



Institute of  
Economic Affairs

ANALYSIS OF THE  
**AUDITOR GENERAL'S  
REPORTS**  
ON THE FINANCIAL STATEMENTS  
OF NATIONAL GOVERNMENT

# **Analysis of the Auditor General's Reports on the Financial Statements of National Government**

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Institute of  
Economic Affairs

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ISBN 978-9966-130-64-8



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## Acronyms and Abbreviation

ASAL	Arid and Semi-Arid Lands
CDP	Capacity Development Program
CEISP	Community Empowerment and Institutional Support Project
COMESA	Common Market for Eastern and Southern Africa
DANIDA	Danish International Development
EMMS	Essential Medicines and Medical Supplies
FDSE	Free Day Secondary Education Program
FY	Financial Year
GAVI	Global Alliance for Vaccination & Immunization
GK	Government of Kenya
IGAD	Intergovernmental Authority on Development
IPSAS	International Public Sector Accounting Standards
KESSP	Kenya Education Sector Support Program
KIDDP	Kenya Italy Debt for Development Program
KNBS	Kenya National Bureau of Statistics
KSh	Kenya Shillings
MDA	Ministry, Department & Agencies
NACC	National Aids Control Council
OAG	Office of the Auditor General
OBA	Output Based Approach
OVC	Orphans and Vulnerable Children
PWD	Persons with Severe Disabilities
SHDP	Small Scale Horticulture Development Project
SWAP	Safe Water and AIDS Project
TIVET	Technical, Industrial, Vocational and Entrepreneurship Training
TOWA	Total War on AIDS
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UNICEF	United Nations International Children's Emergency Fund
WFP	World Food Program



## Acknowledgements

The Institute of Economic Affairs (IEA-Kenya) expresses gratitude to the authors of this study; Jackline Kagume, Noah Wamalwa, Collins Ayoo, Faith Njuguna, Leo Kipkogei Kemboi, Evelyn Mungai, Stephen Jairo, Winnie Ogejo, Fiona Okadia and Melody Njeru who formed the technical team behind the development of this report under the guidance of Kwame Owino, the Chief Executive Officer.

We also acknowledge Edwin Kamar and Jesse Mutua of the Office of the Auditor General for their technical contribution towards the improvement of this report. In addition, IEA-Kenya expresses special thanks to John Mutua of IEA-Kenya, Francis Away of DAI, Beverly Kaluli of Westminster, Carolyn Wangusi of DAI, Eric Kinaga of TI-Kenya, Tony Watima, Joseph Tulula of Office of the Controller of Budget, Tolu Amondi of KCPF, Maryanne Wanjiku of IPKF, Daisy Webala of ICPAK and Selessor Odipoh of Westminster for their insights and contributions at the validation workshop of this report.

In addition, we acknowledge the communications support by Oscar Ochieng and Michelle Onditi of IEA-Kenya who provided the editing, design and layout of this publication. IEA-Kenya further appreciates James Ndungu and Mungai Karori who provided administrative support towards the successful completion of this report.

Lastly, IEA-Kenya extends sincere gratitude to Deepening Democracy Program (DDP), a programme supported by UKaid, for the financial support towards the development and publication of this study.





## Executive Summary

Compared to overall incomes of its citizens, government spending in Kenya is among the highest in the sub-Saharan Africa region. The effectiveness of this superior expenditure is not evident in the quality of public services rendered by the public sector in Kenya. Conventional measures on the effectiveness of public spending show that Kenya's results in the region are below the average, suggesting that there are significant constraints to proper service delivery and that these constraints are not primarily about the shortage of resources. This situation demands a review of the public expenditure management to determine the reason for this failure to provide services commensurate to the level of public spending.

On the other hand, the Constitution of Kenya places responsibility for the authorization of taxation, spending and oversight of the execution of government functions on both the Senate and the National Assembly. Article 229 (6) of the constitution establishes the institutional architecture for parliament to determine whether public money has been applied lawfully and in an effective way.

This publication examines the findings contained in the financial audit reports published by the Office of the Auditor General for the three consecutive financial years from 2013-2014 to 2015-2016. Guided by the fact that financial audits are conducted at the sector level, the scope of this study highlights the findings for the Ministries, Departments and Agencies (MDAs) in the agriculture, health, education and devolution sectors.

The findings reveal that MDAs are heterogeneous in the care and fidelity with respect to public expenditure management. Whereas public spending has grown for all four sectors, the audit opinions have varied covering the full spectrum from Clean Opinions to Adverse opinions. This confirms the claim that different departments of the government render accounts that show poor levels of accounting and expenditure management to others that adhere fully and pass the constitutional threshold of lawful and effective expenditure management.

Equally significant is the finding that even the accounts managed under the auspices of donors and government bilateral and multilateral partners also show the pattern of a mixed performance. This shows that donor-funded projects in Kenya are as likely to receive clean and disclaimer of opinions as government projects are. An important lesson from this is that the responsibility for adherence to the legal standard required by the constitution is dependent on the effort and capability of the accounting officers in state departments and agencies.

In the classification of the violations, it merges that the leading matters driving both the frequency and the monetary equivalent associated with those violations relates to improper keeping and reconciliation of accounts, lack of supporting documents and blatant violations on financial regulations. Taken together, the quantity of money placed at risk because of these regular violations leads to the conclusion that the state of public finances overall fails to meet the constitutional threshold under article 229 (6). The report highlights these weaknesses and makes suggestions for parliament to compel action by cabinet secretaries and principal secretaries to respond more substantively to findings and recommendations by the Office of the Auditor General.

In conclusion, the accountability committees of parliament must take all the powers accorded under the Public Audit Act, The Public Finance Management Act and the Constitution to ensure that all public resources are utilized lawfully and effectively. Based on the three financial years that this report has examined, parliament and the executive are failing woefully, with the result that the quality of public services rendered is not matched to the resources generated from the public in taxes. The Office of the Auditor General (OAG) has done its part and parliament must take its roles in this matter more seriously than it has done so far. Kenyan citizens are not receiving value for money from public expenditure.

# 1.0 Introduction

Kenya has made significant strides in formulating prerequisite legislations and policies for enhancing transparency and other constitutional values and principles for effective public finance management. Among these, is the establishment of the Office of the Auditor General as an independent office under article 248(3) of the Constitution of Kenya 2010 to carry out audit for the public entities both at the national level and at the county level. Public entities include all Ministries, Departments and Agencies (MDAs); all state corporations; judiciary, legislature, independent commissions and public funds (Republic of Kenya, 2012). The audit of public accounts is guided by the International Standards on Auditing (Kenya National Audit Office, 2014). The Auditor-General audits the accounts of the public entities and expresses an opinion stating whether:- all information and explanations considered necessary for the audit were received; proper records were maintained of all transactions as required under the generally accepted accounting practices; and the accounts reflect fairly the financial position of the entity audited.

In accordance to section 30 of the Public Audit Act, the audited reports are required to be submitted to the minister or officer responsible for finance who shall then lay the report before the National Assembly. If the Minister fails to lay a report before the National Assembly as required, the Auditor-General shall forthwith submit a copy of the report to the Speaker of the National Assembly (Republic of Kenya, 2012).

## 1.1 Background of the Study

Despite existing legislations to curb graft, there have been rising concerns on the pervasiveness<sup>1</sup> in the lack of accountability and transparency in the management of public resources. The apparent indifference by key oversight institutions such as the National Assembly has resulted in the slow pace in the examination of audit findings and prosecution of adversely mentioned cases. Consequently, the fight against corruption is yet to yield tangible results in terms of recovery of the public resources (Kerrow,B, 2016). A holistic approach that entails trainings and creation of awareness regarding economic losses attributable to graft to the members of the public and all the stakeholders is thus necessary in not only capacity building the institutions but also in enhancing policy formulations that promote national values and integrity.

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<sup>1</sup>Widespread misstatements that are material (severe) which render the financial statements to be unreliable. Pervasiveness in most cases leads to award of a disclaimer of an opinion or adverse opinion.

## 1.2 Significance of the Study

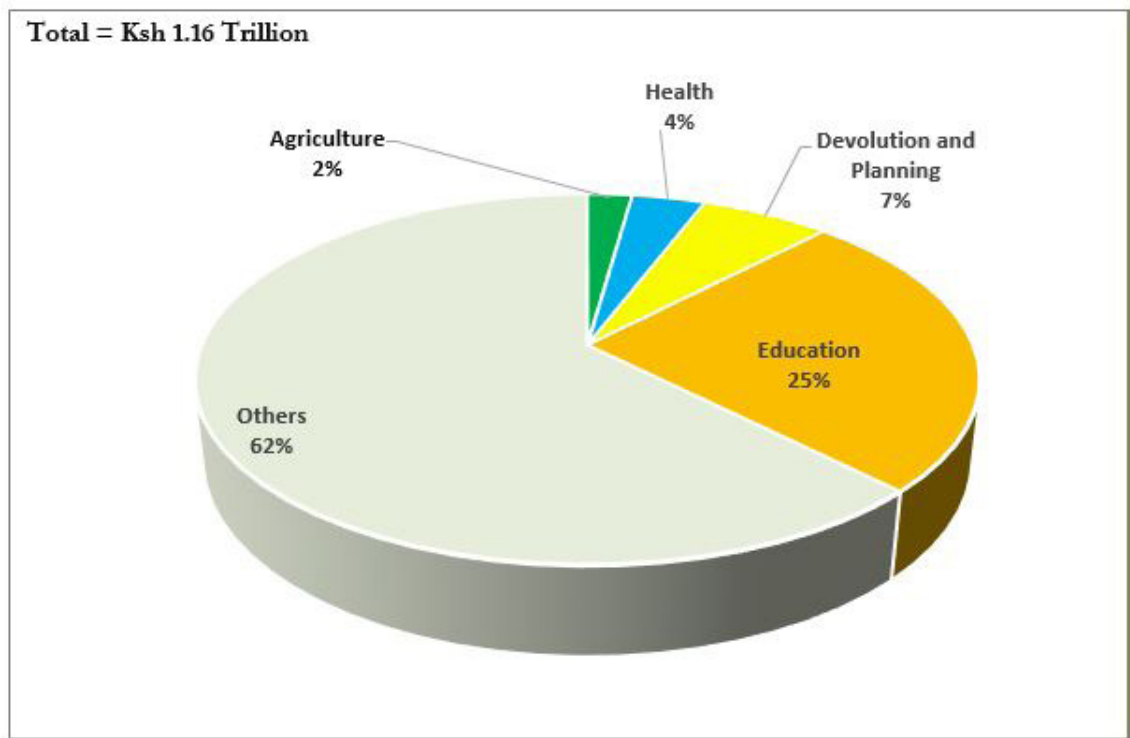
The study examines the queries on the financial transactions<sup>2</sup> raised by the Auditor General in the four ministries at the national government. The reports are analysed over the last three financial years beginning 2013/14 to provide a trend analysis. The four ministries: Health, Education, Agriculture, and Devolution and Planning were selected since they largely address youth related affairs and other social issues that concern majority of the population.

This research lays the foundation for development of a training manual that is intended to be used by CSOs in analysing the audit reports for specific counties.

## 1.3 Methodology

The study examined the Auditor General’s reports for the financial statements of the national government from FY 2013/14 to 2015/16. The focus was on the four ministries: Health, Education, Agriculture, and Devolution and Planning which were selected on the basis that they largely address youth related affairs and other social issues. The above ministries were also among the highly funded constituting a combined expenditure of 38% of all the Ministries Departments and Agencies (MDAs), as illustrated in figure 1 below.

Figure 1: Share Distribution of Expenditure by the Select Ministries, FY 2015/16

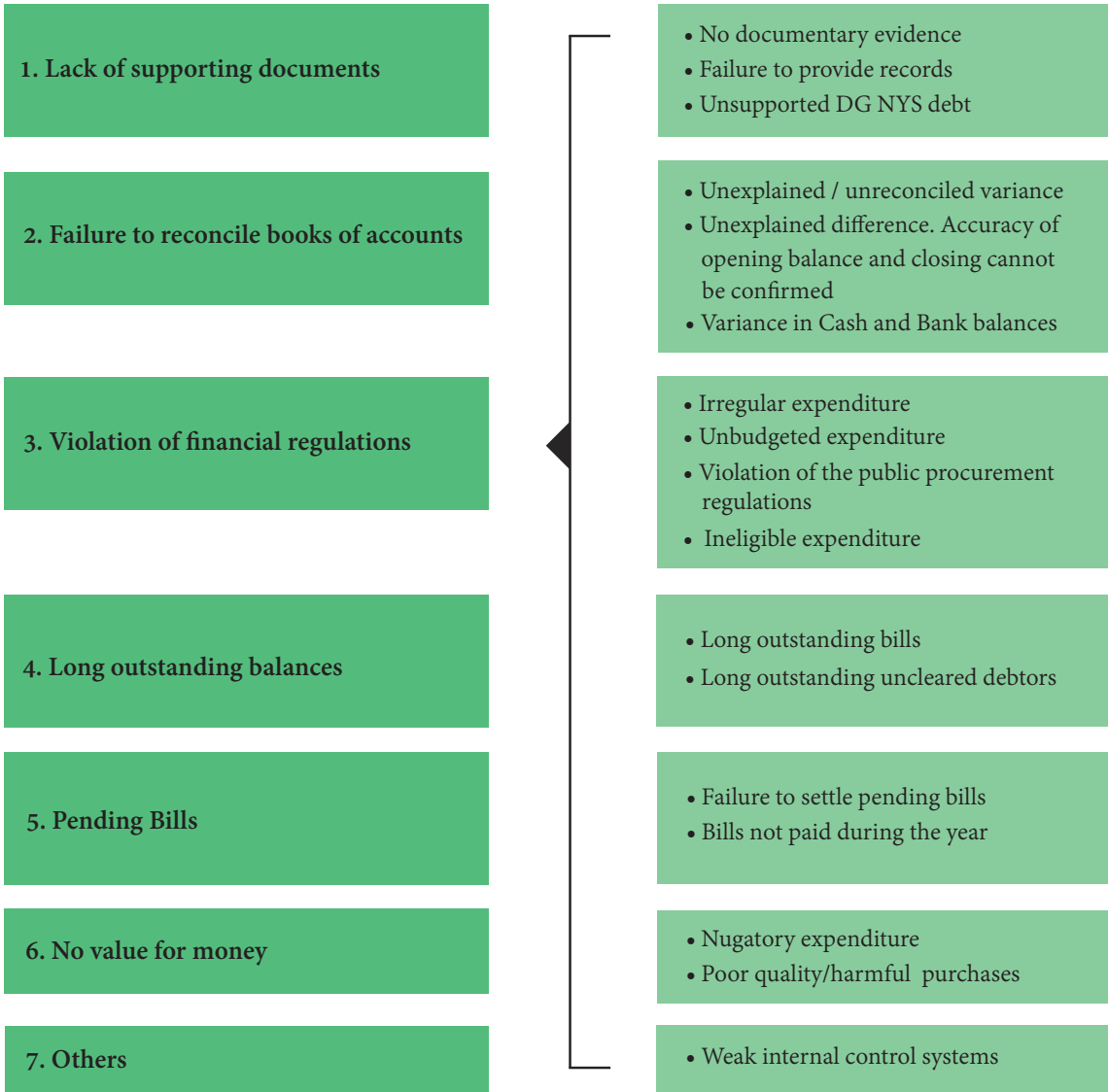


Source: National Government Budget Implementation and Review Reports, 2015/2016

<sup>2</sup>The study focused on the financial audit, an annual audit performed by the Auditor General as required by the Public Audit Act.

Analysis of the audit issues and their corresponding queried amounts was then conducted across the three financial years. Data for the respective ministries was chronologically entered in a spreadsheet and matched with the actual expenditure values for the respective ministry as shown in figure 1.

