within the revised contract period which is likely to lead to escalation of project costs.

267. Interest on Delayed Payments

Included in the expenditure of Kshs.3,055,446,301.00 is interest charges of Kshs.4,497,964.76 (12 October 2012) and Kshs.18,775,310.13 (14 September 2013) totalling to Kshs.23,273,277.76 paid to the contractor for delayed payment dues. The payment of interest is a nugatory payment which should not have been incurred had the dues been paid on a timely manner.

MINISTRY OF ENVIRONMENT, WATER AND NATURAL RESOURCES

FINANCIAL STATEMENTS FOR VOTE 110

Basis for Qualified Opinion

268. Pending Bills

Bills amounting Kshs.471,807,164.00 chargeable to both recurrent and development votes for the Ministry's two state departments as at 30 June 2014 were not paid in the year 2013/2014 but were instead carried forward to 2014/2015. Had these bills been paid and the expenditure charged, the statement of receipts and payments would have reflected a reduced surplus of Kshs.426,859,945.00 instead of Kshs.898,667,109.00. Failure to settle bills during the year to which they relate distorts the financial statements for that year and adversely affects the provisions of the subsequent year to which they have to be charged.

269. Cash and Cash Equivalents

a) Balance Brought Forward

During the year under review, the former Ministry of Water and Irrigation was merged with the Ministries of Environment and Mineral Resources, Regional Authorities and Forestry and Wildlife to form the new Ministry of Environment, Water and Natural Resources. All the above Ministries had bank accounts which held a combined amount of Kshs.266,192,394.00 as at 30 June 2013. It was however observed that no evidence was availed for audit verification to indicate the status of the balance of Kshs.266,192,394.00 after the Ministries were merged.

b) Bank Reconciliation Statements

Examination of the bank reconciliation statements as at 30 June 2014 revealed the following unexplained reconciling items:-

(i) Recurrent Account No.0001821508

The recurrent account cash book reflected

Payments in the cashbook not yet presented in the bank of Kshs.48,467,363.00, payments in the bank not in the cashbook totalling Kshs.217,332,923.00, and undisclosed payments amounting Kshs.10,012,938.00 only described as transfer payments as at 30 June 2014.

(ii) Development Account No.1000181737

The development account cash book reflected Payments in cashbook not in bank statement amounting Kshs.47,191,072.00. Payments in bank not in the cashbook

amounting Kshs.27,319,148.00, undisclosed amounts of Kshs.9,203,564.00 only described as transfer payments and undisclosed amounts amounting Kshs.941,548,812.00 only described as cash book errors as at 30 June 2014.

In view of the foregoing, it has not been possible to confirm the accuracy and completeness of the cash and cash equivalents balance of Kshs.913,355,099.00 as at 30 June 2014.

270. Approved Supplementary Estimates

The approved supplementary estimates reflects a balance of Kshs.36,360,037,952.00 for both recurrent and development expenditures for the year ended 30 June 2014. However, it was observed that the funds received from the National Treasury amounted Kshs.29,246,869,442.00 leading to an unexplained and unreconciled difference of Kshs.7,113,168,510.00 as at 30 June 2014.

271. Grants to Government Agencies

The statement of receipts and payments reflects grants remitted to Government agencies totalling Kshs.8,251,238,611.00, which constitutes 66% of total approved estimates of Kshs.12,523,743,887.00 resulting to an unexplained unremitted difference of Kshs.4,272,505,276.00 (33%). Further, variances between the Ministry's balances and the Agency's financial statements on amounts disbursed and received were noted as follows:-

Agency	Ministry's Financial Statements (Kshs)	Agency's Financial Statements (Kshs)	Variance (Kshs)
Tana and Athi Rivers Dev. Authority	282,021,868.00	352,910,228.00	70,888,360.00
Kenya Water Institute	282,973,060.00	275,880,000.00	7,093,060.00
National Environment Mgmt Authority	438,190,194.00	439,455,994.00	1,265,800.00
Kenya Water Towers Agency	94,700,000.00	185,200,000.00	90,500,000.00
Public Complaints Committee on Environment	33,930,000.00	48,510,000.00	14,580,000.00
National Environment Tribunal	22,500,000.00	87,480,000.00	64,980,000.00
Kenya Wildlife Service	2,002,077,200.00	3,554,380,000.00	1,552,372,800.00

National Water	221,648,459.00	192,554,000.00	29,094,459.00
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Conservation and

Pipeline Corporation

As a result, the variances have not been explained as at 30 June 2014.

272. Outstanding Imprests

The Ministry's statement of assets and liabilities as at 30 June 2014 reflects outstanding imprests amounting Kshs.38,982,191.00. It is not clear and the Ministry has not explained why the imprest amount had not been surrendered as at 30 June 2014 and further what the Ministry is doing to enforce the Imprest management rules of recovering unaccounted for funds from the officers payroll within 48 hours after completion of official journeys.

Consequently the outstanding imprest of Kshs.38,982,191.00 remains unaccounted for as at 30 June 2014.

273. Un-Accounted for A.I.Es

During the year under review, the Meterological Department Kisumu County received Kshs.15,900,000.00 through A.I.Es No.A632858 and No.A708016 of 1 April 2014 and 11 June 2014 respectively each having a value of Kshs.7,950,000.00. The amount was to be used for infrastructure and civil works and research. However, management did not explain where the civil works and research were undertaken. Further, no records were kept at the District Treasury to show how the money was utilized.

In the circumstances, the total amount of Kshs.15,900,000.00 remains unaccounted for as at 30 June 2014.

274. District Suspense

Included in the financial assets balance of Kshs.913,355,099.00 is District Suspense balance of Kshs.804,508,045.00 which represent unspent Authority to incur expenditures in the Districts. It was however observed that this balance should have been classified as cash and bank balance instead of district suspense account.

As a result, the amount of Kshs.804,508,045.00 remains unaccounted for as at 30 June 2014.

275. Compensation of Employees

It was observed that a total of 243 number of staff from the Ministry have been seconded to National Water Conservation and Pipeline Corporation in various core operations, which include drilling, Electro mechanical, land and survey and water technicians. Although the Ministry has explained that the officers were seconded as the Ministry Headquarters ceased to implement technical projects attached to the Boards, it is not clear and Ministry has not explained why it continues to pay officers who are serving other statutory bodies and also why the officers cannot be officially absorbed by those institutions.

The legality of the compensation of 243 number of employees at National Water Conservation and Pipeline Corporation could not be confirmed as at 30 June 2014.

DONOR FUNDED PROJECTS

ON EWASO NG'IRO NORTH NATURAL RESOURCES CONSERVATION PROJECT P-KE-C 00-001 (ADF LOAN NO. 2100150009595 AND ADF GRANT NO. 2100155004619) - EWASO NG'IRO NORTH RIVER BASIN DEVELOPMENT AUTHORITY

Basis for Qualified Opinion

276. Accuracy of the Financial Statements

The financial statements prepared and submitted for audit did not fully comply with the International Public Sector Accounting Standards (Cash Basis) as:-

- (i)** The cover page does not indicate the Project Grant/Project Number.
- (ii)** The Regional Offices of the Project were not indicated.
- (iii)** Key qualifications of the management team were not indicated.
- (iv)** The funding summary was not prepared.
- (v)** The financial statements reflected statement of receipts and payments for the year ended instead of for the period ended 30 June 2014.
- (vi)** The financial statements reflected statement of assets as at 30 June 2014 instead of statement of financial assets and liabilities as at 30 June 2014.
- (vii)** The financial statements reflected statement of cash flows instead of statement of cash flows for the period ended 30 June 2014.
- (viii)** The financial statements reflected Summary Statement of Appropriation: Development instead of statement of comparative budget and actual amounts.
- (ix)** Notes 3, 4, 6, 7, 8 and 9 have not been included in the financial statements.

No explanation was given for failure to comply with the IPSASs cash basis of accounting method template.

277. Cash and Cash Equivalent

The Cash and Cash Equivalent balance decreased from Kshs.476,393.00 as at 30 June 2013 to Kshs.49,000.00 as at 30 June 2014. However, the closing bank balances as at 30 June 2014 held at Regional Offices were not disclosed in the statement of financial assets and liabilities. Scrutiny of the bank balances revealed

that the amount reflected in the statement of financial assets and liabilities of Kshs.49,000.00 was in respect of the GOK counterpart account only. The project financial statements therefore did not reflect the bank balances for the ADB loan and ADB Grant accounts of Kshs.3,831.00 and Kshs.3,717.00 respectively as at 30 June 2014.

Consequently, it has not been possible to confirm the accuracy of the Cash and Cash Equivalents balance of Kshs.49,000.00 as at 30 June 2014.

278. Statement of Cash Flows

The statement of cash flows reflected operating expenses of Kshs.70,633,000.00 while the statement of receipts and payments reflects a balance of Kshs.68,746,000.00. The statement of cash flows was therefore over stated by Kshs.1,887,000.00. Further, though the statement of receipts and payments reflected depreciation (provision for the year) of Kshs.2,704,000.00, this amount was not reflected in the statement of cash flows.

In view of the foregoing, the accuracy of the statement of cash flows for the year ended 30 June 2014 could not be confirmed.

279. Financial Impropriety

During the year under review, a water drilling company was paid Kshs.36,956,400.00 for drilling, equipping, and civil works carried out at El-Dimtu, Turbi II, Burgabo, Qarman Botu and Laisamis boreholes all in Marsabit County.

However, physical verification of the projects carried out on 30 September 2014 revealed that sign boards worth Kshs.75,000.00 had not been erected as provided in the bills of quantities and supply and mounting of 5,100m³ pressed steel tanks costing Kshs.12,500,000.00 had not been supplied and erected. Instead, two plastic tanks with a capacity of 10,000 litres each had been supplied and mounted at two sites.

Consequently, the project was in breach of financial regulations and propriety of the payments could not be confirmed.

UPPER TANA NATURAL RESOURCE MANAGEMENT PROJECT (IFAD LOAN1-867-KE AND SPANISH TRUST FUND LOAN 1-E-8-KE) FOR THE SIXTEEN MONTHS PERIOD ENDED 30 JUNE, 2014

Basis for Qualified Opinion

280. Cash and Cash Equivalents

The statement of financial assets and liabilities as at 30 June 2014 reflects cash and bank balances totaling Kshs.103,825,845.00. However, the cashbook reflected cash in hand of Kshs.19,979.00 as confirmed by the Board of Survey certificate, while note 8.12B reflected a balance of Kshs.28,992.00 leading to unexplained or unreconciled difference of Kshs.9,013.00.

Consequently the cash and cash equivalents of Kshs.103,825,845.00 could not be ascertained.

281. Delayed Implementation of the Project

I draw attention to Note 8.2 and 8.4 to the financial statements which reflects the funding received for the project from the Government of Kenya and loan proceeds. The project received receipts totaling Kshs.351,900,040.50 out of the budgeted amount of Kshs.974,164,400.00 during the sixteen months ended 30 June 2014. Consequently, the project was unable to carry out some major activities.

The delay in project implementation was attributed to the capturing of the project budget for 2013/2014 under devolved donor commitments to counties instead of national commitment under the Ministry of Environment, Water and Natural Resources by the National Treasury. Although the anomaly was rectified later in the year, this caused delay in implementation of a number of project activities earlier scheduled.

KENYA NATIONAL IMPLEMENTATION PLAN (KNIP) PROJECT GEF GRANT NO. TF011534

Basis for Qualified Opinion

282. Government of Kenya Counter Funding.

The Government of Kenya (GOK) contributed Kshs.3,339,825.00 towards the Project, and according to the financing agreement, the donor was to fund 100% in all the components. Further, the cash book of the Project reflected the donor funds only. In addition, the Project incurred an amount of Kshs.3,339,825.00 towards the Project expenditure without an approved GOK budget estimates contribution. The amount had not been refunded to the Ministry at the time of the audit. Consequently, it has not been possible to confirm the propriety of the expenditure of Kshs.3,339,825.00 as at 30 June 2014.

WATER SERVICES BOARD SUPPORT PROJECT (ADF LOAN No. 2100150015546) - TANA WATER SERVICES BOARD

Basis for Qualified Opinion

283. Nugatory Expenditure

During the year under review, the Board paid a contractor Kshs.33,372,571.00 in respect of punitive interests on delayed payments for Kandara Bulk Lot I. Kshs.9,849,840.00 for Murang'a Urban Lot II and Murang'a Sewerage Lot III - Kshs.1,331,829.00 totalling Kshs.44,554,240.00

The payment of interests could have been avoided if the payments were made within the stipulated period. It has not been possible to confirm the effectiveness of the nugatory expenditure of Kshs.44,554,240.00.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT (IDA GRANT No. 5103-KE)

Basis for Qualified Opinion

284. Government of Kenya Counterpart Funding

The statement of receipts and payments reflects Government of Kenya (GoK) counterpart funds received amounting to Kshs.913,819.00 as at 30 June 2014. However, no supporting documents were availed to support the figure of the amount received. Consequently, the existence and accuracy of the counterpart funds by GoK could not be confirmed.

285. Differences between Amounts Withdrawn from the Special Account and Amounts Credited to the Project Account

The Special Account Statement reflects an amount of Kshs.1,769,875,205.00 as having been withdrawn from the special account. However, the project's statement of receipts and payments reflects an amount of Kshs.1,463,581,614.00 as having been withdrawn from the Special Account. The difference of Kshs.306,293,591.00 between the two sets of records has not been reconciled or explained.

286. Closing Balance in the Designated Account

The statement of receipts and payments reflects a closing balance of Kshs.1,223,211,482.00 (US \$13,898,152.36), while the Special Account Statement reflects an amount of Kshs.1,013,484,589 (US \$11,590,628.98). The difference of Kshs.209,726,884.00 (US \$2,398,523.38) between the two sets of records has not been reconciled or explained.

WATER SERVICES BOARD SUPPORT PROJECT (P-KE-E00-005)– NORTHERN WATER SERVICES BOARD

Basis for Disclaimer of Opinion

287. Disclosure and Presentation of Financial Statements

The financial statements do not include the statement of assets and liabilities contrary to the requirements of Treasury Circular Ref No.AG.3/088 Vol.6/(78) of July 2014. Further, the format for the statement of receipts and payments and the statement of comparative budget and actual amounts do not conform to the reporting template as provided in the Treasury Circular.

In the circumstances, the financial statements for the year ended 30 June 2014 have not complied with the disclosure and presentation requirements of IPSAS (Cash Basis).

288. Unvouched Expenditure

Statement of receipts and payments reflects total receipts of Kshs.1,232,600,516.08 which includes receipts totaling Kshs.988,012,349.20 indicated as direct payments (Loan) and direct payment (Grants) for which payment vouchers and other related documentation were not provided for audit review to confirm that the expenditure is substantiated by sufficient and acceptable documentation. Consequently, the propriety of the expenditure of Kshs.988,012,349.20 could not be ascertained.

289. Unaccounted for Funds

The statement of special (Designated) Account Reconciliation for the year ended 30 June 2014 (Account Reconciliation Statement) reflects a total advance to special account of Euros 1,197,352.78 while the Grant justification and Disbursement schedule (amount withdrawn) obtained from Northern Water Services Board reflects Euros 1,154,000 as an amount of disbursement received. Hence a total of Euro 43,332.36 being the difference remains unaccounted for. No explanation has been provided, why the two figures have not been reconciled.

WATER AND SANITATION SERVICES IMPROVEMENT PROJECT- COMPONENT NO.3 (IDA GRANT 4376-KE) - LAKE VICTORIA NORTH WATER SERVICES BOARD

Basis for Adverse Opinion

290. Presentation of Financial Statements

The Lake Victoria North Water Service Board Management did not comply with standards and template contained in the gazette pronouncement issued by the Public Sector Accounting Standards Board in preparation and Presentation of the financial statement of the Water and Sanitation Services Improvement Project Component No. 3 (IDA Grant 4376 – KE).

291. Chebara/Chebimiet Treatment Works

As reported during the year 2012/2013 under expansion of Chebara/ Chebimiet Treatment works, a total of Kshs.287,656,374.00 was incurred to expand and distribute water volume from 18,000 to 28,000 cubic metres per day. This target has so far not been met.

**WATER AND SANITATION SERVICES IMPROVEMENT PROJECT -
COMPONENT NO.3 (IDA GRANT 5103-KE) - LAKE VICTORIA NORTH WATER
SERVICES BOARD**

Basis for Qualified Opinion

292. Unsupported Advance Payment

Two construction firms were paid a total of Kshs.7,529,999.90 being advance payments. However, no supporting documents were made available for audit review. Consequently, the propriety of the payments could not be confirmed.

**WATER AND SANITATION IMPROVEMENT PROJECT (IDA GRANT NO. 4376-
KE) - ATHI WATER SERVICES BOARD**

Basis for Qualified Opinion

293. Transfer of Cash Balances

The statement of receipts and payments reflects an amount of Kshs.973,850.97 as having been transferred to the Water and Sanitation Services Improvement Project IDA Grant No.5103 project. However, review of the statement of receipts and payments for Grant No.5103-KE revealed an amount of Kshs.913,819.00 indicated as Government Counterpart Funds. The amount of Kshs.973,850.97 treated as transfer from the project was therefore not supported with documentary evidence. In the circumstances, it was not possible to confirm the propriety and authenticity of the transfer.

**MITI MINGI MAISHA BORA: SUPPORT TO FOREST SECTOR REFORM IN
KENYA PROGRAMME– KENYA FOREST SERVICE**

Basis for Qualified Opinion

294. Imprest and Advances – Kenya Forestry Research Institute

Imprest and advances of Kshs.35,159,669.00 was issued to Kenya Forestry Research Institute (KEFRI) on 27 October 2011 for implementation of the outsourced service contract for Miti Mingi Maisha Bora Programme. It is not clear, and management has not explained why the amount has not been accounted for in more than 3 years.

In the circumstances, value for money may not have been obtained in the use of the Funds.

295. Delays in Project Activities Implementation

The Programme had an annual budget of Kshs.584,344,745.00 for the year ended 30 June 2014. However, planned Project purchase of goods and services, acquisition on non-financial assets and compensation of employees amounting to Kshs.365,284,528.00 or 63% of the annual budget were not carried out due to delayed work plan approvals. This may lead to non-achievement of program desired goals and outcomes.

296. Imprest - Regional Offices and Staff

The Programme's imprest records indicate a total of Kshs.15,366,008.00 disbursed to regional offices and staff had not been accounted for as at 30 June 2014 contrary to the Service's financial management manual chapter 4.2.3. No explanation has been provided for the failure to enforce the KFS financial regulations.

NATURAL RESOURCE MANAGEMENT PROJECT (IDA CREDIT NO 4277-KE)

Basis for Qualified Opinion

297. Motor-Cycles without ownership documents

Included in the assets register for National Irrigation Board sub-components are 22 motor cycles which were procured at a total cost of Kshs.6,363,600.00. However, no ownership documents were availed to establish their legal ownership. Consequently it has not been possible to confirm the ownership of motor cycles valued at Kshs.6,363,600.00.

NATURAL RESOURCE MANAGEMENT PROGRAMME NO.104.KEN.806-20-NBO

Basis for Qualified Opinion

298. Cash and Cash Equivalent

The statement of financial assets and liabilities reflects total assets of Kshs.46,191,229.00 as at 30 June 2014 representing bank balances. However, the bank reconciliations and the cashbook shows an amount of Kshs.46,806,828.00 leading to an unreconciled and unexplained difference of Kshs.615,599.00. Further, no regular bank reconciliation's were done by the project management during the period under review.

299. Undisclosed Payments

Payments amounting Kshs.1,391,190.00 in respect of air tickets and provision of conference facilities were made out of project's fund. However, the payments have been excluded from the expenditure schedules and were subsequently not

disclosed in the financial statements. Accordingly, it has not been possible to confirm the propriety of the payments amounting Kshs.1,391,190.00 as at 30 June 2014.

300. Unsupported Expenditure

During the year under review, payment vouchers totaling Kshs.15,291,685.00 in respect of various expense items were not made available for audit verification. In the circumstances, the validity and correctness of the expenditure could not be ascertained as at 30 June 2014.

LAKE VICTORIA WATER SUPPLY AND SANITATION PROGRAM – (PHASE II) PROJECT NO. P-KE-E00-004 (ADF GRANT NO. 2100150019967) - LAKE VICTORIA SOUTH WATER SERVICES BOARD

Basis for Adverse Opinion

301. Presentation of Financial Statements

The Lake Victoria South Water Services Board Management did not comply with the standards and templates contained in the gazette pronouncements issued by the Public Sector Accounting Standards Board in the preparation and presentation of the financial statements of the Lake Victoria Water Supply and Sanitation Program (Phase II), Contrary to the Public Financial Management Act, 2012.

SMALL TOWNS RURAL WATER SUPPLY AND SANITATION PROJECT NO. P- KE-E00-007 - LAKE VICTORIA SOUTH WATER SERVICES BOARD

Basis for Adverse Opinion

302. Presentation of Financial Statements

The Lake Victoria South Water Services Board Management did not comply with the standards and templates contained in the gazette pronouncements issued by the Public Sector Accounting Standards Board in the preparation and presentation of the financial statements of the Small Towns Rural Water Supply and Sanitation Project, Contrary to the Public Financial Management Act, 2012.

WATER SERVICES BOARD SUPPORT PROJECT NO. P-KE-E00-005 (ADF GRANT NO. 5800155000101 AND LOAN NO. 2100150015546) - LAKE VICTORIA SOUTH WATER SERVICES BOARD

Basis for Adverse Opinion

303. Presentation of Financial Statements

The Lake Victoria South Water Services Board Management did not comply with the standards and templates contained in the gazette pronouncements by the Public Sector Accounting Standards Board in the preparation and presentation of the financial statements of the Water Services Board Support Project, contrary to the Public Financial Management Act, 2012.

Further, the financial statements presented do not comply with International Public Sector Accounting Standards (Cash Basis of Accounting).

304. Delayed Payments

The contractor undertaking the Migori Water project has made claims for outstanding payments amounting to Kshs.157,334,739.00 as at 30 June 2014. Further, there is a possibility of additional claims being made with regard to interest on the delayed payments, which is likely to impact on the cash flow position of the project.

MINISTRY OF LAND, HOUSING AND URBAN DEVELOPMENT

FINANCIAL STATEMENTS FOR VOTE 111

Basis for Adverse Opinion

305. Unsupported Receipts

The statement of receipts and payments for the year ended 30 June 2014 reflects proceeds from domestic and foreign grants balance of Kshs.221,233,575.00 relating to grants from the government of Germany for Kenya Primary Education Project (KPEP). The statement also reflects proceeds from foreign borrowings of Kshs.536,328,114.00. Although the receipts have been journalized and captured in the statement, the journal entries have not been supported by receipt vouchers and other related documentation. As a result it was not possible to confirm the accuracy, occurrence, validity and completeness of total receipts balance of Kshs.757,561,689.00.

306. Understatement of Receipts

The statement of receipts and payment for the year ended 30 June 2014 reflects transfers from National Treasury balance of Kshs.11,938,034,553.00 while the Ministry's cash books and records maintained at the Controller of Budget shows a total figure of Kshs.12,593,753,295.00. The total receipts balance and the reported net surplus have therefore been understated by Kshs.655,718,742.00.

307. Other Revenue

The statement also reflects other revenue balance of Kshs.2,303,877,188.00 being receipts from the Ministry of Devolution and Planning during the year. However, records maintained by the Ministry of Devolution and Planning indicate that a total of Kshs.2,150,010,210.00 was transferred to the Ministry of Lands, Housing and Urban Development. No explanation has been provided for resultant difference of Kshs.153,866,978.00.

308. Use of Deposit Money to Pay Recurrent Expenditure

Deposits Funds are money held in trust. However audit of the Deposits cash book for the year 2013/2014 revealed that the Ministry used deposit funds totalling Kshs.13,524,377.90 to meet recurrent expenditure:

No explanation has been provided for using depositors' funds to pay expenditure which should be paid out of voted provisions hence risking loss of depositor's money.

309. Misallocation of Expenditure

Examination of payment vouchers revealed that a total of Kshs.127,059,528.60 was misallocated and irregularly charged against wrong account codes. Apart from failure to comply with the printed estimates as approved by parliament, the charge

was contrary to Section 15.12 of Government Financial Regulations and Procedures which stipulate inter alia that no expenditure for which no provision has been included in the estimates may be incurred. In addition, no evidence of approval of these reallocations by the National Treasury was provided for audit review.

310. Payment for Undelivered Goods

Available information revealed that the Ministry paid a total of Kshs.1,700,000.00 vide payment voucher number 716 dated 30 June 2014 for the supply of 10 No. Adobe CS5 at the Survey of Kenya. However, audit verification carried out revealed that the items were not supplied. No explanation has been given for payment of goods before delivery.

311. Unsupported Expenditure

The cash Book indicates that Ministry paid a company Kshs.20,000,000.00 vide Payment Voucher No.4 dated 19 September 2013. However, the payment voucher and other related support documents were not availed for audit review. In the absence of the payment voucher and other support documents, the propriety of the expenditure could not be confirmed.

312. Authority to Incur Expenditure

Various Authorities to Incur Expenditure issued during the year to various County Housing Directors totalling Kshs.161,595,843.00 have not been supported by respective expenditure returns. In the circumstances, it has not been possible to ascertain the propriety of the total expenditure of Kshs.161,595,843.00 incurred against the Authority to Incur Expenditure.

313. Acquisition of Land

The statement of receipts and payments for the year ended 30 June 2014 reflects Acquisition of assets balance of Kshs.10,512,917,374.00. Included in this figure is an amount of Kshs.178,000,000.00 in respect of acquisition of land. Available information revealed that this amount was transferred to the Ministry of Devolution for settlement of Internally Displaced Persons (IDPs). However, no expenditure returns have been provided for audit review. Consequently, the propriety of this expenditure could not be ascertained.

314. Differences Between Figures in the Statement of Receipts and Payments and Balances in the Supporting Schedules

Expenditure balances for various items included in the statement of receipts and payments totalling Kshs.10,117,698,535.00 differ with corresponding amounts of Kshs.9,440,242,411.35 as in the schedules availed for audit review. No explanation or reconciliation has been provided for the resulting difference of Kshs.677,456,123.65.

315. Failure to Provide Footnotes for Material Variances

Contrary to the requirements of Section of 11.7 of Government Financial Regulations and Procedures, the Ministry of Lands, Housing and Urban

Development did not provide footnotes to the accounts for material variances between approved estimates and actual expenditure on various items. No reason has been provided for failure to provide the footnotes.

316. Pending Bills

Records maintained by the Ministry of Lands, Housing, and Urban Development indicated that bills totalling Kshs.392,596,163.00 were not settled during the year 2013/2014 but were instead carried forward to 2014/2015. Had the bills been paid and the expenditure charged to the account for 2013/2014 the statement of receipts and payments for the year would have reflected a reduced surplus of Kshs.1,454,636,404.00 instead of Kshs.1,847,232,567.00 reflected as at 30 June 2014.

317. Government Housing Projects at West Park

As reported in the previous year, the Ministry entered into a contract with a construction company for the completion of a government housing project at West Park, Nairobi at a contract sum of Kshs.1,369,638,652.64 for a period of 104 weeks. The commencement date was 5 October 2009 and completion date was 5 October 2011 before being revised to 2 October 2014. The scope of works included 115 type C maisonettes (4 bedroom each), 192 type D (3 bedroomed) flats (24 Blocks of 8 units each) and 288 type E (2 bedroomed) flats. Available information revealed that the contract sum was revised upwards to Kshs.1,633,664,443.00, resulting into a variation of Kshs.264,025,790.36 or about 19%. No evidence has been provided to show that the variation was approved. Further, as per the progress report dated 29 January 2015, the works were 90% complete while the contract period had elapsed. No approval for extension was availed for audit verification. In addition, out of the total certified amount of Kshs.1,318,038,258.00, an amount of Kshs.49,262,055.72 related to interest on delayed payments. The amount of Kshs.49,262,055.72 on delayed payments could have been avoided if the payments were made within the stipulated period.

318. Kibish Police Station and GSU Base Camp project

As similarly reported in year 2012/2013, documents available indicate that in May 2007 the Ministry contracted several consulting engineering firms to provide consultancy services relating to structural/civil works, architectural services, quantity surveying and electrical and mechanical services in respect of the above project which had stalled and needed to be completed.

The services of these consultants were to include review of the existing documentation (where available), preparation of bid documents, and working documentation in consultation with each other as well as post contract supervision.

