

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE APPROPRIATION ACCOUNTS, OTHER PUBLIC ACCOUNTS AND THE ACCOUNTS OF THE FUNDS OF THE REPUBLIC OF KENYA FOR THE YEAR ENDED 30 JUNE, 2003

INTRODUCTORY AND GENERAL

This Report covers the financial year 2002/2003 and is issued in accordance with the requirements of section 105 (2) (c) of the Constitution of Kenya.

EXCHEQUER ISSUES

All issues from the Consolidated Fund were authorized by me as required by Section 105(2)(a) of the Constitution of Kenya.

STAFF

1. Staffing difficulties continued to impact adversely on the performance of the Audit office and the timely completion of audit reports. As a result and as was the case for 2001/2002 the completion of the audit of the Accounts for 2002/2003 has been delayed. However, with the enactment of the Public Audit Act 2003, which became operational with effect from 09 January 2004 as well as the establishment of the Kenya National Audit Commission under the same Act, staffing difficulties are expected to ease as the terms and conditions of service of the KENAO staff have been improved with effect from 1 July 2004. The Office now has not only the capacity to hire and retain qualified and competent staff, but will also equally be able to motivate them. I have, therefore, every reason to believe that with the enhanced terms and conditions of service of the staff, the office will be strengthened resulting in more timely audits and audit reports. It is also noteworthy to mention that arrears of audits in Central Government Divisions have been contained as currently we are auditing the 2003/2004 financial year.

GOVERNMENT FINANCIAL POSITION AS AT 30 JUNE 2003

2. The overall Government Financial Position as at 30 June 2003 was a net surplus of Kshs.23,859,977,225.10 as compared to a net surplus of Kshs.24,250,153,101.80 as at 30 June 2002.

3. The total issues from the Consolidated Fund (CF) for both Recurrent and Development services in 2002/2003 totalled Kshs.277,410,379,084.00 against

total receipts of Kshs.277,334,430,976.80 resulting in a deficit of Kshs.75,948,107.20. However, after taking into account Exchequer surplus of Kshs.2,594,179,922.30 for 2001/2002, short term borrowing of Kshs.69,477,280.00 in the form of Tax Reserve Certificates and a deficit of Kshs.897,797,000.00 arising from a long outstanding loan owing from Cereals and Sugar Finance Corporation, the result on the Exchequer Account was a net surplus of Kshs.1,689,912,095.10. When the net surplus of Kshs.1,689,912,095.10 is added to an overall Paymaster General Account balance of Kshs.22,170,065,130.00 the result is overall Government Cash Position of Kshs.23,859,977,255.10 as at 30 June, 2003, compared to Kshs.24,250,153,101.80 as at 30 June, 2002.

4. Although as stated above the overall Government cash position has been arrived at after taking into account short term borrowings in form of Tax Reserve Certificates of Kshs.69,477,280.00 and a deficit of Kshs.897,797,000.00 arising from a loan owing from Cereals and Sugar Finance Corporation, no documentary evidence was produced in support of both the short term borrowings or the loan. In addition, no explanation has been provided for the failure to clear or to write off these long outstanding balances. Further, the Cereals and Sugar Finance Corporation appears to have been dormant for a long time and questions arise as to whether the outstanding loan of Kshs.897,797,000.00 is recoverable and whether the Corporation is serving the purpose for which it was created.

ADVANCES FROM CIVIL CONTINGENCIES FUND

5. As has been stated in the previous years' reports, the Civil Contingencies Fund was created to fund only urgent and unforeseen expenditures for which no provision existed in the approved estimates. A review of the position of advances from the Fund during 2002/2003 revealed that the Fund advanced a total of Kshs.130,000,000 to State House and the Ministry of Tourism and Information to finance expenditure which could have been foreseen and provided for in the respective estimates for 2002/2003.

6. Although all the above advances were repaid during the year, it is still a matter of concern that the Fund continues to be used to finance expenditure, which is not contingent in nature and which could be foreseen for inclusion in the approved estimates.

OUT TURN OF EXPENDITURE FOR 2002/2003

7. During the year 2002/2003 a net underexpenditure of Kshs.17,220,979,071 was recorded compared to an overexpenditure of Kshs.11,963,821,759 recorded in 2001/2002. The net underexpenditure of Kshs.17,220,979,071 is arrived at as follows:-

RECURRENT

	GROSS Kshs	AIA Kshs	NET Kshs	UNDER Kshs
Estimated	182,248,626,921	21,856,639,666	160,391,987,255	-
Actual	<u>171,105,405,615</u>	<u>16,109,483,551</u>	<u>154,995,922,064</u>	-
Under(Over)	<u>11,143,221,306</u>	<u>5,747,156,115</u>	<u>5,396,065,191</u>	<u>5,396,065,191</u>

DEVELOPMENT

Estimated	49,735,616,460	29,302,667,882	20,432,948,578	-
Actual	<u>32,529,594,082</u>	<u>16,548,838,784</u>	<u>15,980,755,298</u>	-
Under(Over)	<u>17,206,022,378</u>	<u>12,753,829,098</u>	<u>4,452,193,280</u>	<u>4,452,193,280</u>

C.F.S

Estimated	110,466,607,799	-	110,466,607,799	-
Actual	<u>103,093,887,199</u>	-	<u>103,093,887,199</u>	-
Under(Over)	<u>7,372,720,600</u>	-	<u>7,372,720,600</u>	<u>7,372,720,600</u>
Net over all position				<u>17,220,979,071</u>

EXCESS VOTES

8. During the year 2002/2003, an amount of Kshs.85,666,650.95 was spent without parliamentary approval compared to Kshs.575,729,976 in 2001/2002. The Excess Votes were incurred as follows:-

Recurrent Vote Amount Kshs

R.02 State House	3,608,849.00
R.20 Water Resources	<u>26,106,620.90</u>
Sub Total	<u>29,715,469.90</u>

Development Vote

D.04 Foreign Affairs	19,492,757.20
D.21 Environment	<u>36,458,423.85</u>
Sub Total	<u>55,951,181.05</u>
Grand Total	<u>85,666,650.95</u>

9. However, there were pending bills totalling Kshs.6,682,373,999.07 relating to 2002/2003 and previous financial years which remained unpaid at the close of 2002/2003 financial year. Had such bills been paid, the total excess expenditure incurred during the year without the authority of Parliament would have amounted to kshs.5,099,846,083.52 as follows:-