Table 1: Classification of the Audit Issues



Source: Author’s compilation from the Auditor Generals Reports –various issues

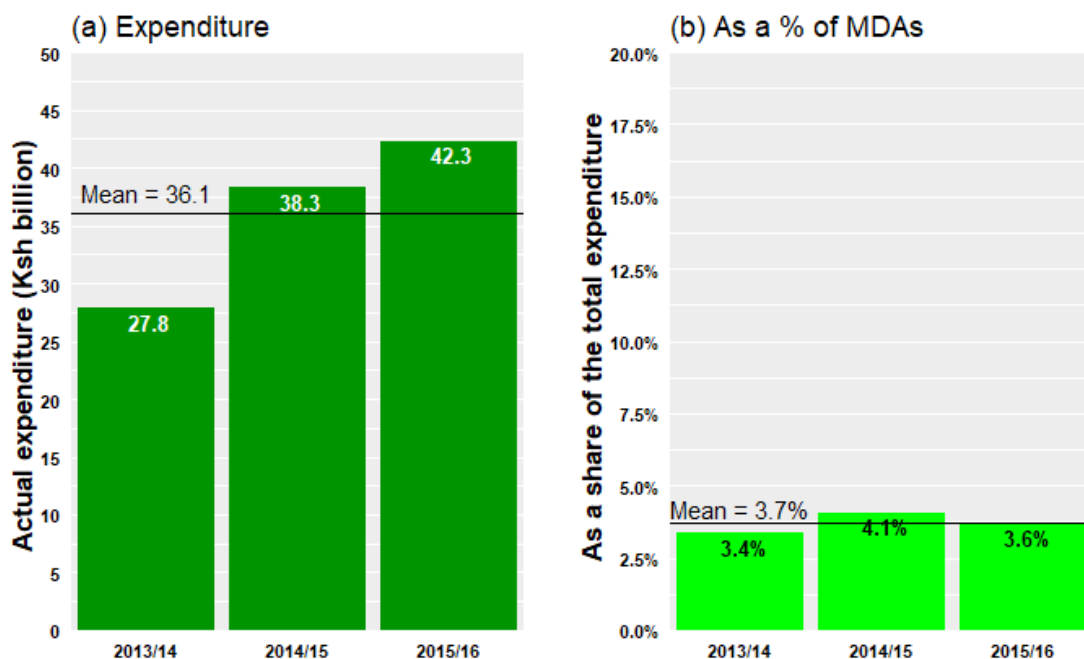
Analysis entailed classifying all the audit issues into 7 broad categories as shown above. Further classification of the queries raised included an assessment of their recurrence, by identifying prior year unresolved issues. The assessment covered the entire sections under the four ministries including the donor funded projects. Descriptive statistics and visualisations were utilised for summary and representation of the findings.

## 2.0 Ministry of Health

### 2.1 Overall Expenditure

Despite being devolved, the Ministry of Health is among the highly funded at the national level. Its actual expenditure in FY 2015/16 was Ksh 42.3 billion making it among the top six. The ministry is one of the vital docket, with a critical role in the attainment of the Constitutional right of provision of quality health care to all Kenyans. The allocations to meet its functions have been on the rise and similarly the actual expenditure as illustrated in figure 2, hence its significance.

Figure 2: Trends in Actual Expenditure and Corresponding Share of the Ministries, Departments and Agencies



Source: National Government Budget Implementation and Review Reports, 2013/14 - 2015/2016

Evidently, the actual spending in the Ministry of Health has been increasing annually in nominal terms; from Ksh 27.8 billion in FY 2013/14 to Ksh 42.3 billion in FY 2015/16, averaging a Ksh 7.25 billion increase annually. As a share of the total expenditure with respect to all MDAs, the Ministry's share is 3.7%; which is below the recommended Abuja Declaration of at least 15% of the total budget.

With a relatively substantial budget, though below international standards, prudence in the management of the scarce resources is an expectation of every taxpayer so much so that it meets its legal and policy mandate of providing every Kenyan highest attainable standard of health, including reproductive health. In the following sections, we dissect Auditor's General reports<sup>3</sup> to establish the extent to which the Ministry has managed public funds under its jurisdiction.

## 2.2 Audit Opinion

The statutory duties and responsibilities of the Auditor General as enshrined in Article 229 (4) (5) (6) and (7) of the Constitution of Kenya, 2010 and the Public Audit Act, 2015 entail carrying out the audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). The Auditor General has legal mandate to examine books of accounts, all supporting documents and disclosures in order to obtain reasonable assurance about whether the financial statements are free from material misstatement, this forms the basis for the expression of an overall audit opinion.

**Table 2: Summary of the Audit Opinions Between the Ministry (GoK) and the Donor Funded Projects**

MDAs	2013/14	2014/15	2015/16
<b>Ministry of Health - GoK</b>			
1. Financial statements for Vote 1081	Adverse	Qualified	Qualified
<b>Donor Funded Projects</b>			
1. GAVI-Health Systems Strengthening Project	Disclaimer	Disclaimer	Disclaimer
2. IGAD Regional HIV/AIDS Partnership Program (IRAPP)	Qualified	Qualified	N/A-Project Closed
3. UNDP Project - NACC	Qualified	Unqualified	N/a-Audited under main account
4. Global Fund Project - NACC	Qualified	Qualified	Audited under NACC
5. Global Fund – Expanding HIV Prevention Care & Prevention	Qualified	Unqualified	Qualified
6. Global Fund Malaria 4	Qualified	Unqualified	N/A-Project Closed
7. Global Fund Malaria 10	Unqualified	Unqualified	Qualified
8. Global Fund to Fight Malaria Program	N / A - New Project	Unqualified	***
9. Rural Health Project III	Qualified	Qualified	***
10. Total War on Aids (TOWA) Project	Qualified	Qualified	N/A-Project Closed
11. East Africa Public Health Laboratory Networking Project Credit	Unqualified	Unqualified	Qualified

<sup>3</sup><https://www.oagkenya.go.ke/index.php/reports>

12. Kenya Health Sector Support (EMMS Component 1) Project	N / A - N e w Project	N / A - N e w Project	Disclaimer
13. Kenya Health Sector Support (EMMS Component 2) Project	Unqualified	Unqualified	Qualified
14. Output Based Approach (OBA) Project Credit	Unqualified	Qualified	Qualified
15. Kenya Health Sector Support Program DANIDA Non-Pool	Unqualified	Unqualified	Qualified
16. Health Sector Support Project –SWAP Secretariat	Unqualified	Qualified	Qualified
17. Reproductive Health for the entire Country (UNFPA)	N / A - N e w Project	Qualified	Disclaimer
18. East Africa's Centres of Excellence For Skills and Tertiary	N / A - N e w Project	N / A - N e w Project	Disclaimer
19. Global Fund Tuberculosis Grant Programme	Unqualified	Unqualified	Qualified
20. Reproductive Health - Output Based Approach (OBA) Credit	N / A - N e w Project	Unqualified	Unqualified

Source: Author's compilation from the Auditor Generals Reports –various issues

*Not Applicable, the project did not feature in the audit report since it may have been new or had been closed.*

As illustrated in the table above, the Ministry of Health was awarded an adverse opinion in FY 2013/14 followed by consecutive qualified opinions in FY 2014/15 and in FY 2015/16. An adverse opinion implies that financial records contain material misstatements, and thus, the statements do not present a true and fair view of the financial position for the Ministry. Consecutive qualified opinions in years that follow signal an improvement, though not perfect; the opinion implies that there exist violations of the financial reporting which may be material but are not pervasive in nature.

Under the donor funded projects, in FY 2013/14 it is revealed in the figure above that 7 out of 15 projects obtained an unqualified opinion (clean opinion). Notably, in the same year projects such as GAVI, a global vaccine alliance that seeks to work with governments to promote vaccination, obtained disclaimer of opinion. This presents serious financial violations and implies that the auditor was unable to express an opinion on the financial statements partly due to failure to provide audit evidence and thus a possibility of undetected misstatements<sup>4</sup> which could imply serious violations. This opinion means that the financial statements do not reveal a true and fair view of the financial position of the entity and hence should not be relied upon. Findings show considerable improvement in FY 2014/15 with 10 out of 18 obtaining an unqualified opinion. Even so, the improvement subdued in FY 2015/16 with four projects out of thirteen receiving a disclaimer of opinion. Only one project received an unqualified opinion while the remainder received qualified opinion; indicating lack of consistency.

<sup>4</sup>Expressing a fact that is not correct in accordance to financial reporting standards



**Table 3: Trends in the Number of Audit Queries Verses the Number of Unqualified Opinion,  
FY 2013/14 - 2015/16**

GoK	2013/14	2014/15	2015/16
Number of issues queried:	25	18	13
Unqualified opinion:	0	0	0
<hr/>			
Donor funded projects	2013/14	2014/15	2015/16
Number of issues queried:	17	2	22
Unqualified opinion:	7	10	1
<hr/>			

Source: Author's compilation from the Auditor Generals Reports –various issues

*NB: unqualified opinion is a clean opinion thus no audit queries*

Table 3 provides a summary of the count of the instances of the audit queries, that is, questions raised by the Auditor General with regards to adherence to financial rules and regulations. Instances where the Auditor General was overly satisfied with the financial reporting have also been identified and summarised under the unqualified opinion. In the FY 2013/14, a total of 25 audit issues were raised under the Ministry of Health, the number dropped to 18 in FY 2014/15 and further to 13 in FY 2015/16, indicating a general favourable trend in the of frequency of the questions raised by the Auditor General. The trend is in tandem with the overall favourable trend in the audit opinions. On the other hand, an examination of the donor funded projects under Ministry shows that 2013/14 has significant audit issues (17) with none of the projects obtaining an unqualified opinion, which portrays poor performance. A notable improvement is realised in FY 2014/15 by reduction of the audit issues from 17 to 2, significant deterioration was experienced in FY 2015/16 with 22 audit issues being highlighted by the auditor an indication of lack of consistency.

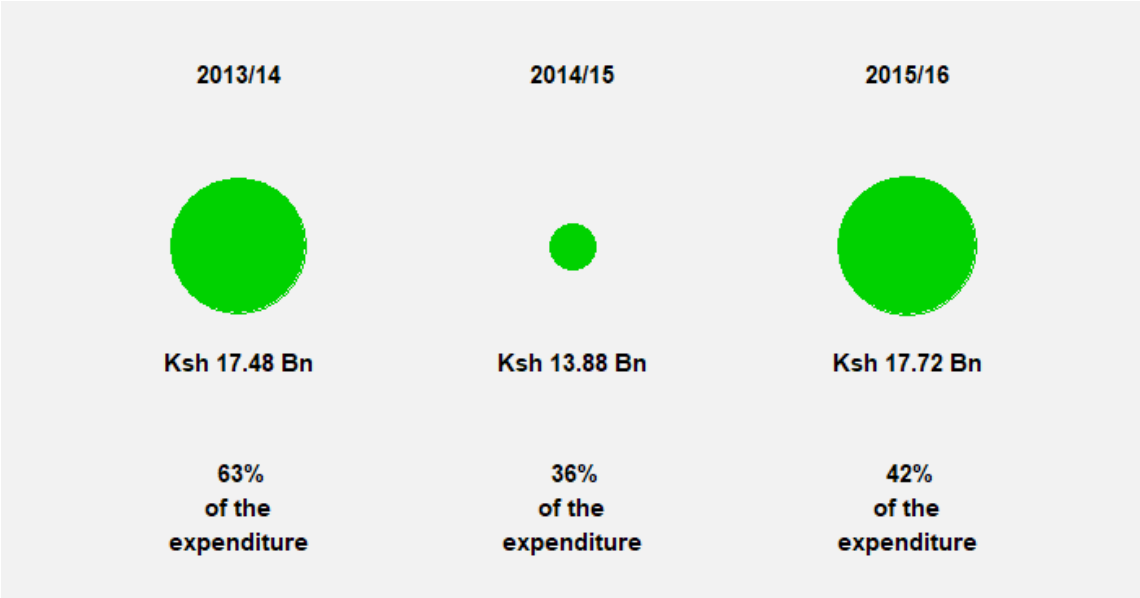
It is worth noting that unqualified opinion are only observed under donor funded projects and not under the Ministry which indicates better performance by donor funds as compared to the Ministry. However, the number of projects obtaining the unqualified opinion drastically reduced from 10 in FY 2014/15 to 2 in the following year implying high inconsistency. Ministries should enhance proper bookkeeping for the donor funded projects so as to reduce on the disclaimer of opinion. Positively, an award of unqualified opinion by the donor funded projects indicates that it is possible to attain a clean opinion, a policy message that other funds recipient can embrace.

The subsequent sections examine the corresponding queried amounts over the three years. The share of the queried amounts is compared to the total budget. The recurrent nature of the audit issues is analysed and the breakdown of the queried amount across the audit issues also summarised.

## 2.3 Queried Amounts

Queried amount refers to the amount relating to the audit queries raised by the auditor during an investigation as having been transacted unlawfully with respect to International Public Sector Accounting Standards (IPSAS), for instance, absence of proper records to support an expenditure.

Figure 3: Trends in Total Queried Amount, FY 2013/14 – 2015/16



Source: Author’s compilation from Auditor Generals Reports –various issues

Figure 3 above summarises the trends in the total queried amount<sup>5</sup> for the period FY 2013/14 through to FY 2015/16. Findings show that the auditor raised questions regarding transactions involving Ksh 17.5 billion in FY 2013/14, Ksh 13.88 billion and Ksh 17.72 billion in FY 2014/15 and FY 2015/16 respectively. In comparison to the actual spending for the entire Ministry, the queried amount represents 63%, 36% and 42% for the three consecutive years. The large shares of the queried amount relative to their budget is a revelation of the multiple violations happening within the Ministry. Multiple violations imply high probability of the re-occurrence of the violations leading to the auditor raising the queries. Even though the queried amounts do not directly mean that the money was lost, it may mean that, significant number of the transactions are not being done procedurally in a manner that adheres to the established financial reporting rules and regulations which raises the risk of potential financial loss.

In the next section, we examine the distribution of the queried amounts for further understanding of its distribution.

