



Fact Sheet

Analysis of the Auditor General's Reports on the Financial Statements of National Governments

1. Ministry of Health

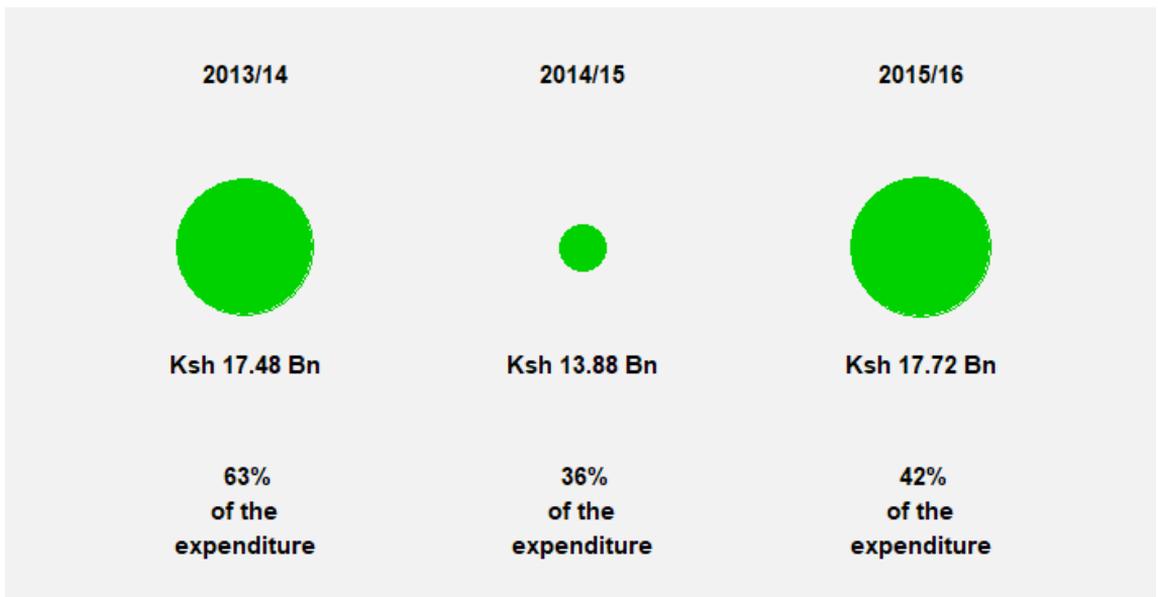
Key Highlights

Information Category		2013/14	2014/15	2015/16
Total Expenditure	Total (Ksh Bn)	27.8	38.3	42.3
Overall Audit Opinion	Ministry (GoK)	Adverse	Qualified	Qualified
	Donor funded projects (Most common opinion)	Qualified and Unqualified	Unqualified	Qualified
Total Number of Queries	Ministry (GoK)	29	18	14
	Donor funded projects	17	2	22
Most Prevalent Queried Issues (Top three)	a.	Failure to reconcile books of accounts	Violation of financial regulations	Violation of financial regulations
	b.	Lack of supporting documents	Failure to reconcile books of accounts	Lack of supporting documents
	c.	Violation of financial regulations	No value for money	Long outstanding balances
Highest Amount Queried (Ksh Bn)		Ksh 7.2 Bn (Payment in cashbook not recorded in bank statement)	Ksh 11 Bn (failure to transfer deposits to new deposit account contrary to Treasury Circular No.AG/CONF.17/01/65)	Ksh 4.6 Bn (Documents not availed for audit review)

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 Public Finance Management 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 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 2014/15 is a revelation that best results can be accomplished

Trends in Total Queried Amount



NB: The queried amount is the sum of all the amount whose related transaction violate the financial regulations. While it is best practice to distinguish receipts and payments; the large sum of the queried amount is a reflection of the multiplicity of the violations and thus the risk in potential financial losses.

Outliers by the Queried Amount

Year	Amount	Issue	Implication
2013/14	Ksh 7.2 Bn	Failure to reconcile books of accounts	Inability of confirm validity of balances
	Ksh 3.5 Bn	Lack of documentary evidence	In ability to confirm accuracy of transactions
2014/15	Ksh 11 Bn	Failure to transact funds as per regulations	Violates financial regulations
	Ksh 0.8 Bn	Failure to reconcile books	Inability of confirm validity of balances
2015/16	Ksh 4.6 Bn	Lack of documentary evidence	In ability to confirm accuracy of transactions
	Ksh 4.4Bn	Long outstanding county debts	Increased debt burden

Trends in 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 Auditor Generals Reports –various issues

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 third leading cause of deaths in Kenya (17,553 by 2017).