Recurrent Vote

	Excess Vote Kshs.	Surplus Kshs.	Pending Bills Kshs.	Excess Vote Kshs.
State House	3,608,849.00	-	54,339,337.45	57,948,186.45
Transport & Com.	-	8,567,998.55	91,871,019.10	83,303,020.55
Health	-	43,032,410.00	420,878,528.20	377,846,118.20
D.O.D	-	27,303,087.70	1,418,575,619.80	1,391,272,532.10
Local Government	-	22,347,855.50	478,671,313.50	456,323,458.00
Water Resources	26,106,620.90	-	288,068,401.15	314,175,022.05
Home Affairs	-	223,067,856.00	346,173,464.97	123,105,608.97
Agriculture	-	276,272,455.60	641,355,681.85	365,083,226.25
Public Works	-	537,461,945.00	637,206,000.85	99,744,055.85
Culture & Social	-	72,855,986	82,834,098.55	9,978,112.55
TOTAL	<u>29,715,469.90</u>	<u>1,210,909,594.35</u>	<u>4,459,973,465.42</u>	<u>3,278,779,340.97</u>

Development Vote

	Excess Vote Kshs.	Surplus Kshs.	Pending Bills Kshs.	Excess Vote Kshs.
Foreign Affairs	19,492,757.20	-	-	19,492,757.20
Environment	36,458,423.85	-	289,598,585.90	326,057,009.75
Education	-	300,172,044.00	1,400,032,305.10	1,099,860,261.00
Local Government	-	157,112,928.05	532,769,642.65	375,656,714.60
TOTAL	<u>55,951,181.05</u>	<u>457,284,972.05</u>	<u>2,222,400,533.65</u>	<u>1,821,066,742.55</u>
GRAND TOTAL	<u>85,666,650.95</u>	<u>1,668,194,566.40</u>	<u>6,682,373,999.07</u>	<u>5,099,846,083.52</u>

REVENUE COLLECTION

10. During the year 2002/2003 revenue shown as received was Kshs.196,900,808,395 out of which Kshs.187,652,784,466 was collected under Recurrent Revenue Heads and Kshs.9,248,023,929.82 under Development Revenue Heads against the estimated Income of Kshs.209,407,358,244. There was therefore an overall revenue shortfall of Kshs.12,506,549,849 of which Kshs.9,848,737,535 was in respect of Recurrent Revenue and Kshs.2,657,812,314 for Development Revenue. Reasons for shortfalls are given in footnotes to the respective Revenue Statements.

COLLECTION OF APPROPRIATIONS-IN-AID

11. A total amount of Kshs.51,159,307,548 was estimated to be received as Appropriation In Aid consisting of Kshs.21,856,639,666 under Recurrent and Kshs.29,302,667,882 under Development. However, out of this amount only Kshs.32,658,322,335 was collected comprising of Kshs.16,109,483,551 from Recurrent and Kshs.16,548,838,784 from Development. There was therefore an overall under collection of Appropriations In Aid of Kshs.18,500,985,213. Reasons for shortfalls are given under respective Appropriation Accounts.

DEVELOPMENT REVENUE – HEAD DR.1

12. The Statement of Revenue for Head DR.1 for the year ended 30 June 2003 reflects actual receipts of Kshs.5,535,958,299.15 against the estimated receipts of Kshs.7,400,607,744.00. The actual receipts of Kshs.5,535,958,299.15, however, include revenue totalling Kshs.844,877,868.00 which was received under five (5) revenue items against which no receipts had been estimated to be received. Consequently, the actual receipts were, Kshs.4,691,080,431.15 against the estimated total of Kshs.7,400,607,744.00 resulting in a shortfall of Kshs.2,709,527,312.85 or 36.6% of the estimated amounts. Further, no revenue was received from some twenty one (21) items against which receipts totalling Kshs.796,587,600.00 were estimated as receivable during 2002/2003.

13. Like in the previous years the reasons provided for non-collection of the budgeted revenue include slow implementation of projects, delay in receiving reimbursements from donors as well as suspension of disbursements by donors due to failure by line Ministries to fulfil conditions on accountability. Although the same reasons have been given persistently to explain shortfalls in the collection of revenue in the previous years, the Treasury does not appear to have taken the necessary action to address the underlying causes for the unsatisfactory performance.

PAYMASTER GENERAL'S ACCOUNT

14. In the report for 2001/2002, it was stated that the statement of assets and liabilities as at 30 June 2002 in respect of the Paymaster General's Account reflected cash at bank balance of Kshs.22,484,292,899.50 which represented the balances in the Recurrent, Development, Consolidated Fund Services and Deposits Accounts. Although this figure was in agreement with the Central Bank of Kenya positive net balance of Kshs.22,484,292,899.50 as at 30 June 2002, it was not reconciled with the individual ministries' cash book balances for various voted funds and deposits. This was mainly because the individual ministries' bank reconciliation statements were in arrears and the monitoring systems for such reconciliation's were ineffective.

15. For the year 2002/2003 the statement of assets and liabilities for the Paymaster General's Account as at 30 June 2003 reflects cash at bank of Kshs.22,170,065,130.00 representing balances in the Recurrent, Development, Consolidated Fund Services and Funds and Deposits Accounts.

16. Although this figure has been confirmed as being in agreement with the Central Bank of Kenya positive net balance of Kshs.22,170,065,130.00 as at 30 June 2003, it has not, as in previous years, been reconciled with various ministries' cash book balances for Votes, Funds and Deposits. This is mainly because most of the individuals ministries' Bank Reconciliation Statements were

in arrears and partly because monitoring systems for such reconciliations were still ineffective.

17. The Funds and Deposits Account also reflects a credit balance of Kshs.3,189,301,476.50 made up of Funds and Deposits Accounts from Ministries, Departments and Pay Master General Special Accounts after taking into consideration the Government Overdraft Account balance of Kshs.4,318,912,817.85 as at 30 June 2003.

18. The Government Overdraft increased substantially during the year from Kshs.71.15 as at 30 June 2002 to Kshs.4,318,912,817.85 as at 30 June 2003. The cause of the very significant increase of Kshs.4,318,912,746.70 has not been explained.

19. The Management Report from Central Bank of Kenya reflects other credit balances amounting to Kshs.2,864,806,590.15. This balance includes Kshs.7,557,720.95 in respect of World Bank Special Account representing interest accrued from World Bank special off shore accounts as at 30 June 2003. Although Treasury requested the Central Bank of Kenya to ensure that interest earned on special accounts is remitted to Exchequer before the end of each financial year for inclusion in the respective Revenue Statements, the interest had not, as in the previous years, been remitted by 30 June 2003 and no explanation has been given for the omission. Similarly, no reason has been provided for not paying the Treasury Bonds Account balance of Kshs.2,857,248,869.20 to the Exchequer as at 30 June 2003.

