



REPUBLIC OF KENYA

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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**

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# OFFICE OF THE AUDITOR-GENERAL

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## **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*

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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**

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## **1. General**

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

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

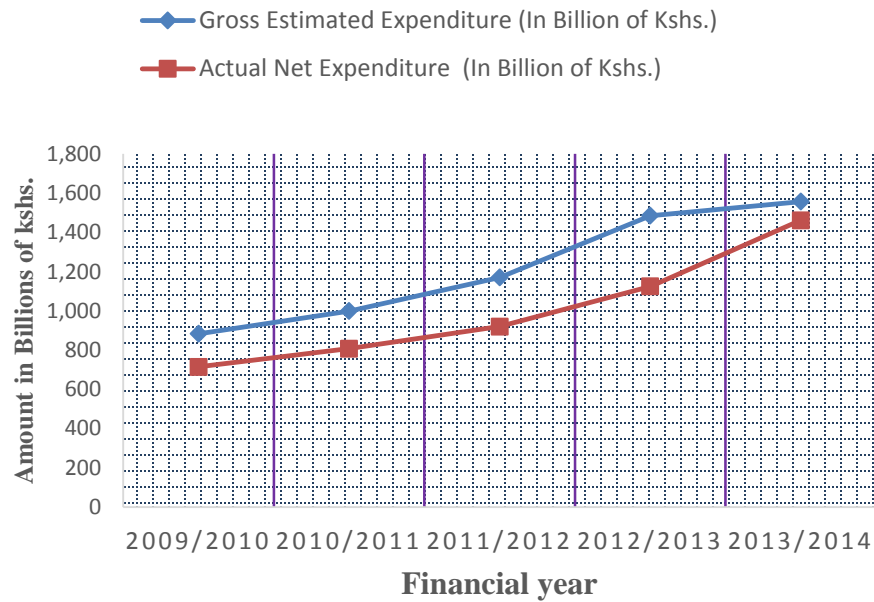
## **2. Summary of Budgetary Performance for 2013/2014**

### **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.

	<b>2009/2010 Kshs.</b>	<b>2010/2011 Kshs.</b>	<b>2011/2012 Kshs.</b>	<b>2012/2013 Kshs.</b>	<b>2013/2014 Kshs.</b>
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

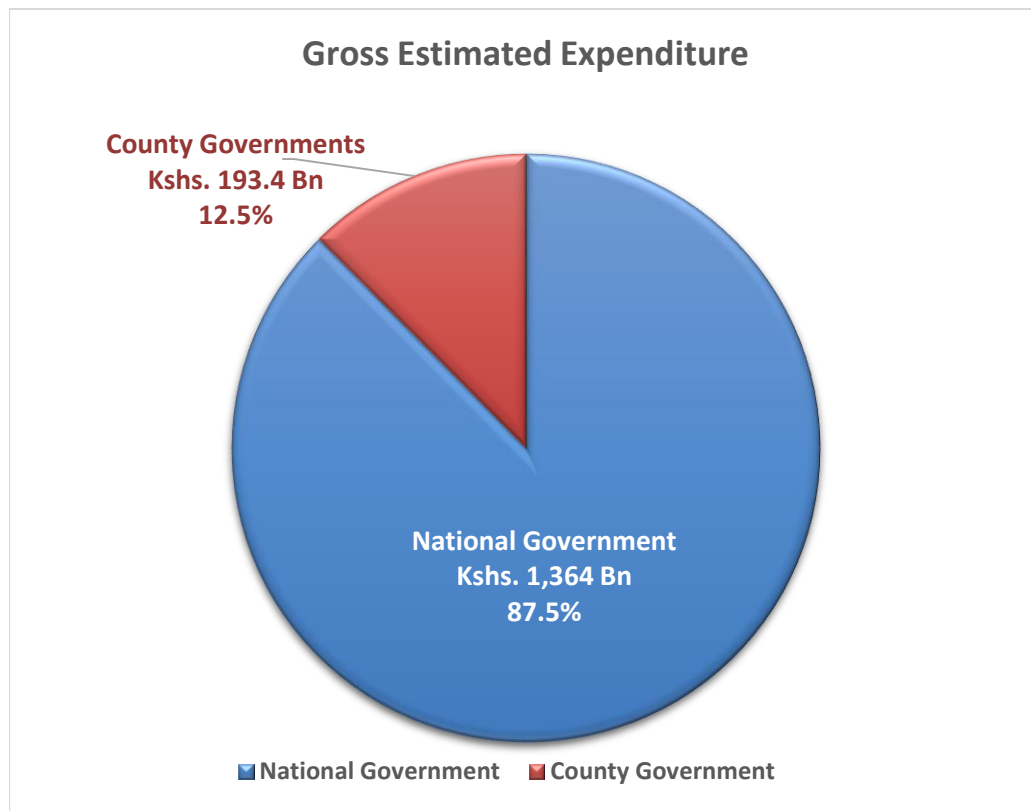
## Budget Trend Analysis



### 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:

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



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:-



	<b>Gross Estimated Expenditure Kshs.</b>	<b>AIA Kshs.</b>	<b>Approved Net Expenditure Kshs.</b>	<b>As a % age of Approved Net Expenditure</b>
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%
<b>Sub-total for National Government</b>	<b>1,363,773,995,367</b>	<b>203,774,264,770</b>	<b>1,159,999,730,597</b>	<b>86%</b>
County Governments	193,418,726,021	00	193,418,726,021	14%
<b>Grand Total</b>	<b>1,557,192,721,388</b>	<b>203,774,264,770</b>	<b>1,353,418,456,618</b>	<b>100%</b>