Records available indicated that contract No WP item No DOI RV/TRA 601-Job No.7411B and WP item No DOI RV/TRA 602-Job No. 7412B for completion of Kibish Police Lines, GSU Base camp, and AP Lines was awarded on 13 November 2009 to a construction firm at a contract sum of Kshs.2,211,024,033.00. The scope of works entailed erection and completion of buildings relating to police and AP lines and GSU Base camp which had stalled under the previous contract together with

the associated electrical, mechanical and external works. Extension and rehabilitation of existing airstrip was later added to the contract. The contract commenced on 12 January 2010 for duration of 156 weeks, with expected completion date of 12 January 2013.

A review of the position in 2013/2014 revealed that during the year under review, the Ministry paid the contractor a total amount of Kshs.46,746,169.76 for post contract supervision as indicated in the certificate. The status report availed for audit indicated that work done was 65% complete and the project was expected to be completed by 5 February 2015. However, as at the time of audit, the project had not been completed and no approval for extension was provided for audit review despite that the completion period had elapsed.

319. Kenya National Spatial Data Infrastructure Complex

The Ministry of Lands, Housing and Urban Development entered into a contract with a company for landscaping works of the area between National Spatial Data Infrastructure Complex and senior staff quarters and construction of six (6) external toilets at a contract sum of Kshs.17, 558,143.96. Available information revealed that the contractor was paid Kshs.8,779,072.00 during the year, bringing the total payments to Kshs.16, 680,236.79. However, a field inspection carried out in January 2015 revealed that the Contractor was not on site and no external toilets had been constructed while landscaping works was incomplete. No explanation has been provided for payment of work not done.

320. Construction of Voi Pool Housing

The Ministry entered into a contract with a construction company for proposed completion of Voi Pool Housing on 1 December 2012 at a contract sum of Kshs.747,290,699.13 with the expected completion date being 30 November 2014. According to the status report availed for audit review, the works were 37% complete and while total payments stood at Kshs.81,995,983.25. However, a site visit of the project in August 2014 revealed that the project had stalled and the Contractor was not on site.

321. Construction of Voi Teachers Training College

The Ministry through the department of works entered into a contract with a construction company for the construction and rehabilitation of Voi Teachers Training College on 8 May 2012 at a price of Kshs.410,916,017.00. Available information revealed that during the year, the Ministry paid Kshs.92,059,164.00 bringing the total cumulative payments to Kshs.255,006,760.00. However, audit inspection carried out in August 2014, revealed that the contractor had abandoned the site before the works were complete and the project had stalled. No evidence has been provided to show that the performance guarantee had been recalled and discharged against the uncompleted works. Further, the college has now been turned into a constituent college of Jomo Kenyatta University College of Technology. No evidence has been provided for any compensation made to the Ministry.

322. Rehabilitation Works on Selected Roads in Gikomba

The Ministry contracted two construction companies to rehabilitate selected roads in Gikomba at a contract sum of Kshs.570,910,205.00. During the year under review, the Ministry paid Kshs.6,476,164.00 and as at the time of audit in December 2014, the value of work already certified was Kshs.248,422,427.00 which was about 44% of the contract price. However, contract documents and bills of quantities for both companies were not made available for audit review. In the absence of contract documents, it has not been possible to confirm that the works were competitively sourced. Further, no progress reports were availed for audit review.

323. Supply, Installation, Testing and Commissioning of an Integrated Urban Surveillance System for Nairobi Metropolitan Areas (CBD)

Available information shows that the Ministry awarded a contract for supply, installation, testing and commissioning of an integrated urban surveillance system for Nairobi Metropolitan Region (CBD) vide contract No. MONMED/39/2011/2012. During the year under review, the Ministry paid a total of Kshs.138,831,219.95 to the company. However, contract documents, Bill of Quantities and progress reports have not been provided for audit review. Consequently, it has not been possible to confirm how the company was identified for award.

324. Consultancy Services for Aerial Survey and Mapping of Nairobi Metropolitan Region

The Ministry contracted a company to carry out consultancy services in aerial survey and mapping of Nairobi Metropolitan Region at a contract of Kshs.396,186,400.00. During the year under review, Kshs.56,000,000.00 was paid bringing total payments to Kshs.257,047,400.00. However, the contract document did not indicate the date the contract was signed. Further, the consultancy report was not availed for audit review.

325. Consultancy Services for Preparation of Spatial Planning Concept for Nairobi Metropolitan Region

M/S Consulting Engineering Services (India) private limited was paid a total of Kshs.14,066,310.80 vide Payment Voucher No. 123 of 25 March 2014, being final payment for preparation of spatial planning concept for Nairobi Metropolitan Region. However, tender documents, tender evaluation minutes and contract agreement have not been availed for audit review. In the absence of the documents, it was not possible to confirm how the firm was identified and whether it was competitively sourced. Further, no documentary evidence of work done in the form of a report has been provided for audit verification.

326. Economic Stimulus Projects (ESP)

During the year under review, the Ministry incurred expenditure totalling Kshs.472,581,005.00, being cost of construction of Economic Stimulus Projects (ESP) markets. Audit inspection in September 2014 revealed that most of the markets were incomplete and those which had been completed were not in use. The markets visited are Watamu market - Malindi, Kongowea Market - Mombasa,

Karatina Market - Nyeri, Kamakwa Market - Nyeri, Kericho Market, Kedowa Market, Kericho and Kaplong Market, Bomet and Kajiado market.

Further, review of records maintained at Kajiado Public Works Office show that construction of the market was complete and a certificate of practical completion issued by the Olkejuado County Council and Ministry of Public Works (Kajiado) dated 2 August 2012 and 4 July 2012 respectively after full payment including retention money. However, during a site visit it was observed that the project was incomplete although work was going on after the County Government took over while the structure appeared vandalized. Further, the roofing structure appeared too weak to withstand strong winds and no civil works, electrical wiring and fencing had been done.

327. Non-compliance with Procurement Procedures

Examination of the Ministry's payment vouchers for the year under review revealed that goods costing Kshs.21,714,986.00 were received and inspected by less than four members and in other instances, no inspection reports were attached or provided for audit review contrary to Section 16(2) of the Public Procurement and Disposal (Amendment) Regulations, 2013 which stipulates that a Tender Processing Committee shall consist of a chairman and at least three other members appointed by the Accounting officer of the procuring entity. The regulations further provide that all goods, services or works must be inspected by the committee. Consequently, it has not been possible to confirm whether the goods were actually delivered and if they satisfied the requirements of the users/requisitioning persons. Also, no explanation has been given for non-compliance with procurement regulations.

328. Construction and Maintenance works

a) Plumbing, Drainage & Water Reticulation

During the period under review, a firm was awarded the plumbing works at Robert Ouko estate at a contract sum of Kshs.1,475,995.00. However, no quotations were sent to pre-qualified firms for such services. Further, we could not confirm whether the firm appointed was amongst the pre-qualified firms.

b) Repair and Redecorate House Nos. MG 226 & MG 214

A firm was awarded a contract to repair and redecorate house No. MG 226 on 2 April 2014. A certificate of practical completion was issued by the County Director on 3 May 2014. The Inspection and Acceptance Committee found out that all work done was approximately 90% but recommended that the contractor be paid the entire sum including retention fee which was totalling Kshs.2,520,325.00. Engineer's estimates and quotations were not availed for audit verification.

M/s Metabella was paid Kshs.2,005,426.00 for repair and redecorations of House No. MG 124 at Robert Ouko Estate. No engineer's certificate and Inspection and Acceptance Committee report were availed for verification.

c) Reconstruction of Burnt Apartments

A construction firm was awarded a contract to reconstruct burnt apartments at an estate at a contract sum of Kshs.2,000,000.00. The work had been completed and a certificate of completion was issued by the District Works Officer, Kisumu East. However, our physical verification revealed that the roofs were leaking, ceiling painting was peeling off, water pipes and waste pipes were not properly fitted.

d) Supply of Building Materials

Two firms were paid Kshs.987,309.00 through voucher Nos 05 and 06 of 17 April 2014 for supplying building materials for modelling and exhibiting the interlocking spars. There was no allocation for such expenditure as per the AIEs, as other infrastructure and civil works where the expenditures were charged cannot be defined as modelling and exhibitions. The payments were made without confirming whether the goods were indeed taken on charge since form S13 was not attached to the vouchers.

In the foregoing circumstances, we could not confirm the expenditure was a proper charge to public funds.

REVENUE STATEMENT

Basis for Adverse Opinion

329. Revenue Paid to Exchequer

The revenue statement reflects revenue totalling Kshs.2,111,588,638.00 paid to the Exchequer which includes Kshs.896,473,470.00 remitted by the Ministry of Lands, Housing and Urban Development, and Kshs.1,215,114,692.00 paid directly by Kenya Revenue Authority. However, records at the Controller of Budget indicates total receipts of Kshs.1,587,972,620.25. No reconciliation or explanation has been provided for the difference of Kshs.523,616,017.75 between the two sets of records.

330. Revenue Collected by Kenya Revenue Authority

The revenue statements in addition reflects collection and remittances made directly by Kenya Revenue Authority (KRA) to the National Treasury during the year totalling Kshs.1,215,114,692.00. However, as reported in the previous year, agency agreement between the Ministry of Lands, Housing and Urban Development was not availed for audit confirmation of the specific terms and conditions of the agreement.

331. Appointment of Receiver of Revenue

The Public Finance Management Act 75(1) states that the Cabinet Secretary in charge of the National Treasury shall appoint a Receiver of Revenue in the relevant Ministry in writing detailing the items, terms and amount of collection. However, the letter appointing the Cabinet Secretary, Ministry of Lands, Housing and Urban Development as receiver of revenue by Treasury has not been availed for audit review.

332. Understatement of Revenue

Note 8 reflects actual collection of Rent of Government Buildings and Housing of Kshs.304,410,204.00 during the year while the schedules from the Housing Directorates (estates) show a balance of Kshs.442,568,031.00. No explanation or reconciliation has been provided for the variance of Kshs.138,157,827.00 in the revenue statement for the year ended 30 June 2014.

333. Arrears of Revenue

The statement of revenue for the year ended 30 June 2014 does not reflect arrears of revenue and revenue abandoned as at 30 June 2014, as required by Public Finance Management Act, 2012 Section 82 (2) b and Public Audit Act Section 5.2 (b).

Consequently, it has not been possible to establish the status of arrears of revenue outstanding as at 30 June 2014 in the Ministry of Lands, Housing and Urban Development records.

334. Revenue Collection

The Revenue statements reflect total revenue collected of Kshs.2,103,528,136.00 during the year, while the cashbook shows an amount of Kshs.2,045,082,125.00. No explanation or reconciliation has been provided for the difference of Kshs.58,446,011.00.

AGRICULTURAL SETTLEMENT FUND TRUSTEES

Basis for Disclaimer of Opinion

335. Financial Position

During the year ended 30 June 2014, the Fund recorded a loss of Kshs.2,269,565,714.80 compared to a profit of Kshs.25,724,394.87 in the previous year. The Fund was unable to meet its long term maturing loan of Kshs.362,251,617.65 as at 30 June 2014. Consequently, the continued existence of the Fund as a going concern will depend on the support of the Government.

336. Presentation of the Financial Statements

As similarly reported in the previous year, the financial statements do not include the reporting framework used to prepare the financial statements, the accounting policies and principles applied, a statement of cash flows, statement of changes in net assets and non-current assets movement schedule contrary to the requirements of International Public Sector Accounting Standards. No explanation has been given for failure to include or disclose the information and as a result of which the accuracy, completeness and understandability of Fund's financial statements for the year ended 30 June 2014, is doubtful.

337. Fixed Assets

The Fund's balance sheet as at 30 June 2014 reflects a balance of Kshs.6,536,423,549.64 against total fixed assets. The balance sheet also reflects sale of fixed and loose assets of Kshs.2,944,774.60. However, no fixed assets register was maintained for these assets during the year.

The balance sheet also reflects a balance of Kshs.6,477,326,809.30 (2012/2013 Kshs.6,470,704,107.40) against land purchase – purchase of properties. In addition, the balance sheet shows Kshs.130,000,000.00 also relating to purchase of properties that has remained constant since 2006/2007 to date. However, no records and analyses have been provided to support these balances and the details of the properties purchased.

The balance sheet further reflects a balance of Kshs.194,214,407.35 as Land on Hand. However, ownership documents have not been made available for audit verification. In addition, no information has been provided to show details on acreage, location and valuation of the land. It was therefore not possible to confirm ownership, existence and value of land on hand as shown in the balance sheet as at 30 June 2014.

338. Loans

The balance sheet reflects under current assets and long term liabilities the following loan balances for which loan registers and other related records were however, not provided for audit review.

Loan	Amount (Kshs)
(Current Assets)	
Land loan issued	280,142,463.00
Development loan issued	231,832,876.00
Rescue loan issued	550,018.00
Land loans principal billed	(546,553,233.00)
Development Loan Principal Billed	(189,027,523.00)

The existence and accuracy of these balances could not be confirmed as at 30 June 2014 due to lack of loan registers and other related records.

339. Unanalysed Balances

The balance sheet further reflects various balances under current assets, current liabilities and equity which were not analysed as detailed below;

Current Assets	Amount (Kshs)
Cane Development costs - suspense	(5,139,966.00)
Other Recoverable expenses	9,820,460.00
Other Debtors – Debtors general	32,349,237.00
Trade investment	59,263,386.00
Advances	10,563,917.00
Suspense Debit items	64,507,005.00
Agency Accounts (Debits)	257,000.00
Imprests	9,216,692.00
Current Liabilities	
Suspense – Credit Items	115,955,027.00
Reserve for Bad debts	6,602,797.00
Provisions	11,675.00
Deposits	82,652,942.00
Other Creditors	3,150,139.00
Clearance Account (Credits)	2,034,239.00
Funds drawn from Treasury	5,153,814.00
Agency Accounts (Credits)	41,850.00
Long Term Liabilities	
Loans Received	362,251,618.00
Loan Redemption	(345,891,522.00)

In the absence of supporting analyses, it was not possible to ascertain the existence, accuracy and validity of these balances.

340. Equity

The balance sheet reflects under equity, balances of Kshs.1,733,741.20 and Kshs.9,387,003,084.35 against revolving fund-seasonal loans and land purchase grant respectively. However, the balances have not been supported with any records, documents or analyses. Consequently, the completeness, validity and accuracy of the balances could not be confirmed.

CIVIL SERVICE HOUSING SCHEME FUND

Basis for Qualified Opinion

341. Cash and Bank Balance

The statement of financial position as at 30 June 2014 reflects cash and cash equivalents of Kshs.1,807,274,018.48 while the Operational Account and Funds Deposits Account show a total balance of Kshs.1,524,480,167.19. The resultant difference of Kshs.282,793,851.19 has not been explained or reconciled. Further, the bank reconciliation statement contains long outstanding balances of payments in cash book not in the bank statement totalling to Kshs.6,863,091.00 and receipts in bank statement not in cash book totalling Kshs.24,687,863.20. It is not clear why the management have not acted on the above receipts and payments that have been outstanding for a considerable period of time. Under the circumstances, it has not been possible to confirm that cash and cash equivalent balance of Kshs.1,807,274,018.48 as at 30 June 2014 is fairly stated.

342. Investment Property

The statement financial position as at 30 June 2014 reflects a balance of Kshs.948,682,911.65 against investment property. However, ownership documents for the property and records or analysis in support of the balance were not made available for audit verification. In the circumstances, it has not been possible to confirm the ownership status of the investment property and that the investment property balance of Kshs.948,682,911.65 is fairly stated as at 30 June 2014.

KENYA SLUM UPGRADING, LOW COST HOUSING AND INFRASTRUCTURE TRUST FUND (KENSUF)

Basis for Adverse Opinion

343. Opening Balances

The financial statements of the Fund reflect several opening balances which differ from the corresponding closing balances reflected in the audited financial statements for the year ended 30 June 2013 as shown below:-

Item/Account	Closing Balance	Opening Balance	Difference
	<u>2012/2013</u>	<u>2013/2014</u>	
The Surplus 214,519,271.00	82,376,212.00	296,895,483.00	
Revaluation Reserve 82,376,212.00	Nil	82,376,212.00	
Deferred Income 79,014,560.00	79,014,560.00	Nil	

The Accounting Officer has not provided explanation or reconciliation for the variances. In the circumstances, it has not been possible to ascertain the validity and accuracy of the figures in these financial statements.

344. Unsupported Balance

The statement of financial position reflects suspense account balance of Kshs.12,922,149.00 whose analysis or support documents have not been provided for audit review. In the circumstances, it has not been possible to confirm the validity and accuracy of the balance.

STORES AND SERVICES FUND

Basis for Disclaimer of Opinion

345. Loss on Disposal of obsolete items

The Statement of Assets and Liabilities reflects Unsettled Losses Account Balance of Kshs.221,997,145.99 which includes a brought forward figure of Kshs.145,375,999.30. Further, the Unsettled Losses Account balance of Kshs.221,997,145.99 includes Kshs.7,333,214.30 relating to the year 2011/2012 and which represents losses on disposal of obsolete and non-moving items and donations of obsolete items to health institutions. However, no loss report in respect of these losses has been availed for audit review. Consequently, the completeness, accuracy and validity of the amount as reflected in the statement could not be ascertained.

346. Presentation of financial statements

The Financial Statements on Stores and Services Fund for the year ended 30 June 2014 have not been prepared according to International Public Sector Accounting Standards (Cash Basis) contrary to the provisions of the Public Sector Accounting Standards Board. Consequently, the Ministry is in breach of the law.

347. Unrecovered Debts

As similarly reported in 2012/2013, the Statement of Assets and Liabilities reflects Debtors Account debit balance of Kshs.64,738,834.29, out of which an amount of Kshs.64,069,466.44 relates to 2012/2013 and earlier years. It has not been possible to confirm whether or when the Fund will recover these debts. Any provision that would have been necessary in relation to this uncertainty has not been incorporated in these financial statements. As a result, the valuation, accuracy and collectability of the debtors' balance of Kshs.64,738,834.29 as at 30 June 2014 could not be ascertained.

348. Unconfirmed Balances

The Statement of Assets and Liabilities also reflects Supplies Branch Suspense and PMG Accounts debit and credit balances of Kshs.482,983,865.58 and Kshs.844,003,800.33 respectively, for which as in the previous years, supporting analyses were not availed for audit review. Consequently, it has not been possible to ascertain the validity, accuracy and completeness of the balances reflected in these financial statements.

349. Unsupported Balance

The Statement also reflects a Mark-up Suspense credit balance of Kshs.46,574,470.89 as at 30 June 2014 which has had no movement for the last four years and whose supporting analysis has not been availed for audit review.

350. Unreconciled Cash and Bank Balance

The Statement of Assets and Liabilities reflects Cash and Bank balance of Kshs.3,016,532.05. However, no bank reconciliation statement was availed for audit review. Further, balance of Kshs.3,016,532.05 differs with the cashbook balance of Kshs.1,527,861.35 resulting to unreconciled/explained variance of Kshs.1,488,670.70. Consequently, the validity and accuracy of the cash and bank balance of Kshs.3,016,532.05 as at 30 June 2014 could not be confirmed.

351. Unreconciled Stores Deficiency Balance

The financial statements also reflect Stores Deficiency balance of Kshs.130,302,958.04 while the Trial Balance reflects a balance of Kshs.128,825,953.00, resulting to unreconciled/unexplained difference of Kshs.1,477,005.04.

352. Unexplained Difference

The Trial Balance as at 30 June 2014 reflects Receipts Inter-Stores Account debit balance of Kshs.595,346,515.10 while Issues Inter-Stores has a nil credit balance. No explanation has been provided for the difference of Kshs.595,346,515.10 between the two sets of records.

353. Unsupported Balances

Further, the financial statements reflect a balance of Kshs.109,984,495.31, being main store Closing stock . However, stock sheets in support of the balance were not availed for audit review, hence it has not been possible to ascertain or confirm the correctness of the closing stock balance of Kshs.109,984,495.31 as at 30 June 2014.

354. Unreconciled Difference

The Statement also reflects creditors balance of Kshs.16,352,862.95 while the Trial balance shows a figure of Kshs.16,340,260.00. The difference of Kshs.12,602.95 between the two sets of records has not been explained.

TOWNSHIP ROADS AND DRAINS ACCOUNT

Basis for Disclaimer of Opinion

355. Statement of financial position

The statement of financial position as at June 2014 reflects cash and cash equivalents balance of amounting to Kshs.276,155.00. However, the balance is not supported by verifiable documents such as cash book, board of survey report and bank certificate. As a result the accuracy and existence of this balance could not be confirmed as at 30 June 2014.

356. Previous year Audit matters

In the Audit reports for 2012/2013 and prior years, reference was made to unsupported book entry of Kshs.361,196,634.45 dated 30 September 2005 used to clear accumulated deficit of Kshs.345,585,533.65 against Township Roads and Drains Account as at 30 June 2004. Available information indicates that the Treasury in January 2012 declined to grant the Ministry authority to write off the deficit. No explanation has been given on why the ministry cleared the balance without Treasury authority as required by Public Financial Management Act, 2012.

DONOR FUNDED PROJECTS

KOROGOCHO SLUM UPGRADING PROJECT - KENYA/ITALY DEBT FOR DEVELOPMENT SWAP PROGRAMME (CREDIT No. CN/1246)

Basis for Qualified Opinion

357. Acquisition of Non-Financial Assets

Documents availed for audit review indicated that a contract for rehabilitation of roads in Korogocho Slum, Nairobi, was awarded to a Company at a cost of Kshs.183,636,646.00. The commencement date is indicated as December 2012 with a completion date shown as 30 June 2014. During the year under review, a

total of Kshs.61,405,794.80 was incurred on the project resulting to total payments of Kshs.111,973,384.75 as at June 2014. However, physical inspection in the month of July 2014 revealed that the work was incomplete. No evidence has been provided for extension of contract period. Further, it was noted that the performance security issued by the contractor expired on 21 May 2014. There is no evidence that the contractor has been requested to replace the performance guarantee. In the absence of Performance Security bond, the Government may not be compensated in the event the Company fails to complete the work.

LAND REFORM SUPPORT PROGRAMME (GRANT NO.A3100253) -

Basis for Qualified Opinion

358. Bank Balances

Note 8.12A to the financial statements reflect bank balances of Kshs.35,471,376.00. However the amount is not supported with bank confirmation certificate as the management explained that the amount is consolidated with the former Ministry of Lands Development main account. The consolidation is contrary to Article 10 of the Specific Agreement between Sweden and the Government of Kenya which states that Sweden funds shall be deposited in a specific ring-fenced account at the Central Bank. In the circumstances, it has not been possible to confirm the validity and accuracy of the bank balance of Ksh.35, 471,376.00 as at 30 June 2014.

359. Termination of the Project Agreement

Documents availed for audit review indicated that the Donor has given notice of termination of the Agreement dated on 26 March 2014 and to have all the unutilized funds reimbursed to the donor. Although the management has explained that the parent Ministry has been in Consultation with the Embassy of Sweden in Kenya seeking extension and that the matter has not been concluded, if strategies are not put in place to conclude the matter in the shortest time possible, the Government may have no alternative but to refund the unutilised funds hence the Project will end up not achieving its cardinal objective of ensuring efficient, sustainable and equitable use of land for prosperity and posterity in Kenya.

KENYA MUNICIPAL PROJECT (IDA No. 4714-KE)

Basis for Qualified Opinion

360. Supply and Installation of Gully Pot and Manhole Frames and Covers in Nyeri

During the year under review, the project management awarded a contract for the Supply and Installation of Gully Pot Manhole Frames and Covers in Nyeri town to a local contractor at a contract sum of Kshs.87,664,262.00. The Contractor

completed the works and handed over the project and also received retention money. However, during audit inspection of the project, it was noted that some drainage holes were not repaired as per the contract and the grating and manhole frames had started to break and were displaced from the original position due to weak concrete structure. Further, physical verification of the footpaths revealed that the slabs used had already started to crumble due to weathering conditions and use of poor materials. In the circumstances, it was not possible to confirm whether the beneficiaries got the value for their resources and that the expenditure of Kshs.87,664,262.00 was effectively and efficiently utilized.

361. Outstanding Imprests

Information availed for audit review indicated that imprest amounting to Kshs.9,169,384.00 was outstanding from various staff and other officers at as 30 June 2014. Some of the outstanding imprests were due from senior state officers and public servants among other staff who are not employees of the project implementer and date back to the financial year 2011/2012. Further, imprest totalling Kshs.6,200,295.00 was due from eleven staff and other public officers and was ranging from Kshs.227,375.00 to Kshs.3,267,000.00. Failure to surrender imprest is contrary to the National Treasury circular No.14/2013 dated 19 November 2013 which requires imprest to be surrendered or accounted for within 48 hours following return from official journey and Section 71(2) of Public Financial Management Act, 2012. The management was therefore in breach of the law.

KISUMU URBAN PROJECT- CASH ADVANCE ACCOUNT-AFD AGREEMENT NO.CKE1035.01.G– KISUMU COUNTY

Basis for Adverse Opinion

362. Presentation of Financial Statements

The Kisumu Urban Project did not comply with the standards and templates contained in the gazette pronouncements issued by the Public Sector Accounting Standards Board in the preparation and presentation of the financial statements, contrary to the Public Financial Management Act, 2012.

363. Over Expenditure on Traveling and Subsistence

As disclosed in Note 2 to the Financial Statements, the project incurred expenditure of Kshs.2,004,362.00 on travelling and subsistence against a budgetary allocation of Kshs.1,500,000.00 leading to an over expenditure of Kshs.504,362.00 (34%) of which no donor approval for reallocation was availed.

364. Balance Brought Forward – Surplus

The surplus of Kshs.3,509,574.00 of the year 2012/2013 was brought forward in the year under review as Kshs.3,461,116.00 resulting to unexplained variance of Kshs.48,458.00.

MINISTRY OF INFORMATION, COMMUNICATIONS AND TECHNOLOGY

FINANCIAL STATEMENTS FOR VOTE 112

Basis for Qualified Opinion

365. Double Payment for Goods and Services

Included under Note 7 on use of goods and services balance of Kshs.805,929,232.00 are payments totalling Kshs.84,702,053.00 to six (6) suppliers for various goods and services. Scrutiny of the payment vouchers revealed that the same goods and services had been paid for by Office of the President, Cabinet Office. This amounts to double payment. It is not clear and the Ministry has not explained why it did not consult Office of the President before making the payments. The details of Kshs.84,702,053.00 are as shown below.

PVNO	DATE	DETAILS	AMOUNT KSHS
026	20.01.14	Installation of LAN in Isiolo, Marsabit and Moyale counties	40,420,919.00
041	31.12.13	Provision of consultancy services on ICT training policy and ICT training strategy	4,211,380.00
066	27.11.13	Providing training on Inform. Technology Infrastructure Library (ITL)	5,280,227.00
067	27.11.14	Providing training on computer Forensic analysis Investigation and incident response	2,285,548.00
020	23.12.14	Being Payment for Installation of LAN in Trans-Nzoia, west Pokot, Turkana counties	30,768,979.00
032	24.02.14	Clearance of goods for the E-Government	1,735,000.00
Total			84,702,053.00

The payment of Kshs.84,702,053.00 is therefore irregular.

366. Referred to Drawer Cheques

The statement of assets as at 30 June 2014 as disclosed in Note 12C reflects a balance of Kshs.22,739,209.00 under cash equivalents (short term deposit). Included in this amount is Kshs.5,931,500.00 being Referred to Drawer Cheques whose analysis was not availed for audit review. In the circumstances, it has not been possible to confirm the accuracy and correctness of the cash and cash equivalent balance of Kshs.22,739,209.00 as at 30 June 2014.

367. Salary Advance

The statement of assets as at 30 June 2014 as disclosed in Note 12D reflects a balance of Kshs.370,467.00 which excludes advances totalling Kshs.279,872.00 issued to various officers. No satisfactory explanations were provided for the above omission. In the circumstances, it has not been possible to confirm the accuracy of the salary advance figure of Kshs.370,467.00 as at 30 June 2014.

368. Imprests

The statement of assets as at 30 June 2014 reflected outstanding imprest as Kshs.69,730,362.00. However records availed for audit review reflected an amount of Kshs.69,938,612.00 resulting to unexplained balance of Kshs.208,250.00. In the circumstances it has not been possible to confirm the accuracy of the outstanding imprest figure of Kshs.69,730,362.00 for the year ended 30 June 2014.

369. General Account of Vote – Long Outstanding Balance

The statement of provisions as at 30 June 2014 reflects a balance of Kshs.722,956,922.00 which relates to 2012/2013 and earlier years, no explanation has been provided for non-clearance of the outstanding balance of Kshs.722,956,922.00 as required by Treasury Circular AG.17/011/Vol 5/153 dated 16 June 2009.