20. In addition, the Management Report reflects another credit balance of Kshs.354,211,775.65 under Account No.01-010-E312 – Revenue Deposit Account. Again, it has not been explained why the amount is held in the deposit account with Central Bank of Kenya instead of being surrendered to the Exchequer.

STATEMENT OF PUBLIC DEBT

21. In the report of the previous year, reference was made to the magnitude of public debt in respect of which it was observed that balance of public debt had increased from Kshs.454,726,435,582 as at 30 June, 2001 to Kshs.659,315,299,426 as at 30 June 2002. A review of the position during 2002/2003 showed that public debt balance decreased from Kshs.659,315,299,426 as at 30 June 2002 to Kshs.578,118,116,687 as at 30 June 2003, representing a net decrease of Kshs.81,197,182,739 or 12%.

22. The Statement however, reflects an increase in the sale of Treasury Bonds where the outstanding figure increased by an amount of Kshs.55,223,909,008 or 51% from Kshs.106,332,997,204 in 2001/2002 to Kshs.161,556,906,212 in 2002/2003. The outstanding Treasury Bonds figure of Kshs.161,556,906,212 as

at 30 June 2003 included special Treasury Bonds worth Kshs.7,473,056,211.95 which were issued to contractors to clear pending bills. However, and as stated in previous reports, some of these bills had been found not to be properly due by professional firms of auditors appointed by Treasury to authenticate all such pending bills. In addition, these Special Bonds were not properly reported to Parliament and as such any expenditure so far charged on the Consolidated Fund for their redemption and interest payments has been incurred without parliamentary authority.

C.F.S. PUBLIC DEBT – STATEMENT OF EXPENDITURE

23. The Statement of Expenditure on Public Debt for the year ended 30 June, 2003 reflects actual expenditure of Kshs.90,190,541,195 against estimated expenditure of Kshs.95,963,366,155 resulting in an underexpenditure of Kshs.5,772,824,920.

24. The Statement also reflects Exchequer Issues totalling Kshs.91,400,019,470 against actual expenditure of Kshs.90,190,541,195 resulting in an Over-Issue of Kshs.1,209,478,275. No documents were, however, made available to confirm surrender of the Over-Issue of Kshs.1,209,478,275 or indication given as to how the money was utilized. Further, the Exchequer Issues of Kshs.91,400,019,470 differs by an amount of Kshs.813,732,251 from the balance of Kshs.92,213,751,721.00 reflected in the Exchequer records. No reconciliation or explanation has been provided for the difference between the two sets of records.

25. In the report for 2001/2002, it was stated that the expenditure on Head 946-Internal Funded Debt – Redemption, included an amount of Kshs.1,980,831,393.30 incurred on redemption of Special Treasury Bonds issued in payment of Government pending bills which as observed above had not all been confirmed as properly due.

26. A review of the position in 2002/2003 indicated that expenditure amounting to Kshs.33,678,338,030 was incurred against Head 946 – Internal Funded Debt-Redemptions during the year, out of which an amount of Kshs.1,705,796,143 related to redemption of Special Treasury Bonds, issued in payment of Government pending bills, which as already stated have not been confirmed as properly due. In addition interest payment of Kshs.281,866,195 in respect of the same Bonds was paid and charged against Head 943 – Internal Unfunded Debt-Interest during the same period.

27. The expenditure of Kshs.33,678,338,030 incurred under Head 846 – Internal Funded Debt – Redemption includes an amount of Kshs.7,723,154,613.55 incurred against item 457 – Redemption of Treasury Bills Shortfall. No details have, however, been provided to explain how the shortfall of Kshs.7,723,154,613.55 was realised.

28. In addition, the expenditure of Kshs.33,678,338,030 also includes an amount Kshs.297,549,273.00 representing a payment made to Kenya Post Office Saving Bank in March 2003 in respect of losses made by the Bank during the years 1999 and 2000 and which losses are recoverable from the Consolidated Fund pursuant to Section 13(1) of the Kenya Post Office Savings Bank Act. Records available however indicate that although the payment to the Bank was made from the Fund in March 2003, no exchequer issue to cover the expenditure was authorized during the year or at any other time and therefore the source of the finance was not clear.

29. The Statement also shows expenditure of Kshs.25,680,389,016 in respect of Head 943-Internal Unfunded Debt-Interest. This amount includes a credit balance of Kshs.3,445,264.10 against Item 189 – Transfer from SDR – Allocation. The amount of Kshs.3,445,264.10 has however not been analysed and therefore it has not been possible to ascertain its correctness. It has also not been explained what the credit balance of Kshs.3,445,264.10 represents in the Statement of Expenditure for Public Debt.

C.F.S. SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES – STATEMENT OF EXPENDITURE

30. In the report for 2001/2002, mention was made of expenditure which Government had continued to incur on Loan Interest and Loan Redemption payments in respect of loans it had guaranteed on behalf of various organisations and parastatals without such organisations and parastatals reimbursing the Government the expenditure so incurred.

31. A review of the position during the 2002/2003 indicates that this unsatisfactory situation continued to persist and as a result the Statement of Expenditure for the Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services for the year ended 30 June 2003 reflected expenditure totalling Kshs.2,050,843,289.95 as having been incurred under Loan Guarantee Act. This expenditure comprised of payment of Kshs.1,502,040,868.20 in respect of Loan Redemption and Kshs.548,802,421.75 in respect of Loan Interest.

32. As in the previous years, the organisations and parastatals did not reimburse Government the amounts paid on their behalf. As a result such unreimbursed expenditure increased from Kshs.14,514,510,061.35 as at 30 June 2002 to Kshs.16,993,517,993.62 as at 30 June 2003. No indications have so far been given by the various organisations and parastatals as to when the reimbursements will be made. In addition the expenditure shown in the statement differs from the expenditure reflected in the Ministry's ledger in respect of three sub heads by a net of Kshs.2,556,666.60. No reconciliation or explanations has been provided for the difference.

33. The Statement also reflects actual expenditure of Kshs.3,390,350,062.70 against estimated expenditure of Kshs.2,718,098,720 resulting in excess expenditure of Kshs.672,251,342.37. The Statement further shows that the actual expenditure of Kshs.3,390,350,062.37 exceeded actual Exchequer Issues during the year of Kshs.1,353,536,140.00 by Kshs.2,036,813,922.37.