<sup>5</sup>Amount related to financial transactions that the auditor is seeking clarification, for instance, unapproved expenditure

Figure 4: Distribution of the Queried Amount, FY 2013/14 – 2015/16

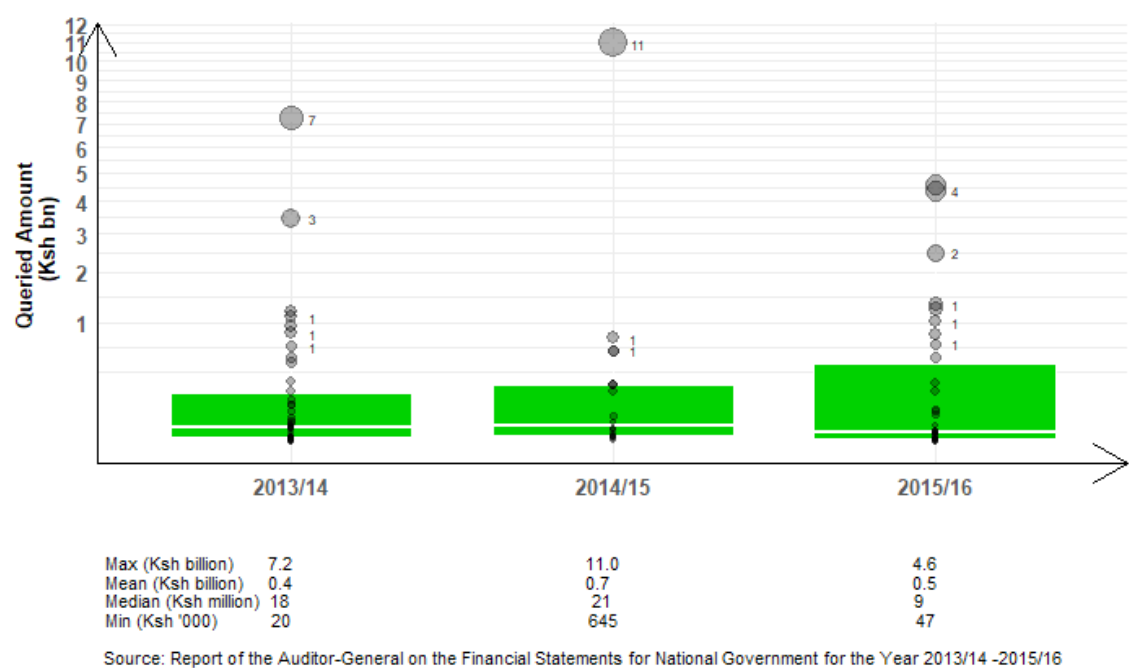
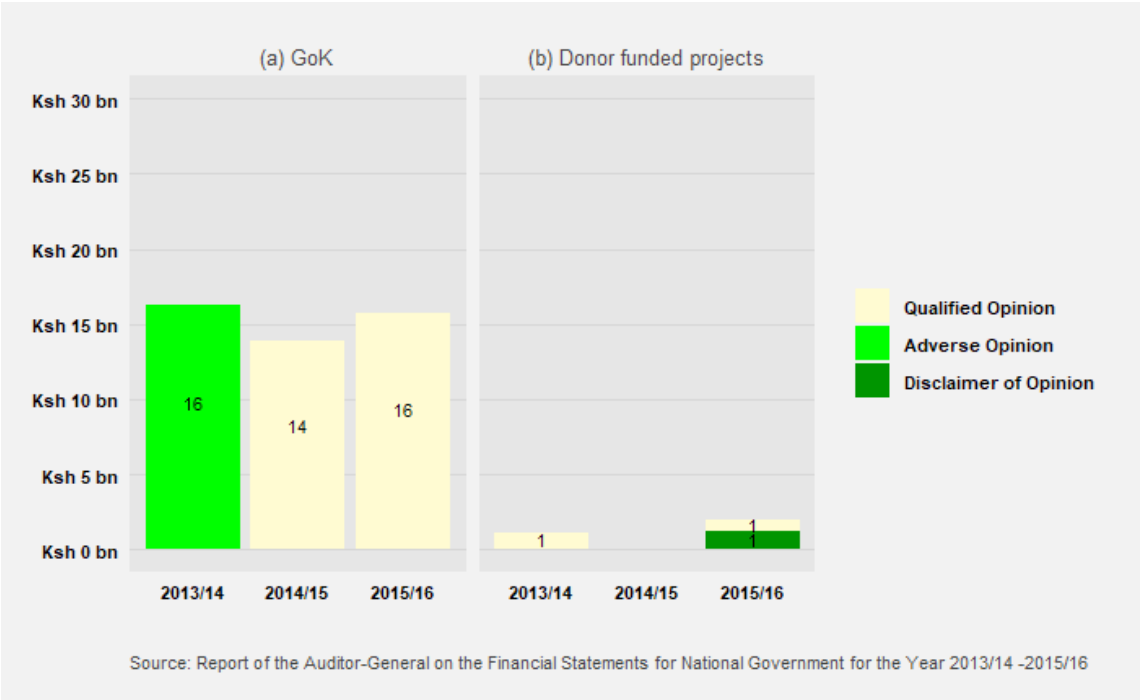


Figure 4 is a scatterplot of the queried amount for the respective years in ascending order. It provides an illustration of the spread of the queried amounts for each respective financial year. A boxplot is included to provide summary statistics about the spread such as the median.

As revealed by the positioning of the data points, the queried amounts are randomly distributed with high variations. In FY 2013/14, the maximum value was Ksh 7 billion, compared to Ksh 11 billion in FY 2014/15 and Ksh 4 billion in FY 2015/16. On the other hand, the minimum value was Ksh 20,000, Ksh 645,000 and Ksh. 47,000 from FY 2013/14 through FY 2015/16. The median value is quite insightful, it shows that half of the queried amounts are above Ksh. 18 million, Ksh. 21 million and Ksh. 9 million in FY 2013/14, 2014/15 and 2015/16 respectively.

Notable outliers included Ksh 7.2 billion in FY 2013/14 relating to failure to reconcile books of account, consequently, leading to the inability to confirm validity of the balance. Another is Ksh 3.5 billion that resulted as due to lack of documentary evidence which consequently led to inability to confirm accuracy of transactions by the Auditor General. Outliers in FY 2014/15 include Ksh 11 billion on which queries were raised concerning failure to transfer funds to the new deposit account per required regulations. In the FY 2015/16, two outstanding queried amounts relate to Ksh 4.6 billion and Ksh 4.4 billion due to lack of documentary evidence and long outstanding county debts respectively.

Figure 5: Trends in Queried Amount Between the Ministry (GoK) and Donor Funded Projects



\*\*\*Unqualified opinion does not appear in the above chart because the opinion has zero queried amount

Further assessment of the queried amounts between Government of Kenya (GoK) funding and the donor funded projects as illustrated in Figure 5 above, reveals that huge amounts queried happened on the GoK side. In the FY 2013/14, Ksh 16 billion was queried and led to award of an adverse opinion whose implication is that financial records of the Ministry that year did not present a true and fair view of the financial position. Such gross violations that warranted an adverse opinion include deposits totalling Ksh 11 billion that were held in former Ministries of Medical Services and Ministry of Public Health and Sanitation which merged to form Ministry of Health which were never transferred to the new deposit account contrary to Treasury Circular No.AG/CONF.17/01/65.

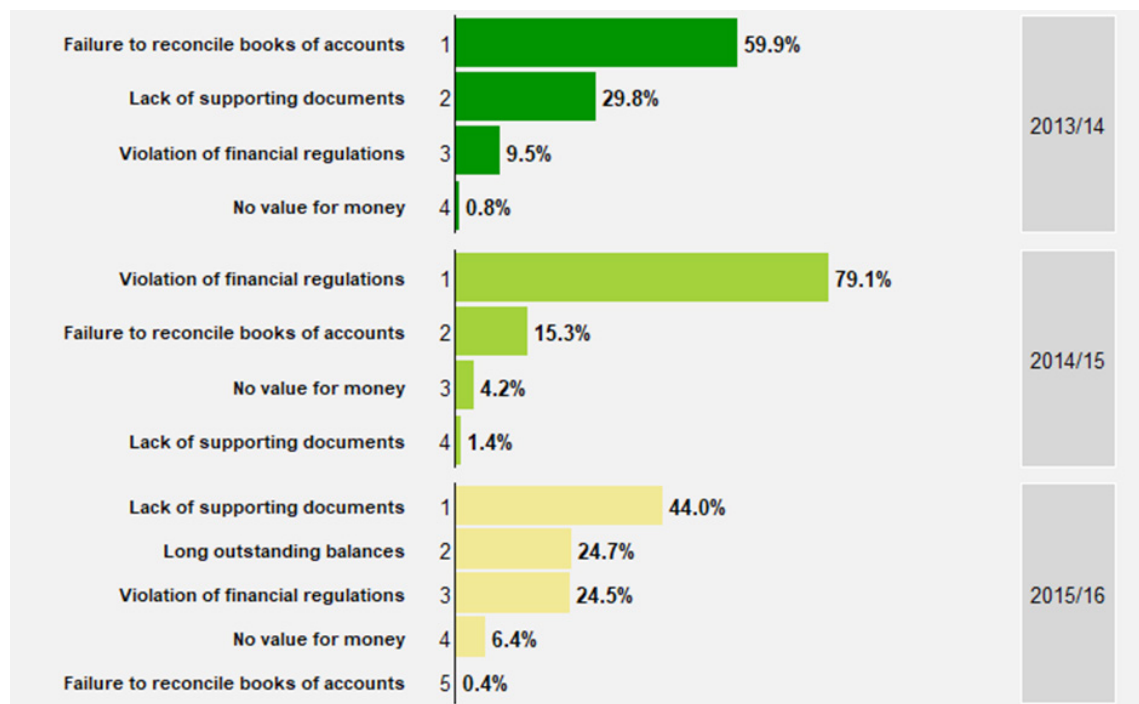
A significant drop in the queried amount from Ksh 16 billion to Ksh 14 billion is an improvement though adequate measures should be taken to reverse the trend gained in FY 2015/16 in which there is a rise in the queried amount of Ksh 16 billion.

Findings further reveal that, notwithstanding the relatively less funds that the donor funded projects handle, they are also not free from gross violations of financial reporting standards, for instance in FY 2015/16, United Nations Population Fund (UNFPA), a project on Reproductive Health for the entire Kenya, failed to avail supporting schedules for audit verification, an action that warranted issuance of a disclaimer of opinion.

## 2.4 Share Distribution of the Queried Amounts by Audit Issues

This section presents an analysis of the audit issues and their corresponding share of the queried amount for the respective years. The analysis seeks to determine prevalent audit issues across the three financial years.

Figure 6: Share Distribution of Queried Amount Across Specific Audit Issues, FY 2013/14 – 2015/16



Source: Author's compilation from the Auditor Generals Reports –various issues

In the FY 2013/14, the Auditor General raised queries with respect to failure to reconcile books of accounts, the queried amounts relating to this queries accounts for Ksh 10.5 billion (60%) of the total queried amounts. The second prevalent query is lack of supporting documents at Ksh 5.2 billion (30%). The remaining queries amount to Ksh 1.8 billion (10%) and relate to Violation of financial regulations and No value for money. Reconciliation of books of accounts and Proper keeping of the supporting evidence are essential for verification of the validity and accuracy of the financial transaction; hence policy makers ought to address this related shortcoming urgently.

A major audit issue raised in FY 2014/15 involves deposits totalling Kshs.11 billion (79%) held in former Ministries of Medical Services and Ministry of Public Health and Sanitation (which merged to form Ministry of Health) were never transferred to the new deposit account contrary to Treasury Circular No.AG/CONF.17/01/65 dated September, 2013 which required deposits in former Ministries to be analysed and transferred to new accounts. Others include failure to reconcile books of accounts, Ksh 2.1 billion (15.3%), No value for money Ksh 0.6 billion (4.2%) and Lack of supporting documents, Ksh 0.2 billion (1.4%).

In the FY 2015/16, nearly half of the audit issues were raised on lack of supporting which amounts to Ksh 7.8 billion (44%). It is followed by long outstanding balances, about 25% of the total queried amount. Long outstanding balances have serious financial implications since they directly affected the cash flow of the Ministry.

## 2.5 Recurrent Issues

This section provides a brief analysis of the recurring audit issues over the three years under review. The objective of this analysis is to identify instances under which some audit issues raised remain unresolved.

**Table 4: Highlight of the Prior Year Unresolved Issues**

	2013/14	2014/15	2015/16
Number of recurring queries:	8	4	8
Total Number of queries:	42	20	35
Recurring queries as a % of the total:	19%	20%	23%

Source: Author's compilation from the Auditor Generals Reports –various issues

Generally, there is an increase in the share of the recurring issues, from 19% to 23% between FY 2013/14 to FY 2015/16, representing an increase 4 percentage points. Recurring queries include the GAVI health systems strengthening project which warranted a disclaimer of opinion throughout FY 2013/14 all through to FY 2015/16. Questions are raised over how a deficit of Ksh 2.6 billion was cleared. In addition, abandonment of Civil Works at Rural Health Project III which amounts to Ksh 413 billion is yet to be resolved. Other recurring issues include; in FY 2014/15 through FY 2015/16 a Proposed Upgrading of Othaya District Hospital Phase I which has so far stalled although it is indicated that the project had been terminated on a mutual agreement, no documentary evidence was made available for audit verification.

## 2.6 Implication of the Audit Issues on the Youth

Virtually health matters concern all youths. The Auditor General's reports point out various instances of projects that were not successfully completed and thus directly inhibiting the social benefits that would have accrued to the youth and general population. In addition, various instances of violations of financial rules and regulation have led to inability by the Auditor General to confirm the validity and propriety of the expenditures, thus presenting risk in the potential loss of funds. An example of this is the stalled Proposed Upgrading of Othaya District Hospital Phase I. Others include the East Africa's Centres of Excellence for Skills and Tertiary Education in Biomedical Sciences-PHASE 1 (CR. NO. 2100150031997), GAVI Health Systems Strengthening Project and Reproductive Health For The Entire Country (UNFPA KEN 7R 11G). The projects have been marred by violations with some receiving a disclaimer of opinion thus leading to in ability by the Auditor General to ascertain the propriety of the expenditures incurred.

## Opportunity Cost

### *Expenditure on Non- Existent Consultancy Services*

In the FY 2013/14, the Ministry spent Ksh 34 million on consultancy services for the reinforcement of 15 Health Facilities in Northern Kenya. Audit findings revealed that the expenditure had not been budgeted for nor was parliamentary approval and consultancy report availed for audit review. Since expenditure was made without delivery of services, there was no value for money.

The amount is adequate to procure 42,500 Special Insecticide Treated Mosquito Nets for the prevention of malaria, a leading cause of deaths in Kenya (17,553 by 2017).

### *Stalled Projects - Proposed Upgrading of Othaya District Hospital Phase I*

Audit findings revealed that the cost for the upgrading of Othaya District Hospital was revised from the initial contract value of Ksh 436 million to Ksh 578 million resulting in a variation of Kshs 142 million. Further revelations show that the above variation excludes a 10% reduction in scope of work which if considered will give variation of up to 43% at the close of FY 2015/16. Despite cumulative payment of Ksh 502 million, the project has since stalled. No project progress reports have been availed for audit review. The completion of the outstanding works is evaluated at Ksh 272 million implying no value for money for the Ksh 230 million.

Nyeri County, for example, experiences high reported cases of respiratory diseases; a medical condition that encompasses pathological conditions affecting the organs and tissues of the respiratory system. A common drug for such disease is Amoxicillin for bacteriologic eradication. Ksh 230 million would have been adequate to stock the County hospitals with approximately 4.6 million units of 500mg Amoxicillin dosage for adults.

### *Irregular Payment on Portable Clinics*

The Ministerial Tender Committee awarded a contract for supply of portable medical clinics to an investments company on 29 June, 2015 to supply one hundred (100) portable medical clinics at Ksh 10 million each, the total cost being Kshs.1 billion. By June 2016 the contract had since elapsed despite the fact that the contract had not been executed and Ksh 0.8 billion having been paid, representing 80%, for the portable clinics but before they were installed, commissioned and handed over, thus contravening the contractual agreement. Further, information indicates that the containers were stored in government premises in Mombasa despite the fact that ownership has not passed to the Government which leads to lost benefits by the members of the public had the instalment and commissioning been done on time.

## Key Messages

- Findings reveal audit queries on violations of financial reporting such as failure to reconcile books of account and lack of verification documents; undermining PFM regulations on enhancing transparency and accountability.
- Most audit queries relate to poor management of financial records, which is largely within the control of the accounting officers.
- It is important therefore to provide incentives in form of rewards for best performers as well as disincentives such as budget cuts for poor performers.
- Recurrence of certain queries reveal weaknesses in the internal control systems, a policy message that require that capacity assessments be carried out before allocations of public funds to ministries
- Impressive performance leading to award of unqualified opinion for most donor funded projects in FY 2014/15 is a revelation that best results can be accomplished.