370. Exchequer Account

The statement of provisionings reflect a balance of Kshs.560,084,117.00 in respect of Exchequer Account which relates to 2012/2013 and earlier years. No explanation has been given for non-clearance of these balances, as per Treasury Circular Ag.17/011/Vol 5/153 dated 16 June 2009.

REVENUE STATEMENT

Unqualified Opinion

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

MINISTRY OF SPORTS, CULTURE AND ARTS

FINANCIAL STATEMENTS FOR VOTE 113

Basis for Qualified Opinion

371. Pending Bills

Records maintained by the Ministry indicate that bills totalling Kshs.143,967,837.30 relating to 2013/2014 and chargeable to Vote 113 for both Recurrent and Development accounts were not settled during the year but were instead carried forward to 2014/2015. Had the bills been paid and the expenditure charged to the accounts for 2013/2014, the statement of receipts and payments for the year would have reflected a surplus of Kshs.43,145,508.00 instead of surplus of Kshs.187,113,344.00 now shown a part from distorting the budget allocation for 2014/2015.

372. Prior Year Adjustments

The Statement of Assets as at 30 June 2014 reflects a figure of (Kshs.21,519,540.00) in respect of prior year adjustments without providing historical summaries to explain the nature of the errors or the particular line items in the financial statements that were affected by such errors and the year the errors occurred.

373. Un-cleared Prior Year Balances

- (i) The Statement of Assets and Liabilities for the former Ministry for State for National Heritage and Culture reflects debit and credit balances totaling Kshs.1,387,734.80 and Kshs.16,138,526.60 respectively relating to 2011/2012 and earlier years which had not been cleared as at 30 June 2014.

No satisfactory explanation has been provided for non-clearance of the long outstanding balances.

- (ii) The Statement in addition reflects a District Suspense Account debit balance of Kshs.5,259,806.70 which apart from being unanalyzed also differs with the ledger balance of Kshs.2,461,857.25. The resultant difference of Kshs.2,797,949.45 between the two (2) sets of records has not been explained or reconciled.
- (iii) The Statement of Assets and Liabilities for the former Ministry for State for National Heritage and Culture reflects various debit and credit balances totalling Kshs.20,678,225.05 and Kshs.12,673,874.15 respectively relating to 2011/2012 and earlier years which had not been cleared as at 30 June 2014. No explanation has been provided for failure to clear these long outstanding balances from the Ministry's books of account.

- (iv) The Statement of Assets and Liabilities for the former Ministry for State for National Heritage and Culture in addition show that Kshs.9,168,111.85 in respect of General Account Vote, relating to 2010/2011 was indicated as cleared in the year 2013/2013. No verifiable audit evidence has been provided to support the clearance.
- (v) The Statement further reflects under assets a balance of Kshs.5,000,000.00 against "Deficient AIA". This balance has not been supported with analysis and documentary evidence.

In view of the foregoing, management has explained that the Director General/Accounting Services had formed a task force to advice on how the prior year balances could be cleared off. However, the report of the task force which was to be completed by 28 February 2015 has not been made available for audit review.

MINISTRY OF LABOUR SOCIAL SECURITY AND SERVICES

FINANCIAL STATEMENTS FOR VOTE 114

Basis for Qualified Opinion

374. Under-Collection of Revenue

The financial statements for the year ended 30 June 2014 reflects an under collection of revenue by Kshs.368,807,869.00. This represents 77% of the gross estimates of Kshs.474,439,480.00. The under collection of revenue was attributed to failure to receive budgeted funds for a project funded by a Korean and also budgeted revenue from National Industrial Training Authority (NITA). However, details of the actual under collection under each item were not provided for audit review.

No explanation, has been provided on how the Ministry plans to mitigate the under-collection to ensure provision of unplanned services.

375. Unsupported Grants Transfers

The financial statements reflect an amount of Kshs.31,201,554.00 as having been disbursed by the Ministry to the National Council for Children Services as at 30 June 2014. However, banking records available in respect of grants and transfer indicate a total amount of Kshs.53,300,000.00 as having been transferred during the year ended 30 June 2014.

No explanation has been provided for the difference of Kshs.22,098,446.00 omitted from the financial statements as at 30 June 2014.

376. Inaccurate Opening Balances

The opening balances brought forward for both the former Ministry of Labour and Ministry of Gender Children and Social Development differed from the 2012/2013 audited financial statements as detailed below:

Item	2013/14 Opening F/S balance (Kshs.)	Combined 2012/13 closing balances for both Ministries (Kshs.)	Difference (Kshs)
Refurbishment of Buildings	72,820,683.00	66,581,439.00	6,239,244.00
Construction & Civil Works	10,251,312.00	8,966,770.00	1,284,542.00
Purchase of Household and Institutional Equipment	2,848,288.00	1,200,000.00	1,648,288.00
Purchase of Office Furniture & General Equipment	43,246,684.00	34,470,771.00	8,775,913.00

Research Studies, Project

Preparation, Design & Supervision -	<u>73,979,736.00</u>	<u>70,778,871.00</u>	<u>3,200,865.00</u>
Total	<u>203,146,703.00</u>	<u>181,997,851.00</u>	<u>21,148,852.00</u>

The differences totalling Kshs.21,148,852.00 have not been reconciled or explained as at 30 June 2014.

377. Non Compliance with IPSAS

The financial statement presented for audit include a statement of assets and liabilities contrary to the requirement of the International Public Sector Accounting Standards (IPSAS) which requires only a statement of assets to be prepared. Further, the statement does not include a Summary Statement of Provisioning in accordance with the IPSAS Cash Basis.

378. Incorrect Opening Balances

The opening balances in the statement of assets and liabilities for the year ended 30 June 2014 differ with the closing balances reflected in the audited financial statements as at 30 June 2013 as follows.

Account	Audited closing balance as at 30 June 2013 - Kshs.	Reported Opening balance as at 1 July 2013 – Kshs.	Variances Kshs.
Bank Balance	928,331,963.80	252,484,903.00	675,847,060.80
Outstanding Imprests	6,900,149.90	6,959,860.00	(59,710.10)
Receivables	3,829,195,753.30	1,568,830,615.00	2,260,365,138.30
Payables	4,499,488,617.35	333,163,776.00	4,166,284,841.35
Total	9,263,916,484.35	2,161,439,154.00	7,102,437,330.35

No explanation or reconciliations have been provided for the wrong opening balances brought forward.

379. Omission of Opening Balances

The Ministry of Labour Social Security and Services reported financial assets amounting to Kshs.1,828,275,378.00 being the opening balances for the financial year 2013/2014. However, the balance excluded advances amounting Kshs.1,685,701.75.

No reasons have been given for the omission.

380. Fund balance brought forward

The statement of assets shows a balance of Kshs.1,604,948,072.00 as the net financial position for the year 2012/2013, however the balance differs with the net financial assets balance of Kshs.1,495,111,602.00. In addition, the fund balance brought forward of Kshs.1,382,115,898.00 differs with the 2012/2013 net financial position closing balance of Kshs.1,604,948,072.00.

No explanation or reconciliation has been provided for the differences.

381. Accounts Payables

The statement of assets and liabilities reflects payables closing balance of Kshs.333,163,776.00 for the year ending 2012/2013. The financial statements as at 30 June 2014 reflect a closing balance of Kshs.81,499,211.00 indicating that there were transactions totalling Kshs.251,664,565.00 during the year under review.

No analyses have been provided in support of the transactions totalling Kshs.251,664,565.00 during the year ended 30 June 2014.

382. Outstanding Imprest

The statement of assets and liabilities reflects outstanding imprests balances of Kshs.7,565,924.00 which had not been surrendered or accounted for as at 30 June 2014. Out of these imprests balances, Kshs.5,302,7742.00 had been recovered by 23 March 2015 leaving a balance of Kshs.2,263,150.00 outstanding.

Further, some officers were issued with additional imprests amounting Kshs.1,466,400.00 before surrendering previous imprests contrary to Government Financial Regulations and Procedures.

DONOR FUNDED PROJECTS

CASH TRANSFER FOR ORPHANS AND VULNERABLE CHILDREN PROGRAMME (IDA CREDIT NO. 4553-KE AND GRANT NO.TF097272)

Basis for Disclaimer of Opinion

383. Financial Statements not in accordance with the financing agreements

Section 2.07 of the Standard Conditions for Grants made by the World Bank out of various funds requires financial statements to be prepared in accordance with consistently applied accounting standards acceptable to the World Bank and in accordance with the provisions of the Grant Agreement. However, the financial statements under review combined both the Grant No.TF097272 and the IDA Credit Agreement No.4553 and their related expenditures. Further, grant receipts are shown as counterpart funding in the statement of receipts and payments and Note 8.2 while in Note 7 – it is shown as funds from DIFD. In addition, the cumulative Project receipts are shown as Kshs.77,376,161,566.00 instead of Kshs.7,376,161,566.00 in the statement of receipts and payments.

Under the circumstances, it has not been possible to confirm and relate the receipts and expenditures to their financing agreement and the combined financial statements do not meet the respective donor requirements.

384. Unexplained differences between the trial balance and the financial statements figures

The statement of receipts and payments reflects a figure of Kshs.2,458,200.00 under compensation of employees while the trial balance reflects a figure of Kshs.3,155,100.00 under the same item. The resultant difference of Kshs.696,900.00 has not been explained.

385. Undisclosed Expenditure and Receipts

An audit review of the Project expenditure revealed that an amount of Kshs.9,771,017.00 was on 28 June 2014 paid to a payment service provider for facilitating disbursement of funds to the beneficiaries vide cashbook payment voucher No.0218. However, the payment was not captured in the ledger and therefore was not reflected in the statement of receipts and payments under purchase of goods and services. Further, the Government of Kenya counterpart funds for orphans and vulnerable children are not shown in the project financial statements.

In the circumstances, the statement of receipts and payments as at 30 June 2014 is understated by Kshs.9,771,017.00 and the amount of counterpart funds.

386. Project Disbursement Refunds

The Project ledger reflects a total balance of Kshs.33,394,330.80 in respect of funds issued to two (2) payment service providers for onward disbursement to various beneficiaries. However, by 30 June 2014, the amounts had not been disbursed or refunded to the Project by the payment service providers as required. Further, the amount was not disclosed in either the statement of financial assets or liabilities or in the notes accompanying the financial statements.

387. Amount Withdrawn and Not Claimed

The Special Account Statements shows a figure of USD.9,701,170.66 as amount withdrawn not claimed under IDA Credit No.4553-KE and USD.8,062,311.06 under Grant No.TF097272 all totalling to USD.17,763,481.72. However, analysis of the withdrawals has not been provided for audit verification. Consequently, the accuracy of the withdrawals and the reasons for failure to claim the amounts could not be confirmed.

388. Miscellaneous Receipts

The statement of receipts and payments as at 30 June 2014 reflects Miscellaneous Receipts of Kshs.1,473,721.07 relating to interest received during the financial year under review. However, the amount differs with the bank statements figure of Kshs.1,372,986.09 by Kshs.100,734.98. The difference of Kshs.100,734.98 has not been reconciled or explained. Further, the rate of interest has not been disclosed.

As a result, it has not been possible to confirm the accuracy and completeness of the interest amount earned by the Project.

389. Cash and Cash Equivalents

a) The statement of financial assets and liabilities as at 30 June 2014 reflects bank balances of Kshs.674,359,777.00 while the cashbook and the bank statements reflects Kshs.640,915,946.77 and Kshs.658,986,312.27 respectively. No reconciliation has been provided for the three differing sets of records which should normally be in agreement.

b) An amount of Kshs.34,102,698.00 shown under note 8.9A to the financial statements in respect of foreign currency account balances was not included in the statement of financial assets and liabilities.

c) Outstanding Imprests

Examination of imprest records in respect of the Cash Transfer for Orphans and Vulnerable Children revealed that imprests totalling Kshs.2,215,112.00 had not been surrendered as at 30 June 2014. The outstanding balances have also not been disclosed in the statement of financial assets and liabilities as at 30 June 2014.

In view of the foregoing, the cash and cash equivalent of Kshs.674,359,777.00 could not be confirmed as at 30 June 2014.

390. Statement of Comparative Budget and Actual Amounts

The Development Revenue and the approved estimates shows total expected receipts of Kshs.2,092,045,672.00 while the statement of comparative budget and actual amounts submitted for audit reflects Kshs.1,979,726,673.00, resulting to an unexplained difference of Kshs.112,318,999.00.

391. Pending Bills

Note 8.10 to the financial statements shows pending bills balance of Kshs.3,006,965.00 in respect of purchase of goods and services. However, no explanation has been given for failure to settle the bills and the nature of goods and services procured.

392. Data Integrity

The Project Information Technology (IT) environment had internal control weaknesses attributed to lack of IT policies and procedures, business continuity plans, segregation of duties, undocumented system on availability, security and confidentiality of management information system. In the circumstances, it was not possible to confirm the reliability of the IT system.

393. Exit and reinstatement to the program

A sample collected from World Bank payrolls return for May-June 2013 cycle indicates that fifteen (15) households did not collect their disbursements of Kshs.240,000.00 and by September-October 2013 cycle, they had already been removed from the payroll. However, a review of the May-June 2014 payroll cycle revealed that nine (9) of these households were reinstated back without being vetted again as required, and collected Kshs.68,000.00. The legality and accuracy of the payments of Kshs.308,000.00 could not be confirmed as at 30 June 2014.

394. Underpayments to beneficiaries

A sample drawn from payments database made through Equity Bank revealed underpayments totalling Kshs.1,860,000.00 to various households during the year. No reasons have been given for under paying the beneficiaries nor has the funds been accounted for.

395. Payment made to beneficiaries with no name and /or ID indicated in the payroll

Analysis of the payroll return for the May-June 2014 cycle revealed a total of six (6) caregivers who did not have their names and/or ID appearing in the payroll. Out of these, three (3) collected Kshs.12,000.00. Although after the payment, the reconciled file is loaded to the system and reconciliation done, the officer responsible for reconciliation did not notice the anomaly.

MINISTRY OF ENERGY AND PETROLEUM

FINANCIAL STATEMENTS FOR VOTE 115

Basis of Qualified Opinion

396. Supply, Installation, Testing and Commissioning of 5No., 100m Wind Masts and Data Loggers

The Ministry, during the year under review, commissioned a 20 weeks project for supply, installation, testing and commissioning of five (5) 100m wind masts and data loggers in Garissa, Wajir, Malindi, Narok and Baragoi at a cost of Kshs.38,336,039.00 commencing from 20 January 2014 and to be completed and handed over by 31 May, 2014.

The following irregularities were noted:

- (a) The contract price of Kshs.38,336,039.00 exceeded the Kshs.30,000,000.00 allocated in the 2013/2014 development budget for purchase of the instrumentation and calibration equipment by Kshs.8,336,039.00, contrary to the provisions of Section 26 (3) (a) of the Public Procurement and Disposal Act, 2005.
- (b) Available information indicates that as on 7 April 2014 the contractor had not commenced works. The contractor on 8 May 2014 requested for extension of the contract period by 12 weeks, which was granted by the Ministerial Tender Committee (MTC) on 24 June, 2014, bringing the revised contract period to 32 weeks, up to 31 August 2014. By that time the contractor had been paid a total of Kshs.3,960,749.00, representing 10.3% of the contract sum. It is however unlikely that the contractor would have completed the work by 22 August, given that 91% (29 weeks) of the contract period had already elapsed, while majority of the wind masts and data loggers had not been installed.

397. Employer Contribution to Compulsory Health Insurance Scheme

Included in the statement of receipts and payments compensation of employees expenditure of Kshs.240,077,389.00 and as disclosed in Note 9 to the financial statements is an Employer Contribution to Compulsory Health Insurance Scheme credit balance of Kshs.2,569,449.00. Under the normal circumstances, expenditure items should reflect debit balances. No documentary evidence has been availed to support this credit balance hence, accuracy of the compensation of the employees balance of Kshs.240,077,389.00 could not be confirmed.

398. Proceeds from Foreign Grants and Borrowings

The Statement of Receipts and Payments reflects Proceeds from Domestic and Foreign Grants receipts of Kshs.25,680,865,252.00 which is explained in Note 2 as having been received from various listed multilateral donors. The statement also reflects Proceeds from Borrowings figure of Kshs.2,315,867,414.00. However, the completeness and validity of these income items could not be ascertained in the absence of relevant grant, loan agreements and other relevant documentations.

399. Transfers to Other Government Units

- (i) The Statement of Receipts and Payments also reflects a Kshs.21,058,145,189.00 payment figure described as Transfers to Other Government Units which, according to Note 11 to the financial statements includes an amount of Kshs.2,726,653,120.00 paid to Kenya Power and Lighting Company Ltd (KPLC). However, this amount of Kshs.2,726,653,120.00 could not be traced in the KPLC financial statements as receipts for the year ended 30 June, 2014.
- (ii) Also, the Kshs.21,058,145,189.00 figure includes an amount of Kshs.80,000,000.00 paid to Kenya Energy Environmental Program (KEEP) Fund which is directly administered by the Ministry of Energy (MOE). However, the financial statement prepared and presented for audit for KEEP fund do not reflect receipt of the Kshs.80,000,000.00.

400. District Suspense Account

The Statement of Assets as at 30 June 2014 reflects a District Suspense Account balance of Kshs.11,548,767.00 representing un-accounted for balances of cash (Authority to Incur Expenditure (AIEs) released to Marsabit, Mirangini, Busia, Wajir, Kisii and Lodwar offices of the Ministry. No explanation has been given for failure to recover these amounts from the relevant centre managers.

401. Outstanding Imprests

The Statement also reflects an Imprests balance of Kshs.14,682,001.00 which according to information and documents availed, were accounted for before 30 June 2014, but had not been processed through the accounting system by 30 June 2014. This has in consequence understated the Statement of Receipts and Payments expenditure for 2013/2014 by Kshs.14,682,001.00. The Accounting Officer has not provided justification for this irregularity.

402. Advances

The Statement further reflects an Advances balance of Kshs.1,843,838.00 which is explained in Note 16E to the financial statements as representing unrecovered salary overpayments. However, no reasons have been given for the overpayments and non-recovery of the amounts from the respective officers.

403. Suspense Account

The statement reflects a Kshs.2,318,327,767.00 Suspense Account debit explained under Note 18 to the financial statements, as representing payments recorded in the cashbooks but not entered in the Integrated Financial Management Information System (IFMIS) financial statements. However, documentary evidence in support of these payments was not availed for audit verification. Had the amount been captured in the financial statements of the Ministry, the Statement of Receipts and Payments for the year ended 30 June 2014 would have reflected an unauthorized excess of vote of Kshs.372,619,536.00 instead of the surplus of Kshs.1,945,708,231.00 now shown.

404. Unsupported Balances

The Statement of Assets also reflects a debit Prior Year Adjustment debit balance of Kshs.1,328,047,730.00 which is explained under Note 19 as representing cash and bank balances relating to 2012/2013 and earlier years that are included in the brought forward bank balances but excluded in the opening cash book balances.

No documentation and information has been given for these prior year adjustment balance. Consequently, I am unable to ascertain whether all bank transactions and bank balances during the year were fairly stated.

405. Summary of Statement of Provisioning

- (i)** The Summary Statement of Provisionings reflects General Account of Vote (GAV) Provisioning Account balance of Kshs.17,788,184,218.00 which includes an amount of Kshs.12,291,230,719.00 relating to 2012/2013 and earlier years. No explanation has been provided as to why these long outstanding balances have not been cleared from the books of account.
- (ii)** The summary also reflects a General Account of Vote balance of Kshs.13,898,359,898.00 that includes an amount of Kshs.10,357,527,379.00 relating to 2012/2013 and prior years. This balance is unsupported with documentation and bank reconciliation statements.

406. Non-Financial Assets

- (i)** Annex 5 to the financial statements as at 30 June 2014 shows a summary of Ministry of Energy and Petroleum fixed assets register whose historical costs totalled Kshs.67,692,280,356.00, representing assets acquired in the years 2012/2013 and 2013/2014 of Kshs.35,855,782,258.00 and Kshs.31,836,498,098.00 respectively. The assets acquired in period prior to 2012/2013 have been excluded in these financial statements.
- (ii)** The Ministry did not maintain an assets register of its property, plant and equipment, hence I am unable to confirm existence, ownership and valuation of its assets balances as at 30 June 2014.
- (iii)** Further, it was noted that the Ministry did not have Title Deeds for the parcels of land occupied by Kericho, Kisii, Migori, Bukura, Uashin Gishu, Kitui, Wambugu and Mitunguu Energy Centres. Information available show that the process of acquiring titles for some these lands, such as the 2.5Ha at Wambugu Energy Centre, has been ongoing for a long period of time. I am therefore unable to verify ownership of these properties.

Consequently, in light of the above paragraphs, I am unable to confirm whether the carrying values as stated in the financial statements reflect the fair values of the non-financial assets of the Ministry of Energy and Petroleum as at the Statement of Assets date.

407. Construction of Resource Centre at Mitunguu in South Imenti District

Information available indicates that the Ministry incurred Kshs.44,636,192.00 to construct a resource Centre at Mitunguu Energy Centre, Meru County. The construction work was completed in year 2012/2013 and the site handed over to the Ministry on 25 July, 2013. However, it was noted that throughout the year under review and at the time of audit the site remained idle with only three staff stationed there notwithstanding the budget allocation secured in the subsequent period.

In the absence of elaborate operation plan on utilization of the Centre, it was not possible to confirm viability of this project.

KENYA ENERGY SECTOR ENVIRONMENT AND SOCIAL RESPONSIBILITY PROGRAMME FUND

Basis for Qualified Opinion

408. Unsupported Expenditure

- (i)** The statement of receipts and payments reflect other grants and transfers and payments figure of Kshs.42,952,520.00 which includes an amount of Kshs.4,670,000.00 in respect of grants for scholarships. However records indicate two payments of Kshs.2,500,000.00 and Kshs.2,000,000.00 which were not supported.
- (ii)** Also included in the other grants and transfer and payments is miscellaneous expenditure of Kshs.36,239,263.00 which includes an amount of Kshs.6,000,000.00 in respect to expenditure on environment. The amount of Kshs.6,000,000.00 was however not supported.

Consequently, the propriety of other grants and transfers and payments balance of Kshs.42,952,520.00 could not be confirmed.

409. Cash and Cash Equivalents

- (i)** The statement of financial assets and liabilities reflect a bank balance of Ksh.528,380,042.00 which differ with the cash book balance of Ksh.578,380,042.00 by Kshs.50,000,000.00. The resultant variance of Kshs.50,000,000.00 has not been explained.
- (ii)** The statement also reflects a cash equivalent balance of Ksh.2,609,533,366.00 described as short term deposits held in Kenya Commercial Bank. However this amount was not supported with analysis and documentary evidence. Information available indicates that the amount represents accumulated contributions receivable from the Government and state corporations, brought forward from 2012/2013 and prior years.

Consequently the propriety of cash and cash equivalent balance of Kshs.3,137,913,408.00 could not be confirmed.

410. Receipts

The statement of receipts and payments reflect a nil receipt contribution for the year under review, while the year 2012/2013 reflect receipts of Ksh.533,000,000.00, representing Kshs.5,3828,869.05 as cash receipts and Kshs.479,371,130.95 as receivables. Information available indicates that the Ministry of Energy and Petroleum transferred Ksh.80,000,000.00 during the year under review to the Fund.

However there was no evidence to show how the money was received and accounted for by the Fund.

PETROLEUM TRAINING FUND

Basis for Qualified Opinion

411. Contribution Receipts

- (i) The statement of receipts and payments for the year ended 30 June, 2014 reflects total receipts of Kshs.942,490,178.00 which comprise contributions of Kshs.917,348,172.00 and miscellaneous receipts of Kshs.25,142,006.00. However, it was noted that receipts of two other funds, surface fees totaling Kshs.532,337,313.00 and signature bonus of Kshs.64,686,140.00 have been banked together in the training fund account contrary to Section 11 of the Petroleum (Exploration and Production) Act Cap 308.
- (ii) The signature bonus receipts of Kshs.64,686,140.00 and other miscellaneous receipts not classified elsewhere amounting to Kshs.20,994,9709.00 detailed under Notes 8.2 and 8.3 in the financial statements, were not supported with documentary evidence.

In the circumstances, it was not possible to confirm completeness and accuracy of the total receipts figure of Kshs.942,490,178.00 as reflected in these financial statements.

PETROLEUM DEVELOPMENT LEVY FUND

Unqualified Opinion

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

DONOR FUNDED PROJECTS

ENERGY SECTOR RECOVERY PROJECT (IDA CR.NO.3958 KE)

Basis for Qualified Opinion

412. Disparity with Special Accounts

The opening balance of cash and cash equivalent brought forward figure of Kshs.147,689.00 reported in the statement of financial assets and liabilities as at 30 June 2014, differs with the ledger maintained at the Central Bank of Kenya balance of Kshs.14,393.36 by Kshs.133,295.64. In addition, the loan from external development partners receipts of Kshs.14,912,816.00 reported in the statement of receipts and payments differs with the Central Bank of Kenya's ledger balance of Kshs.14,948,187.91 withdrawn and deposited into the project account by Kshs.35,371.91. Consequently, the accuracy of both cash and cash equivalent balance of Kshs.1,442,461.00 and the receipts of Kshs.14,912,816.00 loan from external development partners as reported in the project statements could not be confirmed.

KENYA ELECTRICITY EXPANSION PROJECT (IDA CR.NO.4743 KE)

Basis for Qualified Opinion

413. Cash and Cash Equivalent

- (i) The statement of receipts and payments for the year ended 30 June 2014 reflects total receipts of Kshs.149,781,576.00 which include miscellaneous receipts of Kshs.71,498,069.00 that were not supported with documentary evidence. The opening balance of Kshs.21,955,783.00 which have been described as transfer from Government entities is reported contrary to both the Financing Agreement which provide for a hundred per cent (100%) funding by the donor and the reporting standards recommended by the Public Sector Accounting Standards Board (PSASB) through the National Treasury circular Ref.AG.3/088 Vol.6/ (78) of 1st July 2014.
- (ii) **Loan from external development partners**

The loan from external development partners receipts of Kshs.78,283,507.00 as at 30 June 2014 differ with the balance of Kshs.68,283,506 reflected in the special account statement maintained at the National Treasury by Kshs.10,000,000.00. No reconciliation or explanation has been provided for the difference.

Under the circumstances, it was not possible to ascertain accuracy of both miscellaneous receipts and receipts from the development partners.

MINISTRY OF AGRICULTURE, LIVESTOCK AND FISHERIES

FINANCIAL STATEMENTS FOR VOTE 116

Basis for Qualified Opinion

414. Construction of Biosafety Laboratory at Kabete, Nairobi

The expenditure of Kshs.6,470,820,275.00 reflected in the statement of receipts and payments under acquisition of assets includes Kshs.245,278,240.00 for construction of buildings, out of which Kshs.77,586,247.35 was paid in 2013/2014 to a construction firm based in Nairobi for construction of a Biosafety Laboratory in Kabete, Nairobi. The scope of works for the project, which began in 2012, include: construction of a laboratory block, electrical and mechanical works, and civil works.

Upon advertisement, bids were received from five (5) contractors who were evaluated for responsiveness. The Ministerial Tender Committee, vide Minute No. 13: MTC/12/2011-2012, awarded the contract to a local firm, at a contract sum of Kshs.98,840,597.92, and for a contract period of 52 weeks commencing on 4 February 2013 to be completed on 3 February 2014. A contract agreement was signed on 14 June 2012.

As at March 2014, the contractor had been paid a total of Kshs.77,586,247.35 (about 78.5% of the contract sum). However, although the completion date of 3 February 2014 has since elapsed, a site inspection carried out on 7 January 2015 revealed that the project was not yet complete and the contractor was out of site.

No explanation has been provided for the delayed completion of the project and no evidence has been given of any request for extension of project duration, as required by procurement regulations.

415. Un-reconciled Strategic Stocks and Commodities balances

The expenditure of Kshs.6,470,820,275.00 reflected in statement of receipts and payments under acquisition of assets includes Kshs.2,850,000,000.00 being disbursements to Strategic Grain Reserve Trust Fund for acquisition of strategic stocks and commodities. However, the financial statements of the Fund for the year ended 30 June 2014 reflects Government grants of Kshs.3,119,201,264.00, while records maintained at National Cereals and Produce Board reflect Government grants of Kshs.3,190,000,000.00 for the same purpose.

No explanation or reconciliation has been provided for the differences between the three sets of records, as a result of which, the correct amount disbursed for acquisition of strategic grains could not be ascertained.