34. According to information available, the excess expenditure of Kshs.672,251,342.37 was attributed to an increase of salaries and allowances for holders of Constitutional Offices in July 2001 and arrears which were paid in 2002. No explanation has been given for the under issue of Kshs.2,036,813,922.37 and no indication has been given as to how the excess expenditure of Kshs.672,251,342.37 was financed.

SUBSCRIPTIONS TO INTERNATIONAL ORGANISATIONS

35. In the reports for the previous years, reference was made to failure by the Treasury to fully pay subscriptions due to International Organizations even though necessary provisions had been made in the estimates for those years. It was also stated that Government appeared to have been falling into arrears in payments of subscriptions due to the International Organizations although the extent of the arrears could not be ascertained due to lack of up to date records showing amounts due and when due.

36. A review of the position during 2002/2003 revealed a similar state of affairs in that only two subscriptions amounting to Kshs.42,566,162.75 were paid to two International Organizations against an approved estimate of Kshs.115,000,000.00. Subscriptions amounting to kshs.17,609,700 payable to the three organizations were not made.

37. No explanation has been provided for non-payment of subscriptions to the above Organizations. Further, in the absence of up to date records showing the subscriptions due and when due it was not possible to ascertain whether Government was in arrears on subscriptions to International Organization and if so the extent of such arrears.

CFS PENSIONS AND GRATUITIES-STATEMENT OF EXPENDITURE

38. The Statement of Expenditure for the year ended 30 June 2003 reflects total expenditure of Kshs.9,470,429,778.85 against Exchequer Issues of Kshs.9,450,000,000 resulting in excess expenditure of Kshs.20,429,778.85 over and above the Issues. No reconciliation has been provided for the difference of Kshs.20,429,778.85 and no explanation has been provided as to how the excess expenditure was funded.

MINISTRY OF FINANCE

UNDER EXPENDITURE AND UNDER COLLECTION OF APPROPRIATIONS IN AID – VOTE R.07

39. The Appropriation Account for Vote R.07 – Ministry of Finance for the year ended 30 June 2003 reflects actual expenditure of Kshs.6,908,879,062.55 against approved estimates of Kshs.8,016,350,950.00 resulting in an under expenditure of Kshs.1,107,471,887.45 or approximately 14% of the estimated amount. The Appropriation Account similarly reflects collection of Appropriations – In-Aid of Kshs.1,360,304,205.50 against estimated receipts of Kshs.1,957,840,000.00 resulting in an under-collection of Kshs.597,535,794.00 or about 30% of the estimated receipts. The reasons provided in the footnotes for the under expenditure include suspension of procurement activities by the Government, cancellation of some tenders by Ministerial Tender Board and under estimation while those given for the under collection of Appropriation In Aid range from over estimation, reduced demand for Government Information Technology Services to reduced inspection fees as a result of low imports.

40. No indication has been given as to how the Ministry is addressing these challenges which have clearly resulted in failure by the Ministry to provide some of the services for which funds had been provided for by Parliament.

UNDER EXPENDITURE AND UNDER COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D.07

41. The Appropriation Account for Vote D.07 – Ministry of Finance for the year 2002/2003 reflects gross under expenditure of Kshs.208,248,844.00 against approved gross estimate of Kshs.8,452,243,702.00 and a deficiency in Appropriations-In-Aid of Kshs.183,842,016.00 against estimated receipts of Kshs.4,870,934,020.00. Although the under expenditure and under collection represents only a small percentage of the total gross estimated expenditure and appropriations-in-aid the amounts involved are significant in absolute terms. The under-expenditure and under collection occurred in all four Sub-Votes under Vote D-07 and was mainly attributed to delay in processing and awarding of various tenders as a result of suspension of procurement officers, suspension of major contracts by Government, non-receipt of expenditure documents from donors and delay in signing of consultancy agreements during the year.

UNVOUCHED EXPENDITURE

42. The Development Appropriation Account for Vote D-07 for the year 2002/2003 reflects gross expenditure of Kshs.8,243,994,858.00. This amount includes expenditure of Kshs.4,829,026,351.60 in respect of which supporting

payment vouchers and other relevant documents have not been made available for audit review. No explanation has been provided for failure to make available the vouchers and other relevant documents. In the absence of these records, it has not been possible to confirm the propriety of the expenditure of Kshs.4,829,026,351.60 constituting approximately 59% of the total expenditure of Kshs.8,243,994,858 recorded against Vote D-07.

COMPUTERIZATION OF GOVERNMENT DEPARTMENTS

43. In the report for the year 1998/99, reference was made to the unsatisfactory and irregular manner in which a contract agreement between Ministry of Finance and a private firm for the computerization of the Customs and Excise Department of the Kenya Revenue Authority (KRA) was handled. The report indicated that by 30 June 1994, the firm had been paid a total of US\$4,030,715 in foreign currency and Kshs.70,080,096.00 in local currency. Despite these substantial payments however, the project stalled in 1993 as a result of a disagreement between the Customs and Excise Department and the firm over some software amendments which the Department wanted introduced within the scope and price of the contract while the firm claimed that such amendments were not part of the contract.

44. The project was re-launched in 1996 under a revised programme with the expectation that it would be completed and commissioned by December 1998. Arising from delay by the firm in delivering outstanding software, the project was not however, completed until April 2001, twelve years after it was started.

45. A review of the position during the year 2002/2003 revealed that although the project was completed in April 2001, the completed project displayed vulnerabilities related to transmission of data between some stations because of incompatibility between some of the equipment installed and the Telkom telephone lines. Besides, the user Department in its various reports on the system and as would be expected of a System twelve years old when completed, indicated that the system was slow and did not have the capacity to carry heavy workload.

46. Clearly therefore, and in the light of the foregoing, Government did not obtained full value for money spent on the project totalling US\$6,818,662.29 (for foreign component) and Kshs.129,643,633.00 (for local component) as at 30 June 2003.

47. Additional information show that a further sum of Kshs.51,495,090.75 representing full and final payment for the local component was paid to the firm on 16 June 2004 raising the total expenditure on the local component to Kshs.181,138,723.75.

48. As is evident from various Annual Reports to Parliament, the computerization of the Customs and Excise Department project is just one of several problematic projects in the computerization of Government departments as highlighted in reports for 1995/96, 1998/99 and 1999/2000.

