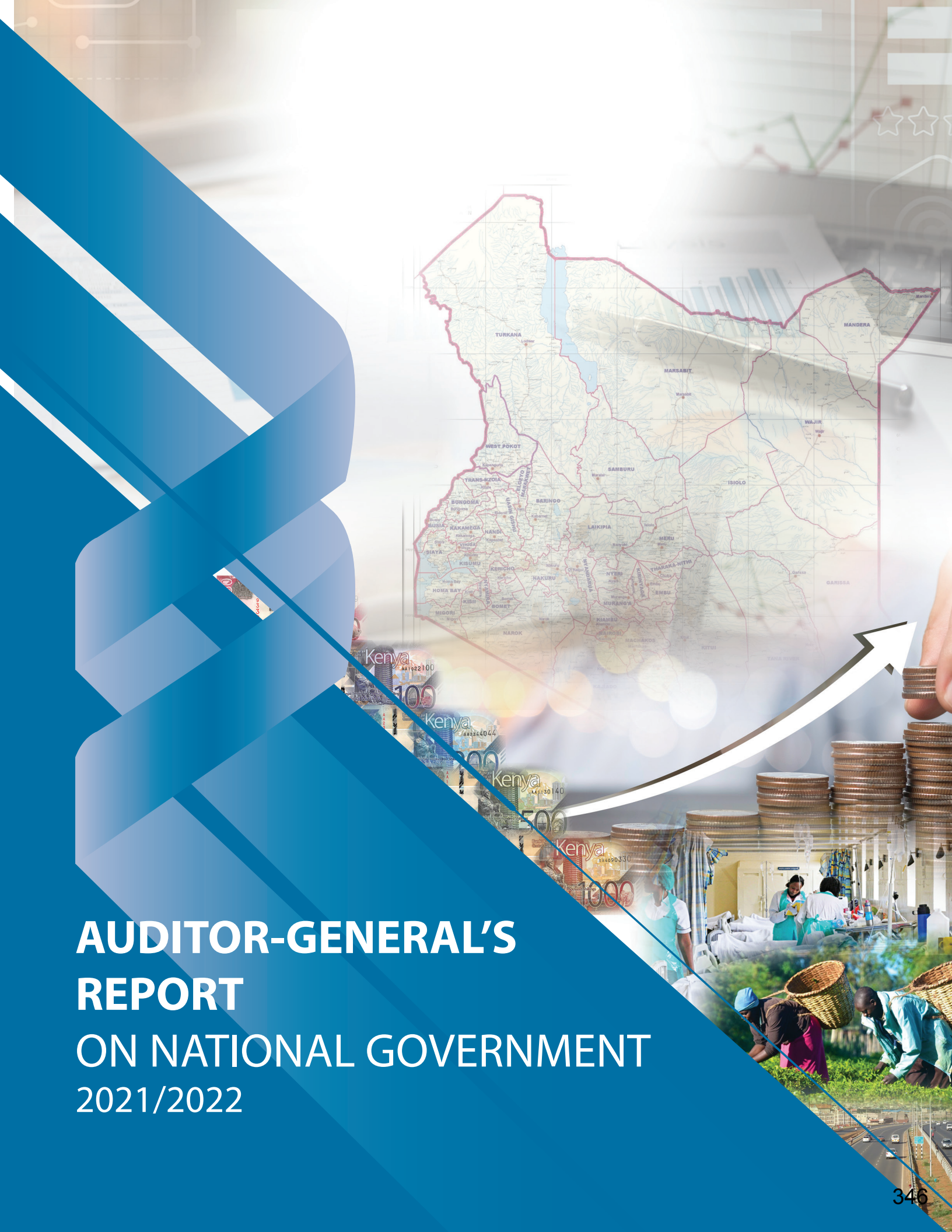


2. Exhibit OOO-1 Part 2_pages 346-409



AUDITOR-GENERAL'S REPORT ON NATIONAL GOVERNMENT 2021/2022



VISION

Making a difference in the lives and livelihoods of the Kenyan people



MISSION

Audit services that impact on effective and sustainable service delivery



OUR CORE VALUES

Integrity • Credibility • Relevance •
Accountability • Independence

REPORT

OF

THE AUDITOR-GENERAL

ON

THE NATIONAL GOVERNMENT

MINISTRIES, DEPARTMENTS AND AGENCIES

FOR

THE YEAR 2021/2022

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REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Basis for Conclusion

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

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

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

CONSOLIDATED FUND SERVICES - PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

14. Payment of Commitment Fees on Undrawn Amounts

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

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

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

15. Guaranteed Debts

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

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

16. Default on Debt Repayment

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



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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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.