416. Undelivered Goods

The expenditure of Kshs.5,983,587,637.00 reflected in the statement of receipts and payments under Use of Goods and Services includes Kshs.836,433,023.00 incurred on specialized materials and services, out of which Kshs.283,771,106.00 was incurred on procurement of milk coolers, poultry processing equipment and chromatograph spectrometers from seven (7) suppliers.

The contracts with the suppliers which were entered into on diverse dates between February and May 2014, entailed supply, delivery, installation and commissioning of the equipment. Although, as a safeguard measure, the Ministry opened a Letter of Credit Account with Kenya Commercial Bank into which the entire amount of Kshs.283,771,106.00 was deposited for onward transmission to the suppliers on delivery of the equipment, the equipment had not been delivered as at 30 June 2014. A review of the position on 15 December, 2014, revealed that six (6) suppliers had delivered and installed equipment due from them totalling Kshs.168,603,106.00 while one supplier, M/s Nomads Quintessence, was yet to supply equipment due from them totalling Kshs.115,168,000.00.

No explanation has been given for the failure by the supplier to supply the equipment promptly and no evidence has been provided of any efforts being made by the Ministry to have the equipment supplied, as a result of which, value for money was not obtained.

417. Non-Submission of Financial Statements and Failure to Account for Funds by Agricultural Sector Coordination Unit (ASCU)

Agricultural Sector Coordination Unit (ASCU) is an Inter-Ministerial Secretariat established in 2005, under the Ministry of Agriculture, Livestock and Fisheries, to facilitate implementation and coordination of agricultural sector strategies in line with Vision 2030. The Unit comprises several ministries and receives funding from the Government and other development partners. However, since inception in 2005, the Unit, through the parent Ministry, has not submitted financial statements to the Auditor-General for audit as required by Section 7 of the Public Audit Act, 2003, despite records made available by the ministry for the year 2012/13 indicating that the unit received funds totalling Kshs.516,149,721.00. Although the Ministry has indicated that financial statements were prepared for the year ended 30 June 2013, the statements were not submitted to the Auditor-General for audit.

Further, information available indicates that the Unit appointed M/s Deloitte & Touche as its auditors. However, no explanation has been provided for appointing private auditors without the knowledge, consent and approval of the Auditor-General as required by Section 39 of the Public Audit Act, 2003. Consequently, the audit fees of Kshs.3,131,420.00 (Kshs.1,610,892.00 for 2012/2013 and Kshs.1,520,528.00 for 2011/2012) shown in the said financial statements as having been paid to the auditors constitutes an irregular expenditure.

No explanation has been provided on why the Unit engaged in these irregularities.

418. Deposits

Unremitted Funds to National Treasury

The Deposits cashbook shows that in 2013/2014, funds totalling Kshs.266,258,940.25, were received and deposited in Deposits Account for onward transmission to the National Treasury.

However, the cashbook shows that only Kshs.89,082,051.00 was remitted to Treasury, leaving an unsurrendered amount of Kshs.177,176,889.25. No explanation has been given for failing to remit the balance.

Further, In the Audit Report for 2012/2013, mention was made of an amount of Kshs.35,387,939.00 that was refunded by Kenya Commercial Bank to the Ministry on 11 February 2014 and deposited in the Development Account. The refund arose from an overpayment the Ministry had made to the bank in relation to purchase of fertilizer in the previous year. Since the refund was not part of the 2013/2014 budget, it should have been remitted to the National Treasury. However, no evidence has been provided to show that the amount was remitted as expected.

419. Irregular allocation of Land

The Government, through Gazette Notice No. 890 of 5 March 1957, allocated 1,400 acres of land in Ngong, Kajiado County, to the Ministry of Agriculture for a Veterinary Training School, Veterinary Farm and related activities. The land had been donated by the Ilkeekonyokie Welfare Group of the local community. However, documents held in the Ministry of Land, Housing and Urban Development indicate that it is 1,500 acres that were allocated. The difference of 100 acres has not been explained

Some records at the Ministries of Agriculture, Livestock and Fisheries, and Land, Housing and Urban Development indicate that some Government and private organizations have irregularly taken possession of 509 acres of the land while other records indicate 579 acres, hence an unreconciled difference of 70 acres. Whereas some of the organizations indicate that they have genuine documents of allocation, some do not have any documents. However, even those claiming to have documents of allocation, it has not been explained how they were allocated land belonging to the Ministry and how they obtained the documents.

Further, the Ministry of Agriculture, Livestock and Fisheries has not obtained title of ownership of the land from the Ministry of Land, Housing and Urban Development. In addition, no properly drawn agreements between the Ministry and the Organizations have been made available for audit review and confirmation.

No explanation has been provided by the Ministry on the above anomalies, as a result of which, its ownership of the land cannot be confirmed.

420. Payables (Pending Bills)

The financial statements, under Note 19, indicate that as at 30 June 2014, the Ministry had outstanding bills totalling Kshs.2,111,356,183.00 which were carried

forward to 2014/2015. However, records maintained by the Ministry indicate that as at that date, outstanding bills amounted to Kshs.2,109,673,378.00, giving rise to an unreconciled or unexplained difference of Kshs.1,682,805.00. Out of these bills totalling Kshs.2,109,673,378.00 as per supporting documents, bills totalling Kshs.35,857,756.00 relate to Recurrent Vote, bills totalling Kshs.2,070,194,025.00 relate to Development Vote while the balance of Kshs.3,621,597.00 related to Deposits Account.

Had the total bills of Kshs.2,109,673,373.00 shown in the financial statements been paid and the expenditure accounted for in 2013/2014, the financial statements for the year ended 30 June 2014 would have reflected an over expenditure of Kshs.1,460,590,791.00 instead of the under expenditure of Kshs.649,082,582.00 now shown.

In addition, bills totalling Kshs.8,752,912.00, and which are included in the total pending bills, are either partly supported or not supported at all. No explanation has been provided for failing to support the bills, as a result of which, the propriety of the expenditure could not be confirmed.

421. Outstanding Imprest

The imprests balance of Kshs.1,778,600.00 reflected in the Statement of Assets as at 30 June 2014 differs by Kshs.3,639,874.00 from the balance of Kshs.5,418,474.00 shown in the Ministry's imprest registers. Out of the outstanding imprests of Kshs.5,418,474.00 imprests totalling Kshs.5,050,728.00 were overdue for surrender as at that date but had not been recovered, contrary to the provisions of Section 71(2) of the Public Finance Management Act, 2012, and Paragraph 5.6.5 of the Government Financial Regulations and Procedures which require an officer to whom an imprest has been issued to surrender or account for it within 48 hours of completion of the task for which it was issued.

No explanation has been provided for failing to recover the overdue balances.

422. Accuracy of the Financial Statements

- (i)** Both the Statement of Receipts and Payments and the Summary Statement of Appropriation at Part VIII show total expenditure of Kshs.38,213,129,417.00 and a surplus of Kshs.649,082,582.00. However, the trial balance as at 30 June 2014 reflects actual expenditure of Kshs.26,601,327,982.40 and a surplus of Kshs.6,714,849,866.60, resulting in unreconciled or unexplained differences of Kshs.11,611,801,434.60 and Kshs.6,065,567,284.60, respectively.
- (ii)** Further, the figure of Kshs.5,191,502,643.00 reflected in the statement of receipts and payments under Other Grants and Transfers includes, according to note 10, payments totalling Kshs.127,534,206.00 being membership fees and dues, and subscriptions. However, underlying supporting documents reflect a figure of Kshs.125,295,006.00 as membership fees and dues, and subscriptions, hence a variance of Kshs.2,239,200.00.
- (iii)** In addition, the expenditure of Kshs.5,983,587,637.00 reflected in the statement of receipts and payments under Use of Goods and Services

includes expenditure of Kshs.54,445,878.00 on rental of produced assets which, however, differs by an amount of Kshs.238,203.55 from the Kshs.54,684,081.55 reflected in the supporting schedules.

- (iv) The statement of receipts and payments reflects an incorrect total payments figure of Kshs.38,213,129,417.00 instead of the arithmetically correct figure of Kshs.38,182,932,879.00. Consequently, the total payments figure of Kshs.38,213,129,417.00 is overstated by Kshs.30,196,538.00, as a result of which, the surplus of Kshs.649,082,582.00 is understated by the same amount.
- (v) The expenditure of Kshs.6,470,820,275.00 reflected in the statement of receipts and payments, under acquisition of assets, includes expenditure of Kshs.1,841,804,238.00 incurred on construction and civil works. However, both the supporting schedules and source documents reflect a figure of Kshs.1,727,580,116.00 resulting in an unreconciled or unexplained difference of Kshs.114,224,122.00.
- (vi) The Summary Statement of Appropriation - Recurrent reflects payments of Kshs.11,539,990,316.00 instead of Kshs.11,546,766,255.00, giving rise to unexplained or unreconciled difference of Kshs.6,775,939.00.
- (vii) The statement of cash flows has not complied with IPSAS (cash basis) in that the comparative years have not been shown.
- (viii) The Summary Statements of Appropriation - Recurrent and Development separately reflect total revenue of Kshs.11,619,322,639.00 and Kshs.27,147,845,762.00, respectively, totalling Kshs.38,767,168,401.00 while the Summary Statement of Appropriation - Recurrent and Development combined shows total revenue of Kshs.38,862,211,999.00 giving rise to an unreconciled difference of Kshs.95,043,598.00

No explanation has been provided for this difference, as a result of which, the accuracy of the financial statements cannot be confirmed.

423. Unsupported Balances

- (i) The Statement of Assets reflects a prior year adjustment balance of Kshs.1,123,207,927.00, balance brought forward of Kshs.1,100,440,648.00 (2012-2013 Kshs.1,397,871,597.00) while Note 20 to the financial statements shows a nil Fund balance brought forward. All the above balances have not been explained or reconciled. Further, all the restated comparative figures for 2012/2013 have not been supported with documentary evidence.
- (ii) The total receipts of Kshs.38,862,211,999.00 reflected in the statement of receipts and payments includes receipts of Kshs.95,043,598.00 relating to domestic currency and domestic deposits which has not been supported by analysis or any documentary evidence.
- (iii) The Summary Statement of Provisionings reflects balances of Kshs.1,342,692,447.00 and Kshs.2,618,743,442.00 under GAV provisioning

account and a balance of Kshs.3,961,435,889.00 under Exchequer provisioning account. However, the balances have not been supported by analyses or any documentary evidence.

No explanation has been provided for these omissions, as a result of which, the accuracy of the financial statements cannot be confirmed.

424. Cash and Cash Equivalents

The cash and cash equivalents balance of Kshs.626,315,303.00 reflected in the Statement of Assets includes cash and bank balances of Kshs.624,536,703.00 on which the following observations have been made.

- (i) Cashbook extracts for all the three Accounts: Recurrent, Development and Deposits were not availed to support the respective closing balances.
- (ii) The bank reconciliation statement for Recurrent Account as at 30 June 2014 reflects payments in bank not in cashbook totalling Kshs.467,912,068.25 out of which payments totalling Kshs.306,511,705.65 had not been posted in the cashbook although they relate to the months of April and May 2014, contrary to the provisions of Paragraph 5.9.1.1 of the Government Financial Regulations and procedures which require the cashbook to be updated daily.

The reconciliation also shows receipts in bank not in cashbook totalling Kshs.56,270,340.60 out of which receipts totalling Kshs.3,711,150.00 had not been posted in the cashbook although they relate to February, April and May, 2014.

- (iii) The reconciliation statement for Development Account reflects payments in bank not in cashbook totalling Kshs.41,374,808.30 out of which payments totalling Kshs.36,304,052.90 had not been posted in the cashbook although they relate to the months of April and May 2014, contrary financial regulations.
- (iv) The reconciliation for Deposits Account shows payments in bank not in cashbook totalling Kshs.3,767,209.00 out of which payments totalling Kshs.2,045,900.00 were not recorded in the cashbook although they relate to April and May 2014.

The reconciliation further reflects receipts in the cashbook not in bank totalling Kshs.155,981,755.55 out which receipts amounting to Kshs.80,829,544.20 had not been banked as at 30 June 2014 although they were received in October 2013 and March, April and May 2014.

No explanation has been given on these anomalies, as a result of which, the accuracy of the cash and bank balance reflected in the financial statements cannot be confirmed.

425. Unvouched Expenditure

Expenditure totalling Kshs.448,533,457.35, and which is recorded in the Ministry's cashbooks, could not be examined and confirmed as relevant payment vouchers

and related supporting documents were not availed for audit. No explanation has been provided for failing to avail the vouchers, as a result of which, the propriety of expenditure totalling Kshs.448,533,457.35 could not be ascertained.

426. Unsupported Transfers to Other Government Entities and Other Grants and Payments

- (i) The statement of receipts and payments reflects expenditures of Kshs.18,116,410,934.00 and Kshs.5,191,502,643.00, totaling Kshs.23,307,913,577.00, being transfers to National Government Entities (capital grants to Government agencies and other levels of Government) and other grants and payments, respectively. However, supporting schedules availed for audit indicate that the Ministry disbursed Kshs.18,101,509,203.00 and Kshs.4,391,393,878.00, totalling Kshs.22,492,903,081.00, respectively, as transfers to National Government entities and as other grants and payments.
- (ii) Further, differences were noted between figures for grants to Government agencies as shown in the Ministry's records and financial statements of the receiving Institutions.
- (iii) The amount of Kshs.5,191,502,643.00 reflected in the statement of receipts and payments as other grants and transfers excludes annual contributions of Kshs.48,799,006.05 paid to Desert Locust Control Organization for Eastern Africa. Consequently, the figure of Kshs.5,191,502,643.00 is understated by Kshs.48,799,006.05.

427. Unsupported Foreign Travel and Subsistence and Other Transportation Costs

The statement of receipts and payments reflects an expenditure of Kshs.5,983,587,637.00 under use of goods and services which, under Note 8, includes expenditure of Kshs.82,960,705.00 incurred on foreign travel and subsistence and other transportation costs which, in turn, includes Kshs.3,278,152.00 incurred by officers in foreign trips, but for which clearance certificates have not been made available. No explanation has been provided for failing to attach clearance certificates.

Further, the expenditure of Kshs.82,960,705.00 includes expenditure totalling Kshs.461,445.00, incurred on domestic travel and subsistence but irregularly charged to foreign travel and subsistence. No explanation has been given for the irregularity, the effect of which is an overstatement of expenditure on foreign travel and subsistence by the amount of Kshs.461,445.00

FINANCIAL STATEMENTS OF AGRICULTURAL INFORMATION RESOURCE CENTRE

Basis for Qualified Opinion

428. Property, Plant and Equipment

- (i)** The property, plant and equipment balance brought forward of Kshs.22,930,194.90 reflected in the statement of financial position differs by an amount of Kshs.12,041,907.30 from the Kshs.34,972,102.20 shown as balance carried down in the audited financial statements for the year ended 30 June 2013. However, no reconciliation or explanation has been provided for the variance.
- (ii)** Further, the property, plant and equipment balance of Kshs.16,057,174.05 includes intangible assets with a balance brought forward of Kshs.4,397,125.00 and accumulated depreciation brought forward of Kshs.3,487,812.30 while the audited financial statements for the year ended 30 June 2013 did not reflect the item of intangible assets. Consequently, the source of the balance could not be ascertained. In addition, the financial statements reflect, under Note 13, a balance of Kshs.354,382.85 for intangible assets which, however, has not been supported with any documentary evidence.
- (iii)** The fixed assets schedule for the year ended 30 June 2013 shows the original cost of the assets as Kshs.57,445,009.00 while the schedule for the year ended 30 June 2014 shows the original cost of the assets as Kshs.41,340,092.00. No explanation has been given for the difference of Kshs.16,104,917.00 on a figure that is expected to remain constant unless there has been a revaluation of the assets for which no such indication was availed for audit review.

No explanation has been provided for the above anomalies, as a result of which, the accuracy of the property, plant and equipment balance of Kshs.16,057,174.05 could not be confirmed.

429. Receivables

The balance of Kshs.10,849,330.00 reflected under receivables includes debtors balances totalling Kshs.4,892,750.00 which have not been recovered although they relate to the period between 16 November 1993 and 22 May 2013, contrary to the requirements of financial regulations. No explanation has been provided for failing to recover the long outstanding balances. Further, the receivables balance of Kshs.10,849,330.00 differs by an amount of Kshs.713,710.00 from the correct balance of Kshs.11,563,030.00 and no explanations and reconciliation were provided for the difference.

FINANCIAL STATEMENTS OF DEMONSTRATION FARMS FUND

Basis for Qualified Opinion

430. Unsatisfactory Financial Performance

The Fund recorded a deficit of Kshs.125,577,505.00 for the year (compared to a surplus of Kshs.37,584,322.00 in 2013) thereby reducing the total reserves from Kshs.249,543,365.00 to Kshs.122,897,749.00. The deteriorating performance may be attributed to reduced income from sales and a huge expenditure in acquisition of assets during the year. No indication has been given on measures being taken to reverse this state of affairs.

431. Inaccuracy and Wrong Presentation of Financial Statements

Audit review of the financial statements revealed the following unsatisfactory matters;

- (i)** The balances reflected in the financial statements have not been supported by a trial balance as at 30 June 2014.
- (ii)** Although the Fund was established and continues to operate with a capital base of Kshs.6,000,000.00, the same has not been reflected in the financial statements.
- (iii)** The notes to the financial statements start from number seven (7) instead of number one (1). Further, although the notes start from number 7, under the statement of receipts and payments, statement of financial assets and liabilities and statement of cash flows, the notes are referred to as number 4, 5 and 6 respectively.
- (iv)** The financial statements do not include a statement of changes in net assets.
- (v)** Although the opening balances reflected in the financial statements have been condensed and grouped into like items derived from the closing balances of the financial statements for the year ended 30 June 2013, the methodology of grouping them has not been made clear in the notes in order to confirm that all closing balances were properly brought forward to the 2013/2014 financial statements.

No explanation has been given for the above anomalies. Consequently, the accuracy and completeness of the financial statements could not be confirmed.

432. Unsupported expenditure on Acquisition of Assets

The statement of receipts and payments reflects an expenditure of Kshs.131,972,339.00 on acquisition of assets. However, no documentary evidence has been provided to support the expenditure. Consequently, it has not been

possible to confirm the nature and quantity of assets purchased, whether proper procurement procedures were followed and whether the assets were delivered and received.

Additionally, a fixed assets register was not made available for audit verification. Consequently, it has not been possible to confirm the nature, quantity, classification and location of assets owned by the Fund.

No explanation has been provided for the above omissions, as a result of which, the propriety of the expenditure of Kshs.131,972,339.00 could not be ascertained, while the nature, classification, location and ownership of assets owned by the Fund could also not be confirmed.

433. Un-reconciled Cash and Cash Equivalents balance

- (i) The statement of financial assets and liabilities reflects a cash and cash equivalents balance of Kshs.122,897,749.00. However, the bank reconciliation statement and cash book as at 30 June 2014 reflect a balance of Kshs.79,667,220.00 giving rise to an unexplained and unreconciled difference of Kshs.43,230,529.00.
- (ii) The bank reconciliation statement as at 30 June 2014 reflects receipts in bank statement not in cash book totalling Kshs.2,242,075.74, out of which receipts totalling Kshs.1,930,475.74 have not been recorded in the cash book although they relate to the period between August 2012 and September 2013.
- (iii) The bank reconciliation statement also reflects two entries of receipts in cash book not in bank totalling Kshs.420,937.40 which have remained outstanding although one relates to 2011/2012 and the other to 2012/2013.
- (iv) The bank reconciliation statement as at 30 June 2014 reflects a reconciled balance as cash book of Kshs.79,667,220.20. However, a re-calculation of the figures shows the correct balance as Kshs.121,076,610.00, giving rise to unexplained difference of Kshs.41,409,389.80.

No explanation has been provided for the above anomalies, as a result of which, the accuracy of the cash and cash equivalents balance of Kshs.122,897,749.00 could not be confirmed.

434. Unsupported Balance

The statement of financial assets and liabilities reflects a balance of Kshs.1,068,112.00 referred to as adjustment which, according to note 6.8, relates to unreconciled balances. However, no explanation or documentary evidence has been provided on the nature and purpose of the adjustment. Consequently, the accuracy of the financial statements could not be confirmed.

435. STATEMENT OF REVENUE – HEAD 000000-156 – FISHING RIGHTS

Basis for Qualified Opinion

The statement of revenue for the year ended 30 June 2014 reflects a revenue on hand balance of Kshs.99,422,976.00 that had not been surrendered to Exchequer as at 30 June 2014, contrary to the requirements of Paragraph 6.4.5 of the Government Financial Regulations and Procedures. No explanation has been given for failing to surrender the amount.

FINANCIAL STATEMENTS OF STRATEGIC GRAIN RESERVE FUND

Basis for Adverse Opinion

436. Unsatisfactory Financial Performance

During the year under review, the Fund recorded a deficit of Kshs.944,521,975.00 (2012/2013 Kshs.457,471,936.00) bringing the accumulated deficit to Kshs.11,598,715,978.00. This state of affairs has been attributed to the multiplicity of expenses including costs of acquisition of maize and gunny bags, and agency fees and commissions charged by National Cereals and Produce Board (NCPB) for services rendered on behalf of the Ministry. No indication has been provided on measures being taken by the Ministry to reduce these expenses and charges, as a result of which, the sustainability of the Fund appears to be at risk as its survival entirely depends on the continued disbursement of grants by the Government.

437. Un-reconciled Sales Revenue

The statement of financial performance reflects revenue from sale of maize amounting to Kshs.860,917,023.00. However, sales records maintained by National Cereals and Produce Board, which is the selling agent of the Fund, reflect sales revenue totalling Kshs.941,339,461.00, giving rise to an unreconciled difference of Kshs.80,422,438.00. No explanation has been provided for the apparent understatement of the value of sales by Kshs.80,422,438.00.

438. Expenditure

(i) Un-reconciled Stock balances

The expenditure of Kshs.865,122,230.00 reflected in the statement of financial performance under cost of sales is made up of an opening balance of maize stocks valued at Kshs.6,361,962,351.00, additional purchase of maize valued at Kshs.3,074,472,000.00, and a closing stock of maize valued at Kshs.8,571,312,120.00. However, purchases records maintained by National Cereals and Produce Board, the purchasing agent of the Fund, reflect an expenditure of Kshs.3,072,856,770.00 on purchase of maize. No explanation has been provided for the apparent overstatement of this expenditure item by Kshs.1,615,230.00.

(ii) Unsupported expenditure - Gunny Bags

The financial statements reflect, under Note 5, an expenditure of Kshs.109,830,561.00 incurred on purchase of gunny bags. However, no documentary evidence was provided to show that proper procurement procedures were used, or that the bags were purchased, delivered and taken on charge in the stores. Consequently, the propriety of the expenditure could not be ascertained.

439. Unsupported transport Cost

The expenditure of Kshs.940,316,768.00 reflected in the statement of financial performance, under note 5 - other expenses, includes an amount of Kshs.238,313,713.00 incurred on transport costs. However, no documentary evidence was provided to show who the transporters were, how they were identified and engaged, and details of the transport services they offered. Consequently, the propriety of the expenditure could also not be ascertained.

440. Unanalysed expenditure - Storage and Fumigation

The expenditure of Kshs.940,316,768.00 reflected in the statement of financial performance under other expenses includes, as shown under note 5, an expenditure of Kshs.281,439,987.00 incurred on storage and fumigation. However, no analysis has been provided to show the specific depots where fumigation was carried out. Besides, records available indicate that fumigation was not carried out in depots in the Lake-Western Region. As a result, the propriety of the expenditure of Kshs.281,439,987.00 on storage and fumigation could not be ascertained.

441. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.511,535,656.00, while the bank reconciliation statement as at 30 June 2014 reflects a balance of Kshs.14,510,526.95, giving rise to an unreconciled difference of Kshs.497,025,129.05. Further, a Board of Survey Report and cashbook as at 30 June 2014 were not made available to support the cash and cash equivalents balance.

No explanation has been provided for the difference and for failing to avail the Board of Survey Report and cashbook, as a result of which, the accuracy of the cash and cash equivalents balance of Kshs.511,535,656.00 could not be confirmed.

442. Un-reconciled Inventories

(i) The statement of financial position reflects an inventories balance of Kshs.8,761,481,560.00 which, according to note 7, comprises Kshs.8,571,312,120.00 and Kshs.190,169,440.00 being stocks of maize and gunny bags, respectively. However, supporting documents reflect stock balances of Kshs.8,002,514,457.00 for maize and Kshs.96,390,512.00 for gunny bags, resulting to an unreconciled difference of Kshs.568,797,663.00 and Kshs.93,778,928.00, respectively. No explanation has been provided for the differences, as a result of which, the accuracy of the inventories balance of

Kshs.8,761,481,560.00 reflected in the financial statements could not be confirmed.

- (ii) The closing stocks of gunny bags valued at Kshs.100,000,000.00 reflected in the audited financial statements for the year ended 30 June 2013 have not been reflected as opening balance in the financial statements for the year ended 30 June 2014. Again, no explanation has been provided for the omission, as a result of which, the accuracy of the inventories balance could not be confirmed.

443. Unsupported Receivables

The statement of financial position reflects a balance of Kshs.7,030,669,138.00 under receivables. However, no schedules, analyses or any documentary evidence was provided to support the balance. No explanation has been given for failing to provide supporting documentation and schedules or analyses, as a result of which, the completeness and accuracy of the receivables balance could also not be confirmed.

444. Trade and Other Payables

- (i) The statement of financial position reflects a trade and other payables balance of Kshs.1,520,889,290.00 while supporting schedules and other records reflect a balance of Kshs.1,316,194,419.00, giving rise to an unreconciled and unexplained difference of Kshs.204,694,871.00.
- (ii) Although the Fund reflects a cash balance of Kshs.511,535,656.00 as at 30 June 2014, the trade and other payables balance of Kshs.1,520,889,290.00 includes long outstanding payables totalling Kshs.566,879,296.50 relating to 2012/2013 and prior years not cleared .
- (iii) The trade and other payables balance also includes disputed payables amounting to Kshs.354,294,814.10. However, the nature of the dispute has not been disclosed neither has any evidence been provided to show efforts being made to resolve the dispute.
- (iv) Also included in the balance of Kshs.1,520,889,290.00, according to note 9, is amounts owed to farmers totalling Kshs.84,472,000.00. However, no schedules, analyses or any documentary evidence was made available to support the amount.

No explanation has been given on these anomalies, as a result of which, the accuracy, completeness and valuation of the payables balance could not be confirmed.

445. Government Grants and Reserves

The financial statements indicate that during the year under review, the Government injected grants totalling Kshs.3,119,201,264.00 - being the difference between the Reserves balance of Kshs.23,262,311,779.00 for the year ended 30 June 2013 and Kshs.26,381,513,043.00 for the year ended 30 June 2014. However, the financial statements of the Ministry of Agriculture, Livestock and Fisheries for the year ended 30 June 2014 reflects grants to the Fund totalling Kshs.2,850,000,000.00 while records

maintained at National Cereals and Produce Board reflects Government grants totalling Kshs.3,190,000,000.00. No reconciliation or explanation has been given on the differences between the three sets of records, as a result of which, the accuracy of grants to the Fund during the year under review could not be confirmed.

446. Accuracy of the Financial Statements

The balances reflected in the financial statements have not been supported by a trial balance as at 30 June 2014. No explanation has been provided for failing to produce a trial balance, as a result of which, the completeness and accuracy of the financial statements could not be confirmed.

447. Agency Agreement

The current Agency Agreement between the Government and National Cereals and Produce Board, which outlines the terms of engagement between the two parties, has not been signed. Consequently, any contracts carried out between the two parties may not be enforceable in law.

FINANCIAL STATEMENTS OF VETERINARY SERVICES DEVELOPMENT FUND

Unqualified Opinion

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

DONOR FUNDED PROJECTS

EAST AFRICA AGRICULTURAL PRODUCTIVITY PROJECT (IDA CREDIT NO. 4568-KE)

Basis for qualified Opinion

448. Special Accounts Balances

The special accounts bank balance as at 30 June 2014 is given as US\$.3,448,163.09 whereas in the statement of special (designated) accounts reconciliation the same is given as US\$.4,167,828.1, resulting to unexplained difference of US\$ 719,665.01 or equivalent to Kshs.62,577,751.00 It was therefore not possible to confirm the accuracy and completeness of the cash and bank balance of Kshs.393,533,064.00 as at 30 June 2014.