## 2.7 Conclusion

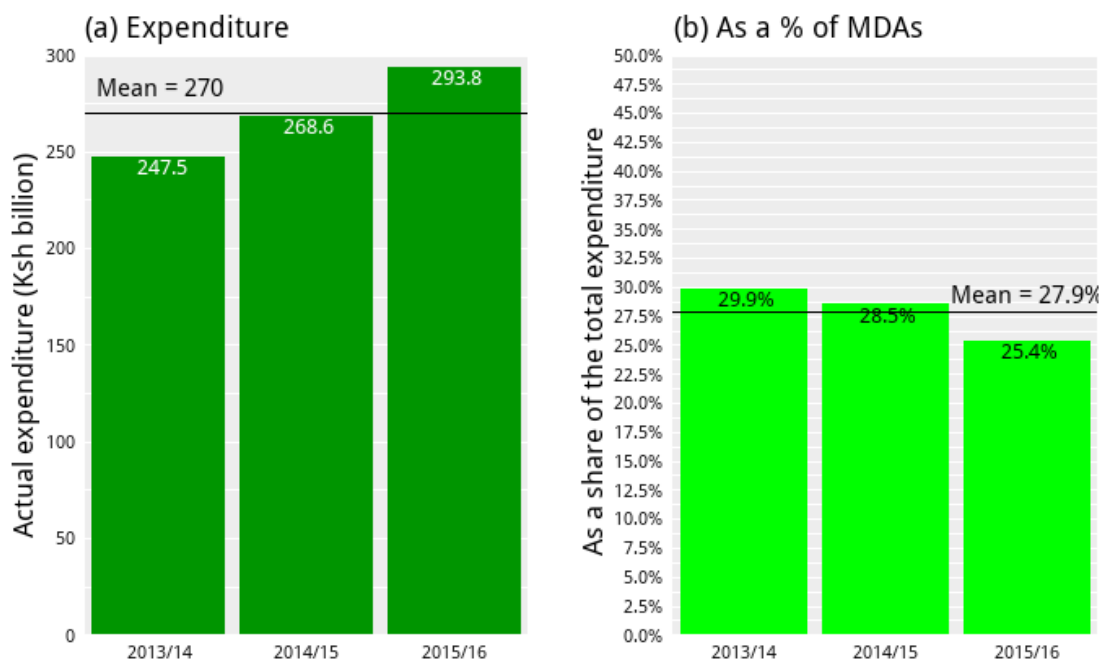
Multiple violations are observed across the three years leading to a corresponding large amount of the queried amount. The main concern regarding the audit queries relate to poor management of financial records whereby lack of financial evidence and failure to reconcile financial books are prominent. While there was noticeable improvement in FY 2014/15 whereby a considerable six donor funded projects obtained a clean opinion (unqualified opinion). However, it is also seen that implementation of some projects such as Proposed Othaya District Phase I and GAVI Health project is adversely affected which implies that the ministry still has considerable challenges in the management of funds and thus greatly negatively impacting on accountability and transparency.



## 3.0 Ministry of Education

### 3.1 Overall Expenditure

Figure 7: Trends in Actual Expenditure and Corresponding Share of the Ministries, Departments and Agencies



Source: National Government Budget Implementation and Review Reports, (various issues)

The total expenditures for the three financial years under review were Ksh 247.5 billion, Ksh. 268.6 billion, and Ksh. 293.8 billion respectively. The average actual expenditure for the Ministry in the three financial years stood at Ksh. 270 billion.

The actual expenditures for the three years, as a share of the Government Ministries, Departments and Agencies, were 29.9%, 28.5% and 25.4% respectively.

Notably, there was an increase in the total expenditures over the three years reviewed, from Ksh 247.5 billion being the lowest expenditure in FY 2013/14 to Ksh. 293.8 billion being the highest in

FY2015/16. A decrease in the expenditure as a share of Government Ministries, Departments and Agencies is recorded over the three years reviewed with the highest percentage at 29.9% in FY 2013/14 and the lowest percentage at 25.4% in FY 2015/16.

The lowest actual expenditure in the three years reviewed which was for FY 2013/14, recorded the highest percentage as a share of the Government Ministries, Departments and Agencies expenditures while the highest actual expenditure in the reviewed years which was for FY 2015/16 recorded the lowest percentage as a share of Government Ministries, Departments and Agencies expenditures.

**Table 5: Trends in Actual Expenditure, FY 2013/14 – 2015/16**

Year	Recurrent Expenditure Amount (Ksh Billion)	Development Expenditure Amount (Ksh Billion)	Total Amount (Ksh Billion)
2013/14	233.6	13.7	247.4
2014/15	253.3	14.8	268.5
2015/16	281.7	12.1	293.8

Source: National Government Budget Implementation and Review Reports, (various issues)

### 3.2 Audit Opinion

**Table 6: Summary of the Audit Opinions Between the Ministry (GoK) and the Donor Funded Projects**

MDAs	2013/14	2014/15	2015/16
1. Ministry of Education	Adverse	N/A-Ministry Split	N/A-Ministry Split
2. State Department of Education	N/A-New Department	Adverse	Qualified
3. State Department of Science and Technology	Adverse	Qualified	Qualified
<b>Donor Funded Projects</b>			
1. GOK/OPEC Basic Education Improvement Project (OPEC Loan No. 910P)	Qualified	Qualified	N/A-Project Closed
2. Kenya Education Sector Support Programme (KESSP)	Adverse	Disclaimer	N/A-Project Closed
3. Education III Project- Strengthening and expanding access to appropriate Secondary Education and skills Acquisition (Project No. P-KE-IAZ-001)	Adverse	Adverse	N/A-Project Closed
4. GOK/WFP Food assistance to Primary and Pre-Primary Schools in Semi-Arid and Disadvantaged urban children project (WFP Project No. CP 106680)	Adverse	Adverse	Adverse
5. Support to enhancement of quality and relevance in Higher Education Science and Technology Project (Project No. P-KE-IAD-001)	Adverse	Adverse	Qualified
6. Support for Technical, Industrial, Vocational and Entrepreneurship Training (TIVET) Project	Adverse	Qualified	Qualified

7. Kenya Italy Debt for Development Programme (KIDDP)	Qualified	Disclaimer	Disclaimer
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Source: Author's compilation from the Auditor Generals Reports –various issues

In the FY 2013/14, the Ministry of Education had not split and received an adverse opinion. In the consequent years the Ministry was split into two: State Department of Education and State Department of Science and Technology. In the two years, the State Department of Education was audited in the years under review 2014/15 and 2015/16, it received an adverse and a qualified opinion respectively. The State Department of Science and Technology received a qualified opinion for the two financial years 2014/15 and 2015/16.

Having noted that the State Department of Education moved from an adverse opinion to a qualified opinion, goes to show that improved performance is achievable by these departments.

The Auditor General audited a total of 7 Donor Funded Projects. In the FY 2013/14, out of the 6 projects audited, 5 received an adverse opinion. In FY 2014/15, out of the 5 projects audited, 2 received a disclaimer of opinion and 2 received a qualified opinion. In the final year under review, 2015/16, of the 4 Projects audited 2 received a qualified opinion.

**Table 7: Trends in the Number of Audit Queries Verses the Number of Unqualified Opinion, FY 2013/14 - 2015/16**

GoK	2013/14	2014/15	2015/16
Number of issues queried:	35	110	70
Unqualified opinion:	0	0	0
<hr/>			
Donor funded projects	2013/14	2014/15	2015/16
Number of issues queried:	60	47	30
Unqualified opinion:	0	0	0
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Source: Author's compilation from the Auditor Generals Reports –various issues

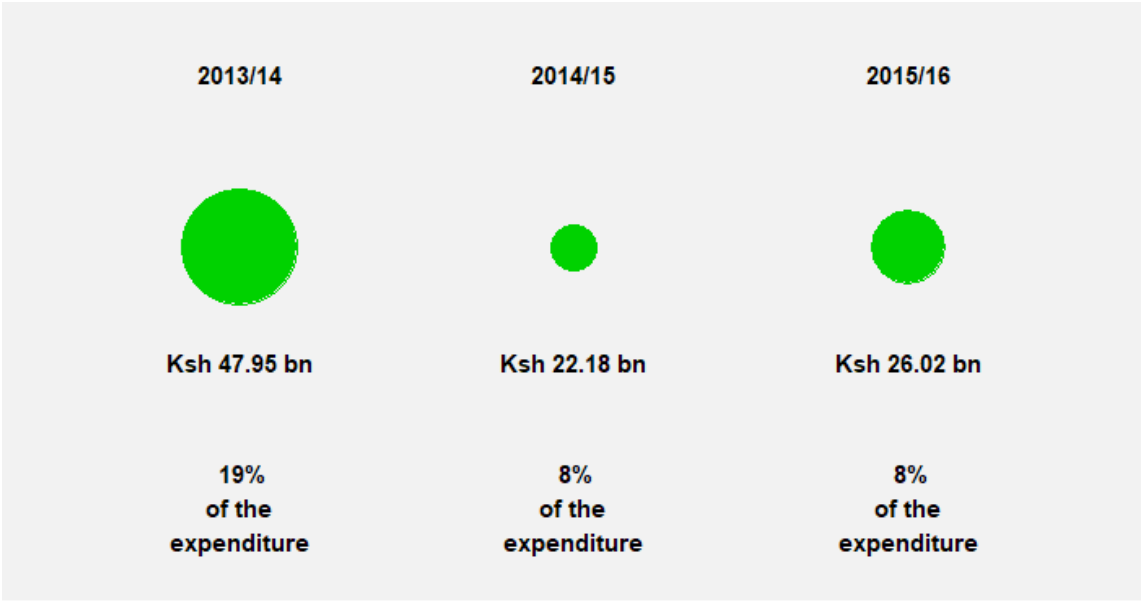
*NB: unqualified opinion is a clean opinion thus no audit queries*

Table 7 above indicates that the Auditor General queried 35, 110 and 70 issues respectively, for the three years reviewed, for the GoK projects. The notable trend over the three years is an increase then a decline with the highest issues queried registered in FY 2014/15. Of the issues queried, none received a qualified opinion.

Donor funded projects on the other hand had 60, 47 and 30 issues queried over the three years under review, respectively. A decrease in the number of issues queried is registered with the highest number being registered in FY 2013/14 and the lowest being registered in FY 2015/16. Under all the three years under review no donor funded project received an unqualified opinion.

3.3 Queried Amounts

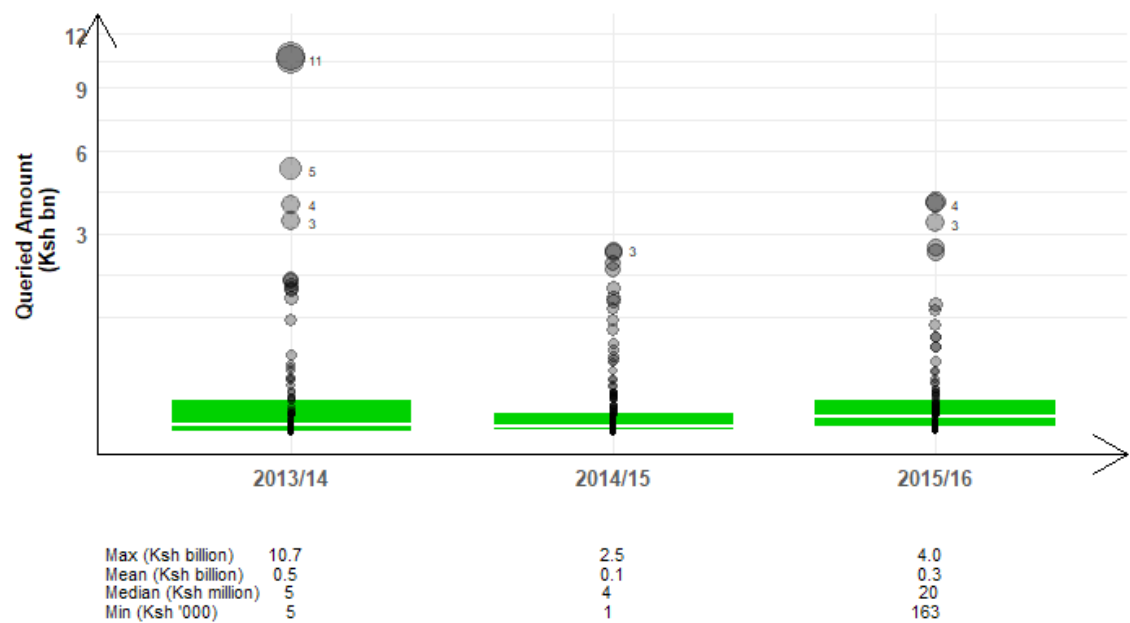
Figure 8: Trends in Total Queried Amount, FY 2013/14 – 2015/16



Source: Author’s compilation from the Auditor Generals Reports –various issues

As demonstrated in figure 8 above for the years under review, Ksh. 47.95 billion, Ksh. 22.18 billion and Ksh. 26.02 billion were queried in nominal terms. These amounts are represented by 19%, 8% and 8% as a share of the total expenditure in the respective years. The queried amounts as a share of the total expenditures have actually been below 20% with the last two years maintaining percentages below 10%.

Figure 9: Distribution of the Queried Amount, FY 2013/14 – 2015/16



Source: Report of the Auditor-General on the Financial Statements for National Government for the Year 2013/14 -2015/16

The highest queried amount was Ksh. 10.7 billion, Ksh. 2.5 billion and Ksh. 4 billion respectively for the three years under review with the lowest amounts being Ksh 5,000, Ksh 1,000 and Ksh 163,000 respectively.

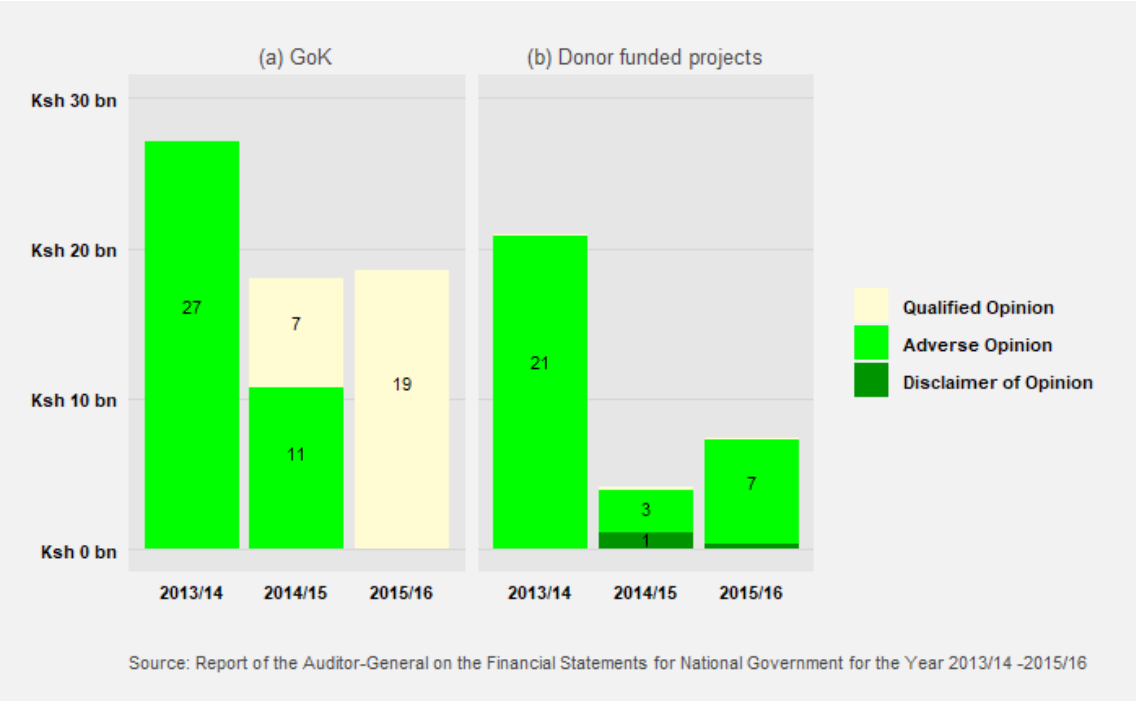
In the FY 2013/14, the highest amount queried was Ksh 10.7 billion which was approximately 3.7% as a share of the total expenditure for the financial year. The amount was queried due to lack of supporting documents in relation to unsupported account payables. On the other hand, the lowest amount queried was Ksh 4,693 and it was queried due to failure to reconcile books of accounts in relation to cash at bank balance and it was less than 1% as a share of the total expenditure.

In the FY 2014/15, the highest amount queried was Ksh. 2.5 billion which is less than 1% of the total expenditure and was due to failure to reconcile books of accounts in relation to inaccuracies in the financial statements. Ksh. 1,145 approximately less than 1% of the total expenditure, and it was queried due to failure to reconcile books of accounts in relation to a sewerage and drainage system project.