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

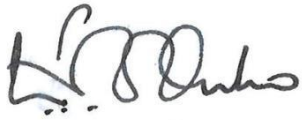
Failure to transfer proceeds from the Sovereign Bond to the National Exchequer Account

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

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

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 dark 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

**Report
of the
Auditor-General
on the
Financial Statements
for
National Government
for the
Year 2014/2015**

OFFICE OF THE AUDITOR-GENERAL

Vision

Effective accountability in the management of public resources and service delivery

Mission

Audit and report to stakeholders on the fairness, effectiveness and lawfulness in the management of public resources for the benefit of the Kenyan people

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Independence | Integrity | Professionalism | Innovation | Team Spirit

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Enhancing Accountability

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RECURRENT REVENUE

Basis for Qualified Opinion

7. Balance Carried Forward

The statement of revenues and transfers reflects a balance carried forward of Kshs.2,995,232,114.70 which includes an amount of Kshs.2,668,125,971.50 brought forward from 2013/2014 and previous years. Although the National Treasury has constituted a task force on clearance of old balances, a report dated 29 September 2015 issued by the task force does not show the progress made to analyze and clear the long outstanding balance carried forward from the books of account. In addition, no reason has been provided for failure to remit to the Exchequer Account a significant revenue balance of Kshs.2,995,232,114.70 as at 30 June 2015.

8. Arrears of Revenue

The financial statement reflects Arrears of Revenue due and uncollected as at 30 June 2015 of Kshs.194,951,716,541.16 compared to Kshs.164,712,793,632.92 reported as at 30 June 2014. The amount of Kshs.194,951,716,541.16 is made up of arrears for PAYE and Other Income Tax of Kshs.136,404,717,386.00, arrears for VAT and Excise Taxes of Kshs.21,603,491,849.00, arrears for Loan redemptions of Kshs.12,414,837,326.57 and arrears for loan interests of Kshs.24,528,669,979.59. Besides failure to collect the arrears, the National Treasury has not disclosed how it is addressing the persistent increase in arrears of revenue.

DEVELOPMENT REVENUE

Unqualified Opinion

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

NATIONAL EXCHEQUER ACCOUNT

Basis for Disclaimer of Opinion

9. Transfer of Proceeds from the Sovereign Bond to the National Exchequer Account

In the Report for 2013/2014, it was indicated that 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 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.

It was further reported that, 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 a syndicate loan.

The annex to the National Exchequer Account statement of receipts and issues for the financial year ended 30 June 2015 show that the remaining balance in the offshore account of USD 999,018,457.60 (Kshs.88,463,084,420.45) was on 8 September 2014 transferred to a Sovereign Bond Deposits Account at the Central Bank of Kenya. The annex further indicates that an additional amount from external borrowing of USD 815,436,932.00 (Kshs.73,805,196,715.30), being net proceeds from the tap sale, was also transferred on 17 December 2014 to the Sovereign Bond Deposits Account at the Central Bank of Kenya.

Further, the financial statements reflect under Note 5.5 net proceeds from commercial financing (Sovereign/Euro Bond) totalling Kshs.215,469,626,035.75 in the year 2014/2015. However, investigations into the receipts, accounting and use of funds related to the Sovereign/Euro Bond are still on-going and the accuracy of the net proceeds of Kshs.215,469,626,035.75 is yet to be ascertained.