REGIONAL PASTORAL LIVELIHOODS RESILIENCE PROJECT (CREDIT NO. Q8400) FOR THE FOUR (4) MONTHS PERIOD ENDED 30 JUNE 2014

Basis for Qualified Opinion

449. Accuracy of the Financial Statements

Note 7 to the financial statements reflects a total budget of Kshs.122,927,212.00 for the Project while the revised estimates reflects a budget of Kshs.163,480,000.00 resulting to an un-reconciled difference of Kshs.40,552,788.00.

In addition, the statement of receipts and payments and the statement of comparative budget and actual amounts show a total expenditure of Kshs.100,375,905.00 while the ledger/trial balance reflects Kshs.34,918,122.00 resulting to an un-reconciled and unexplained difference of Kshs.65,457,783.00.

In the circumstances of unreconciled and unexplained variances, the accuracy of the financial statements for the four months period ended 30 June, 2014 could not be confirmed.

DROUGHT RESILIENCE AND SUSTAINABLE LIVELIHOODS PROGRAMME - LOAN NO. 2100150028345

Basis for Qualified Opinion

450. Accuracy of the Financial Statements

The balances reflected in the financial statements were not supported with a trial balance and an approved budget. In addition, the financial statements reflect receipts of Kshs.24,505,291.00 as loan from External Development Partners while the June Ledger reflects Kshs.22,580,474.00, resulting in an un-reconciled difference of Kshs.1,924,817.00. No explanation has been provided for the anomalies, as a result of which, the accuracy of the financial statements could not be confirmed.

SMALL-SCALE HORTICULTURE DEVELOPMENT PROJECT (SHDP) LOAN NO. 210015001493

Basis for Qualified Opinion

451. Accuracy of the Financial Statements

- (i) Paragraph 1.7 indicates the value of the project as UA's 17,000,000 (Kshs.1,786,870,000.00) while the explanatory table under the paragraph indicates the value of loan as UA's 16,988,045 (Kshs.1,785,613,409.95) hence an un-reconciled difference of UA's 11,955 (Kshs.1,256,590.05).

- (ii) The explanatory table under Paragraph 1.7 indicates that the total amount received as at 30 June 2014 is UA's 11,197,696.80 (Kshs.1,176,989,910.65) while the statement of receipts and payments reflects a cumulative amount received as at the same date as Kshs.1,494,507,428.00 hence an unreconciled and unexplained difference of Kshs.317,517,517.35.
- (iii) The financial statements reflect total expenditure of Kshs.338,234,426.00, while the June ledger for 2013/2014 reflects, under the Head 0013- Small Scale Horticulture Development Project - a cumulative expenditure of Kshs.339,107,855.00 hence an unreconciled and unexplained difference of Kshs.873,429.00.

No explanation has been given for the variances, as a result of which, the accuracy of the financial statements could not be confirmed.

452. Failure to Disclose Pending Bills

The Narok North Station incurred expenditure of Kshs.299,349.00 which had not been paid as at 30 June 2014. However, the amounts have not been disclosed as pending bills as at that date, under footnotes. No reason has been given for failure to disclose the pending bills as a footnote, as a result of which, the completeness of the financial statements could not be confirmed.

453. The Loan Agreement entered into by the African Development Fund (ADF) and the Government of Kenya has not been appropriately signed by representatives of the two parties. In the circumstances, the agreement may not be legally binding.

COASTAL DEVELOPMENT PROJECT (IDA CREDIT NO. 4801-KE) – KENYA MARINE AND FISHERIES RESEARCH INSTITUTE

Basis for Qualified Opinion

454. Receipts

The statement of receipts and payments for the year under review reflected receipts totalling Kshs.620,800,812 being loan from external development partners, miscellaneous receipts and foreign exchange amounts of Kshs.601,973,950.00 Kshs.11,000.00 and Kshs.18,815,862.00 respectively. However, records available indicated that excluded from the total receipts of Kshs.620,800,812.00 is Government funding of Kshs.57,000,000.00.

Further, the cumulative receipts amount of Kshs.1,371,153,553.00 excludes amounts of Kshs.44,600,000.00 and Kshs.23,160,000.00 which were disbursed by the Government in years 2012/2013 and 2011/2012 respectively.

In the circumstances it has not been possible to confirm the validity and accuracy of total receipts of Kshs.620,800,812.00 for the year under review and the respective cumulative receipts of Kshs.1,371,153,553.00.

455. Payments

The statement of receipts and payments reflects total payments for the year amounting to Kshs.413,281,586.00 while the cumulative payments amounted to Kshs.659,280,799.00. However, these payments exclude payments made out of counterpart funds from the Government totalling Kshs.124,700,000.00 which were disbursed to the project as Kshs.57,000,000.00 in the current year, Kshs.44,600,000.00 and Kshs.23,160,000.00 for the years 2012/2013 and 2011/2012 respectively.

In the circumstances, it has not been possible to confirm the validity and accuracy of total payments of Kshs.413,281,586.00 for the year under review and the respective cumulative payments of Kshs.659,280,799.00.

456. Purchase of Goods and Services

The financial statements reflect an amount of Kshs.155,961,160.00 in respect of goods and services under Note 8.6. However, the amount includes expenses amounting to Kshs.1,495,000.00 in respect of administrative cost for one of the implementing agencies and which are not allowed as per the financing agreement.

In the circumstance, the propriety of the expenditure amounting to Kshs.1,495,000.00 could not be ascertained.

MAINSTREAMING SUSTAINABLE LAND MANAGEMENT IN AGRO-PASTORAL SYSTEMS OF KENYA (PROJECT NO. 3245, GEF ID 3370)

Basis for Qualified Opinion

457. Irregular/Ineligible Expenditure

The statement of receipts and payments reflects total expenditure of Kshs.128,997,762.00. However, included in the expenditure are irregular/ineligible payments totalling Kshs.21,309,768.60 comprising; expenditure incurred by Ministry officials who are not staff of the project totalling Kshs.1,906,472.50 charged to domestic travel and subsistence and other transportation costs; five (5) payments totalling Kshs.3,119,968.00 made to two commercial banks, charged to the same account, whose nature and purpose has not been explained; three payments totalling Kshs.974,060.00, charged to the same account, which do not relate to the year under audit; and payments totalling Kshs.590,000.00 for meal allowances while payments were also made on account of domestic travel, accommodation and daily subsistence

No explanation has been given for the irregularities, as a result of which, eligibility of expenditure totalling Kshs.21,309,768.60 could not be confirmed.

458. Irregular Re-allocation

The statement of receipts and payments reflects a total expenditure of Kshs.128,997,762.00. However, included in the expenditure are payments totalling Kshs.8,710,936.00 in respect to foreign travel and subsistence, and other transportation costs. However, underlying records indicate that only Kshs.192,213.70 was incurred on foreign travel and subsistence and other transportation costs while the balance of Kshs.8,518,722.60 was irregularly incurred on domestic travel and subsistence and other transportation costs and no evidence has been provided to show that appropriate approval was obtained for the re-allocation.

No explanation has been given for the irregular reallocation, as a result of which, the approved budget on domestic travel and subsistence and other transportation costs appears to have been exceeded by Kshs.8,518,722.60.

459. Cash Purchases

The statement of receipts and payments reflects a total expenditure of Kshs.128,997,762.00. However, included in the expenditures are payments of Kshs.4,551,430.00 and Kshs.13,525,923.60 under construction and civil works and purchase of certified seeds, breeding stock and live animals, respectively. However, the two expenditures respectively include Kshs.1,070,280.00 and Kshs.5,129,770.00 incurred on cash purchases although they exceed the Kshs.30,000.00 for single cash purchases as provided for by Regulation 63(1)(a) of the Public Procurement and Disposal Regulations, 2006 read together with the First Schedule of the Regulations. No explanation has also been given for this contravention of procurement regulations.

460. Accuracy of the Financial Statements

(i) Cash and Cash Equivalents

The statement of financial assets and liabilities reflects a cash and cash equivalents balance of Kshs.4,837,780.00. However, no bank statements, bank reconciliation statement, board of survey report and cash book extract, as at 30 June 2014, have been provided to support the balance. No reason has been given for failing to provide the relevant supporting documentation, as a result of which, the completeness and accuracy of the cash and cash equivalents balance of Kshs.4,837,780.00 could not be confirmed.

(ii) Government Grants

The statement of receipts and payments reflects a figure of Kshs.42,061,543.00 under Government Grants which, however, differs from the figure of Kshs.40,576,673.00 shown in the Ministry's ledger and underlying records. No explanation or reconciliation has been provided for the difference of Kshs.1,484,870.00, as a result of which, the accuracy of the financial statements could not be confirmed.

(iii) Excluded Expenditure

Expenditure totalling Kshs.5,802,636.00 in respect of specialized materials and services incurred vide payment vouchers 00120065 and 00120807 of Kshs.3,326,136.00 and Kshs.2,476,500.00 dated 22 February,2014 and 20 March, 2014 respectively, has not been incorporated in the financial statements. No reason has also been given for the exclusion, as a result of which, the completeness and accuracy of the financial statements could not be confirmed.

(iv) Notes to the financial statements

Although the statement of receipts and payments reflect a note 8.4, the same has not been reflected in the notes to the financial statements. Further, in the notes to the financial statements, note 8.5 is placed after note 8.7 instead of placing it before, as a result of which, the information contained on pages 8, 9 and 10 of the financial statements does not flow logically.

(v) Inclusion of Expenditure Relating to 2014/2015

The expenditure of Kshs.128,997,762.00 for purchase of goods and services includes expenditure totalling Kshs.7,339,310.21 that relates to 2014/2015. No explanation has been given for including the expenditure as a result of which the expenditure of Kshs.128,997,762.00 is overstated by Kshs.7,339,310.21. Consequently, the accuracy of financial statements could not be confirmed.

461. Unsupported Expenditure

- (i)** The project total expenditure of Kshs.128,997,762.00 includes expenditure of Kshs.17,000,028.00 on other operating expenses, out of which, expenditure totalling Kshs.11,937,660.97 was not supported with documentary evidence.
- (ii)** Two payments totalling Kshs.4,612,154.02 made to a hotel, vide payment voucher number 00119525 dated 03.02.2014 for Kshs.4,365,790.45 and Kshs.246,363.54, charged to Training expenses, were not supported with original documents.

No explanation has been provided for failing to support the payments appropriately, as a result of which, the propriety of the expenditures could not be ascertained.

SMALL HOLDER HORTICULTURE MARKETING PROGRAMME (IFAD LOAN 'NO. 720-KE AND GRANT NO. 951-KE)

Basis for Qualified Opinion

462. Implementation of Civil Work

The statement of receipts and payments reflects expenditure on civil works of Kshs.684,701,935 in respect of construction of forty markets which are in various stages of completion. The Ndaragwa horticultural market development was at 50%

completion level as at 30 June 2014. However, the contractor had been paid Kshs.24,313,848.00 being the full contract sum. It has not been explained why the contractor was paid in full before completion of the contract.

463. Cash and Cash Equivalent Balances

The statement of financial assets and liabilities as at 30 June 2014 reflects cash and cash equivalent of Kshs.170,456,860.00 comprising of various bank balances. However, the bank balance of Kshs.6,755,345.00 was not supported. Consequently, the accuracy of the cash and cash equivalent balance of Kshs.170,456,860.00 as at 30 June 2014 could not be confirmed.

AGRICULTURAL SECTOR DEVELOPMENT SUPPORT PROGRAMME (ASDSP) - GRANT NO. 31100071

Basis for Qualified Opinion

464. Acquisition of Non-Financial Assets

The statement of receipts and payments reflects an expenditure of Kshs.80,844,275.00 under acquisition of non-financial assets. However, the expenditure includes Kshs.6,545,715.00 relating to overhaul of vehicles and machinery which ought to have been charged under purchase of goods and services - routine maintenance - vehicles and other transport equipment. No explanation has been provided for the irregularity.

465. Purchase of Goods and Services

(i) Domestic Travel and Subsistence

The expenditure of Kshs.877,864,912.00 reflected in the statement of receipts and payments for purchase of goods and services includes Kshs.117,563,081.00 incurred on domestic travel and subsistence, which however, includes: meal allowances totalling Kshs.345,000.00 for Ministry staff who do not work for the project.

The expenditure of Kshs.117,563,081.00 also includes Kshs.378,133.00 incurred on office expenses which are not related to project implementation and several allowances described as; various allowances; staff allowances; extraneous allowances and facilitation allowances, all totalling Kshs.80,343,112.25 paid to staff of the Ministry, who do not work for the project.

(ii) Training Expenses

The expenditure of Kshs.877,864,912.00 reflected in the statement of receipts and payments for purchase of goods and services includes Kshs.74,510,873.00 incurred on training activities which, however, includes payments totalling Kshs.1,598,785.00 which are not related to training.

(iii) Professional Services

The expenditure of Kshs.877,864,912.00 reflected in the statement of receipts and payments for purchase of goods and services includes Kshs.184,573,844.00 incurred on professional services out of which Kshs.18,560,000.00 was paid to an Accounting and Auditing Firm, for providing roll out audit for 2013/2014. However, the firm was engaged through single sourcing as no competitive procurement procedures were followed as required by procurement regulations.

(iv) Compensation of employees

The expenditure of Kshs.877,864,912.00 reflected in the financial statements for purchase of goods and services includes an amount of Kshs.108,588,853.20 paid to staff as extraneous allowances or staff salaries. No explanation has been provided for including this expenditure under purchase of goods and services instead of reflecting it under compensation of employees as provided for in the format issued by the National Treasury on donor funded project accounts.

466. Cash and Cash Equivalents

- (i)** Note 8.12 to the financial statements reflect a balance of Kshs.1,643,309.00 under the GOK funds account while the related bank reconciliation statement, board of survey report and electronic cashbook reflect Kshs.2,095,583.29, Kshs.1,008,676.78, and Kshs.167,381.74 respectively.
- (ii)** Note 8.12 to the financial statements also reflect a balance of Kshs.604,706,784.00 under the donor funds account while the related bank reconciliation statement, board of survey report and electronic cashbook reflect Kshs.654,962,685.40, Kshs.605,650,046.05 and 606,660,088.05 respectively.
- (iii)** The bank reconciliation statement for the donor funds account reflects payments in cashbook not in bank statement totalling Kshs.1,112,377.00 which, however, would not be traced in the relevant cashbook.
- (iv)** The bank reconciliation statement for the donor funds account reflects payments in cashbook not in bank totalling Kshs.3,366,122.70 relating to 2013, which have not been reversed in the cashbook.

No explanation has been given for these anomalies, as a result of which, the correctness of the cash and cash equivalents balance could not be confirmed.

467. Accuracy and Completeness of the Financial Statements

- (i)** Amounts totalling Kshs.6,356,850.15 comprising Kshs.4,563,325.70, Kshs.707,502.55, Kshs.687,929.90, and Kshs.398,092.00 being balances held in county offices / stations, funds held in Eldoret CBK account, unaccounted for cash and a cashbook entry referred to as bank error, have not been incorporated in the financial statements.

(ii) Unpaid salaries and allowances totalling Kshs.30,875,000.00 for the three months of April to June 2014, have not been disclosed as a pending bill under foot notes.

(iii) Pay As You Earn (PAYE) totalling Kshs.28,982,636.00 deducted from staff salaries and allowances, have not been remitted to Kenya Revenue Authority and the same has also not been disclosed as a pending bill under foot notes.

(iv) Expenditure totalling Kshs.383,838.00 being allowances for employees for February and March 2014, paid vide Payment Voucher No.103 of 10 April 2014, has not been incorporated in the financial statements.

(v) The balances reflected in the financial statements have not been supported by a trial balance as at 30 June 2014 and ledger for the year then ended. No explanation has been given for these anomalies and omissions, as a result of which, the completeness and accuracy of the financial statements could not be confirmed.

MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT

FINANCIAL STATEMENTS FOR VOTE 117

Basis for Qualified Opinion

468. Loan to Micro Finance Institutions

During the year under review, it was noted that out of the total amount of Kshs.320,238,768.00 under other payments as at 30 June 2014, an amount of Kshs.300,000,000.00 was issued to Kenya Industrial Estate (KIE) for loaning to industrial micro enterprises and individuals undertaking industrial endeavour across the country. However, KIE indicates that it received Kshs.200,000,000.00 only. An enquiry made to the Agency indicated that there appear to be no policy on how the amounts would be treated after recovery suggesting that the Agency has comingled the loaning amounts with other operational finances thereby precipitating utilisation of the money for operation rather than creating a revolving fund. The amount disbursed as loans appear to be liquidated for operations after recovery of the loan. Similarly, the Ministry appear to be equally at a loss on how the amount is treated after disbursement.

In the circumstances, the accuracy and utilization of the loan and loan recoveries could not be confirmed as at 30 June 2014.

469. Grants to Collaborating Institutions

The statement of receipt and payments for the period ending 30 June 2014 indicates that an amount of Kshs2,344,797,634.00 or about 37% of the reported total expenditure of Kshs.6,302,096,261.00 was disbursed as grants to organisations that collaborate with the Ministry in the realisation of its objectives. Verification of records revealed that the Ministry made other disbursements to the same institutions but charged them directly to its accounts yet it was not the implementing agency. In addition, a comparison of records maintained by the receiving organisation revealed some discrepancies between the audited accounts and the Ministry financial statements as indicated thereto.

In view of the foregoing, it has not been possible to ascertain the accuracy of the financial records and whether or not the total funds were transferred to the intended beneficiaries as at 30 June 2014.

470. Loss of Cash

During the 2011/2012 financial year, the Ministry contracted a vendor to supply 32,160kg of production materials – polymer (Aquafloc 10 1085) to Pan Paper Mills Ltd at a cost of Kshs.10,296,346.00. On 19 March 2012, the vendor supplied and delivered 20,000kg of the material valued at Kshs.6,403,200.00 and invoiced the Ministry accordingly on 12 March 2012 and subsequently, the payment was processed on 28 May 2012, but the Ministry erroneously transferred the money through its Central Bank of Kenya Account to a Company account through a Barclays bank account. The Company paid happened to be the second lowest bidder during the tendering process, instead of the Company which supplied the production materials. Upon realisation of the error, the Ministry contacted the

Company instead of the Bank and requested for the amount to be refunded. The Company erroneously paid promised to refund the balance at an opportune time claiming that the Company was running an overdraft and the amount has already been taken by the bank to reduce the overdraft then.

During the 2012/2013 financial year, the Ministry drew another cheque of similar amount to the right contractor and was left to make a follow up to recover the amounts wrongly transferred. The amount was therefore reflected in the financial statement below-the-line account under General Suspense Account. Based on IPSAS, the 2013/2014 financial statements have been drawn purely on cash basis and the below-the-line balances have not been disclosed in the account. To date, over 2 years since, the Ministry does not appear to have made any progress towards the recovery of the said amount and neither has it held any one culpable for occasioning the loss of the amount.

In the circumstances, the Ministry appears to have lost the total Kshs.6,403,200.00 as at 30 June 2014.

471. Bank Reconciliation

The bank reconciliation statement as at 30 June 2014 under the recurrent vote revealed payment in cash book not yet recorded in the bank statements of Kshs.191,595,235.65 which includes stale cheques totalling Kshs.1,334,199.70 which have been outstanding but have not been reversed in the cash book or the relevant accounts adjusted in the ledger. Similarly, the reconciliation statement reflects under payments in the bank statements not recorded in the cash book of Kshs.14,306,407.10 which includes cheques amounting Kshs.3,699,588.00 which have been long outstanding for more than six months and have not been investigated to be cleared.

In view of the foregoing, the accuracy and completeness of the cash and cash equivalents balance as at 30 June could not be confirmed.

472. Late Submission of Fund Account

Section 11.10.2 of the Government Financial Regulations and Procedures requires that any officer administering a fund shall if so directed by National Treasury, prepare, sign and transmit to the Auditor-General an account in such a form as the National Treasury may from time to time direct by 30 September. The format and content is further explained in Section 11.10.3. Contrary to the requirements, the Ministry did not prepare and submit for audit separate statements of the management, supervision and liquidation fund account for the year ended 30 June 2014 by the statutory date to enable the Auditor-General to give an assurance or otherwise on the Fund's financial position. In the circumstances, the Ministry is therefore in breach of the Public Audit Act, 2003 and other regulations.

Late submission of the financial statements do not only contravene the law but also interferes with the program for the completion of the audit by the statutory date as stipulated under the Public Audit Act, 2003

MINISTRY OF EAST AFRICAN AFFAIRS, COMMERCE AND TOURISM

FINANCIAL STATEMENTS FOR VOTE 118

Basis for Qualified Opinion

473. Unconfirmed Opening Balances

The financial statements opening balances for the year ended 30 June 2014 could not be ascertained since the itemization of account code has changed and figures were combined for three former Ministries. Further, no tabulation or schedules on how the opening balances were derived, was made available for audit verification. Consequently, it has not been possible to confirm the authenticity and accuracy of the opening balances in the financial statements for the year ended 30 June 2014.

474. Unsupported other Expenses

The financial statements for the year ended 30 June 2014 reflects an amount of Kshs.86,690,701.00 against other expenses which represents grants and domestic loans disbursed to financial institutions in 52 regions. However, the records and documents examined revealed that the Ministry disbursed funds in two tranches totalling Kshs.80,000,000.00. Further, it was noted that only 8 loan boards out of 52 had submitted their financial statements for the year 2013/2014 whereas 12 had acknowledged receipt of the funds but had not submitted financial statements both totalling to Kshs.20,850,790.00. The Ministry affirms that the balance of Kshs.6,690,701.00 was used by Department of Internal Trade in administering the loans to Counties.

Consequently, it has not been possible to ascertain whether the balance of Kshs.59,149,210.00 disbursed to 32 Loan Boards was actually received in the absence of financial statements and acknowledgement of receipt of funds from the loan boards.

475. Undisclosed Bad and Doubtful Debts

An audit of Joint Loans Board (JLB) office in Kisumu, revealed that both the Municipal and Rural financial accounts of the Board have not been audited for many years. For the Municipality final accounts, the Board has not separately disclosed the bad and doubtful debts of Kshs.12,310,672.00 as it should be in its statement of financial position. A provision of Kshs.1,403,226.00 for the period between 1966 and May 2012 is deemed inadequate. Consequently, the recoverability and accuracy of the bad and doubtful debts of Kshs.12,310,672.00 could not be confirmed.

Emphasis of Matter

476. Governance of the Joint Loan Boards - Constitution of the Board

Without qualifying my opinion, I draw attention that the Joint Loan Boards Act provides that there shall be the Board which shall consist of a chairperson appointed by the

president and six other members appointed by the Cabinet Secretary. However, it was noted that there were no Board of Directors in place after the term of the previous Board expired and a new one was yet to be appointed. As a result, several policy matters of the Board had not been undertaken including issue of loans in most loan boards and there is lack of ownership of decisions by management and no policy direction is given by the board.

Other Matter

477. Weak Internal Controls in Kisumu Region

Failure to Account for Cash Collections

The Trade Officer in charge of the Kisumu office recorded cash collections of Kshs.183,500.00. However, only Kshs.11,500.00 for 2013/2014 financial year was banked. From the summary of training activities report availed for audit review, it was noted that various trainings were conducted raising concerns that;

- a) The Trade Officer was not raising the miscellaneous receipts for cash collected from participants.
- b) The money was spent instead of being banked intact. Indeed no bank statements or deposit slips were availed for audit review.
- c) The Director of Kenya Institute of Business Training had not approved revenue to be spent.
- d) The expenditure could not be supported in absence of payment vouchers.

This implies weak internal controls and serious breach of Government Financial Regulations. My opinion is not modified in respect to this matter.

REVENUE STATEMENT

Unqualified Opinion

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

MINISTRY OF MINING

FINANCIAL STATEMENTS FOR VOTE 119

Unqualified Opinion

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

OFFICE OF THE ATTORNEY-GENERAL AND DEPARTMENT OF JUSTICE

FINANCIAL STATEMENTS FOR VOTE 120

Basis for Adverse Opinion

478. Accuracy and Completeness of the Financial Statements

(i) General Account of Vote

The financial statements reflect a nil General Account of Vote (GAV) balance for the year ended 30 June 2014. However, analysis of the total estimates and expenditures revealed a balance of Kshs.146,576,176.00 arrived at as shown below:

Item	Amount
	Kshs.
Recurrent approved estimate	2,592,204,299.00
Development approved estimate	358,308,300.00
<u>Total</u>	<u>2,950,512,599.00</u>
Recurrent actual expenditure	2,484,822,390.00
Development actual expenditure	319,104,032.80
<u>Total</u>	<u>2,803,926,422.80</u>
<u>GAV</u>	<u>146,586,176.20</u>

No reasons were provided for reflecting the wrong closing balance.

(ii) Exchequer Account

The financial statements reflect a nil Exchequer Account balance for the year ended 30 June 2014. However, analysis of the total budget and total exchequer releases revealed a balance of Kshs.151,100,299.00 as shown below:

Item	Amount
	Kshs.
Total Budget	2,950,512,599.00
Total Exchequer Release	2,799,412,300.00
<u>Exchequer Balance</u>	<u>151,100,299.00</u>

No reasons were provided for reflecting the wrong closing balance.

- (iii) The financial statements do not include a note on accounts payable as required by the template prescribed by the Public Sector Accounting Standards Board(PSASB) and consequently are not compliant with the Public Finance Management Act (PFM) No. 18 of 24 July, 2012.
- (iv) The financial statements have not been duly signed as required by the International Public Sector Accounting Standards (IPSAS).
- (v) The statement of assets reflects cash and cash equivalents of Kshs.198,235,919.15 whereas the cash flow statement reflects Kshs.199,684,953.25. The resulting difference of Kshs.101,449,035.10 has not been explained.

In view of the foregoing, the accuracy and completeness of the financial statements as at 30 June 2014 could not be confirmed.

479. Cash and Cash Equivalentents

The statement of assets for the year ended 30 June 2014 reflect total cash and cash equivalentents balance of Kshs.198,235,919.15 which is at variance with the cash book, board of survey report and bank statements provided resulting in unexplained and unreconciled difference of Kshs.3,583,348.90 as at 30 June 2014 as follows:

<u>Description</u>	<u>Kshs.</u>
Recurrent Cash book	1,424,751.25
Development Cash book	18,141,003.25
Deposits Cash book	181,375,701.55
Revenue Cash book	826,750.00
Imprests	52,268.00
Total	<u>201,819,268.05</u>

480. Bank Reconciliation Statements

(i) Development Account

a) Differences between the Development Cash Book and Bank Statements

The development cash book reflect a credit balance of Kshs.18,141,003.25 while the bank statement reflects a debit balance of Kshs.27,500,846.85. No reconciliation statement was prepared for the development account to reconcile or explain the resultant difference of Kshs.9,359,843.60 between the two sets of records.

(ii) Recurrent Account

a) Payments in Bank Statement not in Cash book

The bank reconciliation statement for recurrent account as at 30 June 2014 reflect payments totalling Kshs.155,815,488.75 in the bank statement not recorded in the cash book. No reason or explanation was given for failure to record the payments in the cash book.

b) Payments in Cash book not in Bank Statement

The recurrent bank reconciliation statement reflects payments in the cash book not reflected in the bank statement totalling to Kshs.404,855,177.84 as at 30 June 2014. No reason has been given for failure to clear the outstanding payments for the reconciliation statement.

(iii) Deposits Account

a) Payments in Cash book not in Bank Statement

The deposits cash book of the Office of the Attorney-General and Department of Justice reflects Kshs.181,375,701.35 as the closing balance as at 30 June 2014 while the bank statements reflect a balance of Kshs.176,802,697.20. The difference of Kshs.4,573,004.15 has not been reconciled or explained.

481. Unvouched and Unsupported Expenditure

Expenditure amounting to Kshs.133,423,181.80 on printing, advertising and information supplies and services, rental of produced assets, other grants and transfers, purchase of specialized materials and state law field services was incurred without payment vouchers and supporting documents .

As a result, the propriety, validity and accuracy of the expenditure could not be confirmed as at 30 June 2014.

482. Un-Supported Expenditure - Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects proceeds from domestic and foreign grants of Kshs.87,804,497.00 as at 30 June 2014. The donor agencies paid the funds directly to recipient projects/programmes. However, no documents were availed to support disbursements to the projects and the expenditure incurred thereon. Consequently, it has not been possible to confirm the propriety of the expenditure and whether the funds have been properly accounted for as at 30 June 2014.

483. Unaccounted for Transfers to Other Government Units

During the year under review, the Office of the Attorney - General and Department of Justice transferred a total of Kshs.296,183,479.00 to other Government Units.