During the last year under review, FY 2015/16, Ksh. 4.0 billion which was under- utilized under the Development vote, was the highest queried amount representing 1.2% as a share of the total expenditure and was queried due to the public not having value for money. Ksh. 162,550, disbursed for a borehole drilling project at the Coast Institute of Technology, was the least amount queried for the year in question. The Auditor General, in his report, states that the public did not get value for money.

For the three years reviewed 2013/14, 2014/15 and 2015/16, 50% of the queried amounts were above Ksh 5 million, Ksh 4 million, and Ksh 20 million respectively.

Figure 10: Trends in Queried Amount Between the Ministry (GoK) and Donor Funded Projects



Source: Author’s compilation from Auditor Generals Reports –various issues

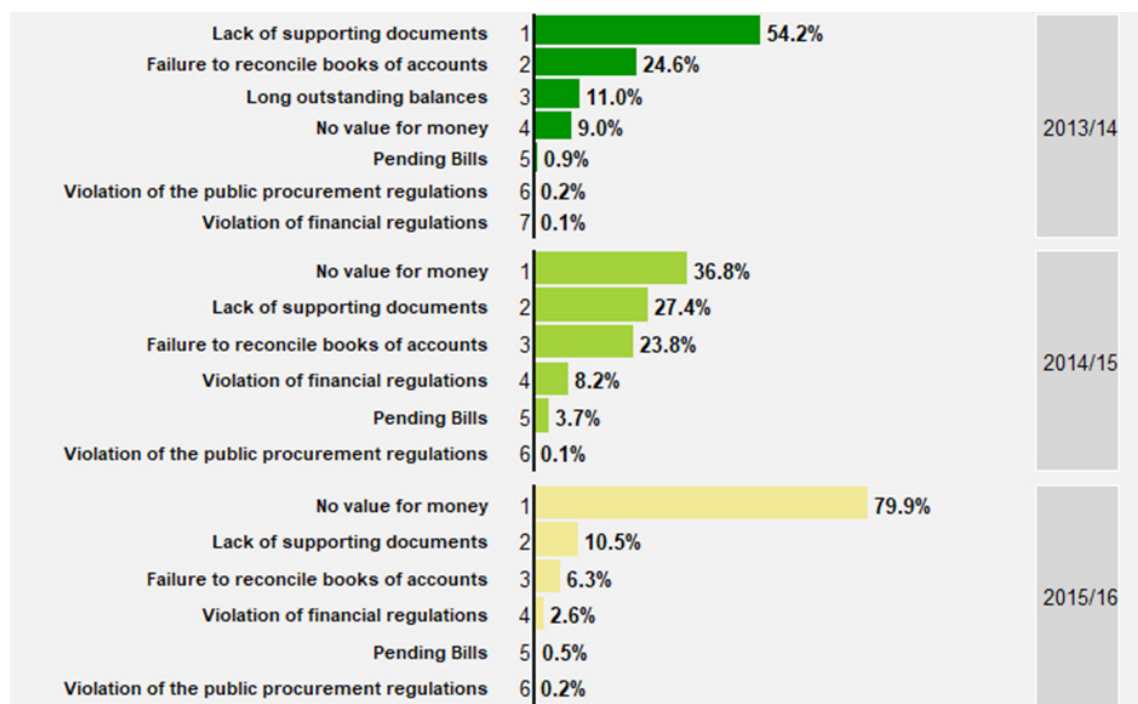
*\*\*Unqualified opinion does not appear in the above figure because the opinion has zero queried amount*

In figure 10, the ministry under GoK, received an adverse opinion with issues queried amounting to Ksh 27 billion. The ministry in FY 2014/2015 had issues queried amounting to Ksh 18 billion getting an adverse and qualified opinion. In FY 2015/16, issues amounting to Ksh 19 billion were queried and received a qualified opinion.

In regards to donor funded projects, 2015/16 financial year registered a substantial number of projects that received an adverse opinion with issues amounting to Ksh.21 billion. This later decreased to Ksh 4 billion in the successive year with Ksh 3 billion under adverse opinion and Ksh. 1 billion under the disclaimer of opinion. In 2015/16, issues amounting to Ksh 7 billion received an adverse opinion.

### 3.4 Share Distribution of the Queried Amounts by Audit Issues

Figure 11: Share Distribution of Queried Amount Across Specific Audit Issues, FY 2013/14 – 2015/16



Source: Author's compilation from Auditor Generals Reports –various issues

In the FY 2013/14, the top three queried amounts revolved round lack of supporting documents, failure to reconcile books of accounts and long outstanding balances. This represents 89.8% of the total queried amounts in that year.

In the FY 2014/15, the queried amounts revolved around no value for money, lack of supporting documents and failure to reconcile books of accounts. This represents 88% of the total queried amount in that year.

In the last year under review, the major issues were no value for money, lack of supporting documents and failure to reconcile books of accounts. This represents 96.7% of the total queried amounts in that year.

It is important to note that these top three issues; lack of supporting documents, failure to reconcile books of account and no value for money, are largely management and systemic issues that can be avoided if financial and procurement regulations are adhered to.

### 3.5 Unresolved Prior Year Issues

Table 8: Highlight of the Prior Year Unresolved Issues

	2013/14	2014/15	2015/16
Number of recurring queries:	15	24	29
Total Number of queries:	95	157	100
Recurring queries as a % of the total:	15.8%	15.3%	29%

Source: Author's compilation from the Auditor General's Reports –various issues

For the three financial years under review there have been recurring issues with some issues raised being partly addressed in the consequent years and some not being addressed and being carried to the next financial years as pending, unaccounted/unexplained or as prior year issues. As earlier mentioned, we had Current Grants and Transfers to Government Agencies and Other Levels of Government being reported for all the three years under review and also Budgetary Control and Performance issues were also reported in the FY 2014/15 and FY 2015/16 reports among other issues that were reported recurrently.

### 3.6 Implication of the Audit Issues on the Youth

In the FY 2013/14, an amount totalling Ksh 1.5 million was disbursed to a school under the Free Day Secondary Education program (FDSE) as an overpayment due to an over stated enrolment, which means there was no value for money. This amount would have enabled 203 extra students enrol for the FDSE program, for one year, had it not been disbursed to the said school.

In the FY 2014/15, an amount totalling Ksh. 1 million was made as payment for photocopy machines which were not dispatched according to records hence no value for money. 24 extra machines would have been purchased from this amount and distributed across 24 secondary schools with each school getting one photocopy machine. This then would have aided in the improvement of the learning process of the schools.

In the FY 2014/15, an amount totalling Ksh 105 million was disbursed towards the construction of nine technical training institutes in various counties that lacked such institutions. Records however indicated that the Institutes were incomplete hence no value for the money disbursed. According to the Budget Estimates for the FY 2016/17, under State Department of Science and Technology, an estimated Ksh 492 million was required for equipping 60 Technical Training Institutes in various counties. The queried amount would have equipped 13 already existing institutions that are not well equipped, depending on their needs, at a cost of Ksh 8.2 million each.



In the FY 2015/16, an amount totalling Ksh 153.8 million was made as payment for the supply of desktop computers to schools that were not delivered and the amounts was unaccounted for. This amount would have ensured that a total of 2,213 computers would have been distributed to 110 schools with each school getting 20 computers, enough to start a computer lab hence improving the quality of education.

### 3.7 Key Messages

- The State Department of Science and Technology has had a qualified opinion for the two years it was reviewed. The State Department of Education has seen differing opinions i.e. Adverse and Qualified Opinions which is an indication of a slight improvement.
- The queried amounts of all the three financial years have maintained 20% and below as a share of the total financial year expenditure budget with issues mainly arising from lack of supporting documents, failure to reconcile books of accounts and long outstanding debts, which were the top three violations for the years reviewed.
- The general audit opinions have improved as we have it moving from adverse opinion in FY 2013/14 to a qualified opinion in FY 2015/16 implying that various measures are being put in place by the ministry of education to reduce the number of issues being queried.

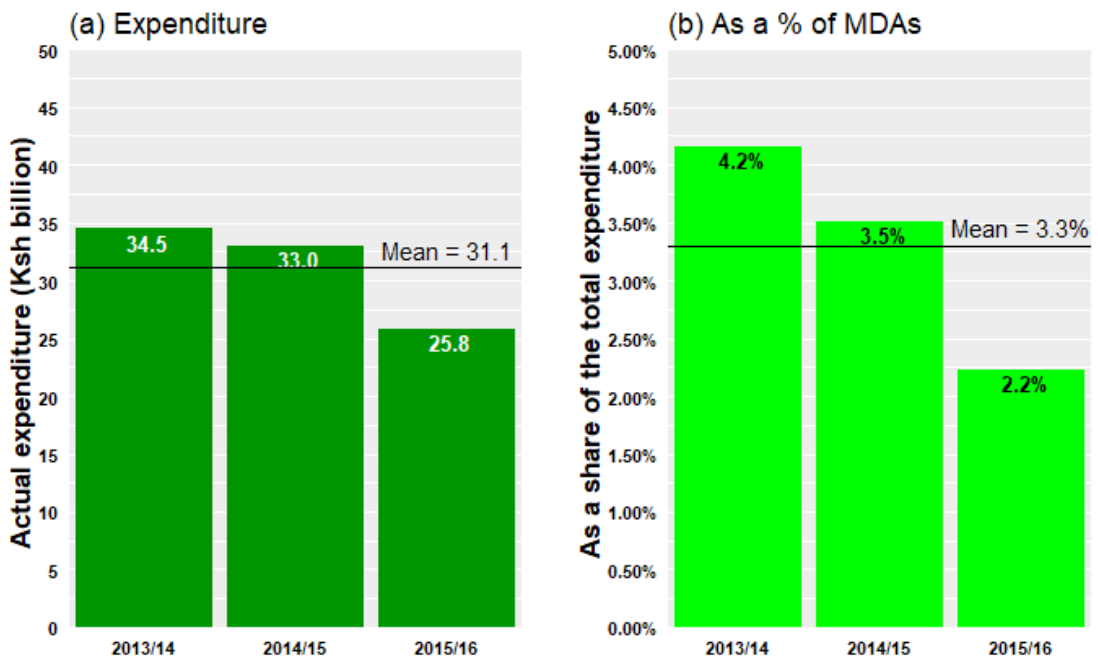
### 3.8 Recommendations

- There should be consistency in reporting of projects to ensure comprehensive audit reports on the status of all projects, especially the Donor Funded projects. Should a project not be recorded as audited in the consequent years, it should be indicated and reason why it has not been audited, indicated for clarity purposes.
- Financial and procurement violations have been repeated over the three years reviewed, an indication that strong deterrence measures have not been put in place to avoid such issues. The Auditor General should use his powers as per the Public Audit Act that allow him to suggest sanctions that can be applied to curb such irregularities.
- Parliament, through its oversight committee, should approve the sanctions put in place by the Auditor General and strengthen the already existing policies to ensure the violations don't occur and the sanctions apply.
- Parliament should put more emphasis on the importance of complete record keeping in a bid to ensure quality record keeping to avoid issues around lack of supporting documents and failure to reconcile books of accounts which are largely management and systemic issues.

## 4.0 Ministry of Agriculture

### 4.1 Overall Expenditure

Figure 12: Trends in Actual Expenditure and Corresponding Share of the Ministries, Departments and Agencies



Source: County Budget Implementation and Review Report (various publications)

The total expenditure for the three financial years under review were Ksh. 34.5 billion, Ksh. 33 billion, and Ksh. 25.8 billion respectively. The average overall expenditure for the Ministry in the three financial years stood at Ksh. 31.1 billion.

The actual expenditures for the period under review as a share of Government Ministries, Departments and Agencies (MDAs) were 4.2%, 3.5%, and 2.2% respectively for the three financial years 2013/14, 2014/15, and 2015/16.

As shown in figure 12, actual expenditure for the ministry as a whole has been declining over the period under review. The same trend is observed for the Ministry's actual expenditure as a share of total expenditure.

The trend as illustrated in figure 12 is also supported by the table below which shows the total expenditures for each state department over the review period.

**Table 9: Trends in Actual Expenditure, (Ksh Billion), FY 2013/14 – 2015/16**

Department	Year	Recurrent	Development	Total
Agriculture	2015/16	5.7	12.5	18.2
Livestock		1.7	2.4	4.1
Fisheries		1.3	2.3	3.5
<b>Total</b>		<b>8.6</b>	<b>17.2</b>	<b>25.8</b>
Agriculture	2014/15	7.4	18.6	26.0
Livestock		1.3	2.6	3.9
Fisheries		1.1	2.0	3.1
<b>Total</b>		<b>9.8</b>	<b>23.3</b>	<b>33.0</b>
Agriculture	2013/14	10.3	24.1	34.5
Livestock				
Fisheries				
<b>Total</b>		<b>10.3</b>	<b>24.1</b>	<b>34.5</b>

Source: County Budget Implementation and Review Report (various publications)

As shown in table 9, for the three years under review, the general trend of the total expenditure is on gradual decline: from Ksh. 34.5 billion in the financial year 2013/14 to Ksh. 33 billion in 2014/15, and finally to Ksh. 25.8 in 2015/16.

## 4.2 Audit Opinions

**Table 10: Summary of the Audit Opinions for the Ministry**

Financial Year	State Department of Agriculture	State Department of Livestock	State Department of Fisheries
2013/2014	Qualified Opinion		
2014/2015	Qualified Opinion	Qualified Opinion	Unqualified Opinion
2015/2016	Qualified Opinion	Qualified Opinion	Unqualified Opinion

Source: Author's compilation from Auditor Generals Reports –various issues

In terms of audit opinions, during the first year under review, the Ministry had not been divided into the three state departments and as such received a qualified opinion as a whole. However, in the subsequent years, the Ministry was split into three state departments; State Department of Agriculture; State Department of Livestock; and State Department of Fisheries.

While the State Department of Agriculture and that of Livestock received qualified opinions for 2014/15 and 2015/16, the state department of fisheries received an unqualified opinion during the same period.

It is thus important to note that it is only the State Department of Fisheries that has received unqualified opinion so far for the period under review, and for the time the state department has existed when this review was undertaken.

**Table 11: Summary of the Audit Opinions for the Donor Funded Projects**

Donor Funded Projects				
1.	Agricultural Sector Development Support Programme	Qualified	Unqualified	Adverse
2.	Coastal Development Project- Kenya Marine and Fisheries Research Institute	Qualified	Qualified	Qualified
3.	Drought Resilience and Sustainable Livelihoods Programme	Qualified	Unqualified	Qualified
4.	East African Agricultural Productivity Project	Qualified	Unqualified	Adverse
5.	Green Zones Development Support Project	Unqualified	Unqualified	Unqualified
6.	Kenya Adaptation to Climate in Arid and Semi-Arid Lands Project	Unqualified	Qualified	Qualified
7.	Kenya Agricultural Productivity and Agribusiness Project	Unqualified	Unqualified	Unqualified
8.	Kenya Agricultural Productivity and Sustainable Land Management Project	Unqualified	Unqualified	Adverse
9.	Kenya Cereal Enhancement Programme	N/A-New Project	Qualified	Disclaimer
10.	Mainstreaming Sustainable Land Management in Agro-Pastoral Systems of Kenya	Qualified	Unqualified	Adverse

11. Regional Pastoral Livelihoods Resilience Project	Qualified	Unqualified	Qualified
12. Rice-Based Market Oriented Agriculture Promotion Project	N / A - N e w Project	Disclaimer	N/A project Closed
13. Small-Scale Horticulture Development Project (SHDP)	Qualified	Unqualified	Qualified
14. Standard and Market Access Programme	N / A - N e w Project	Qualified	Adverse
15. Strengthening Fertilizer Quality and Regulatory Standards in Kenya Project	N / A - N e w Project	Qualified	Unqualified

Source: Author compilation from Auditor Generals reports – various issues

For the first year under review, there were a total of 4 out of 11 projects that received unqualified opinion, in 2014/15 the number of unqualified opinions increased to 9 out of the 15 projects that were audited. However, the situation deteriorated in FY 2015/16 where only 3 donor funded project were awarded an unqualified opinion out of the 14 projects that were audited that year. The trend for the unqualified opinion reveals inconsistency in the performance. With regards to qualified opinion, 7 out of 11 projects, 5 out of 15 and 5 out of 14 projects in respective years for 2013/14 to 2015/16 received the qualified opinion which reveals poor state of affairs with regards to adherence to financial rules and regulations. Notably, 5 adverse opinions are awarded in 2015/16 with 1 obtaining a disclaimer of opinion, making FY 2015/16 the worst year.