CONTINGENCIES FUND

Unqualified Opinion

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

GOVERNMENT CLEARING AGENCY FUND

Basis for Disclaimer of Opinion

10. Unsupported Debtors and Creditors Balances

The statement of financial position as at 30 June 2015 reflects balances of Kshs.300,931,776.15 and Kshs.52,973,896.80 under Accounts Receivables - Debtors and Accounts Payables - Creditors respectively. However, these balances have not been supported with verifiable records and documents including debtors and creditors registers specifically. The creditors' balance has not been supported with contracts, Local Purchase/Service orders, invoices and delivery notes with the result that accuracy, completeness and validity of the balance could not be ascertained. Further, the debtors balance of Kshs.300,931,776.15 is net of a Clearance Account balance of Kshs.654,000,000.00 which, has also not been supported with any verifiable documents making it difficult to ascertain what it represents.

36. Variances between Financial Statements and Loan Register Balances

Comparison of the balances as at 30 June 2015 reflected in the statement of outstanding public debt and the loans register in respect of one hundred and twenty one (121) loans shows that the amounts in the two records do not tally. According to the financial statements, balances totalling Kshs.200,133,177,393.28 listed in the Statement of outstanding public debt do not agree to a total of Kshs.140,097,825,943.97 recorded in the loans register as outstanding against these loans.

37. Un-reconciled Balances

The statement of outstanding debt reflects a balance of Kshs.26,615,000,000.00 relating to Pre-1997 Government Overdraft debt. The opening balance for the item was Kshs.28,273,000,000 as at 1 July 2014, and a repayment of Kshs.1,110,000,000 was made during the year as per the loan agreement between Government of Kenya and the Central Bank of Kenya. The closing balance, therefore, ought to have been Kshs.27,163,000,000.00 and not Kshs.26,615,000,000.00. The resultant difference of Kshs.548,000,000.00 has not been explained.

In addition, the statement of outstanding public debt shows treasury bills balance of Kshs.318,928,150,000.00. The recalculated balance is, however, Kshs.290,059,760,050.75 as indicated below resulting in a difference of Kshs.28,868,389,949.25, which is yet to be investigated:

Description	Amount Kshs.
Opening balance	299,406,150,000.00
Proceeds in 2014/2015	426,416,160,050.75
Total	<u>725,822,310,050.75</u>
Less repayments	(435,762,550,000.00)
Recalculated balance	290,059,760,050.75
Statement balance	318,928,150,000.00
Difference	<u>28,868,389,949.25</u>

38. Un-supported Balances

The statement of financial position reflects balances of Kshs.257,687,919.40 and Kshs.1,859,315,165.65 referred to as prior year adjustments in 2014/2015 and 2013/2014 respectively. The statement further reflects balances of Kshs.1,884,225,822.00 and Kshs.1,275,147,069.20 referred to as differences for 2014/2015 and 2013/2014 respectively. The balances have, however, not been supported or explained.

Other Matter

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

The statement of receipts and payments reflects total actual expenditure of Kshs.418,156,528,347.15 in the year 2014/2015 compared to the previous year's amount of Kshs.228,436,940,189.30 in respect of the public debts as summarized:

Sub Vote	Item	Item Description	Amount (Kshs.) 2014/2015	Amount (Kshs.) 2013/2014
501	2420000	External Debt Interest	33,330,189,096.35	17,081,184,346
	2410100	Internal Debt Interest	139,363,010,320.00	117,037,704,912
502	5210000	Internal Debt Redemptions	165,249,803,076.80	68,249,400,000
	5210600	External Debt Redemptions	80,213,525,854.00	26,068,650,931
		Total	<u>418,156,528,347.15</u>	<u>228,436,940,189</u>

The expenditure of Kshs.33,330,189,096.35 and Kshs.80,213,525,854.00 incurred on external debt interest and external debt redemptions, includes amounts of Kshs.2,845,254.70 and Kshs.347,023,821.50 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.

As similarly observed in the previous years, it is a matter of concern that a total amount of Kshs.349,869,076.20 was incurred during the year on a project which did not take off and against which no value for money was achieved.

40. Growth in Public Debt

The statement of public debts as at 30 June 2015 reflects an outstanding amount of Kshs.2,674,806,364,195.00 representing an increase of Kshs.423,960,454,908.00 or 19% of 2013/2014 outstanding debts balance of Kshs.2,250,845,910,286.00.

My opinion is not qualified in respect of these matters.