However, only a total of Kshs.272,520,830.00 was received by the respective Units as shown below:

Government Unit	Amount Disbursed	Amount Received	Difference
	Kshs.	Kshs.	Kshs.
Truth, Justice and Reconciliation	23,662,649.00	NIL	23,662,649.00
National Cohesion and Integration Commission	19,000,000.00	NIL	19,000,000.00
National Crime Research Centre	128,630,830.00	96,010,000.00	32,620,830.00
Kenya School of Law	124,890,000.00	176,510,830.00	51,620,830.00
Total	296,183,479.00	272,520,830.00	126,904,309.00

The resultant difference of Kshs.126,904,309.00 remains unexplained and therefore not accounted for.

484. Pending Accounts Payable

The financial statements as at 30 June 2014 indicates that the Office of the Attorney-General and Department of Justice had outstanding bills of Kshs.17,060,902.45. However, the ledger reflects Kshs.19,562,754.00. The resulting difference of Kshs.2,501,851.55 has not been explained or reconciled. Further, had these bills been settled, the surplus of Kshs.172,832,239.65 reported in the statement of receipts and payments as at 30 June 2014 would have reduced to Kshs.155,771,337.20.

485. Domestic Currency and Domestic Deposits - Deposits held in Trust

Note 7 to the financial statements for the year ended 30 June 2014 reflect Kshs.542,260,496.95 under Domestic Currency and Domestic Deposits – Deposits held in Trust which differs with the cash book closing balance of Kshs.181,375,701.55 as at 30 June 2014. No reconciliations or explanations were provided for the resultant difference of Kshs.360,884,795.40.

Further, records available confirmed that a total of 28 receipt books for deposit had not been accounted for and no reasons were provided for the anomaly.

486. Other matter

The Office has no functioning audit committee, risk assessment strategy and a tested disaster recovery plan to enhance its governance. My opinion is not justified in respect to the above matter.

REVENUE STATEMENT OF THE OFFICE OF THE ATTORNEY-GENERAL AND DEPARTMENT OF JUSTICE

Basis for Qualified opinion

487. Unremitted Revenue

The statement of revenue for the year ended 30 June 2014 reflects total actual receipts of Kshs.284,874,802.95 inclusive of a balance brought forward of Kshs.1,852,239.80. Further, the revenue statement reflect Kshs.268,412,645.20 as having been transferred to the exchequer account, only Kshs.243,972,880.20 was confirmed as having been transferred to the exchequer. The remaining balance of Kshs.40,901,922.75 is still held in the accounts of the Office of the Attorney-General and Department of Justice.

No reasons have been provided for not remitting revenue receipts amounting to Kshs.40,901,922.75 to the exchequer.

488. Unexplained Over and Under collection of Revenue

The statement of revenue as at 30 June 2014 reflects total actual receipts of Kshs.283,022,563.15 against estimated receipts of Kshs.219,880,917.00 resulting in over collection of Kshs.63,141,646.15 or 29% and under collection of Kshs.22,412,019.00 or 10% of the estimated amount respectively in various revenue collection items. Further, there were no receipts in respect of two items namely Auctioneers Receiver's Fees and Estate Duty Fees against which collections totalling Kshs.5,511,451.00 were expected.

The reasons for material deviations between the estimated and actual receipts have not been provided in the statement of revenue contrary to Public Sector Accounting Standards Board Guidelines.

OFFICIAL RECEIVER

Basis for Disclaimer of Opinion

489. Presentation of Financial Statements

The financial statements of the Official Receiver submitted for audit for the year ended 30 June 2014 were not prepared in accordance with the template issued by the National Treasury in order to comply with the International Public Sector Accounting Standards (Accrual Basis). Except for a statement of assets and liabilities, the following statements were not prepared:

- Statement of financial performance;
- Statement of financial position;
- Statement of changes in net assets;
- Statement of cash flows;
- Statement of comparison of budget and actual amounts.

The financial statements presented for audit as at 30 June 2014 do not therefore comply with the prescribed accounting standards and format.

490. Failure to Keep Proper Books and Records

Section 232(1) of the Companies Act, Cap 486 requires that when the court has made a winding-up order or appointed an interim liquidator, there should be a statement as to the affairs of the company showing the particulars of its assets, postal addresses and occupations of its creditors, the securities held by them respectively, the dates when the securities were respectively given, and such further or other information as may be prescribed or as the Official Receiver may require. No such statement has been forwarded for audit review.

Section 239 further provides that the liquidator or interim liquidator shall take into custody or under his control all the property and things in action to which the company is or appears to be entitled.

The Official Receiver has not complied with these provisions as persistent requests for a comprehensive list of properties under receivership has so far not been presented for audit review, neither has the 'fund element' in the statement of assets and liabilities disclosed any assets of a non-monetary nature.

Further, no records were maintained or financial statements prepared in respect of institutions under liquidation and bankruptcies so as to show the status of the liquidations or bankruptcies as at 30 June 2014. For institutions where there were initial statements of affairs showing the assets and liabilities taken over, there has been no update of such statements periodically to show the progress of the liquidations as sampled below:

491. Continental Credit Finance Limited

- (i) Records available show that Continental Credit Finance Ltd was placed under liquidation in 1986 vide winding up case No. 29 of 1986. A statement of affairs of the Company at 31 December 1991 indicated that the Company had fixed assets and investment properties valued at Kshs.386,208,000.00 and current assets of Kshs.405,106,000.00 all totalling to Kshs.791,314,000.00 against total liabilities of Kshs.921,493,000.00 resulting in a deficit of Kshs.130,179,000.00.
- (ii) According to a summary of outstanding fixed deposits as at 30 June 2014, the creditors stood at Kshs.559,217,032.20 out of which Kshs.371,206,897.80 belonged to public institutions as listed below:

Institution	Kshs.
Kenya National Assurance 2	22,822,240.85
Public Trustee	7,625,000.00
NSSF	57,187,500.00
Nairobi City Council Education Fund	4,413,726.60
Murang'a County Council	5,718,750.00
Nairobi Primary School Fund	3,798,002.20
Kenya Post Office Savings Bank	14,389,222.85
Thika Municipal Council	762,500.00
Kenya Medical Research	1,142,825.15
HFCK	29,581,396.40
Industrial Development Bank	837,441.10
Directorate of Industrial Training	10,178,735.70
Kenya Pipeline Company	54,134,892.30
Nyeri County Council	9,358,048.20
KTDA	19,062,500.00
Kenya Industrial Estates	69,751,063.10
K.E.T.R.I Development	4,799,184.45
Meru County Council	1,000,000.00
NHIF	16,600,251.50
Kenya Institute of Education	4,922,864.50
Local Government Provident Fund	4,000,000.00
Meru County Council	1,000,000.00
National Fund for the Disabled	964,875.25
University Students Accommodation	2,131,863.00
National Housing Corporation	15,524,014.65
Tana/Athi Development	4,500,000.00
Eldoret Municipal Council	<u>5,000,000.00</u>
Total	<u>371,206,897.80</u>

However, no ledgers or records were made available to show how the amount moved from Kshs.921,493,000.00 initially reported when the liquidation started to the balances now reflected in the summary of Kshs.559,217,032.20 as at 30 June 2014.

- (iii) Further, the Official Receiver's summary of collections in respect of Continental Credit Finance Ltd between 2007 to 8 August 2014 indicates that the total collections for the period were Kshs.55,572,789.75. However, another summary for the quarter ending 30 June 2014 of debtors who had repaid their dues and files closed shows that a total of Kshs.64,158,260.25 had been received from these debtors alone. In the circumstance, the summary of collections appears inaccurate and unreliable.

The audit further revealed that since the first statement of affairs dated 31 December 1991, no other statement has been produced showing the progress made to realize the assets of the entity and pay the creditors.

In the circumstances, the Official Receiver has not maintained the required books of accounts as at 30 June 2014.

492. Unsupported Balances on Insolvent Financial Institutions

A status report provided as part of supporting schedules for the financial institutions under receivership reflect balances totalling Kshs.1,900,016,639.00 attributable to Pioneer Building Society, Capital Finance Ltd and Continental Credit Finance Ltd in respect of debtors and deposits as tabulated below:

A. Pioneer Building Society	Kshs.
i) Good debts	3,000,000.00
ii) Doubtful debts	2,300,000.00
iii) Bad debts	8,900,000.00
B. Capital finance	Kshs.
i) Secured debts	1,140,000.00
ii) Doubtful debts	3,779,198.00
iii) Bad debts	831,233,029.00
C. Continental Credit Finance Ltd & Continental Bank Ltd.	Kshs.
i. List of 5249 depositors and creditors that were paid in full total	260,947,380.00
ii. List of 49 creditors and depositors with outstanding balance	553,717,032.00
iii. List of secured debts	180,000,000.00
iv. List of accrued debts	55,000,000.00

However, schedules provided in respect of above balances did not contain analyses showing how the amounts reflected were arrived at. Consequently, the figures could not be verified and confirmed.

493. Unsupported Fixed Deposit and Bank Balances from Out-Stations

The statement of assets and liabilities of the Official Receiver for the period ended 30 June 2014 reflect balances from two out stations namely Mombasa and Kisumu totalling Kshs.17,196,345.20 in respect of fixed deposits and bank balances. However, bank balances confirmation certificates were not provided to support the balances.

In the circumstances, the fixed deposits and bank balances of Kshs.17,196,345.20 could not be confirmed as at 30 June 2014.

494. Variations in Balances between the Financial Statements and Supporting Schedules/Records

a) Fixed Deposits

The statement of assets and liabilities reflect fixed deposits amounting to Kshs.417,162,376.00 for Nairobi station which differed with the bank balances confirmation certificate fixed deposits balance of Kshs.420,125,506.50 held in the National Bank of Kenya and Equity Bank that had not matured by 30 June 2014. As a result, the fixed deposit balance is understated by Kshs.2,963,130.50. The difference of Kshs.2,963,130.50 has not been reconciled or explained.

b) Current Account Fund

The Current Account Fund represents the cash and bank balances of the Official Receiver as at 30 June 2014. The Official Receiver however reported the balance on this account for Nairobi as being Kshs.12,592,695.00 while a summary of the balances reflected in bank balances confirmation certificates for the various accounts held totalled to Kshs.17,695,536.20 resulting in a difference of Kshs.5,102,841.20. The difference of Kshs.5,102,841.20 has not been reconciled or explained.

In view of the foregoing, the fixed deposit and cash and bank balances could not be confirmed as at 30 June 2014.

495. Unsupported Trial Balance Differences

The 2012/2013 statement of assets and liabilities reflect a balancing figure of Kshs.23,497,368.00 described in the statement of assets and liabilities as 'trial balance difference. Note 14 to the financial statements attributes the difference to inaccurate figures from Mombasa and Kisumu Offices. However, this difference was excluded from the 2013/2014 statement of assets and liabilities without showing how it has been cleared.

Consequently, the accuracy and completeness of the statement of assets and liabilities opening balances of current assets funds could not be confirmed as at 30 June 2014.

496. Un-explained Change in Fund Balances

As per Section 232(1) of the Companies Act, the statement of assets and liabilities of the Official Receiver should be made up of the assets and liabilities taken over from firms and individuals who are under receivership. The assets or liabilities should therefore only increase when the Official Receiver admits more firms or individuals into receivership; or if the Official Receiver generates more than is recorded from the assets of the entities under receivership.

However, the statement of assets and liabilities for the year 2012/2013 shows an increase in assets and liabilities of over Kshs.63,000,000 from the balance of 2011/2012. Likewise, the statement for 2013/2014 shows an increment of Kshs.89,682,904.00 over the balance for 2012/2013. Examination of ledgers maintained by the Official Receiver did not disclose how the increase in the assets and liabilities was realized.

As a result, the changes/increases in the funds balances has not been supported as at 30 June 2014.

497. Bankruptcy Investment Income Account

In an attempt to have all income from bankruptcy investment in a separate account, the Official Receiver created a bankruptcy investment income account. However, this account has remained dormant with a minimal balance of Kshs.11,555.00 as at 30 June 2014 reflecting an increase of only Kshs.2,000.00 on the amount that was there at the beginning of the year. Further, interest earned from the investment of bankruptcy funds which amounted to Kshs.83,955,467.00 as at 30 June 2014 have not been reflected in this account.

No reasons have been provided for failure to reflect the interest earned of Kshs.83,955,467.00 from the bankruptcy funds investment and accruing benefits.

498. Payments not supported by ETR Invoices

Payments totalling Kshs.5,500,394.00 were not supported by ETR enabled invoices to ensure payment of the VAT to KRA despite the invoices for the services having loaded the VAT component to the Official Receiver as shown below:

Advocate/Supplier	Amount (Kshs)	Comments
M/s D. Njogu & Associates	3,860,394.00	Represented the Official Receiver in the case of Continental Credit Finance. The firm was instructed by the Official Receiver but there was no evidence to show how the services were procured.
M/s Oira & Co. Advocates	1,640,000.00	Preparation of lease agreement for lease of Mezzanine I & II of Corner House.
Total	<u>5,500,394.00</u>	

No explanation has been provided for this anomaly.

499. Irregular Sale of Properties Under Receivership

a) Continental Credit Finance Ltd (Various Properties)

According to a summary record of collections and the receipts made available for audit review in respect of Continental Credit Finance, the Official Receiver collected amounts totalling Kshs.48,993,000.00 from sale of properties described as LR/4242, Galu/Kinondo/11 South Coast, Kitusuru Property and Kileleshwa Property of Alfa Investments Ltd. Details of how the buyers of these properties were identified and price determined have not been provided for audit verification. Further, the properties were not valued before disposal as valuation documents have not been seen.

In the circumstances, it has not been possible to confirm that the value was received by the Official Receiver from the disposal of the above properties as at 30 June 2014.

b) Drive In Estate - L.R. No. 7879/4

Drive In Estate - L.R. No. 7879/4 measuring approximately 96 acres was jointly owned by two firms i.e. M/s Afrison Export Import Ltd and Huelands Ltd who had secured a loan from Continental Credit Finance Ltd (now under receivership) in 1981 to finance development of 600 housing units on the land. The 600 housing units were to be developed on behalf of Kenya Posts and Telecommunication Corporation (KPTC) who intended to utilize them as staff houses. The construction was undertaken by Drive In Estate Developers Ltd (a sister company of the joint owners).

However, Continental Credit Finance Ltd was declared insolvent and put under receivership in 1986, with the Official Receiver as the Interim Liquidator in winding up Cause No. 29 of 1986. Subsequently, on 11 July 1986 KPTC advanced the developers Kshs.165,000,000.00 as part payment for the houses to facilitate their completion.

In 1988, KPTC also got into financial problems and was unable to complete the financing of the development when only 196 housing units and 2 show-houses had been completed. Consequently, the corporation opted to sell its interest in the development.

Additional information available indicate that the Office of the President which was experiencing shortage of houses for GSU staff at Ruaraka Camp then decided to enter into an agreement with KPTC to purchase the completed units at a price of Kshs.64,680,000.00. This amount was paid to KPTC through M/s Kangwana & Co. Advocates. However, the following unsatisfactory issues were observed:

- (i)** KPTC did not have title to the property yet the Office of the President entered into an agreement to buy the property from KPTC;
- (ii)** The Official Receiver who was holding the title to the property did not object to this arrangement yet the Office was required to collect the debt owed to Continental Credit Finance Ltd by the registered owners of the property;

- (iii) The Official Receiver received Kshs.4 million on account of the outstanding loan from Continental Credit Finance Ltd. However, it is not clear whether this was in final settlement of the debt owed by the registered owners or if not how the amount of Kshs.4 million was arrived at;
- (iv) No explanation has been provided on how the interests of the depositors and owners of Continental Credit Finance Ltd. were taken care of in this transaction;
- (v) There is no evidence of valuation having been done to ascertain the value of the property to support the sale price;
- (vi) It is not clear how KPTC, having advanced the developer Kshs.165,000,000.00 as part payment for the property, accepted Kshs.64,680,000.00 as the purchase price of the property, effectively selling a unit at the rate of Kshs.330,000.00.
- (vii) The Office of the President could not obtain title to the property as the title was held by the Official Receiver but in the names of the registered owners.

In 2012, the registered owners filed Civil Case No. 617 of 2012 against the Attorney-General on behalf of the Ministry; the Official Receiver/Interim Liquidator and Continental Credit Finance Ltd (in liquidation) claiming sale price and assessed rental loss/loss of use arising from illegal occupation by the Office of the President.

In a judgment entered on 12 February 2012, the plaintiff was awarded Kshs.4,086,683,330.00 as fair value of the property suit. However, during negotiations chaired by the Attorney-General between his Office, Office of the President and the claimant, Kshs.2,400,000,000.00 was agreed as the full and final settlement of the judgement debt. Consequently on 12 April 2013, the Attorney-General filed a consent order in court and the initial award was reduced to Kshs.2,400,000,000.00.

From the preceding, the Official Receiver was not considered in the judgment. However, in an internal report to the Official Receiver by the officer in charge of financial institutions under receivership, the officer indicates that the Official Receiver was to receive Kshs.100,000,000.00 from the sale of the portion of Drive-In Estate to the Office of the President; and a further Kshs.30,000,000.00 was to be paid to M/s D. Njogu & Co. Advocates as outstanding legal fees.

The origin and validity of these amounts is unknown as the figures are not in the statement of assets and liabilities, neither have any supporting documentation been produced for audit verification.

c) Rural Urban Credit Finance Limited

The Official Receiver was appointed the provisional liquidator of this firm on 3 December 1984. As at that date, the firm had individual and small enterprise

creditors amounting to Kshs.156,366,361.79 while corporate creditors who had invested their funds in the firm included:

<u>Institution</u>	<u>Amount (Kshs.)</u>
National Social Security Fund	135,000,000.00
National Bank of Kenya	51,500,000.00
Cooperative Bank of Kenya	29,000,000.00
National Hospital Insurance Fund	19,000,000.00
Continental Credit Finance Limited	22,000,000.00
Kenya Post Office Savings Bank	13,000,000.00
Consolidated Bank of Kenya	<u>23,983,178.00</u>
	<u>293,483,178.00</u>

This would therefore mean that the firm owed its depositors a total of Kshs.449,849,539.79 by the time it was placed under receivership.

A report on the status of the liquidation by the officer in charge of Rural Urban Credit Finance Ltd indicates that the firm had over 15,000 creditors and depositors by the time it became insolvent. However, on the basis of an affidavit seen, for presentation to court by the Official Receiver being application for discharge as liquidator of Rural Urban Credit Finance Ltd, the Official Receiver indicated that, as at 16 January 2014 a total of Kshs.99,985,985.84 had been refunded to 183 depositors. Hence, if only 183 had been paid, then over 14,817 remained outstanding. Clearly therefore, a balance of Kshs.349,863,561.95 remained unsettled by the same date.

No reconciliation has been done between the 183 depositors refunded and the 15,000 creditors and depositors reflected in the books of the firm when it was declared insolvent.

Further, the Official Receiver has, only by way of a note and without indicating values, disclosed only two assets that were owned by the firm at the time of insolvency, namely Ngumba House on L.R. No. 209/2401 and a Volvo 240GL – KUJ 880. The status of the bank accounts operated by the institution, list of other assets taken over, the debtors – a number of whom had their debts secured by properties or guarantees and investments undertaken have not been disclosed. Further, what subsequently happened to these assets has not been recorded or the appropriate records availed for audit verification.

d) Irregular Sale of Ngumba House

Among the investments of Rural Urban Credit Finance was Ngumba House which had tenants paying rent before the winding up order and during the period of liquidation. A tenancy schedule prepared by the Official Receiver in February 2014 that was to be filed in court indicates that the building had a total of 23 tenants from whom Kshs.434,495.00 was being collected every month. In addition to tenancy/lease agreements not being availed to confirm the status of the tenancies, there is no record of the amounts received and how these amounts were utilized.

In an un-dated letter which was received on 19 October 2011, a Mr. John Mwenja Ngumba offered to buy Ngumba House at a price of Kshs.100,000,000.00. The offer was supported by valuations from the then Ministry of Lands which had put the open market value of the building at Kshs.135,000,000.00 and a forced sale value of Kshs.105,000,000.00. Another valuation by M/s Lloyd Masika gave the building an open market valuation of Kshs.120,000,000.00 and a forced sale value of Kshs.90,000,000.00.

There was no evidence of response to the offer or details of who requested the valuations, including the choice of M/s Lloyd Masika as the private valuer or how the valuations were evaluated.

On 21 January 2013, another letter by John Mwenja Ngumba to the Senior Principal State Counsel in Charge of Rural Urban Credit Finance indicated that he was in acceptance of a letter from the counsel dated 16 January 2013. The letter from the counsel proposed that John Mwenja Ngumba should settle the monies due to the creditors, advocates and the Official Receiver amounting to Kshs.139,633,235.00 and the advocates fees with regard to the conveyance transaction over L.R. No. 209/2401 (Ngumba House). In return, the building would have been purchased by John Mwenja Ngumba. The amount has since been paid and the Official Receiver executed the transfer to John Mwenja Ngumba. The following observations were made:

- (i)** It was not clear how the amount of Kshs.139,633,235.00 was arrived at as the amounts intended to pay the creditors, while the advocates and the Official Receiver are not stated and justified;
- (ii)** Article 227(1) of the Constitution requires that a state organ or any other public entity wishing to contract for goods and services shall do so in accordance with a system that is fair, equitable, transparent, competitive and cost effective. Also, Section 128 of the Public Procurement and Disposal Act, 2005 stipulates that a public entity shall establish a disposal committee in accordance with regulations for the purpose of recommending the best method of disposing of an asset. Further, Section 92(1) of the Public Procurement and Disposal Regulations, 2006 requires the committee to be of at least five members comprising of the officer in charge of finance, head of procurement unit, head of accounting department and two heads of the user department, one being the head of the disposing department. There is no evidence that any of these procedures were followed by the Official Receiver in identifying the buyer and determining the price of the sale.
- (iii)** Even though copies of letters from NSSF, National Bank of Kenya and Cooperative Bank of Kenya accepting the offer were seen, NHIF rejected the offer and there is no evidence of communication from the other creditors on the offer.
- (iv)** There was lack of proper management and competitive process in the disposal of assets of Rural Urban Credit Finance Ltd. In view of the foregoing, it has not been possible to confirm that the Official Receiver acted in the best interest of the creditors most of who were public institutions such

as NSSF, National Bank of Kenya, NHIF, Cooperative Bank of Kenya, Kenya Post Office Savings Bank and Consolidated Bank of Kenya, depositors and the public at large.

500. Emphasis of Matter

I draw your attention to the following weaknesses in the internal controls of the Official Receiver:

- a) The operations at the Official Receiver remained heavily manual and the Office does not have an approved Information Technology (IT) policy for management and control of IT functions and assurance on data integrity. Further, there was no internal audit function during the year under review;
- b) There was no risk management policy or disaster recovery plan, nor was risk assessment carried out to identify and address key areas of concern and document specific controls in response to identified risks;
- c) The Official Receiver has not produced operating manuals to guide key processes and controls for receipts from debtors/customers, payments to creditors, personnel, expenditure, assets and liabilities and investments.

My opinion is not qualified in respect of these matters.

PUBLIC TRUSTEE

Basis for Qualified Opinion

501. Unaccounted for Property and Other Assets Held in Trust

Section 2 of the Public Trustee Act, Cap 168, defines an estate as all immovable property and all movable property. Further, Section 12(4) (i) provides that in the event that the Public Trustee is unable to trace parties beneficially entitled to the residue of an estate or any of them; he shall transfer the residue or proportionate part thereof as the case may be to the unclaimed property account. In addition, Subsection (5) requires the Public Trustee to distribute estates according to the rules of law within a period of 12 years computed from the date of the final completion of the account. On expiry of that period all estates or portions thereof in respect of which no claim has been lodged with the Public Trustee should lapse or is escheat to the Government.

However, despite the clear provisions of the law, the Public Trustee has only accounted for part of the movable property represented by cash and cash equivalents and investments in securities. No account has been made of the estate(s) held in form of other movable properties and immovable properties except a schedule of 28 marginal properties. Further, no unclaimed property account and analysis of estates that have lapsed have been prepared or produced for audit review.

In the circumstances, the Public Trustee has not disclosed and accounted for the property and other numerable assets held in public trust as at 30 June 2014.

502. Provision for Interest Due to Beneficiaries

The amount of Kshs.468,800,000.00 shown as provision for interest due to beneficiaries is consolidation of the provisions in each of the stations as at 30 June 2014. However, there was no policy on how the provision should be determined and every station used a different rate to determine its provision even though all investments from which the interest is earned are undertaken by the Nairobi Office.

Consequently, it has not been possible to determine the basis for the varying rates used in calculating interest provisions due to beneficiaries as at 30 June 2014.

503. Other Matters

I draw your attention to the following internal control weaknesses:

- a) The Public Trustee has not fully embraced the use of IT services and migrate from the existing manual system to improve efficiency and accuracy in its accounting and record keeping systems;
- b) There was no risk management policy in place during the year under review;
- c) There was also no approved disaster recovery plan and a documented and tested emergency procedure in place. Should a disaster occur it may result in loss of the manual records and the Trustee may not recover or manage the recovery process properly. This would interfere with operations and in turn grossly affect the beneficiaries. My opinion is not qualified in respect to these matters.

TRUTH, JUSTICE AND RECONCILIATION COMMISSION FOR THE TWO MONTHS PERIOD ENDED 21 AUGUST 2013

Basis for Disclaimer of Opinion

504. Presentation of the Financial Statements

Contrary to the requirements of the International Public Sector Accounting Standards (IPSAS 1), the notes to the financial statements as at 21 August 2013 presented for audit review were not in the prescribed format. Further, information is not presented in a manner that provides relevant, reliable, comparable and understandable information contrary to the National Treasury Circular No.AG.3/088 Vol 6/(78) that prescribes the reporting template.

505. Unsupported Financial Statements

The financial statements as at 21 August 2013 were presented for audit without the corresponding books of account; ledgers, records and documents to support the balances. Consequently, it has not been possible to confirm the accuracy of the

figures in respect of expenditure totalling to Kshs.113,193,760.00, revenue of Kshs.41,388,317.92, and the total assets figure of Kshs.19,901,953.32 reflected in the financial statements as at 21 August 2013.

THE JUDICIARY

FINANCIAL STATEMENTS FOR VOTE 121

Basis for Qualified Opinion

506. Contract for Leasing of Office Equipment

On 4 February 2013, the Judiciary entered into a three year contract with M/s MFI Management Document Solution Ltd for leasing of printers, scanning and photocopy services at a cost of Kshs.51,144,786.00 per annum. During the months of September and October 2013, two payment vouchers were processed and paid on 13 January 2014 for these services.

There was no justification as to why the Judiciary decided to enter into a leasing agreement, which in three years would translate to a cost of Kshs.153,434,358.00 instead of buying their own equipment.

In the circumstances, it has not been possible to determine whether the Judiciary got value for money in the lease agreement.

507. Measures taken to address Delayed Delivery of Justice

Chapter 10 Section 159 (b) of the Constitution of Kenya states that justice shall not be delayed while Section 159 (c) states that justice shall be administered without undue regard to procedural technicalities.

In an effort to meet the constitutional requirement, the judiciary established Judicial Transformation Framework, 2012-2016 in which access to expeditious delivery of justice was one of the Key Result Areas (KRA).

Various strategies were adopted mainly:-

- (i) Building more courts to reduce the distance to courts;
- (ii) Develop and deploy an electronic Case Management System and an integrated document management system;
- (iii) Embrace ICT and apply appropriate technology to enhance court efficiency;
- (iv) Increase the number of mobile courts;
- (v) A litigant charter to provide information on court's jurisdiction, fees and calendar; and
- (vi) Promote Alternative Dispute Resolution.

To implement the strategies, construction of new courts, refurbishment and upgrading of old courts and construction of prefabricated court structures were started in 2011/2012 as well as development of ICT infrastructure. However,

according to Judiciary Case Audit and Institutional Capacity Survey, 2014 published by Performance Management Directorate dated August, 2014 Volume I, the survey established that as at 30 June 2013, there were 426,508 pending cases in the court system, of which 332,430 were civil and 94,078 were criminal.

Despite the intervention measures adopted by the judiciary, various challenges mentioned in our previous reports appear not to have been properly addressed as the 2013/2014 audit reveals under the following paragraphs

a) Three (3) Stalled Projects awarded to Same Contractor

(i) Bomet Law Courts

As reported in 2012/2013, a contract for the construction of a prefabricated court structure at Bomet Law Courts was awarded on 27 November 2012 to a construction company at a contract sum of Kshs.81,664,580.00. However, despite the above works not having been completed, another tender Ref.JUD/20/2012-2013 was awarded on 9 May 2013 by the same Judicial Tender Committee to another construction company for the construction of a high court building at a contract price of Kshs.686,800,000.00.