Stalled Projects - Proposed Upgrading of Othaya District Hospital Phase I

Audit findings reveal that the cost for the upgrading of Othaya District Hospital was revised from the initial contract value of Kshs.436 million to Kshs.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 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

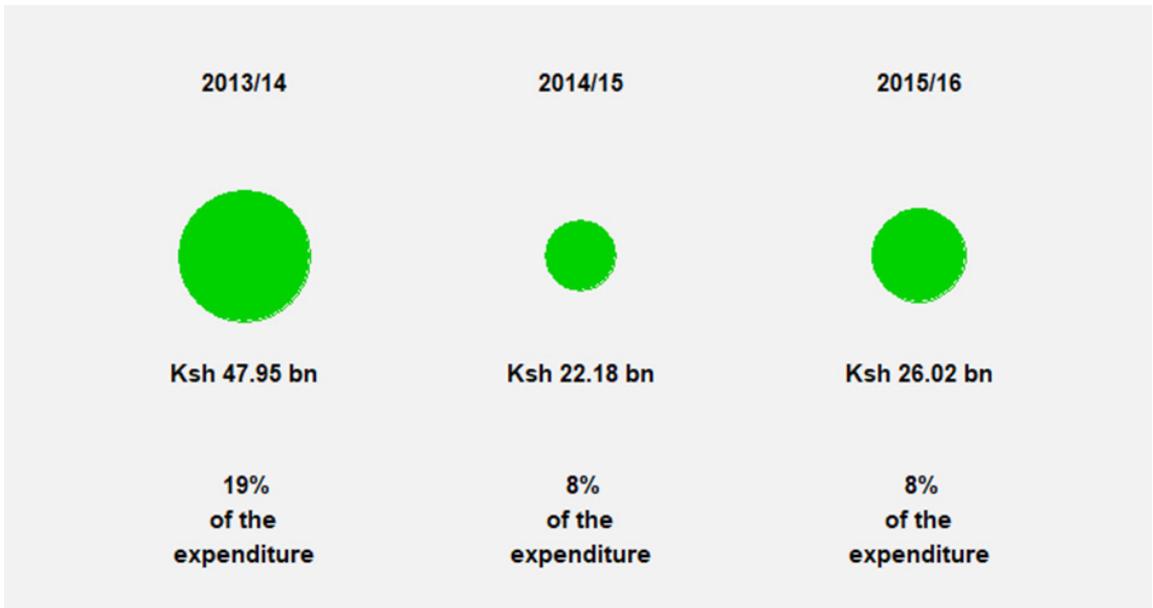
The Ministerial Tender Committee awarded a contract for supply of portable medical clinics to an investments company on 29 June, 2015 to supply one hundred (100) portable medical clinics at Kshs.10, 000,000 each, the total cost being Kshs.1 billion. By June 2016 the contract had since elapsed despite the fact that the contract had not been executed and Kshs.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.

2. Ministry of Education

Key Highlights

Information Category		2013/14	2014/15	2015/16
Total Expenditure		247.48Bn	268.56Bn	293.80Bn
Audit Opinions	State Department of Education	Adverse	Adverse	Qualified
	State Department of Science and Technology		Qualified	Qualified
Majority Opinion for Donor Projects		Adverse Opinion (5 out of 7)	Disclaimer of Opinion (3 of out of 7)	Qualified Opinion (2 out of 4)
Most Queried Issue		Lack of supporting documents	No value for money	No value for money
Highest Amount Queried		10.72Bn (3.7%)	2.53Bn (0.9%)	4.05Bn (1.3%)

Total Queried Amounts



The total queried amounts for the three financial years in question were 19%, 8% and 8% of the total expenditure, representing 47.95Bn, 22.18Bn and 26.02Bn respectively.