KENYA LOCAL LOANS SUPPORT FUND

Basis for Disclaimer of Opinion

41. Presentation and Disclosure of the Financial Statements

The financial statements of Kenya Local Loans Support Fund as at 30 June 2015 were not prepared in accordance with International Public Sector Accounting Standards (Accrual Basis) as prescribed by Public Sector Accounting Standards



REPUBLIC OF KENYA

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THE NATIONAL TREASURY

FINANCIAL STATEMENTS FOR VOTE 1071

Basis for Qualified Opinion

1. Unaccounted for Fuel for Leased National Police Service Vehicles

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

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

2. Pending Bills

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

3. Outstanding Imprests

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

NATIONAL EXCHEQUER ACCOUNT

Emphasis of Matter

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

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

STATEMENT OF OUTSTANDING LOANS

Basis for Qualified Opinion

4. Outstanding Loans Balance

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

5. Non-repayments of Loans

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

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

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

33. Un-reconciled Balances

- (i) As reported in the previous year, the statement of outstanding debt as at 30 June 2015 reflected a balance of Kshs.26,615,000,000 relating to Pre-1997 Government Overdraft debt. The opening balance for this item was Kshs.28,273,000,000 as at 1 July 2014, and a repayment of Kshs.1,110,000,000 was made during 2014/2015 as per the loan agreement between Government of Kenya and the Central Bank of Kenya. The closing balance as at 30 June 2015, therefore, ought to have been Kshs.27,163,000,000 and not Kshs.26,615,000,000. The resultant difference of Kshs.548,000,000 has not been explained to date.
- (ii) In addition, the statement of outstanding public debt, as at 30 June 2015 showed treasury bills balance of Kshs.318,928,150,000. The recalculated balance was, however, Kshs.290,059,760,051 as indicated below resulting into a difference of Kshs.28,868,389,949, which has not been investigated nor explained to date.

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

Other Matter

34. Growth in Public Debt

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

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



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It's not clear why the financial statement balances and the related IFMIS schedules were at variance even though they were generated from the same transactions and source documents.

Prior Year issues.

36. Prior Year Adjustments

The Financial Statements for the year ended 30 June 2016 reflected comparative balances which were restated and therefore differed with those reflected in the audited financial statements for 2014/2015. The restated balances are analyzed below.

	Item Description	Audited Financial Statement Balances 2014/2015 Kshs	Balance as at 30.06.2016 Kshs.	Adjustment Difference Kshs.
1	Principal repayment	245,463,328,931.00	264,016,325,854	(18,552,996,923.00)
3	Receivables	0	91,565,685,447.00	(91,565,685,447.00)
5	Accounts Payable	0	27,654,564,640.00	(27,654,564,640.00)
6	Fund balance brought forward	(257,687,919.40)	86,445,236,805.00	(86,702,924,724.00)
8	Prior year adjustments	257,687,919.40	(22,177,044,458.00)	(22,434,732,377.00)
9	Difference	1,884,225,822.00	0	1,884,225,822.00

The management has however not provided any analysis and supporting documents to justify the adjustments. The accuracy of the balances could not therefore be confirmed.

Emphasis of Matter

a. Growth in Public Debt

The statement of Public Debt as at 30 June 2017 reflects an outstanding public debt balance of Kshs.4,168,943,902,577 representing an increase of Kshs.783,033,452,751.00 (23.2%) over the outstanding debt balance of Kshs.3,385,910,449,826.00 as at 30 June 2016. The increase is mainly as a result of new loans of Kshs.210,664,431,564 disbursed to the government by various development partners and borrowing of Kshs.1,453,006,750,000 from the domestic market through treasury bills and bonds. The total cost of borrowing during the year is Kshs.215,179,745,379 in respect of both internal and external loans. The outstanding loan balances of Kshs.4,168,943,902,577 are net of redemption on loans of Kshs.220,174,538,145 made during the year.

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

As reported in the financial year 2015/2016 and earlier years, the Government of Kenya paid a total of Kshs.6,326,435,832 to the Government of Australia and Belgium. The

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Systems (IFMIS). No information has been availed regarding the designate, consequently it has also not been possible ascertain the terms of engagement and the remuneration thereof.