It was noted during physical audit inspection of the two projects carried out in December 2014 that the two projects had stalled.

(ii) Wanguru Law Courts

The Judicial Tender Committee on 15 January 2013 awarded a contract for the construction of a prefabricated court structure at Wanguru Law Courts to a construction company at a contract sum of Kshs.81,664,580.00. Examination of relevant documents revealed that an amount of Kshs.23,614,355.00 was paid during the year under review. It was, however, observed during physical verification of the project in December 2014 that construction of the pre-fabricated court structure had stalled at approximately 60% completion stage.

No reasons have been given as to why the project stalled.

(iii) Othaya Law Courts

The Judicial Tender Committee on 15 January 2013 awarded a contract for the construction of a prefabricated court structure at Othaya Law Court to a construction company at a contract sum of Kshs.81,664,580.00. However, a physical inspection in December 2014 revealed that although an amount of Kshs.23,104,227.00 had been spent on the project, construction had stalled at approximately 55% completion stage. No reasons have been given as to why the project stalled or why this particular contractor should not be debarred.

b) Construction Works at Kericho Law Courts

On 28 May 2014, the Kericho District Tender Committee awarded three contracts for construction works at Kericho Law Courts as follows:

Name of contractor	Contract No.	Contract details	Date awarded	Completion date	Contract Sum Kshs.
M/s Tasco Enterprises	KCO 22/2013/2014	Court Room Extension and Erection of Public Toilet	16 June 2014	Not Specified	10,831,899.00
M/s Sarit Building & Construction Co. Ltd	KCO 23/2013/2014	Renovation/Refurbishment of High Court	13 June 2014	Not Specified	7,104,443.20
M/s Civil Trust Engineering Ltd	KCO 24/2013/2014	Court Room Extension	13 June 2014	Not Specified	11,841,894.00
Total					29,778,236.20

However, the contract agreements did not specify the commencement date and duration of each contract. It has therefore, not been possible to establish project completion dates. Available information indicates that full payment totalling Kshs.29,778,236.00 was made on 30 June 2014. However, physical inspection in December 2014 revealed that none of the projects had been completed.

It is not clear why the Tender Committee decided to award three contracts to three different contractors for similar work.

c) Non-functioning Wide/Local Area Connections (Wan/Lan)

During the year under review, the Judiciary spent Kshs.375,907,838.00 on improvement of WAN/LAN in various courts countrywide. However, it was noted that some of the courts were using modems in their day to day activities since WAN/LAN installation was not working which was noted particularly in Malindi, Mombasa and Kikuyu. In addition, commissioning reports or the user's reports from the ICT in the headquarters were not made available for audit review.

No reasons have been provided for paying for non-functioning ICT network.

508. Unsupported payments

Note 4 to the financial statements reflects payments totalling Kshs.159,130,934.00 under Use of Goods and Services in respect of Rentals of Produced Assets out of which Kshs.1,716,800.00 was paid as rent for various stations. However, no supporting documents were made available to support the payments.

Consequently, the propriety of expenditure of Kshs.1,716,800.00 could not be ascertained.

509. Unsupported Domestic Travel and Subsistence Expenditure

Note 4 to the financial statements further indicates payments of Kshs.377,382,724.00. under Use of Goods and Services in respect of Domestic Travel and Subsistence, out of which Kshs.236,601,102.00 or 63% was paid as

AIEs and posted to the ledger. However, no expenditure returns were made available for audit verification in respect of this expenditure. Further, a credit of Kshs.2,190,000.00 posted to the ledger under this item was not explained. In addition, an amount of Kshs.2,044,247.90 in respect of per diem paid to officers while attending official duties in Colombia was wrongly classified under this expenditure despite it being foreign travel.

In the circumstances, the domestic travel and subsistence expenditure of Kshs.377,382,724.00 has not been supported as at 30 June 2014.

510. Cash and Cash Equivalents

The statement of assets reflects a cash and cash equivalents balance of Kshs.269,286,893.00 as at 30 June 2014. However, bank reconciliation statements, board of survey reports and bank balance confirmation certificates from the stations in support of this figure were not made available for audit review.

In the circumstances, it has not been possible to confirm the cash and cash equivalents balance of Kshs.269,286,893.00 as at 30 June 2014 as accurately stated.

511. Pending Bills

During 2013/2014, bills totalling Kshs.297,784,255.00 were incurred which were however not settled during that year. As at the time of audit in December 2014, bills totalling Kshs.252,338,970.00 had been cleared leaving a balance of Kshs.45,445,285.00 still outstanding. Had these bills been paid, the statement of receipts and payments could have reflected a deficit of Kshs.28,497,362.00 instead of the surplus of Kshs.269,286,893.00 now reflected.

No satisfactory explanation has been given as to why the bills were not settled in the year in which they were incurred.

512. Outstanding Imprests and Advances

Imprests totalling Kshs.5,677,844.00 were due and outstanding as at 30 June 2014. Further, salary advances totalling Kshs.3,063,747.00 which were due for recovery as at 30 June 2014 had not been recovered. In addition, the salary advances schedule provided for audit review reflected Kshs.3,043,384.45 resulting in an unexplained difference of Kshs.20,362.00.

No reasons have been provided for non-recovery of the imprests and advances as at 30 June 2014.

513. Deposits

(i) Unsupported payments from the Deposits Account

During the year under review, the Judiciary made payments totalling Kshs.84,267,245.40 to various companies in respect of supply of goods and services from the deposits account. However, the payments were not supported with payment vouchers.

In the absence of payment vouchers the propriety of payments totalling Kshs.84,267,245.40 from the deposits account could not be confirmed.

(ii) Nyamira Law Courts : Un Reconciled Deposits/Cash Bail Ledger

The Courts deposits ledger reflects a balance of Kshs.2,247,165.00 as at 30 June 2014 while the bank balance as at the same date reflects Kshs.1,281,413.00. The difference of Kshs.965,752.00 between the deposit ledger and the bank statement was explained by management as being a historical problem. Further, the Law Court did not separate the cash bail bank account from the Authority to Incur Expenditures (A.I.Es) Bank Account as directed by the Chief Registrar's Circular JA/DB/2011/1 dated 5 June 2012. Under the circumstances, reconciliation between the deposits cashbook/ledger and the bank statement has not been possible.

Consequently, it has not been possible to confirm the accuracy and completeness of the deposits account balances and expenditure as at 30 June 2014.

514. Unaccounted for Fees From Auctioneers Licensing Board

The Auctioneers Licensing Board collected fees totalling Kshs.4,648,750.00 as at 30 June 2014 but only Kshs.2,330,210.00 was reflected in the records maintained at the Supreme Court leaving a balance of Kshs.2,318,540.00 unaccounted for.

In the circumstances, the fees balance of Kshs.2,318,540.00 remains unaccounted for as at 30 June 2014.

REVENUE STATEMENT

Unqualified Opinion

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

DONOR FUNDED PROJECTS

JUDICIAL PERFORMANCE IMPROVEMENT PROJECT

Basis for Qualified Opinion

515. Unreconciled Difference

The statement of receipts and payments for the year 2013/2014 reflects total payments of Kshs.316, 781,916.00 while the cashbook reflects total payments of Kshs.317,296,046.00. The resultant difference of Kshs.514,130.00 has not been explained or reconciled.

516. Overstatement of Non-Financial Assets

The financial statements under note 8.9 reflects acquisition of non-financial assets totalling Kshs.73,559,961.00 which includes Kshs.69,589,460.00 for civil works and Kshs.14,639,900.00 in respect of architectural consultancy services but

erroneously included as part of non-financial assets. As a result, the non financial assets have been overstated by Kshs.14, 639,900.00 while expenditure on consultancy services is similarly understated. In addition, the consultancies did not relate to the respective Law Courts charged. No satisfactory explanation has been given for charging the wrong account.

517. Rehabilitation of Kangema Law Courts

A site visit on 7 November, 2014, to the project which was handed over in May 2014 revealed that the project was not properly supervised and numerous defects, omissions were observed:-

Works worth Kshs.339,215.00 were not done as detailed in the Bills of Quantities (BoQs) and approved designs despite issuance of completion certificate and full payment to the contractors. Further, un approved works valued Kshs.261,750.00 for archives and Kshs.1,247,253.00 for criminal registry was changed to substructure for phase two and were paid for yet they were not in the plan for the project.

518. Pending Bills

Records maintained in respect of the Project indicate that various suppliers of goods and services had pending bills amounting to Kshs.16,015,606.00 which were not settled as at 30 June 2014. However, Kshs.14,342,946.00 or 89% of the bills had been paid as at 27 November 2014 leaving a balance of Kshs.1,672,660.00 outstanding. The failure to settle the bills affects the budget for the following financial year.

ETHICS AND ANTI- CORRUPTION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 122

Unqualified Opinion

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

NATIONAL INTELLIGENCE SERVICE

FINANCIAL STATEMENTS FOR VOTE 123

Basis for Qualified Opinion

519. Outstanding Imprest

Examination of imprest register and other records maintained by the National Intelligence Service (NIS) revealed that imprests totalling Kshs.1,005,695.00 which ought to have been surrendered on or before 30 June 2014 remained unaccounted for and unsurrendered by the time of audit. In the absence of strict controls over imprests, officers may look upon imprests as a ready source of advance which can lead to a gross abuse of the facility.

520. Advance to Ministry of Foreign Affairs

Included in Advances in the statement of assets and liabilities is an amount of Kshs.89,018,527.37 which relates to amount advanced by NIS to the Ministry of Foreign Affairs in the period 1997-2007. The advance has not been accounted for to date and it has therefore not been possible to determine whether it was used for the intended purpose.

NATIONAL INTELLIGENCE SERVICE DEVELOPMENT FUND

Unqualified Opinion

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

DIRECTORATE OF PUBLIC PROSECUTIONS

FINANCIAL STATEMENTS FOR VOTE 124

Basis for Qualified Opinion

521. An amount of Kshs.578,733.00 was utilised in the repair of a Government Vehicle – GK A 426N which had been involved in a self-caused accident. However, the driver responsible for the accident was only surcharged Kshs.9,000.00 which was recovered from the officer's salary.

No satisfactory explanation has been given for failure to recover the entire cost of the repairs from the officer.

COMMISSION FOR THE IMPLEMENTATION OF THE CONSTITUTION

FINANCIAL STATEMENTS FOR VOTE 125

Basis for Qualified Opinion

522. Outstanding imprests and advances

The statement of assets reflects outstanding imprest balance of Kshs.32,941,671.00 as at 30 June 2014. However, records as at 20 January 2015 reflected a balance of Kshs.11,235,309.00 which remained outstanding beyond the due dates.

No reason has been provided for the failure by the Commission to have the imprests recovered from the salaries of the imprest holders. Considering that the Commission's term comes to an end by 31 December 2015, these imprests may prove difficult to recover within the remaining period.

523. Fraudulent procurement of goods and services

The statement of receipts and payments as at 30 June 2014 reflects expenditure of Kshs.232,015,419.00 under use of goods and services which includes expenditure of Kshs.44,170,578.00 in respect of printing, advertising and information supplies and services. The audit revealed that during the year under review, the Commission paid a total of Kshs.9,200,000.00 to a supplier vide payment voucher No. 1104 dated 22 April 2014 of Kshs.6,000,000.00 and Kshs.3,200,000.00 vide payment voucher No. 1288 for purported newspaper supplements, video, photography and media mobilisation. These payments were made despite the following irregularities:-

- (i) The Local Service Order (L.S.O) No. 088968 that was used to pay Kshs.6,000,000.00 did not belong to the Commission.
- (ii) There was no evidence of the method of procurement followed by the Commission or that of the tender committee sanctioning the procurement process.
- (iii) The payment voucher No.1288 and supporting documentation that were used to pay Kshs.3,200,000.00 were not availed for audit review as the voucher was reported to be missing.

The Commission has, however, indicated that the matter has since been reported to the Police Criminal Investigations Department (CID) for further investigations and recovery of Kshs.9,200,000.00 vide OB/43/9/12/2014.

524. Other matter

Without qualifying my opinion, I draw your attention to the following internal control weaknesses of the Commission:-

- (i)** Policy guidelines as provided for under Section 73 of the Public Finance Management Act, 2012 pertaining to budget preparation for acquisition of resources and their use by the Commission have not been established and documented. Further, the budget for operations was not prepared and approved by the Commission as required.
- (ii)** There is no evidence of a functioning audit committee, a disaster recovery plan/business continuity program, a performance evaluation system and an approved risk management policy.

REGISTRAR OF POLITICAL PARTIES

FINANCIAL STATEMENTS FOR VOTE 126

Unqualified Opinion

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

525. Other Matters

I draw your attention to the following matters:

- (i) As reported in 2012/2013, the Registrar of Political Parties has no functional internal audit unit and audit committee as required by International Standards for the Professional Practice of Internal Auditing to assure effective controls.
- (ii) Similarly as reported in 2012/2013, the office has no functional Risk Management and Information Technology Policies and Procedures.

POLITICAL PARTIES FUND

Unqualified Opinion

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

526. Emphasis of Matter

I draw your attention to the following matter.

The statement of receipts and payments reflects Kshs.3,908,863.00 under purchase of goods and services which includes a total of Kshs.941,855.00 paid as pending bills incurred in the previous years by the Independent Electoral and Boundaries Commission (IEBC). The pending bills were in respect of advertisements carried by media houses under Political Parties Fund Account. However, IEBC had not confirmed whether there were other bills not yet settled relating to previous years. My opinion is not qualified in respect this matter.

WITNESS PROTECTION AGENCY

FINANCIAL STATEMENTS FOR VOTE 127

Basis for Qualified Opinion

527. Witness Expenses

Included in the general expenses of Kshs.143,008,465.00 for the year under review were witness related expenses which increased by 36% from Kshs.51,620,811.00 in 2012/2013 to Kshs.79,358,109.00 in 2013/2014. However, details of these expenditures were only covered by certificates of confidential expenditure.

Consequently, the propriety of the expenditure of Kshs.79,358,109.00 could not be confirmed as at 30 June 2014.

528. Other Matter

I draw your attention to the following matter:

The audit revealed that the Agency does not have an approved Information Technology (IT) policy for management and control of IT functions and assurance on data integrity.

My opinion is not qualified on this matter.

KENYA NATIONAL COMMISSION ON HUMAN RIGHTS

FINANCIAL STATEMENTS FOR VOTE 201

Basis for Qualified Opinion

529. Over Expenditure

A comparison between the approved estimates and the actual expenditure reflected in the statement of comprehensive income revealed that the Commission spent in excess of the voted provision a sum of Kshs.8,852,760.70 on various items. No evidence was availed to show that the Accounting Officer complied with the requirement of Section 43 (1) and (2) of the Public Finance Management Act, 2012.

530. Long Outstanding Bank Reconciliation Items

As previously reported, bank reconciliation statements provided for audit review reflect items totalling Kshs.134,118.20 that have been consistently reflected as outstanding for a long period. No reasons were given for not clearing these items.

531. Long Outstanding Imprest and Advance

As previously reported, account receivables balance of Kshs.7,499,791.00 shown in the statement of financial position as at 30 June 2012, included a temporary imprest of Kshs.93,792.00 owed by a former employee and a staff advance of Kshs.954,201.32 owed by a former Commissioner. No evidence of the action taken to recover the long outstanding imprest and advance has been provided.

NATIONAL LAND COMMISSION

FINANCIAL STATEMENTS FOR VOTE 202

Unqualified Opinion

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

INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION

FINANCIAL STATEMENTS FOR VOTE 203

Basis for Qualified Opinion

532. Pending Bills

Reflected under current liabilities is an amount of Kshs.2,960,718,000.00 relating to pending bills. These are bills that relate to the financial year 2012/2013 but of which Kshs.1,460,466,960.00 had not been paid by the time of the audit. The management has explained that validation exercise is ongoing with a view to settling all pending bills. It is therefore not known when the balance of Kshs.1,460,466,960.00 will be cleared.

533. Un cleared Balances in the Statement of Financial Position

a) Accounts Receivable (ECK – Recurrent)

The statement of financial position reflects accounts receivable (ECK-Recurrent) balance of Kshs.4,420,710,916.55 which relate to uncleared assets as at 30 June 2014. The balance includes advances of Kshs.9,838,335.50, Imprest of Kshs.1,945,359.80 and a general suspense of Kshs.2,114,658,326.60. These are figures which are reflected in the financial statements but have not been analyzed. As a result, the accuracy and authenticity of this balance could not be confirmed.

b) Accounts Receivable (ECK Car Loan)

The statement of financial position as at 30 June 2014 reflects accounts receivable (car loan) of Kshs.26,944,000.00 which comprise of ECK outstanding debtors of Kshs.26,193,000.00 which was recovered from former ECK staff but was retained by the National Treasury. It is not clear and the management has not explained under what circumstances the recoveries by Treasury was retained.

c) Accounts payable (ECK- Recurrent)

The statement of financial position reflects accounts payable (ECK Recurrent) balance of Kshs.4,420,711,000.00 which relates to uncleared liabilities as at 30 June 2014. The balance includes General Account of Vote of Kshs.4,364,871,000.00, Excess AIA of Kshs.55,216,000.00 and salary advance of Kshs.624,000.00. The breakdown /analysis of the above amounts have not been provided, thereby making it difficult to confirm the accuracy and authenticity of the balances.

534. Unresolved 2012 / 2013 Audit Issues

The Commission has not adequately responded to and resolved the following audit issues which formed the basis of qualification of the financial statements in the year 2012/2013.

a) Unvouched Expenditure

The statement of financial performance for the year ended 30 June 2013 reflected total expenditure of Kshs.23,078,618,000.00. An expenditure totalling Kshs.13,631,429,031.60 charged under eleven (11) items included Kshs.4,690,168,908.00 which was not supported with documentary evidence. Consequently, the propriety of the expenditure could not be ascertained as at 30 June 2013.

b) Irregular Charge of Expenditure

The Commission made payments totalling Kshs.96,152,389.00 in respect of foreign travel and subsistence and irregularly charged the expenditure to domestic travel and subsistence and office and general supplies and services. Although it was explained that the Accounting Officer allowed virement, Parliamentary approval was not sought and obtained as required by Section 15.18 of the Government Financial Regulations and Procedures.

c) Unsupported Expenditure on Training

The statement of financial performance reflected training expenses of Kshs.1,104,955,000.00 for the year. However, the expenditure was not supported with documentary evidence as no expenditure returns were availed from the regions hence the propriety of the expenditure could not be ascertained.

d) Over Expenditure on Voted Itemized Provision

The approved budget for the financial year 2012/2013 reflected Ksh.315, 500,000.00 under Items 2211308 and 2211318 – Legal Dues /Fees and Witness Expenses respectively. A scrutiny of the expenditure under these items for the year under review revealed that, the Commission incurred an expenditure of Kshs.1,987,406,464.21 on legal dues of which Kshs.577,366,471.35 has been paid while the balance is still outstanding. The Commission therefore exceeded its voted provision for these sub-items by Kshs.1,671,906,464.21. No explanation has been provided for the over-expenditure incurred.

e) Payment for Lapsed Contract

The Commission entered into a contract with a media firm for provision of corporate branding consultancy at a contract sum of Kshs.35,322,000.00 in the financial year 2011/2012 vide Local Service Order No.0593399 of 27 June 2012. A scrutiny of the document revealed that UNDP was to carter for the expenditure but instead the expenditure was charged to the voted provisions and no reasons were provided as to why UNDP declined to honor the commitment. Further, the Commission paid a deposit of Kshs.21,193,200.00 being 60% of the contract sum leaving an undisclosed balance of Kshs.14,128,800.00 at the close of the financial year. In addition, the supplier raised the invoice before the LSO was issued contrary to the Public Procurement and Disposal Act, 2005.

f) Undisclosed Grant Income

The statement of financial performance for the year ended 30 June 2013 reflected other incomes totalling Kshs.124,512,000.00 which comprised of other receipts as Appropriation in Aid (AIA). However, the Commission did not capture grants of Kshs.2,566,588,000.00

from UNDP, IDEA and UNWOMEN in the statement of financial performance. Further, these grants had not been provided for in the Commission's estimated receipts during the year 2012/2013 contrary to section 9.6.1 of the Government Financial Regulations and Procedures. In addition, had the grants been disclosed, the total income would have reflected Kshs.27,857,100,000.00 compared to Kshs.25,290,511,000.00 now reflected. In the absence of the provision in the approved estimates, it was not possible to ascertain how the funds were received and accounted for by the Commission and the Commission's income was understated by an equivalent amount.

g) Unsupported Pending Bills

Audit examination of pending bills revealed that bills totalling Kshs.2,960,718,000.00 were not settled during the year but were instead carried forward to 2013/2014. The bills were not accompanied by adequate supporting documents such as LPO/LSO, invoices, inspection and acceptance certificates, counter receipts vouchers, quotations/tender documents and tender committee minutes. In the absence of these supporting documents, the correctness and legality of the pending bills could not be confirmed as at 30 June 2014.

h) Irregular Procurement of Election Materials

The Commission procured several elections equipment including Biometric Voter Registration (BVR) at Kshs.6.4billion, Electronic Voter Identification Devices (EVID) at Kshs.1.3billion, Universal Poling Kits (UPK) at Kshs.1.53billion and Electronic Results Transmission System (ERTS) - Kshs.25.8million. However, the Commission did not have an approved Procurement Plan for the year, Therefore; the above items were procured contrary to the Public Procurement and Disposal Act, 2005.

PARLIAMENTARY SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 204

Basis for Qualified Opinion

535. Retention Money not Refunded

Records maintained by the Commission indicate that various companies had been contracted for various contracts and retention monies totalling Kshs.188,757,086.25 had been deducted by the year ended 30 June 2013. Out of this figure is an amount of Kshs.78,297,642.15 which had not been refunded at the time of audit, three years after the completion of the contracts. In the circumstances, it has not been possible to confirm the existence and legality of the retention monies.

536. Delay in Project Implementation and Cost Variations

The Commission entered into an agreement with a firm on September 2012, for the purpose of Remodelling of Senate Chamber and Offices for Parliament at a cost of Kshs.2,209,173,479.35 (inclusive of all taxes). The agreement stipulated the Contract period as 72 weeks with the commencement date effective from 1 October, 2012 and anticipated completion date on 16 February, 2014. However the records maintained by the Commission revealed the following:

- a) There has been delay of the project to date and no reasons have been given on the cause of these delays. On the other hand, the contract does not stipulate the details of who should bear the cost of delays in the implementation of the project, the quantified amount to be charged periodically in case of delay and the party to bear the costs of delay.
- b) Examination of payment vouchers, expenditure ledgers and other related records indicates that as of 30 June 2014, the Commission had paid a total of Kshs.2,380,593,751.22 since inception of the project, which includes Kshs.1,174,158,899.20 for the period ended 30 June 2013 and Kshs.1,206,434,852.02 for the year ended 30 June 2014. This results to variation of the contract amount by Kshs.171,420,273.22 from the original contract sum of Kshs.2,209,173,478.00. However, no evidence was seen to show the Tender Committee approved variations amounting to Kshs.95,945,367.67 for payment as required by Section 47(a) of Public Procurement and Disposal Act, 2005.

PARLIAMENTARY CAR LOAN SCHEME FUND

Unqualified Opinion

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

PARLIAMENTARY MORTGAGE SCHEME FUND

Unqualified Opinion

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

JUDICIAL SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 205

Basis for Qualified Opinion

537. Irregular payment of allowances

The Statement of Receipts and Payments reflects expenditure of Kshs.232,898,481.00 under Use of Goods and Services, which includes Kshs.2,224,524.00 paid in respect of allowances to Commission officers for participating in workshops contrary to the Office of the President Circular No.OP/CAD 2/12A of 01 November 2004 which disallowed the allowances. These payments are therefore irregular.

538. Unaccounted for imprest

Imprest totalling Kshs.2,857,602.00 as per the records maintained by the Commission were issued and surrendered. However there were no supporting documents to support the surrenders. Under the circumstances, the issuance and utilization of the imprests cannot be confirmed.

COMMISSION ON REVENUE ALLOCATION

FINANCIAL STATEMENTS FOR VOTE 206

Unqualified Opinion

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

PUBLIC SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 207

Unqualified Opinion

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

SALARIES AND REMUNERATION COMMISSION

FINANCIAL STATEMENTS FOR VOTE 208

Unqualified Opinion

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

TEACHERS SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 209

Basis for Qualified Opinion

539. Property, Plant and Equipment

The property, plant and equipment balance of Kshs.1,515,585,862.00 as at 30 June 2014 includes Kshs.805,166.00 being the residue value of eleven (11) motor vehicles procured between 1996 and 2004 for a total cost of Kshs.26,450,711.00. Although the eleven (11) motor vehicles were still in good working condition as at the date of this report, their reported residue value of Kshs.805,166.00 as at 30 June 2014 appears way below their market value. Further, the Commission's Headquarter building which was completed on 24 September 2009 at a cost of Kshs.1,082,791,853.00 has since not been depreciated contrary to IPSAS No. 17 which states that buildings have a limited useful life and therefore are depreciable assets. Therefore, the net book value of the building and the surplus for the year is overstated to the extent of the unrecognized depreciation.

In the circumstances, it has not been possible to confirm that the property, plant and equipment balance of Kshs.1, 575,585,862.00 is fairly stated as at 30 June 2014.

540. Stores and Cash Losses

Included in the receivables from non-exchange transactions balance of Kshs.1,197,956,053.00 as at 30 June 2014 are unrecovered losses of stores and cash losses amounting to Kshs.10,487,516.00 and Kshs.2,928,398.00 respectively, which occurred between the years 1989 and 2000. Although the matter was investigated and the Director of Public Prosecutions directed the suspect to be charged with the offence of stealing by person employed in the Public Service contrary to Section 280 of the penal code, no evidence was availed for audit review to show that the suspect was charged in a court of Law.

In addition, included in the balance of Kshs.1,197,956,053.00 is a long outstanding Pay As You Earn (PAYE) figure of Kshs.128,392,939.00 which was paid to Kenya Revenue Authority (KRA) on account of former teachers who deserted their jobs and their salaries were returned to the Commission. The PAYE had not been recovered as at the date of this report.

In the circumstances, it has not been possible to confirm the full recoverability of the receivables from non-exchange transactions balance of Kshs.1,197,956,053.00 as at 30 June 2014.

NATIONAL POLICE SERVICE COMMISSION

FINANCIAL STATEMENTS FOR VOTE 210

Basis for Qualified Opinion

541. Missing Motor Vehicle Logbooks

The summary of fixed assets register annexed to the financial statements reflect total fixed assets of Kshs.155,643,209.00 which includes motor vehicles purchased at a cost of Kshs.117,552,095.00. Out of the sixteen (16) motor vehicles in the custody of the Commission, only four (4) logbooks were produced for audit review leaving twelve (12) motor vehicle logbooks unaccounted for. In view of the foregoing, the ownership of motor vehicles worth Kshs.102,191,495.00 could not be confirmed as at 30 June 2014.

542. Payments for Office Accommodation

(i) Unsupported rent payments

The Commission occupies four (4) floors of the Skypark Building LR. NO.1870/IX/167 at an annual rental cost of Kshs.59,846,608.00. However, no lease agreement has been signed between the landlord and the Commission. Under the circumstances, the validity of the annual rental payments could not be ascertained as at 30 June 2014.

(ii) Payment of rent for unoccupied office space

It was noted that the Commission was paying rent for (2) second and (3) third floors at a rate of Kshs.1,944,844.00 per month without occupying the offices. The Commission had paid a total of Kshs.31,117,504.00 in sixteen (16) months without occupying the office space. Under the circumstances, it has not been possible to confirm the propriety of the total expenditure of Kshs.31,117,504.00 as a proper charge on public funds.

543. Incomplete partitioning and refurbishment of office space

On 25 February, 2013 the Commission entered into a contract agreement with a construction firm through Tender No. NBI/DOI/81(2012/2013) for the partitioning and refurbishments of their offices at Sky Park Building at a contract price of Kshs.139,958,799.50. However, the contractor abandoned the site after payment of Kshs.48,235,101.00 when about 34% of the works had been done. No reasons have been given for failure to complete the refurbishments as per the contract.