49. It is evidently clear that Government has over the years spent colossal sums of money on computerization projects without the expected benefits being realized or only being partially realized. The problem appears to be rooted in the haphazard and uncoordinated manner in which such projects have been conceived, contracts awarded and implemented. Clearly there has been lack of comprehensive computerization needs analysis and evaluation of existing systems before new systems are conceived and implemented.

OVEREXPENDITURE ON PERSONAL EMOLUMENTS AND HOUSE ALLOWANCE

50. The Appropriation Account for Vote R.07 for the year ended 30 June 2003 reflects over expenditure of Kshs.30,260,474.75 and Kshs.14,656,629.85 against Personal Emoluments and House Allowance Items under various Heads. The reasons provided in the footnotes to the Account for the over expenditure include underestimation and posting of additional staff to the other Departments. These reasons do not however appear to be plausible considering that the staff establishment is well known at the start of every financial year and therefore provisions for Personal Emoluments and House Allowance can be estimated within reasonable margins of error.

LOANS TO MIWANI SUGAR COMPANY

51. In the Report for 2001/2002, reference was made to loans totalling US\$13,351,250 and Kshs.25,000,000 which Miwani Sugar Company had received from three foreign banks and one local bank respectively before it was put under liquidation in 1990. The report further indicated that the loans were secured against all the company's undertakings and assets. The company could not however service the loans consequent upon which the lenders put it under liquidation in 1990. The report further referred to Government intervention in the matter in April 1990 when it signed agreements with the four banks for the outright purchase of the company by Government. In accordance with the agreements, the purchase price was agreed at US\$14,221,843.69 to be paid and apportioned between the three foreign banks and Kshs.24,558,444.34 to be paid to the local bank.

52. The agreements further provided for Government to pay the vendors in twelve (12) equal annual consecutive instalments with the first such instalment becoming due on 1 September 2002 and last instalment being due in September 2003. Government was also required to execute and deliver to the receivers as agents for vendors on or before the completion date as evidence of

Government's obligation to pay the purchase price and interest to accrue thereon, promissory notes for the respective vendors. Information then available indicated that the promissory notes signed were due from 1 March, 1990 up to 1 September 2003 and stipulated the total amounts due to the three foreign banks as US\$14,221,843.69 and US\$10,854,904.39 in respect of capital repayments and interest respectively. For the local bank, the promissory notes were for Kshs.24,558,444.34 and Kshs.37,574,414.86 in respect of capital repayment and interest respectively.

53. The agreements between Government and the Banks also provided that in the event of a default in the payment of any amount due, Government was to pay penalty at the rate of 1% over and above the interest stipulated in the agreements, calculated on daily balances and compounded on monthly calendar basis.

54. A review of the position during the year 2002/2003 shows that the principal amount outstanding for these loans excluding interest on capital and penalties stood at Kshs.155,901,697.35 as at 30 June 2003. Available information further indicates that the debt owed to one of the banks was re-scheduled under Paris Club although details of the rescheduling have not been made available for audit review, while the debt owed to another foreign bank was re-scheduled under the London Club to be paid up to 30 December 2003 at reduced interest rate of 5 % per annum.

55. As similarly observed in 2001/2002, although the loans were acquired under the External Loan and Credits Act, the arrangement has not been reported to Parliament as required by Section 5 of the Act.

CONSTRUCTION OF ACCESS ROAD – TREASURY ESTATE

56. In the reports for the previous years, reference was made to the take-over by Government of the construction of Access Road Project, a private project which had been started on a self help basis. Apart from the fact that the basis and justification for the take-over of the project and the resultant financial outlay was not clear, the contract sum of Kshs.41,642,776.50 had been exceeded by Kshs.10,733,385.20 to stand at Kshs.52,376,161.00 as at 30 June 2000. Further, the expenditure on the project also included an overpayment of Kshs.529,383.50 in 1997 in respect of interest on delayed payments.

57. Additional payments of Kshs.7,600,611.80 and Kshs.4,641,953.05 were made to the contractor during the years 2000/2001 and 2001/2002 respectively, thus increasing the total payments made to the company to Kshs.64,618,726.55 as at 30 June 2002.

58. A review of the position during the year 2002/2003 revealed that a further payment of Kshs.3,430,285.60 in respect of retention money was made to the

company on 30 June, 2003 yet again increasing the total payments to the company to Kshs.68,049,012.15 as at 30 June, 2003. An amount of Kshs.539,383.56 representing an overpayment made to the company in 1997 does not appear to have been recovered from the retention money as would have been expected. Separately, the consultants for the project were, during the same period paid a sum of Kshs.3,369,030.14 in respect of supervision and consultancy services on the Project.

59. Although, available information indicate that the project was completed and handed over by the Ministry to Nairobi City Council for adoption and maintenance in June, 2003, it is nevertheless a matter of concern that a road project covering a stretch of only 2.20 km and which was initially meant to take only six (6) months, took over six years to complete and at a substantial cost of Kshs.68,049,012.15 as at 30 June 2003.

PURCHASE OF LANDROVER VEHICLES

60. In the Report for the previous year reference was made to a Loan Agreement for USD19,640,089.42 signed in September 1998 between the Office of the President and a foreign firm for supply of 522 Land Rover Vehicles to the Government. Pursuant to the Agreement, the Government was to repay the loan in seven (7) equal instalments over a period of 5 years. Available information indicated that the first instalment for repayment was to fall due in February, 2003. The loan was also to be repaid according to various Promissory Notes at an interest rate of 6.56% of the principal amount.

61. As observed in the Report however, The Internal Loans Act (Cap 420) and the External Loans and Credit Act (Cap 422) stipulate that only the Ministry for Finance is authorised to raise loans within and outside the country and to negotiate credit facilities. The Regulations further require that after a loan or credit has been arranged or obtained under the Acts, the Minister for Finance should lay before Parliament a report on the transaction, the parties, the circumstances giving rise to transactions, the currency in which the amount or value is expressed, the terms and conditions of repayment. As far as I have been able to establish, a report on the transaction has not yet been laid before Parliament in contravention of the Acts.

62. Available information further indicates that as a result of Government's failure to adhere to the original repayment schedule, a Rescheduling Agreement was negotiated and that in May 2003, the Minister for Finance and the Standard Bank London Ltd signed a Loan Rescheduling Contract Agreement whereby both parties agreed and confirmed the revised repayment terms for the loans as follows:

- USD3,248,064.28 already paid and applied in reduction of overdue

Promissory Notes.