Key Outliers

Year	Amount	Issue
2013/14	Ksh 10.72 Bn	Approximately 3.7% as a share of the total expenditure. Queried due to lack of supporting documents in relation to unsupported account payables.
	Ksh 4.693 Bn	Less than 1% as a share of the total expenditure. Queried due to failure to reconcile books of accounts in relation to cash at bank balance.
2014/15	Ksh 2.53 Bn	Less than 1% as a share of total expenditure. Queried due to failure to reconcile books of accounts in relation to inaccuracies in the financial statements.
	Ksh 1.145	Less than 1% as a share of the total expenditure. Queried due to failure to reconcile books of accounts in relation to a sewerage and drainage system project.
2015/16	Ksh 4.05 Bn	Approximately 1.2% as share of the total expenditure. Queried due to the public not having value for money. The amount was under- utilized under the Development vote.
	Ksh 162.550	Less than 1% as a share of the total expenditure. Queried due to the public not having value for money in relation to a borehole drilling project at the Coast Institute of Technology.

Top Three Violations Per Year

No.	2013/14	2014/15	2015/16
1.	Lack of supporting documents	No value for money	No value for money
2.	Failure to reconcile books of account	Lack of supporting documents	Lack of supporting documents
3.	Long outstanding balances	Failure to reconcile books of accounts	Failure to reconcile books of accounts

Opportunity Cost

- In the FY 2013/14, an amount totalling Kshs.1,468,838 was disbursed to a school under the Free Day Secondary Education program (FDSE) as an overpayment due to overstatement of enrolment numbers by the school in question. This is considered as a no value for money issue which points at an attempted fraud. 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 Kshs.1,077,204 was made as payment for photocopy machines which were not dispatched according to records, hence no value for money. 24 extra machines each costing Kshs.44,883 would have been purchased and distributed across 24 different secondary schools.
- In the FY 2014/15, an amount totalling Kshs.105,000,000 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 2016/17, under State Department of Science and Technology, an estimated Kshs.492M 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 Kshs.8.2M each.
- In the FY 2015/16, an amount totalling Kshs. 153,803,500 was made as payment for the supply of desktop computers to schools that were not delivered and the amounts was unaccounted for. This would be the equivalent of equipping 110 schools with 20 new computers each.

Key Messages

1. 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.
2. Financial violations 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.
3. 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.
4. 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.