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%)
<b>Totals</b>	<b>1,363,773,995,367</b>	<b>1,268,619,710,236</b>	<b>93%</b>	<b>100%</b>	<b>1,114,759,471,598</b>	<b>14%</b>

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%
<b>Total</b>	<b>1,363,773,995,367</b>	<b>1,268,619,710,236</b>	<b>95,154,285,131</b>	<b>7%</b>

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
<b>Total</b>	<b>1,024,768,197,814</b>	<b>966,898,693,041</b>	<b>(57,869,504,773)</b>	<b>6%</b>	<b>813,222,666,210</b>

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>
<b>Exchequer Account Balance as 30 June 2014</b>	<b><u>162,086,139</u></b>	<b><u>496,366,817</u></b>

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

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:-

	<b>Approved Net Expenditure Kshs</b>	<b>Actual Issues Kshs</b>	<b>Variance Kshs</b>	<b>% Variance</b>
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%
<b>Sub-total for National Government</b>	<b>1,159,999,730,597</b>	<b>1,084,893,464,852</b>	<b>75,106,265,745</b>	<b>6%</b>
County Governments	193,418,726,021	193,346,138,825	72,587,196	0%
<b>Grand Total</b>	<b>1,353,418,456,618</b>	<b>1,278,239,603,677</b>	<b>75,178,852,941</b>	<b>6%</b>

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
<b>Total</b>	<b><u>8,104,981,276</u></b>	<b><u>966,898,693,041</u></b>	<b><u>975,003,674,317</u></b>	<b><u>972,246,261,096</u></b>	<b><u>2,757,413,221</u></b>

#### 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%
<b>Total</b>	<b>101</b>	<b>100%</b>	<b>343</b>	<b>100%</b>

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:-

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

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

<b>Collecting Ministry</b>	<b>Amount (Kshs)</b>
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>
<b>Total</b>	<b><u>36,962,979,048</u></b>

#### (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>
<b>Total</b>	<b><u>929,047,300,549</u></b>

#### (iii) Adverse Opinion

Land, Housing & Urban Development	<b>888,413,444</b>
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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

<b>Opinion</b>	<b>No. of Financial Statements</b>	<b>Combined Recurrent and Development Expenditure 2013/2014 (Kshs.)</b>	<b>Percentage</b>
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%
<b>Total</b>	<b>42</b>	<b>1,008,699,240,052</b>	<b>100%</b>

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:-

	<b>Ministry/ Department/ Commission/ Fund</b>	<b>Amount (Kshs)</b>
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
	<b>Total</b>	<b><u>66,782,697,987</u></b>

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:-

	<b>Ministry/ Commission/ Fund</b>	<b>Amount (Kshs)</b>
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
	<b>Total</b>	<b><u>24,566,651,642</u></b>

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:-

<b>Vote</b>	<b>Ministry/ Department/ Commission</b>	<b>Recurrent (Kshs.)</b>	<b>Development (Kshs.)</b>	<b>Others not Classified (Kshs.)</b>	<b>Total Kshs.</b>
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
	<b>Total</b>	<b>9,748,225,456</b>	<b>2,685,969,026</b>	<b>4,203,969,660</b>	<b>16,638,164,142</b>

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:-



<b>Excess Expenditure had the pending bills been paid</b>				
<b>Vote</b>	<b>Ministry/Department</b>	<b>Net Surplus/(Deficit) Kshs</b>	<b>Pending Bills Kshs</b>	<b>Excess Expenditure Kshs</b>
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:-

<b>Vote</b>	<b>Ministry/Department/Commission</b>	<b>Amount in Kshs.</b>
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
	<b>Total</b>	<b>351,043,211</b>

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](http://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.

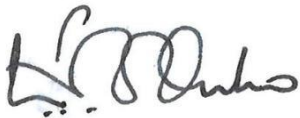
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **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.

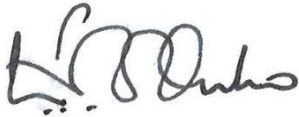
I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

### **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**

<b>Vote</b>	<b>Financial Statement</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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>(b) Bank Reconciliations</b>			
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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
<b>(c) Revenue</b>			
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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



<b>d) Temporary Imprests</b>			
<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
125	Commission for the Implementation of the Constitution	11,235,309	Unreturned 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
<b>(e) Pending Bills</b>			
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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
<b>(f) Consolidated Fund Services</b>			
120	Office of the Attorney General and Department of Justice	151,100,290	Amounts omitted from the financial statements
<b>(g) Other Exceptions</b>			
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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.

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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.

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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



<b>Vote</b>	<b>Financial Statement</b>	<b>Amount Queried (Kshs.)</b>	<b>Reasons for Qualification</b>
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)
<b>Total in Kshs.</b>		<b><u>450,429,265,344</u></b>	

## **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)

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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>b) Bank Reconciliations</b>			
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.

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>c) Revenue</b>			
<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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.
<b>(d) Temporary Imprests</b>			
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



<b>e) Pending Bills</b>			
<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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
<b>f) Consolidated Fund Services</b>			
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

<b>d) Other Exceptions</b>			
<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Adverse Opinion</b>
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
<b>Total (Kshs.)</b>		<b>446,660,398,660</b>	

## **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



<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Disclaimer</b>
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.

<b>Vote</b>	<b>Financial Statement</b>	<b>Amount (Kshs.)</b>	<b>Reasons for Disclaimer</b>
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
<b>Total (Kshs.)</b>		<b>28,556,153,404</b>	

# **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**

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## **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**

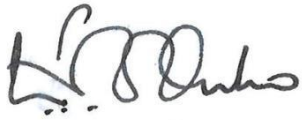
### **Failure to transfer proceeds from the Sovereign Bond to the National Exchequer Account**

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**