- USD2,173,809.93 to be paid by 30 March, 2003. These Funds to be applied in full repayment of interest element of Promissory Notes No.2478/B1 through to F2478 GI up to the original Maturity date of the Promissory Notes at the contract interest rate of 6.56%.
- Overdue Interest at the Current Contract rate of 6.56% on all overdue Promissory Notes up to 30 June, 2003(based on forecast to be provided separately by Standard Bank London Ltd) to be repaid in full by 30 June, 2003.
- The remaining Promissory Notes to be rescheduled for repayment in four instalments. On each Promissory Note maturity date (30 September, 2003, 30 December, 2003, 30 March, 2004 and 30 June, 2004) all interest accrued up to such maturity date at the contract rate of 6.56% will be paid in full.
- Interest will be calculated on daily basis on all due Promissory Notes that are not already repaid.

63. As already stated, no evidence has been seen of this loan having been reported to parliament as required under the External Loans and Credits Act.

PAYMENTS TO STATE CORPORATIONS

64. The Development Appropriation Account for Vote D-07 for the year ended 30 June 2003 reflects actual expenditure of Kshs.3,315,432,278.00 against Sub-Vote 070, Head 135 – Headquarters Administrative Services, representing payments made to five (5) State Corporations as shown below:-

Name	Approved Estimates Kshs.	Actual Expenditure shs.
Agricultural Finance Corporation	260,000,000.00	260,000,000.00
Kenya Meat Commission	100,000,000.00	47,000,000.00
Kenya National Assurance Company (2001)	1,700,000,000.00	1,588,032,298.00
Kenya Ferry Services Ltd	13,400,000.00	13,400,000.00
Kenya Railways Corporation	<u>1,407,000,000.00</u>	<u>1,406,999,980.00</u>
	<u>3,480,400,000.00</u>	<u>3,315,432,278.00</u>

65. Payments totalling Kshs.3,268,432,278.00 have been confirmed in the unaudited Accounts for 2002/2003 for Agricultural Finance Corporation, Kenya National Assurance Company (2001), Kenya Ferry Services and Kenya

Railways Corporation as having been received by the parastatals while in the case of the Kenya Meat Commission, a payment of Kshs.47,000,000.00 could not be confirmed as having been received by the Commission as its Accounts for 2002/2003 have not been seen.

GOVERNMENT DEBT WITH KENYA COMMERCIAL BANK (KCB)

66. In the Reports for the past two years, it has been stated that the Treasury and Kenya Commercial Bank (KCB) signed a loan agreement in April 1998 whereby Treasury took over the servicing and payment of a number of overdrafts and outstanding loans owed to the Bank and totalling Kshs.2,143,865,711.00. This amount included a short-term loan of Kshs.399,933,055.00 related to payment of security equipment the Department of Defence was importing, a sum of Kshs.1,643,493,182.35 which was a loan and interest advanced to Kenya Railways in 1990 to finance research work on proposed Nyayo Car Corporation which later became the Numerical Machining Complex and a further loan of Kshs.100,439,473 which related to external lines of credit the bank had advanced to local investors in the 1980s. By February 2002 Treasury, had spent a total of Kshs.2,551,025,242.05 in servicing the loans with the KCB but the outstanding loan balance still stood at Kshs.2,209,082,937.30 as at 30 June 2002 apparently because of accumulation of interest. It was further observed that the expenditure of Kshs.2,551,025,242.05 which the Treasury had incurred on servicing the loans was unconstitutionally charged directly on the Paymaster General Account for Consolidated Fund Services (CFS) and that no Parliamentary approval for the loan had been given as required by Section 5(i) of the Guarantee (Loan) Act Cap.461. Apart from the fact that no reason was given as to why Government took over the debts, no indication has been given as to whether the loans taken over would eventually be recovered from Kenya Railways and local investors who were the actual debtors.

67. A review of the position during 2002/2003 indicates that following additional information regarding composition of the original loan of Kshs.2,143,865,711.00 received at the Treasury during the year the composition of the loan was as follows:-

	<u>Kshs.</u>
Kenya Railways	1,643,493,182.35
Ministry of Finance (Defence Equipment)	399,933,055.65
USAID/IFC Loan (Foreign Exchange Compensation)	<u>100,439,473.00</u>
Total	<u>2,143,865,711.00</u>

68. It is not clear as to what is represented by the USAID/IFC loan (Foreign Exchange Compensation) balance of Kshs.100,439,473 or how it relates to the original loan of the same amount previously described as external lines of credit which the bank had advanced to local investors in the 1980s.

69. Nevertheless, Treasury requested KCB to disaggregate the Loan Account and credit the Kenya Railway's Account with the amount of Kshs.2,551,025,242.05 already paid to the bank and charged against the consolidated Fund as a loan repayment. This request resulted in loan Account as at 31 December 2002 being restructured as follows:-

	<u>Kshs.</u>
Kenya Railways	1,124,251,877.53
Ministry of Finance (Defence Equipment)	1,141,678,117.10
USAID/IFC loan (Foreign Exchange Compensation)	<u>286,721,833.01</u>
	<u>2,552,651,827.64</u>

70. Subsequently, in May 2003, Treasury made a payment of Kshs.900 million to KCB under Recurrent Vote 07 - Ministry of Finance. Although it is not clear as to which of the three loan Accounts the payment of Kshs.900 million was credited, it is nonetheless evident that the disaggregation was meant to enable Government continue servicing the residual loan in respect of Ministry of Finance (Defence Equipment) and USAID/IFC (Foreign Exchange Compensation) and totalling Kshs.1,428,399,950.11 as at 31 December 2002 as a Government obligation which could then be accommodated under normal budgetary process without having to be subjected to the provision of Section 5(i) of the Guarantee (Loan) Act.

71. The above restructuring notwithstanding, and in the absence of any evidence of Parliamentary approval for the Loan, the total payments made by Treasury in contravention of the Guarantee (Loan) Act stood at Kshs.3,451,025,250.05 as at 30 June 2003.

PENSIONS DEPARTMENT

Bank Reconciliation Statements

72. In the Report for 2001/2002, reference was made to the fact that the Pensions Department of the Ministry of Finance had not been preparing and submitting for audit monthly bank reconciliation statements and that the last bank reconciliation statements prepared and submitted for audit were for December 1997 and June 1998 for the Recurrent and Deposits Cashbooks, respectively. A review of the position in 2002/2003 revealed that the position reported in the Report for 2001/2002 had not changed. Consequently in the absence of the bank reconciliation statements, it has not been possible to reconcile the cashbook credit balance of Kshs.258,270,142.80 with the credit balance of Kshs.1,532,058,331.55 shown in the bank certificate as at 30 June 2003.