3. Ministry of Agriculture

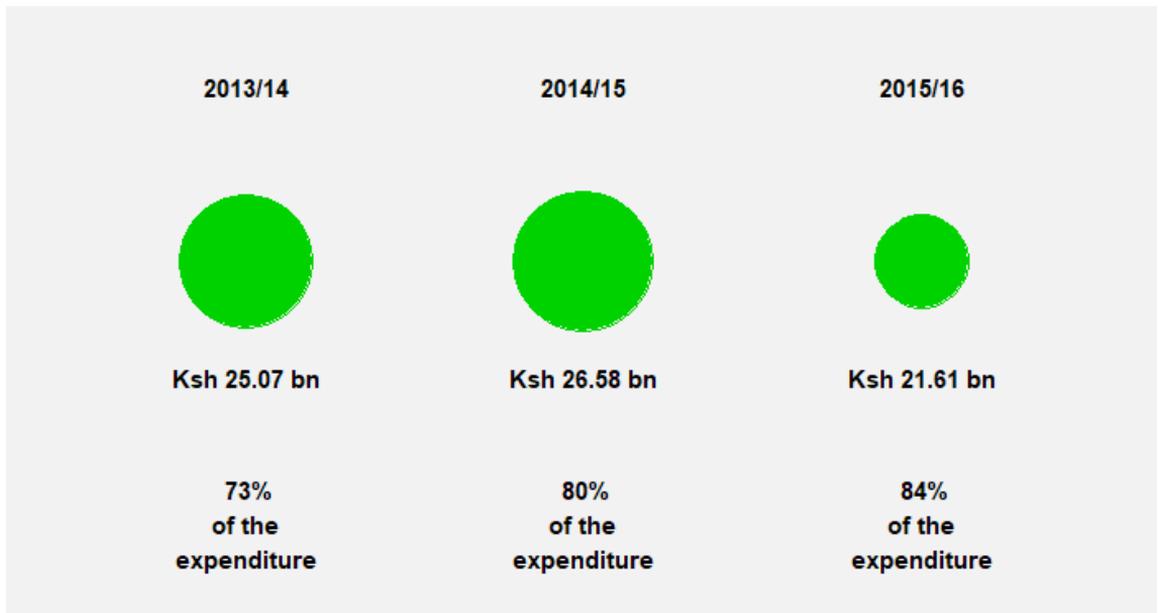
Key Highlights

Information Category		2013/14	2014/15	2015/16
Total Expenditure	State Department of Agriculture	34.47Bn	26.0Bn	18.2Bn
	State Department of Livestock		3.9Bn	4.1Bn
	State Department of Fisheries		3.1Bn	3.5Bn
Audit Opinions	State Department of Education	Qualified	Qualified	Qualified
	State Department of Science and Technology		Qualified	Qualified
	State Department of Fisheries		Unqualified	Unqualified
Majority Opinion for Donor Projects		Qualified (7out of 12)	Unqualified (10out of 16)	Adverse & qualified (5 of each out of 16)
Most Queried Issue		Failing to reconcile books of accounts	Lack of supporting Documents	Lack of supporting documents
Highest Amount Queried		17.68Bn (51.3%)	12.56Bn (40.7%)	8.09Bn (26.2%)
Lowest Amount Queried		12,264		

Key Messages

1. Agricultural Sector Coordination Unit (ASCU) - There are unresolved financial violations at the Agricultural Sector Coordination Unit (ASCU) for 10 years. This implies systemic dysfunction at this unit for which the parliamentary committees should demand immediate resolution of issues including the non-submission of Financial statements since 2005
2. There were 4 donor-funded projects between FY 2014/15 and FY 2015/16 showed deterioration in accounts from receiving Unqualified to adverse opinion.
3. The Strategic Grain Reserve Fund has consistently received an adverse opinion emanating from multiplicity of expenditure including costs of acquisition of maize and gunny bags, agency fees, and commissions charged by NCPB thus the fund relies fully on government disbursements which in turn puts its sustainability at risk. In this case, Parliamentary committees should ensure the ministry takes up measures to stabilize the fund, for it to contribute to Food security issue among the Big Four Agenda.
4. The Office of the Auditor General also highlighted instances of irregular but the reports do not provide monetary valuation of those transactions. Therefore, the overall losses to the public have not been accounted for in the analysis.

Total Queried Amounts



The green bubbles show that the trend in queried amount increased over the three years.

Key Outliers

Year	Amount	Issue
2013/14	17.68Bn	Accuracy of financial statements: Un-reconciled and unexplained differences between Trial Balance and Statements of Receipts and Payments
	238,203.55	Amount is a variance between the supporting schedules and the financial statements relating to payments rental of produced assets.
2014/15	12.56Bn	Unsupported balance relating to maize stocks and gunny bags with no supporting documents
	12,264	The amount relates to omitted cash at hand
2015/16	8.09Bn	The development project did not absorb 29% of available funds, implying that development projects and services earmarked to be provided to citizens were not implemented because of low absorption
	139,800	The amount relates to six stale cheques that had not e reversed in the cash book

Opinion

Best: State Department of Fisheries

The department received an Unqualified Opinion for its accounts for the financial years - 2014/15 and 2015/16

Worst: Strategic Grain Reserve (SGR) Fund

Received an Adverse Opinion for all three financial years. The opinion has been attributed to multiplicity of expenses; acquisition of maize, gunny bags, agency fees and commission of NCPB services on behalf of the Ministry. Therefore, sustainability of the fund is at risk of survival.

Top Three Violations Per Year

No.	2013/14	2014/15	2015/16
1.	Failure to reconcile books of accounts	Lack of supporting documents	Lack of supporting documents
2.	Lack of supporting documents	No value for Money	Failure to reconcile books of account
3.	Violation of financial regulations	Failure to reconcile books of account	Violation of financial regulations

Opportunity Cost

Strategic Grain Reserve (SGR) - Obsolete and unfit stock of maize

- 2014/15- 1,772,055,670 (754,015 bags)
- 2015/16-1, 772,055,670 (754,015 bags)

The stalled stock would be enough maize to feed Kenyans for 6 days each year.

Calculations: On average one person takes about 1bag (90Kg) of maize per year, thus 0.25Kgs per day. Kenya has an estimated population of 46.6 Million, this multiplied by the average consumption per person per day gives us a daily consumption of 127,671 bags. Therefore the stalled bags divided by that amount maize is enough maize to feed Kenya for 6 days.