6. Continued Retention of Retired Public Officers

Section B.20(1) subsection (2) and (4) of the human resource policies and procedures manual 2016 provides for appointment on contract where officers are appointed to serve on fixed term projects and capacity in the public service is lacking or specific skills are required. A review of sample personnel files on local contract terms revealed that seven (7) officers who had attained the mandatory retirement age of sixty (60) years and are not registered as persons living with disability are under contract. Three of the seven officers have had their contracts extended severally. At the initial authorization for the contract extensions, the Commission had advised the National Treasury to plan to build capacity by competitively filling of the positions. Although the management has rendered explanations for the extensions, the affected officers had been heading their respective departments for significantly long durations prior to their retirement. This is indicative of poor or lack of succession planning on the key positions at the National Treasury.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

7. Except for the issues described in the Basis for Qualified Opinion, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

NATIONAL EXCHEQUER ACCOUNT

REPORT ON THE FINANCIAL STATEMENTS

Unqualified Opinion

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

Emphasis of Matter

9. The On-going Special Audit on Euro Bond

I wish to draw your attention to the statement of assets and liabilities for the National Exchequer Account as at 30 June 2017 which reflected an Exchequer balance of KSh.30,928,022,009 as at the end of the financial year. However, and as indicated in the Auditors report for 2014/2015 the receipt of net proceeds from commercial financing (Sovereign/Euro Bond) of KSh.215, 469,626,036 accounted for in

2014/2015 financial year could not be ascertained as investigation into the receipts, issues, accounting and utilization of the funds related to the Sovereign/Euro Bond had not been concluded as at 30 June 2018. Under the circumstances, the accuracy of the Exchequer balance of KSh.59,808,758,121 brought forward from 2015/2016 cannot be ascertained.

10. Budget Control and Performance

A review of the statement of comparison of budget and actual performance indicate that the Exchequer disbursements to (12) twelve Ministries, Departments and Agencies (MDAs) for the period under review was at 94% and 87% of their budgeted allocations for Recurrent and Development votes respectively. Under the Recurrent Vote, some MDAs received as low as 56% of their voted provisions while others received their total allocation. Similarly, under the Development Vote, other MDAs received as low as 0% of their voted provisions while others received their total allocation. Failure to release the budgeted provisions may hinder the accomplishment of the planned projects by MDAs and hence affect the service delivery to the citizens by the entities.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

11. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

12. Except for the issues described in the Emphasis of Matter, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

123. Outstanding Loan Balance

The summary statement of public debt reflects an outstanding loan balance of KSh.4,801,416,851,482 as at 30 June 2018. The statement also shows opening public debt loan balance of KSh.4,194,102,152,577 as at 1 July 2017 and an amount of cumulative debt repaid of KSh.588,472,106,190 as at 30 June 2018. The statement does not however disclose amounts of disbursements and repayments during the period under review, making it difficult to confirm the correctness of the closing balance. In the absence of details on the loans, it has not been possible to confirm accuracy of the loan balances reported of KSh.4,801,416,851,482.

124. Failure to Prepare Monthly Bank Reconciliation Statements

The statement of assets and liabilities reflect bank balance of KSh.968,953,164 as at 30 June 2018. The Bank Reconciliation Statements for the period under review have not been availed for audit and the balance of KSh.968,953,164 is therefore not supported. In the absence of such records, the accuracy of the financial statement bank balance of KSh.968,953,164 cannot be confirmed.

Other Matter

125. Outstanding Loan Balance

The Summary Statement of Consolidated Fund Services-Public Debt reflects an outstanding loan balance of KSh.4,801,416,851,482 as at 30 June 2018. The outstanding loan balance increased by KSh.607,314,698,905 from the previous year balance of KSh.4,194,102,152,577. This represents 14.48% increase in the outstanding loans.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

126. Except for the issues discussed in the Basis for Adverse, there were no other material issues relating to lawfulness and effectiveness in use of public resources.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

127. Except for the issues discussed in the Basis for Adverse, there were no other material issues relating to effectiveness of internal controls, risk management and governance.