Monthly Pension Payrolls

73. In the Report for 1999/2000, it was stated that payrolls for total pension payments of Kshs.93,204,120.00 that had been sent to various District Commissioners and District Officers for payment to pensioners had not been returned to the Pensions Department for reconciliation. A review of the position during the year 2002/2003 indicates that out of payrolls for a total of Kshs.93,204,120 which had not been returned to the Department, payrolls for Kshs.76,031,981 had been received and accounted for leaving a balance of Kshs.17,172,139 still outstanding. No explanation has been provided for the failure by the respective District Commissioners and District Officers to account for the unreturned payrolls.

Stores and Equipment not Accounted for

74. In the Report for 2001/2002, reference was made to the unsatisfactory manner in which stores and equipment purchased over the years were handled in the Pensions Department. It was stated that equipment and consumable stores worth Kshs.2,449,080.00 and Kshs.5,029,139.00 respectively procured during that year remained unaccounted for.

75. A review of the position during 2002/2003 indicates that posting of stores Ledger Cards was in progress and had been done up to the year 1999. It was however noted that stores worth Kshs.3,773,200.00 purchased during the year although receipted and taken on charge in the stores ledger cards, could not be accounted for as no Issue Vouchers were made available for audit review. The total value of unaccounted for stores during 2001/2002 and 2002/2003 therefore stood at Kshs.8,802,509.00 as at 30 June 2003. No reasons have been provided for this unsatisfactory state of affairs.

Payment of Pensions through Post Bank

76. In the report for 2001/2002 reference was also made to a memorandum of understanding which was signed in February 2002 between the Ministry of Finance and Kenya Post Office Savings Bank whereby both parties agreed to an arrangement for disbursement and payment of Government Pensioners monthly pension through Kenya Post Office Savings Bank. In that Report various unsatisfactory matters which adversely affected the smooth payment of pensions were raised but as far as I have been able to ascertain such matters have not so far been resolved. Records available indicate that during the year 2002/2003 an amount of Kshs.935,477,890.30 was paid to the bank on diverse dates between July 2002 and June 2003, being advances for pensions covering the period commencing July 2002 – June 2003.

77. It was however observed that the Bank had not, as at 30 June 2003, prepared and submitted to the Pensions Department monthly Statements of

amounts of pensions actually paid, pension held in the Pensions Reserve Account and particulars of any unpaid pensioners contrary to Section g(iii) of the Memorandum of Understanding thus making it difficult to reconcile the records maintained by the bank and the Pensions Department's figure of Kshs.935,477,890.30.

78. Available information indicate that during the years 2001/2002 and 2002/2003 the Pension's Department paid a total of Kshs.159,452,400.00 in the form of commission and expenses payable to the Bank. In the absence of financial reports by the Bank as indicated above and a review to ascertain the efficiency and effectiveness of the system it has not been possible to confirm whether it is adequately addressing the challenges for which it was created and indeed whether the expenditure of Kshs.150.00 for every pension processed by the bank represents a fair and reasonable charge against public funds.

UNCOLLECTED REVENUE ON TRANSIT GOODS DIVERTED TO HOME USE

79. A Nairobi firm lodged Transit Entry (Inward) No.087 dated 15 January 1998 in respect of a consignment of assorted goods from a Dar-es-salaam firm which were purported to be in transit to Bukavu, Congo. The consignment was secured under Security Bond No.GB.NDB.0125/98 for Kshs.442,232.00 and Road Transit Declaration Entry dated 22 January 1998 was made in respect of the consignment.

80. On 6 February 1998, the Nairobi firm lodged Duty Refunds claim No.782/98 for Kshs.442,232.00 but the claim was passed to Investigations Branch for investigation because it lacked some important information.

81. According to Investigation's Branch report dated 19 January 2001, no adequate evidence was found to confirm that the goods were exported and it would appear that the goods were diverted into home use. Accordingly, on 19 January 2001 a letter was written to the Deputy Commissioner of Customs and Excise, Southern Region requesting him to call for revenue and penalty under security Bond No.GB NDB.0125/98. However although the Bond was cancelled on 14 March 2002 the principal sum of Kshs.442,232.00 and penalties amounting to Kshs.1,577,140.00 as at 31 August 2002 have not been collected to date.

REVENUE HEAD 100-070-CUSTOMS AND EXCISE

82. The Statement of revenue Head 100-070, Customs and Excise for the year ended 30 June 2003 reflects actual receipts of Kshs.54,120,342,420.55 against estimated receipts of Kshs.62,566,000,000.00 resulting in an undercollection of Kshs.8,445,657,579.45 or approximately 12% of the estimated receipts. As in the previous years, the reason given for the undercollection is overestimation but

no indication has been given of proposed action to address this persistent problem of over-estimation.

83. Further, while the Statement reflects actual receipts of Kshs.54,120,342,420.55 the Trial Balance as at 30 June 2003 shows total collections of Kshs.55,898,983,439.30. No reconciliation or explanation has been provided for the difference of Kshs.1,778,641,018.75 between the two sets of records.

84. On the other hand, records held by the Kenya Revenue Authority (KRA) indicate that total revenue collected under Head 100-070 was Kshs.54,263,036,693.70 again resulting in yet another unreconciled and unexplained difference of Kshs.142,694,273.15 between the KRA records and the Statement.

85. As in the previous year, the position of arrears of revenue due as at 30 April 2003 and uncollected as at 30 June 2003 deteriorated during the year under review in that such arrears stood at Kshs.16,481,889,958.98 as at 30 June 2003 compared to Kshs.12,611,783,983.49 as at 30 June 2002 an increase of Kshs.3,870,105,975.49. The increase was mainly caused by additional arrears of revenue totalling Kshs.3,823,755,453.84 out of which amounts due from Treasury and Ministry of Transport and Communications were Kshs.170,205,850.20, Parastatals Kshs.1,277,122,754.34, Nairobi City Council Kshs.1,699,921,776.94 and from other organizations Kshs.676,505,072.36.

86. In addition, while the Statement reflects arrears of revenue totalling Kshs.16,481,889,958.98 as indicated above, KRA records show an amount of Kshs.16,071,305,108.35 against the same item resulting in an unreconciled and unexplained difference of Kshs.410,584,850.63 between the two sets of records.