Some of the donor projects that received adverse opinion include; Agricultural Sector Development Support Programme together with Kenya Agricultural Productivity and Sustainable Land Management Project. This trend shows deterioration in accounts from unqualified to adverse opinion which could mean that there are systemic problems in terms of adherence to the law or/and usage of funds for unintended purposes.

**Table 12: Trends in the Number of Audit Queries Verses the Number of Unqualified Opinion, FY 2013/14 - 2015/16**

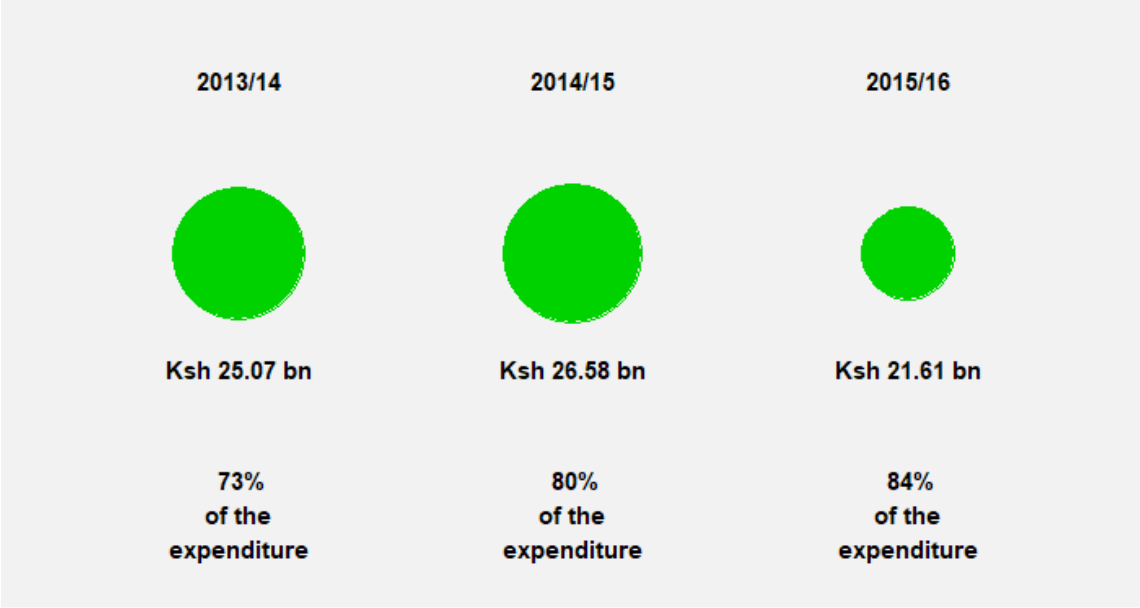
GoK	2013/14	2014/15	2015/16
Number of issues queried:	50	28	36
Unqualified opinion:	0	1	1
Donor funded projects	2013/14	2014/15	2015/16
Number of issues queried:	28	4	29
Unqualified opinion:	4	9	3

Source: Author's compilation from the Auditor Generals Reports –various issues

Table 12, shows that the number of audit issues over three years under review varied for both government and donor funded initiatives. However, majority of the issues queried were on the main account of the Ministry, with the first year having the highest number (50) of issues queried, followed by 28 and 36 for 2014/15 and 2015/16 respectively. For the donor funded projects, the number of queried issues were 28, 4 and 29 for the three consecutive years thus revealing mixed performance with the worst year being 2015/16. Number of unqualified opinion are also varying, with the year 2014/15 posting the best performance with 9 projects receiving an unqualified opinion.

### 4.3 Queried Amounts

Figure 13: Trends in Total Queried Amount



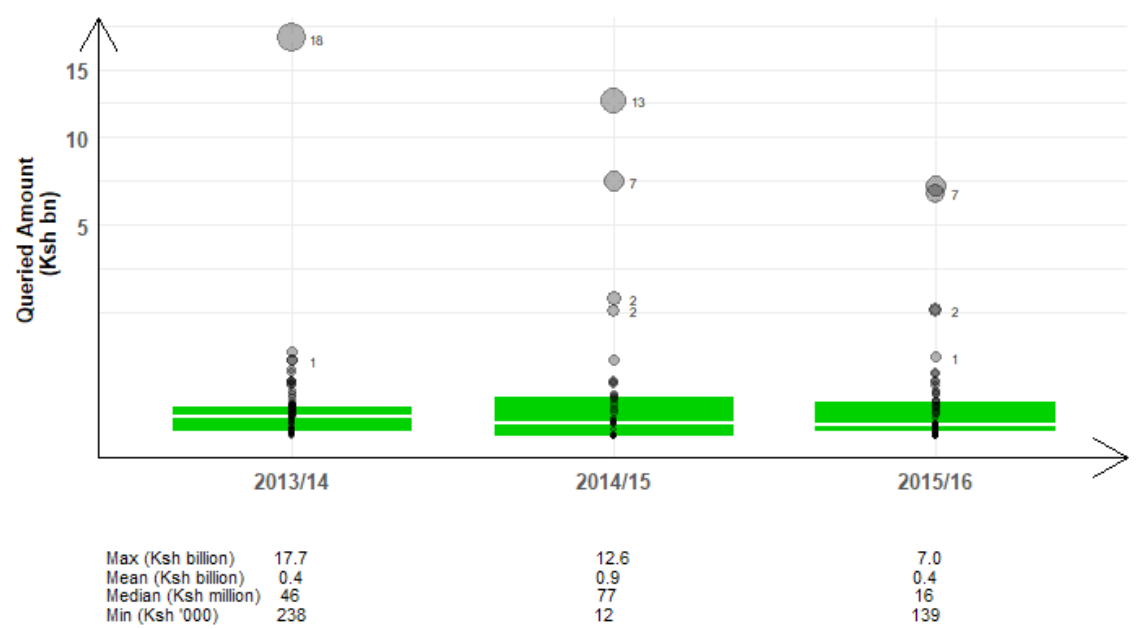
Source: Analysis of OAG Reports, 2013/14 – 2015/16 and County Budget Implementation and Review Report (various publications)

The figure above shows the totals of the queried amounts for each year as well as their share of the total expenditure within the specific year.

The total queried amount in FY 2013/14 was Ksh. 28.1billion, which was 73% of the total expenditure. The total queried amount was highest for the year 2014/15 both in value while as a percentage, the year 2015/16 queried amount was 84% of the expenditure.

This trend shows mixed reaction in terms of amounts being queried as well as the amounts as a percentage of total expenditure for the Ministry as a whole.

Figure 14: Distribution of the Queried Amount, FY 2013/14 – 2015/16



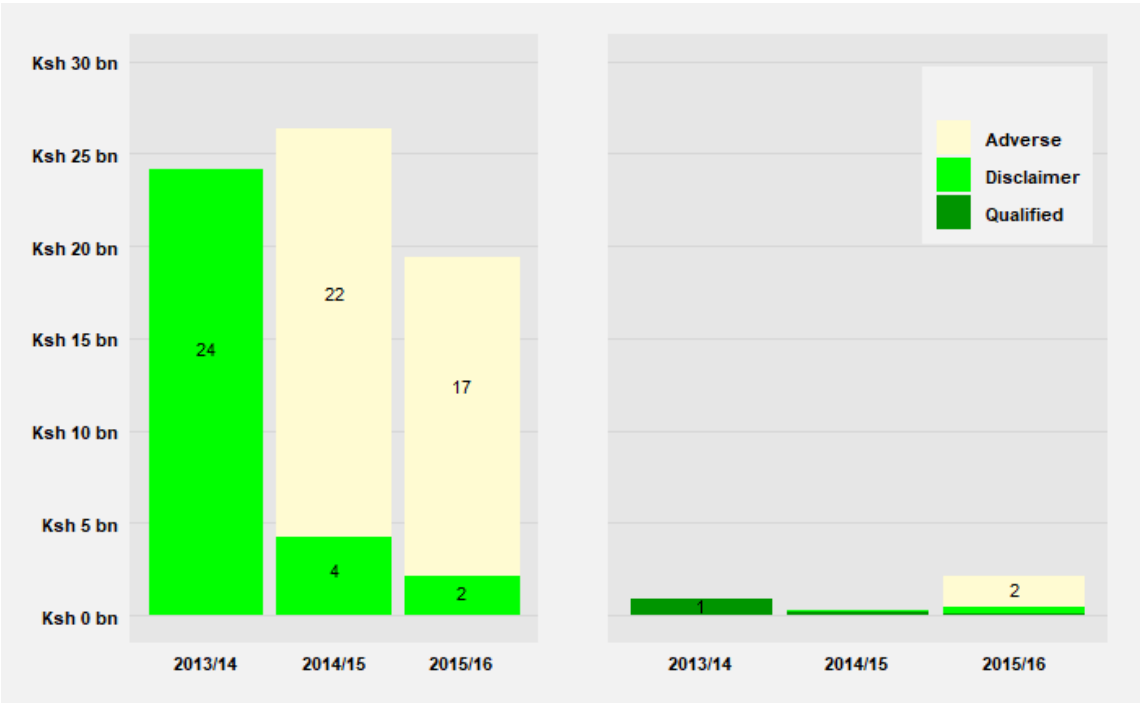
Source: Report of the Auditor-General on the Financial Statements for National Government for the Year 2013/14 -2015/16

The figure above illustrates a summary in the distribution of the amount queried for each year, showing the outliers in terms of amounts queried from the largest to the smallest, and variations from the mean. It also shows the middle point of the amounts being queried in each financial year for the Ministry of Agriculture, Livestock and Fisheries.

Consequently, in the first year for example, the largest and lowest amounts queried were Ksh. 17.7 billion and Ksh. 238,000 respectively. The initial amount relates to Accuracy of Financial Statements, while the latter relates to receipts and payments under the use of goods and services.

Over the three year period, the largest amount queried was to the tune of Ksh. 17.7 billion in the 2013/14 financial year, while the lowest was Ksh. 12,000 in the financial year 2014/15. It is worth noting that for the period under review however, the amounts being queried have been going down in totality. However, the ability of the Office of the Auditor General to point to these items is a clear pointer to the casual nature of running accounts within the Ministry. The financial year 2014/15 was the highest in terms of total amount that was queried with a total of Ksh. 26.58 billion.

Figure 15: Trends in Queried Amount Between the Ministry (GoK) and Donor Funded Projects



Source: Author’s compilation from the Auditor Generals Reports –various issues

*\*Unqualified opinion does not appear in the above chart because the opinion has zero queried amount*

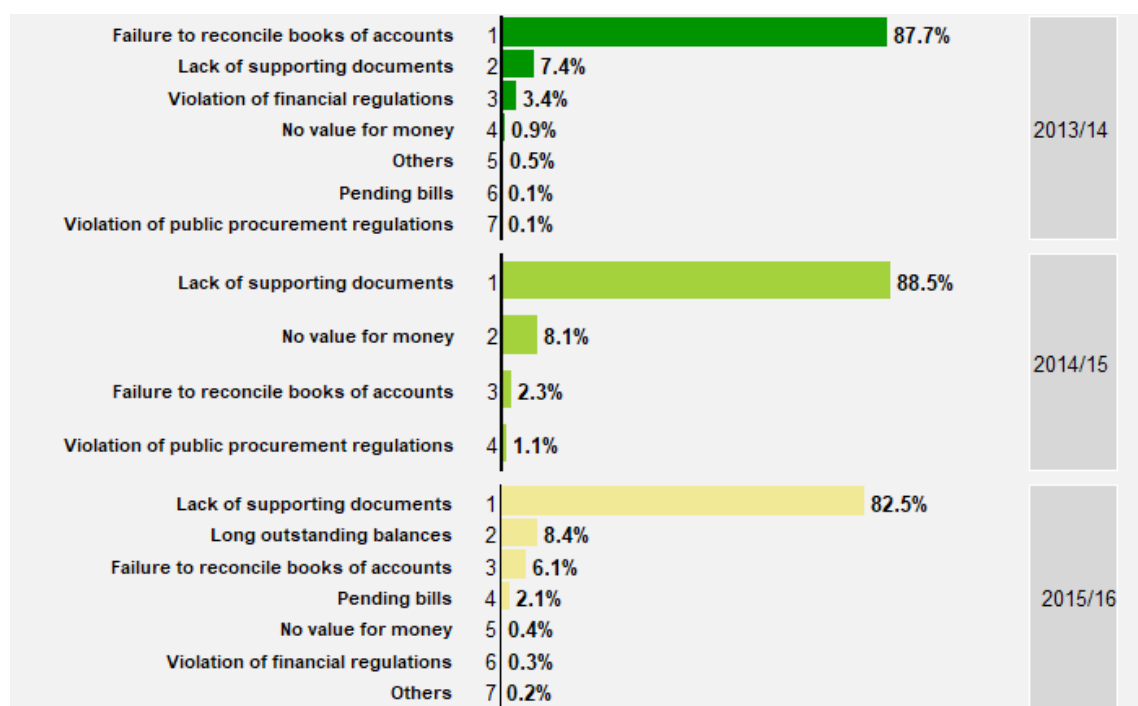
As per the figure above, audit opinions for government projects in year 2014/15 amounted to Ksh. 24 billion, and all received qualified opinions. In the subsequent year, the total amount of opinions was Ksh. 26 billion split between amounts of adverse opinions at Ksh. 22 billion and qualified opinions amounting to Ksh. 4 billion.

The above figure comparing the Ministry’s main account against donor funded projects clearly show that the former has the highest number of audit queries and total amount queried for the period under review and for each opinion given by the Office of the Auditor General. However, it is notable that donor funded projects amounting to Ksh. 1 billion received adverse opinion in 2013/14.



## 4.4 Share Distribution of the Queried Amounts by Audit Issues

Figure 16: Share Distribution of Queried Amount Across Specific Audit Issues, FY 2013/14 – 2015/16



Source: Author's compilation from the Auditor Generals Reports –various issues

Analysis of the queries raised a myriad of issues. Noting the categories created, for the year 2013/14, 87.7% of issues that were queried were as a result of failure to reconcile books of account. A distant second in the same year are violations categorized under lack of supporting documents which constituted 7.4% of violations with those under violations of financial regulation coming in third with 3.4 % of total violations in that year. These three categories alone comprise over 98.5 % of violations in that year bringing to the fore the fact that there are systemic problems in the way books of accounts are kept, and wanton disregard for rules and regulations as per the law and the public financial management act.

For the financial year 2014/15, majority of the queries fell under the cluster of lack of supporting documents accounting for 88.5% of the total. In the same vein, queries categorized under 'no value for money' were second with 8.1% of the total amount queried. The two groups of violations account for 96.7% of all violations that were raised by the OAG report. Again, these singly points to the systemic challenges and failure in following rules and regulations as per the financial guidelines.

An example of queries under the 'no value for money' cluster: In 2014/15, the OAG report noted that fumigation chemicals failed to kill weevils thereby rendering 754,015 bags of maize valued at Ksh. 1.7 billion unfit for human consumption, thus no value for money.

In the financial year 2015/16, 97% of the total amount queried was comprised of 3 categories. The least of these was the ‘failure to reconcile books of accounts’, which accounted for 6.1%, while the highest category, ‘lack of supporting documents’ accounted for 82.5 % of the total amount queried.