OFFICE OF THE CONTROLLER OF BUDGET

FINANCIAL STATEMENTS FOR VOTE 212

Unqualified Opinion

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

COMMISSION ON ADMINISTRATIVE JUSTICE

FINANCIAL STATEMENTS FOR VOTE 213

Unqualified Opinion

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

NATIONAL GENDER AND EQUALITY COMMISSION

FINANCIAL STATEMENTS FOR VOTE 214

Unqualified Opinion

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

INDEPENDENT POLICING OVERSIGHT AUTHORITY

FINANCIAL STATEMENTS FOR VOTE 215

Unqualified Opinion

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

EXCEPTIONS

1. The audit reports of the 47 County Governments are not included in this report as they are reported separately.
2. The report excludes the report on the accounts of the Auditor-General which are audited and reported separately by an independent auditor as per Article 226(4) of the Constitution of Kenya.

CONCLUSION

Compliance with the Constitutional Mandate

I was not able to fully comply with the constitutional provision of Article 229 (6) requiring that I confirm whether or not the public money has been applied lawfully and in an effective way. The office is in the process of restructuring and seeking financing to be able to undertake continuous audit throughout the financial year that would enable me to fully comply with Article 229(6) of the constitution.

Appreciation

I wish to sincerely thank the entire staff of the Office of the Auditor-General for the great effort and hard work they have put in during the year.

Edward R. O. Ouko, CBS
Auditor-General

Nairobi

29 June 2015

Audit Opinions on the Financial Statements

1. *Unqualified Certificate*

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's

internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements listed in Appendix A, present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

2. Qualified Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

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The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Details of the basis for qualified opinion are as per the accompanying detailed audit Report. These include various unexplained discrepancies and omission of expenditure from the Accounts.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements listed in Appendix B, present fairly in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS) and comply with Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

3. Adverse Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014, which are listed in Appendices A, B, C and D in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit for the financial statements listed in Appendices A, B and C.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

Details of the basis for adverse opinion are as per the accompanying detailed audit Report. These include various material misstatements, unexplained discrepancies and omission of expenditure from the Accounts.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraphs, the financial statements listed in Appendix C, do not present fairly, in all material respects, the financial position of the Government of Kenya and its Funds as at 30 June 2014, and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS) and comply with the Government Financial Regulations and Procedures and Public Finance Management Act, 2012.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

4. Disclaimer Certificate

REPORT OF THE AUDITOR-GENERAL ON THE ACCOUNTS OF THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE 2014

I have audited the financial statements of the Government of Kenya for the year ended 30 June 2014 which are listed below in accordance with Section 229(4) of the Constitution of Kenya and Section 8 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

The Principal Secretary - National Treasury and the respective Accounting Officers are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Sections 4, 5, 6 and 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 8 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the detailed Report for the financial statements contained in Appendix D, I was unable to obtain sufficient and

appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Details of the Basis for Disclaimer of Opinion are as per the accompanying detailed audit report. These include various unexplained discrepancies, omission of expenditure from the Accounts, lack of documentation to support some of the figures shown in the financial statements listed in Appendix D and failure by the Accounting Officers to provide information and explanation considered necessary for the purpose of the audit.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements contained in Appendix D.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 June 2015

APPENDIX A

The following is a list of financial statements for which I expressed an unqualified opinion as I was provided with sufficient and accurate information and explanations.

The Exchequer

VOTE Financial Statements

107 Exchequer Account

Ministries/Departments/ Agencies

VOTE Financial Statements

101 The Presidency
119 Ministry of Mining
126 Registrar of Political Parties
212 Controller of Budget
215 Independent Policing Oversight Authority

Commissions

VOTE Financial Statements

122 Ethics and Anti-Corruption Commission
202 National Land Commission
206 Commission on Revenue Allocation
207 Public Service Commission
208 Salaries and Remuneration Commission
213 The Commission On Administrative Justice
214 National Gender and Equality Commission

Funds

VOTE Financial Statements

107 Asiatic Windows and Orphans Pension Fund
109 Kenya Roads Boards Fund
115 Petroleum Development Levy Fund – Ministry of Energy and Petroleum
116 Veterinary Services Development Fund

123	Intelligence Service Development Fund
126	Political Parties Fund
204	Parliamentary Car Loan Scheme Fund
204	Parliamentary Mortgage Loan Scheme Fund

Revenue Statements

VOTE Financial Statements

107	Development Revenue – National Treasury
112	Ministry of Information, Communication and Technology- Revenue Statement
118	Ministry of East African Affairs, Commerce and Tourism- Revenue Financial Statement
121	Judiciary- Revenue Statement

Other Statements

VOTE Financial Statements

102	Kenya Citizens and Foreign Nationals Service
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APPENDIX B

The following is a list of financial statements for which I expressed qualified opinion. I was provided with sufficient and appropriate information and explanations and out of the audit I raised issues which were material but not fundamental.

Consolidated Fund Services

VOTE Financial Statements

107 CFS Pensions and gratuities

Ministries/ Departments/ Agencies

VOTE Financial Statements

103 Ministry of Devolution & Planning
104 Ministry of Defence
105 Ministry of Foreign Affairs
107 The National Treasury
110 Ministry of Environment, Water and Natural Resources
112 Ministry of Information, Communication and Technology
113 Ministry of Sports, Culture and the Arts
114 Ministry of Labour, Social Security and Services
115 Ministry of Energy and Petroleum
116 Ministry of Agriculture, Livestock and Fisheries
117 Ministry of Industrialization and Enterprise Development
118 Ministry of East African Affairs, Commerce and Tourism
120 Public Trustee
121 The Judiciary
123 National Intelligence Service
124 Directorate of Public Prosecutions
127 Witness Protection Agency

Commissions

VOTE Financial Statements

102 National Cohesion and Integration Commission
125 Commission for The Implementation of The Constitution
201 Kenya National Commission on Human Rights

203	Independent Electoral and Boundaries Commission
204	Parliamentary Service Commission
205	Judicial Service Commission
209	Teachers Service Commission
210	National Police Service Commission

Funds

VOTE Financial Statements

102	Government Press Fund
102	Prison Farms Revolving Fund
102	Prisons Industries Fund
103	National Humanitarian Fund
103	National Youth Service -Mechanical and Transport Fund
103	Women Enterprise Fund
103	Mechanical and Transport Fund – National Youth Service
107	Government Clearing Agency Fund
107	Civil Contingencies Fund
107	Asian Officers Family Pensions Fund
107	European Widows and Orphans Pension Scheme Fund
109	Mechanical and Transport Fund – Ministry of Transport and Infrastructure
109	Railway Development Levy Fund
111	Civil Servant Housing Fund
115	Kenya Energy Sector Environment & Social Responsibility Programme Fund
115	Petroleum Training Fund
116	Agricultural Information Resource Centre
116	Demonstration Farms Fund

Revenue Statements

VOTE Financial Statements

- 107 Recurrent Revenue – National Treasury
- 102 Ministry of Interior and Coordination of National Government –Revenue Statement
- 116 Ministry of Agriculture, Livestock and Fisheries -Revenue Financial Statement
- 120 Office of the Attorney General and Department of Justice- Revenue Financial Statement

Other Statements

VOTE Financial Statements

- 107 Statement of outstanding Loans
- 107 Statement of Outstanding Obligations guaranteed by GOK

APPENDIX C

The following is a list of financial statements for which I expressed an adverse opinion due to materials misstatements.

Consolidated Fund Services

VOTE Financial Statements

107	CFS-Salaries Allowances & Misc. Services-Statement of Expenditure
107	Public Debt

VOTE Ministries/Departments/Agencies

106	Ministry of Education, Science and Technology
108	Ministry of Health
109	Ministry of Transport and Infrastructure
111	Ministry of Land, Housing &Urban Development
120	Office of the Attorney General and Department of Justice

Funds

VOTE Financial Statements

107	Treasury Main Clearance Fund
107	Kenya Local Loans Support Fund
107	Provident Fund
107	Statement of Assets and Liabilities- Pensions & Gratuities, Funds and Deposits
111	Kenya Slum Upgrading, low Cost Housing and Infrastructure Trust Fund
116	Strategic Grain Reserve Trust Fund

Revenue statements

VOTE Financial Statements

111	Ministry of Land, Housing &Urban Development-Revenue Statement
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Other Statements

VOTE Financial Statements

107 Statement of Outstanding Public Debt

107 Statement of Subscriptions by the Kenya Government to International Organizations

APPENDIX D

The following is a list of financial statements for which I was unable to express an opinion due to lack of sufficient and accurate information and explanations.

Consolidated Fund Services

VOTE Financial Statements

107 CFS Statement of Assets & Liabilities -Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organizations.

Commission

VOTE Financial Statements

120 Truth Justice and Reconciliation Commission

Funds

VOTE Financial Statements

107 Petroleum Development Levy Fund – National Treasury

107 Rural Enterprise Fund

111 Agricultural Settlement Fund Trust

111 Stores and Service Fund

Other Statements

VOTE Financial Statements

107 Statement of Investments by the Principal Secretary in Local Companies

111 Township Roads and Drains

120 Official Receiver

REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF RECEIPTS INTO AND ISSUES FROM THE NATIONAL EXCHEQUER ACCOUNT FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENT

I have audited the Statement of Receipts into and Issues from the National Exchequer Account for the year ended 30 June 2014 in accordance with the provisions of Article 229(4) of the Constitution of Kenya and Section 8 of the Public Act, 2003. I have obtained all information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statement

The Principal Secretary, National Treasury is responsible for the preparation and fair presentation of the Statement of Receipts into and Issues from the National Exchequer Account in accordance with Government Financial Regulations and Procedures and the Public Finance Management Act, 2012 and for such internal control as management determines is necessary to enable the preparation of a statement that is free from material misstatement, whether due to fraud or error.

The Principal Secretary, National Treasury is also responsible for the submission of the Statement of Receipts into and Issues from the National Exchequer Account to the Auditor-General in accordance with the provisions of Section 80 of the Public Finance Management Act, 2012 and Section 3 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on this financial statement based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those Standards require compliance with the ethical requirements and that the audit be planned and performed to obtain reasonable assurance that the Statement of Receipts into and Issues from the National Exchequer Account is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the audit considers internal control relevant to the entity's preparation and fair presentation of financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the Statement of Receipts into and Issues from the National Exchequer Account.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the statement present fairly, in all material respects, the receipts into and issues from the National Exchequer Account for the year ended 30 June 2014, in accordance with Government Financial Regulations and Procedures and the Public Finance Management Act, 2012 of the Laws of Kenya.

Emphasis of the Matter

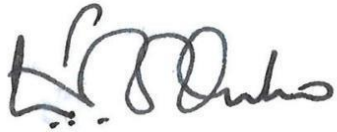
Failure to transfer proceeds from the Sovereign Bond to the National Exchequer Account

Available information indicates that net proceeds from the Sovereign Bond of USD 1,999,052,872.97 out of the total amount of USD 2,000,000,000.00 were received on 24 June 2014 and deposited into an offshore account, contrary to Article 206 of the Constitution of Kenya and Section 17(2) of Public Finance and Management Act, 2012 which requires that all money raised or received by or on behalf of the National Government be paid into the Consolidated Fund. There is the risk of proceeds being appropriated without the authority of the Controller of Budget and also being applied for other purposes other than those that the Sovereign Bond was floated.

Out of the balance in the offshore account of USD1,999,052,872.97 as at 2 July 2014 an amount of USD 395,439,262.50 (Kshs.34,648,388,180.25) was on 3 July 2014 transferred to the Exchequer Account to fund infrastructure projects but accounted for in 2013/2014 financial year. On the same date of 3 July 2014 another amount of USD 604,560,737.50 (Kshs.53,201,344,900.00) was withdrawn from the offshore account to fund the repayment of the syndicate loan but recorded in 2014/2015 financial year books. Authority of the Controller of Budget to incur the expenditure was however not obtained.

The Statement of Receipts into and Issues from the National Exchequer Account for the year ended 30 June 2014 therefore reflects only actual receipts from commercial loan of Kshs.34,648,388,180.25 out of the net proceeds from the Sovereign Bond as a result of failure to pay the full amount of the net proceeds from the Sovereign Bond of USD 1,999,052,872.97 (Kshs.173,917,599,948.39) into the Consolidated Fund during the year.

I have however, not qualified my audit opinion on the basis of this matter due to the fact that the balance of actual net proceeds from Sovereign Bond is correctly reflected in the Off-Shore Account and in the Central Bank of Kenya Special Account.

A handwritten signature in black ink, appearing to read 'E. R. O. Ouko', with a stylized flourish at the end.

Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 May 2015

REPUBLIC OF KENYA - THE EXCHEQUER ACCOUNT

RECEIPTS INTO AND ISSUES FROM EXCHEQUER ACCOUNT .

FOR THE YEAR 2013/2014

RECURRENT:-	PRINTED ESTIMATES	ACTUAL RECEIPTS	UNDER/(OVER ESTIMATES)
TAXATION RECEIPTS:-	KSHs	KSHs	KSHs
Opening Balance		496,366,817.30	
Income Tax from Individuals (P.A.Y.E)	251,297,763,000.00	249,872,800,071.60	1,424,962,928.40
Income Tax from Corporations	208,002,378,068.00	199,717,274,126.40	8,285,103,941.60
Refunds	(300,000,000.00)	-	-
Immovable Property	192,816,384.00	-	192,816,384.00
Second Hand Motor Vehicle Pur. Tax	550,478,880.00	-	550,478,880.00
VAT on Domestic Goods & Services	123,456,374,558.00	105,887,839,675.25	17,568,534,882.75
VAT on Imported Goods & Services	113,066,614,005.00	126,910,820,776.00	(13,844,206,771.00)
VAT Refunds	(14,680,944,000.00)	-	(14,680,944,000.00)
Excise Receipts	129,006,729,641.00	102,029,099,204.45	26,977,630,436.55
Refunds	(2,400,000,000.00)	-	(2,400,000,000.00)
Customs Duties	69,345,692,039.00	67,554,636,859.50	1,791,055,179.50
Refunds	(300,000,000.00)	-	(300,000,000.00)
Other Taxes on Int. Trade & Transactions(IDF)	33,575,992,850.00	26,677,868,525.00	6,898,124,325.00
Stamp Duty	10,173,118,248.00	9,986,893,730.25	186,224,517.75
Refunds	(6,000,000.00)	-	(6,000,000.00)
Licences under Traffic Act	1,070,960,007.00	3,322,513,856.40	(2,251,553,849.40)
Licences Under Communications Act	70,885,097.00	-	70,885,097.00
Surplus Funds for Regulatory Authority	8,200,000,000.00	-	8,200,000,000.00
Cont. From Govt. Employees To Social	664,549,407.00	-	664,549,407.00
Grants from Foreign Govt. through Exchequer	10,877,442,657.00	6,431,462,729.60	4,445,979,927.40
Loan from Foreign Govt. through Exchequer	46,042,011,778.00	28,432,304,540.00	17,609,707,238.00
AMISSON grants	10,308,000,000.00	4,694,571,553.20	5,613,428,446.80
Interest Received	906,640,290.00	586,274,004.80	320,366,285.20
Profits & Dividends from C.B.K.	2,000,000,000.00	-	2,000,000,000.00
Other Profits & Dividends	7,500,000,000.00	10,181,256,088.35	(2,681,256,088.35)
Rent of Land	1,651,637,925.00	1,587,972,620.25	63,665,304.75
Rent of Government Buildings and Housing	499,128,472.00	-	499,128,472.00
Conveyance fees	691,696,885.00	-	691,696,885.00
Sales of Market Establishment-Others	2,816,589,716.00	-	2,816,589,716.00
Administrative Fees and Charges			
Fees Under Traffic Act	668,931,476.00	-	668,931,476.00
Motor Drivers Licences	957,892,670.00	-	957,892,670.00
Other Land Revenue	-	-	-
Land Adjudication and Case Fees	-	-	-
Sale of Freehold Interest in Agri. Land	-	-	-
Immigration Visas and Other Consular Fees	1,248,283,522.00	775,477,372.75	472,806,149.25
Work Permit Fees	1,398,416,585.00	1,120,818,540.00	277,598,045.00
Passport Fees	555,360,662.00	169,791,583.75	385,569,078.25
Sale of Tender Documents	4,816,424.00	-	4,816,424.00
Course Fees & Hostel Charges	13,280,580.00	-	13,280,580.00
Kenya Oil Facility Storage Charges	225,769,863.00	-	225,769,863.00
Other Receipts From sales of Non-Financial Assets	1,178,664,541.00	-	-
Fishing Rights	164,900,537.00	-	164,900,537.00
Betting Control	123,952,082.00	-	123,952,082.00
Registration Services	481,191,340.00	129,025,648.40	352,165,691.60
Fees from Trustee Services	28,774,590.00	-	28,774,590.00
Others	604,908,306.00	1,023,411,627.45	(418,503,321.45)
Fines, Penalties & Forfeitures & Other Charges	1,679,276,823.00	1,442,618,801.60	236,658,021.40
Miscellaneous & Sundry Revenue	3,466,583,951.00	26,011,753,852.40	(22,545,169,901.40)
Loans to Non-Financial Public Enterprises	1,377,743,974.00	1,148,098,860.75	229,645,113.25
Loans to Financial Institutions/Re-embursement	22,256,026.00	118,954,397.85	(96,698,371.85)
Net Domestic Borrowing (CBK)	106,700,000,000.00	106,700,000,000.00	-
Commercial Loan	125,072,325,761.00	34,648,388,180.25	90,423,937,580.75
	1,260,253,885,620.00	1,117,161,927,226.25	142,213,293,852.75
Recurrent Recovery Over-issues 2012/2013		66,395,772.30	
Development Recovery Over-issues 2012/2013		17,000,000.00	
Treasury Bills/Bonds		160,660,000,000.00	
Total Revenue		1,278,401,689,815.85	
RECURRENT			
MINISTRY/DEPARTMENT	VOTED PROVISION	ACTUAL ISSUES	
	KSHs	KSHs	
The Presidency	5,368,959,961.00	5,180,000,000.00	188,959,961.00
Ministry of Interior & Coordination of N/Govt	97,429,513,512.00	97,221,115,540.60	208,397,971.40
Ministry of Devolution & Planning	18,354,667,252.00	16,515,641,840.65	1,839,025,411.35
Ministry of Defence	78,118,447,503.00	74,195,000,000.00	3,923,447,503.00
Ministry of Foreign Affairs	11,223,340,891.00	11,060,000,000.00	163,340,891.00
Ministry of Education, Sc. & Technology	80,793,278,444.00	79,815,000,000.00	978,278,444.00
The National Treasury	23,328,685,873.00	22,590,000,000.00	738,685,873.00
Ministry of Health	19,844,514,973.00	15,834,237,522.90	4,010,277,450.10
Ministry of Transport & Infrastructure	2,522,716,954.00	2,140,317,948.00	382,399,006.00
Ministry of Environment Water & Natural Res.	8,487,403,713.00	8,484,713,501.75	2,690,211.25
Ministry of lands, Housing & Urban	4,118,408,067.00	3,710,306,258.00	408,101,809.00
Ministry of Information & Communication	2,156,862,218.00	2,156,862,218.00	-

Ministry of Sports,Culture & Arts	3,510,054,496.00	3,462,000,000.00	48,054,496.00
Ministry of Labour,Social Security & Services	8,246,539,092.00	7,793,447,207.05	453,091,884.95
Ministry of Energy & Petroleum	2,098,798,236.00	2,096,000,000.00	2,798,236.00
Ministry of Agriculture,Livestock & Fisheries	12,113,407,724.00	11,383,750,869.45	729,656,854.55
Ministry of Industrialisation & Enterprise Devt	2,804,154,229.00	2,762,050,414.15	42,103,814.85
Ministry of East African Affairs, Commerce & Tour	4,717,063,245.00	4,489,753,062.40	227,310,182.60
Ministry of Mining	688,572,034.00	452,000,000.00	236,572,034.00
Office of the Attorney General & Dept of Justice	2,592,204,299.00	2,475,000,000.00	117,204,299.00
The Judiciary	11,215,299,342.00	10,995,000,000.00	220,299,342.00
Ethics & Anti-Corruption Commission	1,234,066,500.00	1,130,000,000.00	104,066,500.00
National Intelligence Service	15,686,800,000.00	15,686,800,000.00	-
Directorate of Public Prosecution	1,214,222,397.00	1,110,000,000.00	104,222,397.00
Commission For The Implementation of the constitution	422,531,650.00	421,758,080.00	773,570.00
Registrar of Political Parties	324,726,897.00	320,000,000.00	4,726,897.00
Witness Protection Agency	202,808,999.00	198,000,000.00	4,808,999.00
Kenya national Human Rights & Equality Comm.	263,624,006.00	263,624,006.00	-
National Land Commission	606,087,857.00	605,745,800.00	342,057.00
Independent Electoral & Boundaries Comm.	4,954,872,916.00	3,900,000,000.00	1,054,872,916.00
Parliamentary Service Commission	22,345,000,000.00	22,345,000,000.00	-
Judicial Service Commission	435,804,034.00	236,000,000.00	199,804,034.00
The Commission on Revenue Allocation.	266,437,054.00	266,437,054.00	-
Public Service Commission	664,744,115.00	664,744,115.00	-
Salaries & Remuneration Commission	506,574,066.00	295,000,000.00	211,574,066.00
Teachers Service Commission	166,419,036,232.00	165,619,000,000.00	800,036,232.00
National Police Service Commission	332,924,654.00	322,000,000.00	10,924,654.00
Auditor General	2,650,842,279.00	2,410,000,000.00	240,842,279.00
Controller Of Budget	371,477,789.00	370,000,000.00	1,477,789.00
The Commission on the Administrative justice	297,340,827.00	297,300,000.00	40,827.00
National Gender & Equality Commission	234,025,586.00	224,000,000.00	10,025,586.00
Independent Police Oversight Authority	279,687,996.00	247,980,000.00	31,707,996.00
Total	619,446,527,912.00	601,745,585,437.95	17,700,942,474.05

DEVELOPMENT			
The Presidency	1,529,520,000.00	1,480,000,000.00	49,520,000.00
Ministry of Interior & Coordination of N/Govt	6,349,426,570.00	6,077,718,540.00	271,708,030.00
Ministry of Devolution & Planning	44,512,327,303.00	42,893,437,790.00	1,618,889,513.00
Ministry of Foreign Affairs	291,513,852.00	251,010,000.00	40,503,852.00
Ministry of Education,Sc.& Technology	16,024,960,483.00	6,571,399,275.00	9,453,561,208.00
The National Treasury	14,175,645,013.00	10,045,120,105.00	4,130,524,908.00
Ministry of Health	14,430,468,458.00	13,871,441,931.00	559,026,527.00
Ministry of Transport & Infrastructure	63,153,111,186.00	45,711,186,315.00	17,441,924,871.00
Ministry of Environment Water & Natural Res.	21,254,891,354.00	20,314,861,449.00	940,029,905.00
Ministry of lands,Housing & Urban	13,768,721,761.00	8,227,728,295.00	5,540,993,466.00
Ministry of Information & Communication	4,505,371,354.00	4,474,799,453.00	30,571,901.00
Ministry of Sports,Culture & Arts	905,441,610.00	865,000,000.00	40,441,610.00
Ministry of Labour,Social Security & Services	7,171,748,863.00	5,114,201,090.00	2,057,547,773.00
Ministry of Energy & Petroleum	26,439,020,314.00	22,900,986,031.00	3,538,034,283.00
Ministry of Agriculture,Livestock & Fisheries	28,672,035,899.00	25,440,256,865.00	3,231,779,034.00
Ministry of Industrialisation & Enterprise Devt	3,245,969,403.00	3,218,742,000.00	27,227,403.00
Ministry of East African Affairs, Commerce & Tour	1,335,152,966.00	1,317,000,000.00	18,152,966.00
Ministry of Mining	712,911,000.00	543,150,000.00	169,761,000.00
Office of the Attorney General & Dept of Justice	358,308,300.00	324,412,300.00	33,896,000.00
The Judiciary	2,696,297,500.00	1,686,156,260.00	1,010,141,240.00
Directorate of Public Prosecution	87,000,000.00	46,000,000.00	41,000,000.00
Independent Electoral & Boundaries Comm.	63,200,000.00	63,000,000.00	200,000.00
Parliamentary Service Commission	2,705,000,000.00	2,186,000,000.00	519,000,000.00
Public Service Commission	207,000,000.00	207,000,000.00	-
Auditor General	525,000,000.00	525,000,000.00	-
TOTAL	275,120,043,189.00	224,355,607,699.00	50,764,435,490.00

COUNTIES EXCHEQUER ISSUES

<i>COUNTY GOVERNMENTS</i>	<i>COUNTY ALLOCATION</i>	<i>EXCHEQUER ISSUES</i>	
BARINGO	3,247,853,215.00	3,247,853,215.00	0.00
BOMET	3,442,638,623.00	3,442,638,623.00	0.00
BUNGOMA	6,180,666,881.00	6,180,666,881.00	0.00
BUSIA	3,412,404,160.00	3,412,404,160.00	0.00
ELGEYO/MARAKWET	2,392,011,591.00	2,392,011,591.00	0.00
EMBU	3,066,970,129.00	3,066,970,129.00	0.00
GARISSA	4,405,661,290.00	4,405,661,290.00	0.00
HOMA BAY	4,121,429,825.00	4,121,429,825.00	0.00
ISIOLO	2,235,583,337.00	2,235,583,337.00	0.00
KAJIADO	3,227,409,859.00	3,227,409,859.00	0.00
KAKAMEGA	6,826,813,935.00	6,826,813,935.00	0.00
KERICHO	3,295,019,652.00	3,295,019,652.00	0.00
KIAMBU	5,826,748,612.00	5,826,748,612.00	0.00
KILIFI	5,442,533,482.00	5,442,533,482.00	0.00
KIRINYAGA	2,587,865,089.00	2,587,865,089.00	0.00
KISII	5,399,459,638.00	5,399,459,638.00	0.00
KISUMU	4,550,934,547.00	4,550,934,547.00	0.00
KITUI	5,315,309,833.00	5,315,309,833.00	0.00
KWALE	3,748,952,670.00	3,748,952,670.00	0.00
LAIKIPIA	2,523,013,037.00	2,523,013,037.00	0.00

LAMU			
MACHAKOS	1,500,755,102.00	1,500,755,102.00	
MAKUENI	5,059,146,345.00	5,059,146,345.00	0.00
MANDERA	4,366,239,078.00	4,366,239,078.00	0.00
MARSABIT	6,550,232,929.00	6,550,232,929.00	0.00
MERU	3,795,591,042.00	3,795,591,042.00	0.00
MIGORI	4,932,595,725.00	4,932,595,725.00	0.00
MOMBASA	4,269,095,296.00	4,269,095,296.00	0.00
MURANG'A	4,216,139,971.00	4,216,139,971.00	0.00
NAIROBI	3,917,395,471.00	3,917,395,471.00	0.00
NAKURU	9,505,766,405.00	9,505,766,405.00	0.00
NANDI	6,536,750,748.00	6,536,750,748.00	0.00
NAROK	3,477,901,827.00	3,477,901,827.00	0.00
NYAMIRA	3,867,590,331.00	3,867,590,331.00	0.00
NYANDARUA	3,038,643,767.00	3,038,643,767.00	0.00
NYERI	3,150,207,289.00	3,150,207,289.00	0.00
SAMBURU	3,636,303,976.00	3,636,303,976.00	0.00
SIAYA	2,598,153,222.00	2,598,153,222.00	0.00
TAITA TAVETA	3,653,579,335.00	3,653,579,335.00	0.00
TANA RIVER	2,420,630,003.00	2,420,630,003.00	0.00
THARAKA NITHI	2,914,328,551.00	2,914,328,551.00	0.00
TRANS-NZOIA	2,294,827,947.00	2,294,827,947.00	0.00
TURKANA	3,729,874,627.00	3,729,874,627.00	0.00
UASIN GISHU	7,664,402,594.00	7,664,402,594.00	0.00
VIHIGA	3,796,628,687.00	3,796,628,687.00	0.00
WAJIR	2,831,564,442.00	2,831,564,442.00	0.00
WEST POKOT	5,290,052,180.00	5,290,052,180.00	0.00
	3,155,049,726.00	3,082,462,530.00	0.00
CFS	193,418,726,021.00	193,346,138,825.00	72,587,196.00
Salaries Allowances & Miscellaneous Services			
Public Debt	5,020,440,111.49	3,500,000,000.00	1,520,440,111.49
Pensions & Gratuities	232,265,327,187.10	227,582,271,715.00	4,683,055,472.10
Subscription to International Organisations	28,146,892,198.00	27,710,000,000.00	436,892,198.00
	500,000.00	-	
TOTAL ISSUES	265,433,159,496.59		
SURPLUS FOR THE YEAR 2013/2014		1,278,239,603,676.95	162,086,138.90

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30/9/14

DR. KAMAU THUGGE
PRINCIPAL SECRETARY / NATIONAL TREASURY