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AUDITOR-GENERAL
FOR THE
NATIONAL GOVERNMENT
FOR THE
YEAR 2019/2020**



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12. Inaccurate Treasury Bonds Balances

The summary statement of public debt reflects treasury bonds balance of Kshs.2,220,339,804,765 as at 30 June, 2020. However, a re-computation of the expected closing balance based on the opening balance of Kshs.1,724,207,207,062 adjusted for proceeds from issues and redemptions during the year of Kshs.580,894,063,036 and Kshs.110,977,783,887 respectively yielded a balance of Kshs.2,194,123,486,211 resulting into an unexplained variance of Kshs.26,216,318,554.

Consequently, the accuracy of the reported Treasury Bonds balances of Kshs.2,220,339,804,765 as at 30 June, 2020 could not be confirmed.

13. Non-Disclosure of Public Debt Procured

The summary statement of public debt reflects total External and Internal loans balance of Kshs.6,368,793,827,633 as at 30 June, 2020. This is an increase of Kshs.917,640,023,917 or 16.8% from the prior year's closing balance of Kshs.5,451,153,803,416. The statement also reflects loan repayments of Kshs.1,482,249,906,300 but does not reflect the new loans procured during the year.

Consequently, the accuracy of total loan balance (External and Internal) of Kshs.6,368,793,827,633 as at 30 June, 2020 could not be confirmed.

Other Matter

14. Unresolved Prior Year Matters

In the previous year's audit report, several issues were raised under the Report on Financial Statements. The issues raised as disclosed in Note 13 to the financial statements on progress on follow up of prior years' auditor's recommendations, remained unresolved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

**REPORT
OF
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FOR
THE NATIONAL GOVERNMENT
MINISTRIES, DEPARTMENTS AND AGENCIES
FOR
THE YEAR 2020/2021**



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MINISTRIES, DEPARTMENTS AND AGENCIES

FOR

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CONSOLIDATED FUND SERVICES – PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Unmodified Opinion

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

Emphasis of Matter

13. Payment of Commitment Fees on Undrawn Amounts

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

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

14. Guaranteed Debts

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

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

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

15. Default on Debt Repayment

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

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

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

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CONSOLIDATED FUND SERVICES - PUBLIC DEBT

REPORT ON THE FINANCIAL STATEMENTS

Basis for Adverse Opinion

12. Public Debt -Outstanding Balance

The summary statement of public debt reflects an outstanding loan balance of Kshs.5,451,153,803,416; (2018-Kshs.4,801,416,851,482) representing an increase of Kshs.649,736,951,934 or (13.5%) of the public debt. The statement also reflects loan repayments of Kshs.1,648,856,675,693 during the year but does not expressly indicate the amount procured during the year. However, review of the opening and closing balances and adjusted for the repayments during the year results in borrowings of Kshs.2,298,593,627,627 which have not been supported.

Further, out of the twenty-four (24) loans sampled and reviewed, eleven (11) had total balances different from those reflected in the summary statement of public debt prepared by The National Treasury. The total variance between the two sets of records amounted to Kshs.95,241,461,497. The causes of the variances have not been explained.

Under the circumstances, the accuracy of the outstanding loan balance of Kshs.5,451,153,803,416 as at 30 June, 2019 could not be confirmed.

13. Inaccuracies in the Cash and Cash Equivalents

As disclosed in Note 5 to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.249,080,863 as at 30 June, 2019. On the other hand, the Trial Balance reflects bank balances of Kshs.1,064,098,739 resulting in a variance of Kshs 815,017,876 which has not been explained or reconciled. Further, the Board of Survey Report on the bank balance as at 30 June, 2019 was not availed for audit review.

Under the circumstances, the accuracy of the reported bank balances of Kshs.249,080,86 as at 30 June, 2019 could not be confirmed

Emphasis of Matter

14. Unauthorized Over-Expenditure - Finance Costs and Loan Interest

The summary statement of appropriation reflects a final expenditure budget and actual on comparable basis of Kshs.848,303,865,142 and Kshs.826,202,867,839 respectively, resulting in under expenditure of Kshs.22,100,997,303 or 3% of the budget. However, detailed analysis of the individual expenditure items revealed