## 4.5 Unresolved Prior Year Matters

**Table 13: Highlight of the Prior Year Unresolved Issues**

	2013/14	2014/15	2015/16
Number of recurring queries:	12	3	12
Total Number of queries:	78	28	65
Recurring queries as a % of the total:	15.4%	10.7%	18.5%

Source: Author’s compilation from the Auditor Generals Reports –various issues

For the three years under review, we note mixed outcomes in terms of recurring issues resulting from unresolved prior year matters. In 2013/14, there were a total of 78 issues queried out of which 12 were recurring queries, which translates to 15.4% of the total number of queries. The number of recurring queries reduced to 3 then increased to 12 for 2014/15 and 2015/16 respectively. In percentage terms, these recurrent queries constitute 10.7 % and 18.5% of the total queries in 2014/15 and 2015/16.

A key and outstanding issue in the analysis of the OAG reports is unresolved prior year matters. These relates to matters queried in prior years that were not addressed thus in the consequent years the OAG raises queries on the same. Within the Ministry, more so for 2015/16 financial year, these matters include Procurement of Seed Potato; Procurement of Certified Seeds, Breeding Stock and Live Animals; Purchase and Transportation of Subsidized Fertilizer; Bulking of Traditional High Value (Orphaned) Crops; Purchase of Tecno S9 Tablet Gadgets; Procurement of Fertilizer; Funds Disbursed to Establish Revolving Funds among others.

## 4.6 Implication of the Audit Issues on the Youth

Over the three years, only one project was identified to directly be related to the youth, in the financial year 2015/16.

In this view therefore and as pertains to the youth and youth related issues, the OAG report states that the Ministry of Agriculture, Livestock and Fisheries, under the State Department of Agriculture outlined that disbursements amounting to Ksh. 123 million was disbursed to youth and women under the Empowerment in Modern Agriculture Programme. However, this transfer lacked documentary evidence to support the amount and as such, there is no way of telling whether the project kicked off or not, and its status.

## 4.7 Conclusion

The Agricultural sector plays an important role in the country as it is mandated among other things to ensure that there is adequate food and foodstuff in the country for the entire population. A key input to ensuring that the ministry is able to carry out its duties is through allocating adequate financial resources, which should be utilized prudently and in accordance to the laid down rules, regulations and procedures. Failure to adhere to this regulations means that the expenditures and payments of the state agencies are not lawful and effective.

According to the OAG report, it is only the State Department of Fisheries that received an unqualified opinion. Both the state department of agriculture and that of livestock received qualified opinions for the period under review.

The key issue that comes to the fore from the analysis include the fact that out of fifteen (15) donor projects in FY 2015/16, five (5) received adverse opinions. In comparison, projects under the main ministry's account had the highest number of queries in total compared to donor-funded projects. Notably, the queried amounts as a percentage share of the total expenditure for each financial year under review exceeded 60%. This implies that over half of the amount that was spent for various projects had queries according to the OAG report implying that the expenditures or payments were not lawful and effective as provided by relevant regulations. The OAG report further states that some of the issues identified lead to failure to achieve value for money, while some are related to inaccuracy of financial statements, yet others are as a result of lack of documentary evidence on a particular project or activity.

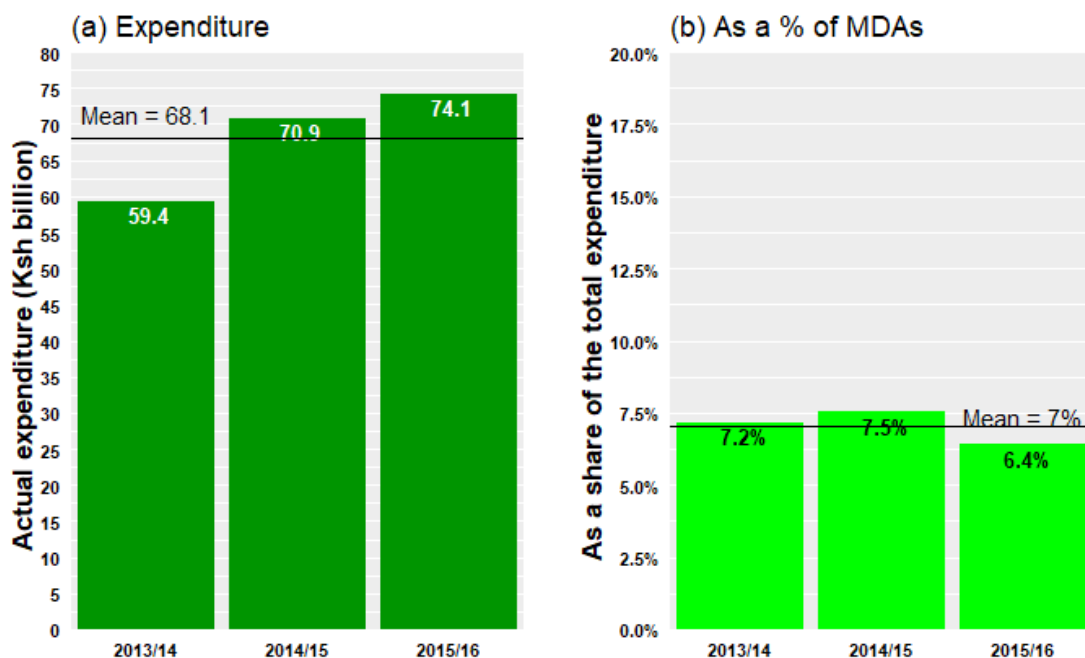
It is in the best interest of the ministry to ensure that financial regulations are followed to the latter if it is to achieve its goals and objectives, which include among others, food security.

## 5.0 Ministry of Devolution and Planning

### 5.1 Overall Expenditure

Figure 17 show the actual expenditure trends for the Ministry of Devolution and Planning in the period 2013/14 to 2015/16, both in absolute terms and as a share of total ministries, department and agencies (MDAs) spending.

Figure 17: Trends in Actual Expenditure and Corresponding Share of the Ministries, Departments and Agencies



Source: Author's compilation from the Auditor Generals Reports –various issues

In absolute terms, the Ministry of Devolution and Planning's spending was on an upward trend from Ksh.59.4 billion in FY 2013/14 to Ksh 74.1 billion in FY 2015/16. However, as a share of total MDA's spending, the trend was mixed, initially increased marginally from 7.2% to 7.5% between FY 2013/14 and FY 2014/15 but consequently dropped to 6.4% in 2015/16.

## 5.2 Audit Opinions

Summary of audit opinions of the Ministry of Devolution and Planning financial reports for each of the three respective financial years is captured in Table 14, the audit opinions are split into two components; for the overall ministry spending funded by the government and for donor funded projects. In the FY 2013/14, the Ministry of Devolution and Planning was a single entity. However, in FY 2014/15 and FY 2015/16, the structure of the ministry split into two separate State Departments namely; State department of Devolution and State Department of Planning. On this point, both the Ministry of Devolution and Planning as a single entity and the State Department of Devolution received qualified opinion in FY 2013/14 and FY 2014/15. The situation degenerated in FY 2014/15 for the State Department of Planning and for both State Departments in FY 2015/16 as they received disclaimer of opinion. This signified the inability of the Auditor General to render an opinion due to insufficient information received from the Ministry which may imply in part that the Ministry's expenditure was not valid (did not comply with accounting legislation and that it did not follow financial reporting and regulatory framework. By contrast its spending was increasing.

**Table 14: Summary of the Audit Opinions Between the Ministry (GoK) and the Donor Funded Projects**

MDAs	2013/14	2014/15	2015/16
<b>GoK</b>			
1. Ministry of Devolution & Planning	Qualified	N/A Ministry Split	N/A Ministry Split
2. State Department of Devolution	N/A Ministry Split	Qualified	Disclaimer
3. State Department of Planning	N/A Ministry Split	Disclaimer	Disclaimer
<b>Donor Funded Projects</b>			
1. Capacity Development Programme(CDP)	Qualified	Unqualified	Unqualified
2. COMESA Statistical Capacity Building Project PZ-K00-044-KNBS	Unqualified	Qualified	Qualified
3. National Government Constituencies Development Fund Board	N/A New Project	N/A New Project	Qualified
4. COMESA Statistical Capacity Building Project PZ-K00-044-KNBS	Unqualified	Unqualified	Qualified
5. Community Empowerment and Institutional Support Project(CEISP)	Qualified	Qualified	Qualified
6. Data Collection and Data Base Development Project – KNBS	Unqualified	Qualified	Adverse
7. Coordination of Population Policy Implementation Project	Unqualified	Unqualified	Unqualified
8. KENINFO Data Base Project (UNICEF)	Unqualified	Unqualified	Qualified
9. Kenya Youth Empowerment Project	Unqualified	Unqualified	Unqualified
10. Medium Term ASAL Programme	Unqualified	Unqualified	Qualified

11. National Resource Management Programme -Danida (Devolution)	Unqualified	Unqualified	Qualified
12. Western Community Driven Development and Flood Mitigation Project(Devolution)	Unqualified	Unqualified	Qualified

Source: Author's compilation from the Auditor Generals Reports –various issues

Findings on donor funded projects show that 9 out of 11 projects were awarded an unqualified opinion in FY 2013/14, the number reduced to 8 out of 11 projects in FY 2014/15 and further to 3 in FY 2015/16 indicating a downward trend. With regards to qualified opinion, the opinion increased from 2, 3 then to 7 respectively from FY 2013/14 to FY 2015/16 which further confirms a deterioration in the state of financial management. It's important to indicate that *Data Collection and Data Base Development Project* – KNBS was awarded a qualified opinion in FY 2014/15 but received an adverse opinion in FY 2015/16.

**Table 15: Trends in the Number of Audit Queries Verses the Number of Unqualified Opinion, FY 2013/14 - 2015/16**

GoK	2013/14	2014/15	2015/16
Number of issues queried:	39	30	43
Unqualified opinion:	0	0	0
<hr/>			
Donor funded projects	2013/14	2014/15	2015/16
Number of issues queried:	1	3	18
Unqualified opinion:	9	8	3
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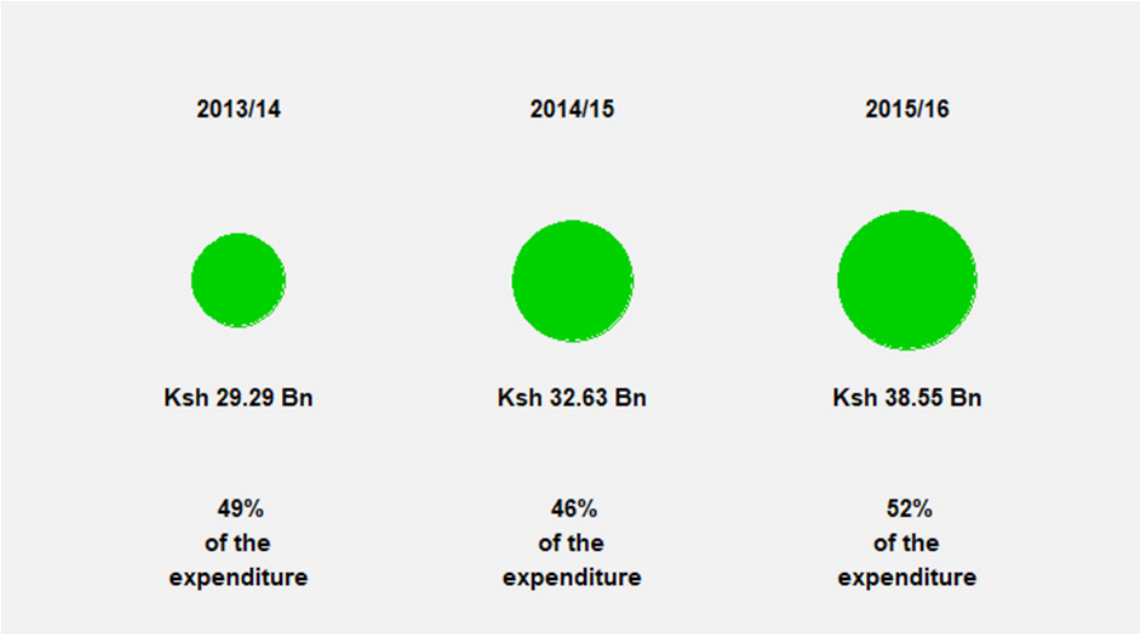
Source: Author's compilation from the Auditor Generals Reports –various issues

*NB: unqualified opinion is a clean opinion thus no audit queries*

Table 15 indicates that the auditor general queried 39 issues in the Ministry for the FY 2013/14. However, the numbers of issues queried in the FY 2014/15 were 30 registering a 13% decrease from the previous year while in FY 2015/16 the numbers of issues queried were 43 registering an 18% jump from the previous year. In all the financial years the ministry did not receive an unqualified opinion. Donor funded projects registered the highest number of queries in FY 2015/16 compared to FY 2013/14 which had no issues queried, and in FY 2014/15 which had one queried issue. 2014/15 financial year registered the highest number of donor funded projects that were awarded an unqualified opinion.

### 5.3 Queried Amounts

Figure 18: Trends in Total Queried Amount, FY 2013/14 – 2015/16

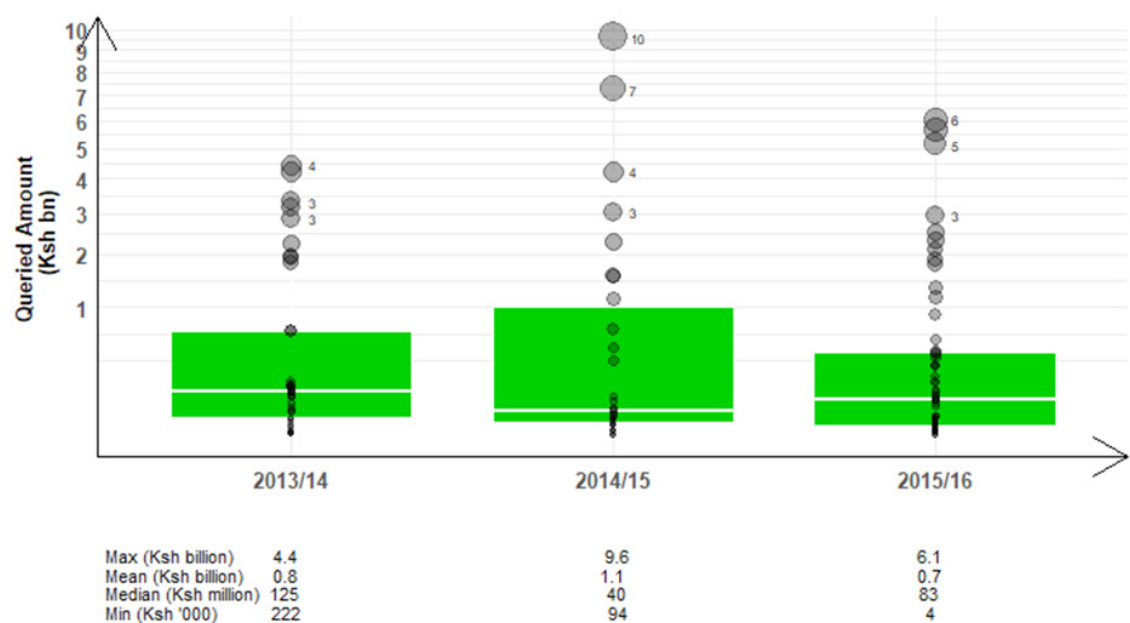


Source: Author’s compilation from the Auditor Generals Reports –various issues

Figure 18 illustrates the share of queried amount as a proportion of total expenditure. In the FY 2013/14, the share of the queried amount was 49% of the total expenditure while in FY 2014/15 and FY 2015/16 the share of the queried amount was 46% and 52% of the total expenditure respectively. Overall findings show that there has been an upward trend in total queried amounts over the years analysed. Between FY 2013/14 and FY 2014/15, the total queried amount rose by Ksh 3.3 billion and between FY 2014/15 and FY 2015/16, the total queried amount rose by Ksh 5.9 billion.