4. Ministry of Devolution and Planning

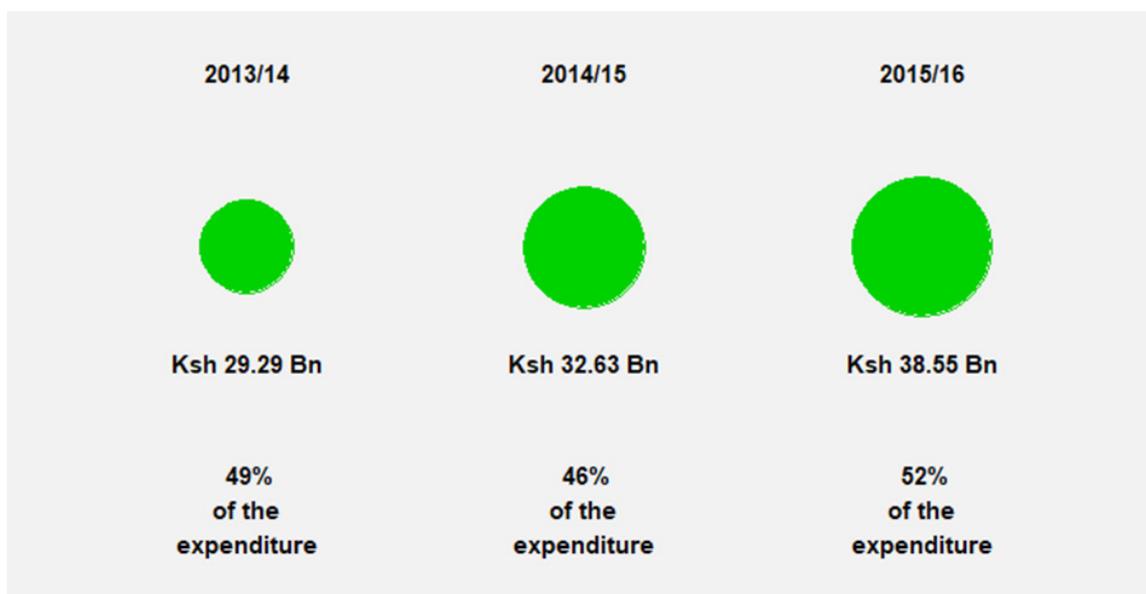
Key Highlights

Information Category		2013/14	2014/15	2015/16
Total Expenditure (Ksh Billion)	State Department of Planning	59.37	65.19	66.97
	State Department of Devolution		5.69	7.15
Audit Opinions	State Department of Devolution	Qualified	Qualified	Disclaimer of Opinion
	State Department of Planning		Disclaimer of Opinion	Disclaimer of Opinion
Majority Opinion on Government funded projects		Qualified	Disclaimer of Opinion	Disclaimer of Opinion
Majority Opinion on Donor Projects		Unqualified	Unqualified	Qualified
Most Prevalent Audit Issue		Failure to reconcile books of accounts	Others	Lack of supporting documents
Highest Amount Queried		Ksh 4.4 Billion- Payments in cash book not in bank statement	Ksh 9.6 Billion-Under expenditure & failure to address measures to address the issue.	Ksh 34.7 Billion- No financial documents provided to explain the variance

Key Messages

- The audit opinion rendered by the OAG show that the ministry’s accounts have been getting worse for the financial years 2014/15 to 2015/16
- Most violations were around failure by the ministry to reconcile books of accounts, failure by the ministry to avail documentation and failure by the ministry to settle outstanding bills.
- The number of issues that have been carried forward to the next financial year has been increasing over the years analyzed.

Trends in Total Queried Amounts



Key Outliers

Year	Amount	Issue
2013/14	Ksh 4.4 Bn	Maximum amount queried which represents payments in cash book which are not reflected in the bank statements
	Ksh 220,000	Minimum amount which represents an outstanding imprest payment
2014/15	Ksh 9.6Bn	Maximum amount queried which represents failure by the ministry to put in measures to address under expenditure
	Ksh 93,951	Minimum amount which represents receipts in current bank reconciliation not reflected in cash book.
2015/16	Ksh 6.1Bn	Maximum amount queried which represents failure to provide financial documents supporting the acquisition of nonfinancial assets.
	Ksh 3,960	Minimum amount which represents accumulation of bank charges after closure of an account

Top Three Violations Per Year

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)

Opportunity Cost of Audit Violations to the Youth

No.	Year	Entity	Audit query	Opportunity cost to the Youth
1.	2013/2014	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.	2014/2015	Ministry	Ksh.9.6 Billion - Under expenditure and 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
4.	2015/2016	Ministry	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

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