It is evident as shown in figure 19 that the number of issues queried for both the government financed component of the ministry spending and its donor funded projects as well as the trend in queried amount correlates with overall type of audit opinions. Clearly having received adverse opinion in FY 2015/16 coincides with the highest number of queried issues for under the ministry’s main account and donor funded projects as well as the share of queried amount.

Figure 19: Distribution of the Queried Amount, FY 2013/14 – 2015/16



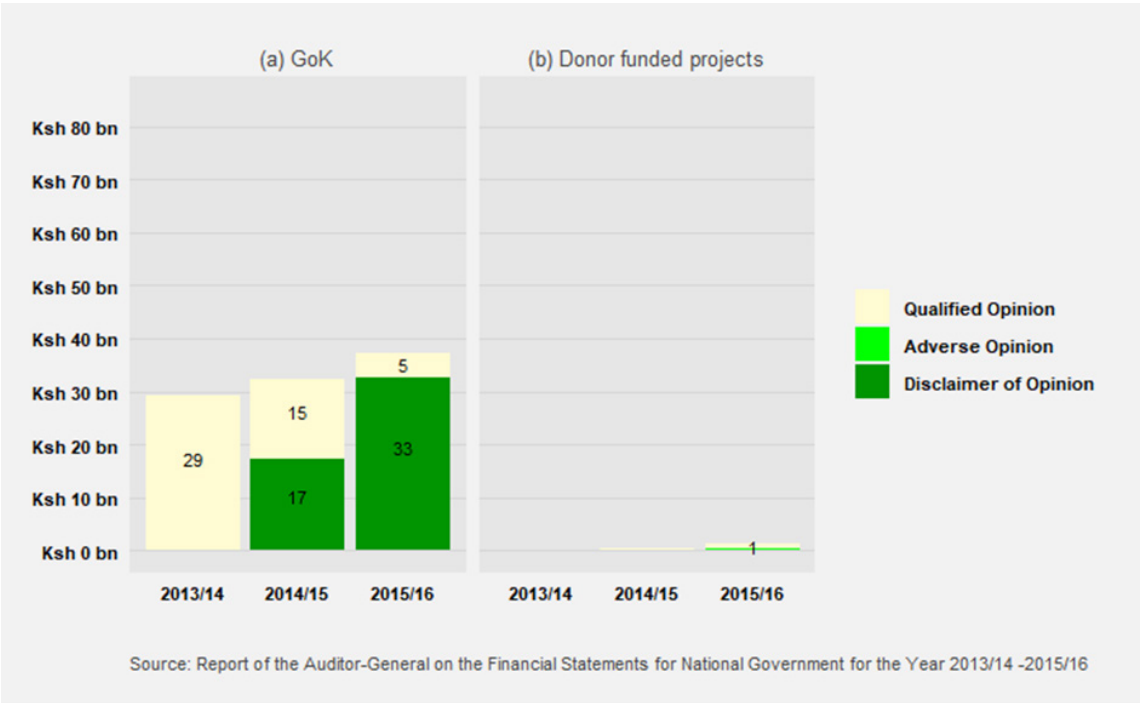
Source: Report of the Auditor-General on the Financial Statements for National Government for the Year 2013/14 -2015/16

The above box plot chart highlights the spread of queried amounts in the years analysed. In FY 2015/16, data set for the maximum figure queried was Ksh. 6.1 billion representing the failure to provide financial documents to explain a variance while the minimum figure queried was Ksh 4 representing the accumulation of bank charges after closure of an account. Although 2015/16 had the highest queried amount relative to total expenditure of three financial years, the distribution/ dispersion of queried amount was in contrast highest in FY 2014/15.

In the FY 2014/15, the maximum figure queried was Ksh. 9.6 billion representing the failure by the ministry to put in measures to address under expenditure while the minimum amount queried was Ksh 93,951 representing receipts in current bank reconciliation not reflected in cash book. In FY 2013/14, the maximum amount queried was Ksh. 4.4 billion reflecting payments in cashbook not in bank statement while the minimum amount queried of Ksh 220,000 represents an outstanding imprests payment. In FY 2013/14, 50% of the queried amounts were above Ksh.125 million while in FY 2014/15 and FY 2015/16, 50% of the queried amount were above Ksh 40 million and Ksh 83 million respectively.



Figure 20: Trends in Queried Amount Between the Ministry (GoK) and Donor Funded Projects



Source: Author’s compilation from the Auditor Generals Reports –various issues

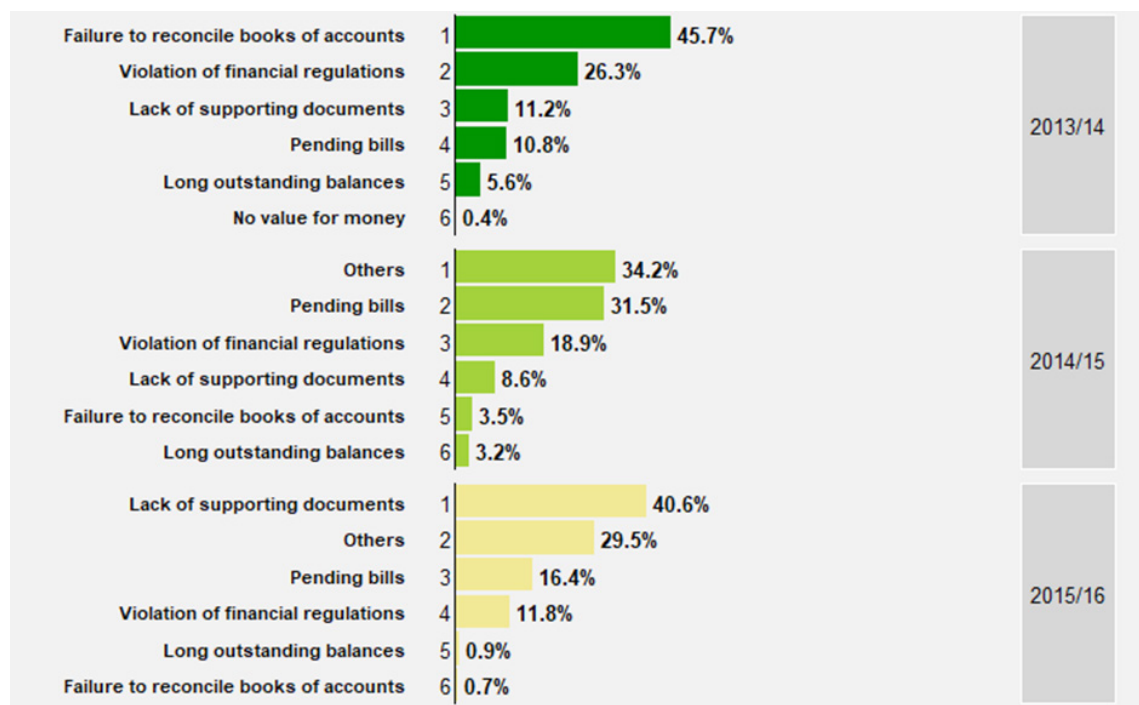
*\*Unqualified opinion does not appear in the above chart because the opinion has zero queried amount*

In the FY 2013/14, the ministry was awarded a qualified opinion whose total queried amount was Ksh.29 Billion. In FY 2014/2015 the total amount queried was Ksh 32 billion. However, Ksh 17 billion was classified under disclaimer of opinion and Ksh 15 billion was classified under qualified opinion. In FY 2015/16, the total queried amount was Ksh 38 billion. However, Ksh. 33 billion as classified under disclaimer of opinion and Ksh.5 billion was classified under qualified opinion. In regards to donor funded projects, 2015/16 financial year registered a substantial number of projects that were awarded a qualified opinion whose total queried amount was Ksh. 1 billion.

## 5.4 Share Distribution of the Queried Amounts by Audit Issues

This section provides a breakdown of key audit queries based on the seven classifications of audit issues noted in the methodology.

Figure 21: Share Distribution of Queried Amount Across Specific Audit Issues, FY 2013/14 – 2015/16



Source: Author's compilation from the Auditor Generals Reports –various issues

In the FY 2013/14, the top three queried amounts involved failure to reconcile books of accounts, violation of financial regulations and lack of supporting documentation while in FY 2014/15 the queried amounts revolved around failure to settle pending bills, others and violations of financial regulations. In FY 2015/16, the top three queried issues revolved around; lack of supporting documents, failure to settle pending bills and others. The bar representing others in the figure above includes violations such as weak internal control systems, failure by the entity to perform valuation of non-financial assets and lack of resources to undertake audit among other independent violations.

In the FY 2015/16, the State Department of Devolution and Planning received a disclaimer of opinion indicating that the Office of the Auditor General did not receive sufficient information to render an opinion. The media ought to highlight such occurrences thereby promoting accountability while parliament needs to investigate such grave violations thereby supporting the audit process to its full mandate. In summary, the top three violations in each financial year are: failure to reconcile books of accounts, violation of financial regulation and lack of supporting documents as shown in table 16.

**Table 16: Summary of the Top Three Violations, FY 2013/14-2015/16**

No.	2013/14	2014/15	2015/16
1.	Failure to reconcile books of accounts.	Others(Includes: unconfirmed purchase & transfer of non-financial assets, failure to conduct valuation on non-financial assets)	Lack of supporting documents
2.	Violation of financial regulations.	Pending bills	Pending bills
3.	Lack of supporting documents.	Violation of financial regulations	Others (Includes weak internal controls)

Source: Author's compilation from Auditor General's Reports –various issues

## 5.5 Unresolved Prior Year Matters

**Table 17: Highlight of the Prior Year Unresolved Issues**

	2013/14	2014/15	2015/16
Number of recurring queries:	1	20	50
Total Number of queries:	31	35	62
Recurring queries as a % of the total:	2.6%	57.1%	80.6%

Source: Author's compilation from the Auditor General's Reports –various issues

In the three years, the ministry's prior unresolved audit issues have been recurring. An issue that first appeared in FY 2013/14 remained unresolved through FY 2014/15 and FY 2015/16. The main reasons that led to the prior unresolved audit issues was lack of supporting documents, violation of financial regulations and failure to reconcile the books of accounts.

Notably in FY 2013/14, the audit report highlighted that the Ministry of devolution and planning had variances between budget and actual figures of Ksh 1.9 billion and the ministry had not provided any explanation or mitigation measures to that effect. In FY 2014 /15 and FY 2015/16, the ministry had yet to solve issue.

The recurrent issues have been on an upward trajectory from 2013/14 financial year. However, 2015/16 registered the highest number of recurring queries at 50 which represent a 23.2% rise from the 2014/15 financial year. Although some issues reported are in the process of being sorted, some are yet to be considered by the ministry. For example, a motor vehicle registration No. GKA 661Y (White) Isuzu D Max valued at Ksh. 1.6 million was stolen on 8th April 2013 through violent robbery and the ministry was yet to provide a progress report on the loss of the vehicle in FY 2014/15 and FY 2015/16.

## 5.6 Implication of the Audit Issues on the Youth

Table 18: Implication of Financial Violations on the Youth

No.	Year	Entity	Audit Query	Opportunity Cost to the Youth
1.	2013/14	Ministry	Ksh.4.4 billion-Payments in cash book not in bank statement	According to the Youth Enterprise Fund(Vuka Start Up product), the youth can access loans up to sh.500,000 in individual capacity.Ksh.4.4 billion would enable 8,800 youth access financing to grow their businesses thereby creating jobs and contributing towards economic prosperity of the country.
2.	2014/15	Ministry	Ksh.9.6 billion-Under expenditure & failure to address measures to address the issue	Ksh.9.6 billion Would fund 160% of TVET budget. TVET was allocated Ksh 6 billion in 2018/19.
3.	2015/16	Ministry	Ksh.2.9 billion-Unconfirmed transfer to other government entities	Ksh.2.9 billion would enable 50,000 students get tuition fees for three years at the National Industrial Training Authority
			Ksh.34.7 billion-No financial documents provided to explain the variance	Ksh.34.7 billion would fund 110% of the budget allocation to the Vulnerable persons (older persons, Orphans and Vulnerable Children (OVCs) and Persons with Severe Disabilities (PWDs). In 2017/18 Vulnerable persons budget allocation was Ksh.31.35 billion

Source: Author's compilation from the Auditor Generals Reports –various issues

## 5.7 Recommendations

The accounting officers must use proper documentation and reporting standards recommended by Public Sector Accounting boards, as required in the Public Financial Management Act<sup>6</sup>. One avenue of improving accounting standards is through benchmarking with other countries that have excelled in public finance management. A key finding in the analysis was failure to reconcile books of accounts which would be solved if accounting officers would adopt the recommended accounting procedures. From our analysis, some audit problems that were highlighted would be dealt with if accounting officers maintained a double entry system of accounts. Officers who are in charge of imprests should maintain proper records to prevent instances where employees have outstanding imprests payments. The accounting officers and policy managers should adhere to budget and budgetary controls outlined in the constitution and the public financial management laws. Issues identified by the Auditor General like transfer of funds from one government agency to another within a fiscal year and unapproved expenditures highlight possible avenues for officials to divert funds thereby affecting service delivery.

<sup>6</sup>Section 83 of PFM Act

The ministry must develop systems and Policies to track long-term projects till completion. This will involve anchoring the role of monitoring and evaluation in the ministry's operations or activities. Rigorous monitoring and evaluation practices ensures value for money and pre-empts problems a program or project being implemented by the ministry will face.

### **Auditor General**

The Auditor General must ensure that there is a consistent structure in the presentation of audit reports. This ensures that consumers of the audit reports access information easily and provides a consistent platform on which to conduct a comparative analysis. Looking at the three financial years analysed, the OAG has deployed different structures in the presentation of the reports. For example in FY 2013/14, the audit report provides a summary and a detailed report while in subsequent years the audit reports have lacked a summary. Since the audit reports provides information on how government entities have utilized the resources allocated to them, it is important for the OAG to indicate the initial amount of funds that were allocated to the entity in a financial year before starting the audit analysis.

### **Parliament**

It is vital for parliament to seek clarification on reasons why some government entities have been awarded unattractive opinions. Notably institutions that have a disclaimer of opinion have to be on Parliament's radar and action needs to be taken in ensuring that institutions that withhold information from audit processes are dealt with. Parliament also needs to support the OAG by ensuring disbursement of adequate fund.



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## Glossary

<b>Accuracy in Transactions</b>	Means that amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
<b>Audit Query</b>	An explanation/clarification sought by the auditor on specific issues to gather information in order to come to a conclusion in the audit.
<b>Completeness</b>	All transactions and events that should have been recorded have been recorded and all related disclosures that should have been included in the financial statements have been included.
<b>Emphasis of Matter</b>	This refers to a paragraph that is included by the auditor in his report to direct the attention of users of financial statements to a matter that has been discussed appropriately in the financial statements (usually a disclosure).
<b>Footnotes for Material Variances</b>	Section 11.7 of Government Financial Regulations and Procedures, requires ministries, departments and agencies to provide footnotes to the account for material variances between approved estimates and actual expenditure on various items.
<b>Misallocation of Expenditure</b>	Relates to violation of provisions of section 15.12 of Government Financial Regulations and 102 procedures stipulate inter alia that no expenditure for which no provision has been included in the estimates may be incurred.
<b>Misstatements</b>	The act of stating something that is false or not accurate
<b>Nugatory Expenditure</b>	Wasteful expenditure
<b>Pending Bills</b>	Unfulfilled financial obligation for the payment of money owed
<b>Propriety of the Expenditure</b>	Conformity of the expenditure processes to conventionally accepted standards

<b>Reconciliation</b>	The process of ensuring that two sets of records (usually the balances of two accounts) are in agreement.
<b>Surrender of Imprest</b>	The National Treasury circular No. 14/2013 dated 19 November 2013 requires imprest to be surrendered to the exchequer account or accounted for within 48 hours following return from official journey and Section 71(2) of Public Financial Management Act, 2012.
<b>Unsupported Expenditure</b>	Expenditure not supported by receipts, vouchers etc.
<b>Value for Money</b>	Refers to whether something that is well worth the money spent on it.





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ISBN 978-9966-130-64-8



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