87. Further verification of arrears of revenue totalling Kshs.16,481,889,985.98 uncollected as at 30 June 2003 revealed that out of this total, sums of Kshs.716,727,828.03 and Kshs.4,487,823,549.53 owing from Kenya Railways and Kenya National Trading Corporations respectively may be difficult to recover considering that these arrears have been outstanding for considerably long period of time while the two organizations themselves have been experiencing severe cash flow problems.

REVENUE HEAD 110-070 – INCOME TAX

88. The Statement of Revenue Head 110-070 – Income Tax, for the year ended 30 June 2003 shows that the revenue collected during the year amounted to Kshs.66,744,283,137.90 against estimated receipts of Kshs.67,529,000,000.00 resulting in a shortfall of Kshs.784,716,862.10 or approximately 7%. As in the previous year, the reason given for the under-collection was over estimation under Item 702 – Other Income Tax. The figure of

Kshs.66,744,283,137.90 however differs by an amount of Kshs.4,717,413,754.20 from the actual receipts of Kshs.71,461,696,892.10 reflected in the records maintained by the Kenya Revenue Authority. The difference of Kshs.4,717,413,754.20 between the two sets of records has not been reconciled or explained.

89. The Statement also reflects arrears of revenue due as at 30 April 2003 but uncollected as 30 June 2003 of Kshs.58,144,099,980.00 compared to arrears of Kshs.52,234,742,281.00 as at 30 June 2002. The increase of Kshs.5,909,357,699.00 or about 11% during the period is attributed to undercollection of revenue under Item 702 – Other Income Tax. The figure of Kshs.58,144,099,980.00 includes penalties and interest amounting to Kshs.6,932,768,972.00 and KShs.29,466,314,838 respectively. The Ministry has not however provided an indication of the efforts it is making to reduce the arrears.

REVENUE HEAD 120-070 – VALUE ADDED TAX

90. The Statement of Revenue for Head 120-070 – Value Added Tax for the year ended 30 June, 2003 reflects actual receipts totalling Kshs.56,135,250,080.40 against estimated collection of Kshs.57,185,000,000.00 resulting in a shortfall of Kshs.1,049,749,919.60 or approximately 1.8% of the estimated collection. The actual collection of Kshs.56,135,250,080.00 was realized from Value Added Tax – Local and Value Added Tax – imports of Kshs.26,502,310,456.45 and Kshs.29,632,939,623.95 respectively. Value Added Tax – Local recorded under collection of Kshs.4,037,689,543.55 or about 13% of the estimated amount of Kshs.30,540,000,000.00 while Value Added Tax – Imports recorded over collection of Kshs.2,987,939,623.95 or approximately 11% of the estimated receipts of Kshs.26,645,000,000.00. The reasons given for undercollection and overcollection against the two items are over estimation and underestimation respectively.

91. Further, while the Statement reflects actual receipts of Kshs.56,135,250,080.40, records maintained at the Kenya Revenue Authority (KRA) show receipts of Kshs.56,363,728,924.90 resulting in an unreconciled difference of Kshs.228,478,844.50 between the two sets of records.

92. The Statement of Arrears of Revenue due as at 30 April, 2003 and uncollected as at 30 June, 2003 reflects arrears totalling Kshs.17,819,579,440.00 which represents an increase of Kshs.3,138,598,100.00 or 21% over the arrears of Kshs.14,780,981,340.00 recorded as at 30 June 2002. No explanation has been given for the increase. Further, the balance of Kshs.17,819,579,440.00 includes Principal and Penalties of Kshs.6,224,458,370.00 and Kshs.11,488,995,707.00 respectively some of which date as far back as 1992. No explanation has been provided for the non-collection of these long outstanding arrears.

93. In addition, the RD cheque balance of Kshs.106,125,380.00 shown in the Statement differs by an amount of Kshs.18,227,533.55 from the figure of Kshs.124,352,913.55 reflected in the records held by Kenya Revenue Authority. As in the previous year no reconciliation or explanation has been given for the difference.

REVENUE HEAD 140-070- TRAFFIC REVENUE

94. The Statement of Revenue Head 140-070-Traffic Revenue for the year ended 30 June 2003 reflects actual receipts of Ksh.1,137,481,618.95 against a provision of Ksh.1,581,850,000 resulting in a shortfall of Ksh.444,368,381.05 or approximately 29% of the estimated receipts. The actual receipts of Ksh.1,137,481,618.95 received during the year are shown in the Statement as having been collected under Item 740 – Fees Under the Traffic Act which had a provision of Kshs.169,000,000 while the Exchequer Revenue Report as at 30 June 2003 from the Road Transport Department of the Kenya Revenue Authority (KRA) indicates that these receipts were actually collected against four Items including item 740.

95. Although the Ministry has explained that the revenue from the other Items was lumped together under Item 740 – Fees Under Traffic Act due to lack of a breakdown from the KRA, this would appear not to be the position as records at the Authority clearly identify the revenue as having been collected from each of the four Items. Equally important and due to the above omission, no meaningful footnotes were provided for the very material differences between estimated and actual receipts in respect of all the four items.

96. Further records at the Kenya Revenue Authority indicate that receipts totalling Ksh.1,046,595,392.05 were collected and remitted to the Treasury during the year while the Statement reflects an amount of Ksh.1,137,841,618.95 as having been received. The difference of Ksh.91,246,226.90 between the two sets of records has not been reconciled or explained.

REVENUE HEAD 180 – 070 – AIRPORT REVENUE

97. In the Report for 2001/2002 concern was expressed over non-collection of Arrears of Revenue of Kshs.321,636,880.00 relating to 1992/93 and earlier years, as well as non-remittance of revenue amounting to Kshs.79,138,920.00 representing balance on hand as at 30 June 1989 when the Receiver of Revenue was the Permanent Secretary, Ministry of Transport and Communications. Concern was further expressed over the fact that the balance on hand of Kshs.79,139,920.00 was not disclosed in the Statement of Revenue for the year 1989/90 or in the Statements for subsequent years. A review of the position in the year 2002/2003 showed that the position did not change notwithstanding the Public Accounts Committee's recommendations that the revenue balance of

Kshs.79,138,920.00 be remitted by the Ministry of Transport and Communications to the Treasury.

98. The Statement of Revenue Head 180-070 – Airport Revenue for the year ended 30 June 2003 reflects actual receipts of Kshs.1,625,754,925.05 while records maintained at the Kenya Revenue Authority show remittances to the Exchequer totalling Kshs.1,593,016,977.45. No reconciliation or explanation has been provided for the difference of Kshs.32,737,947.60 between the two sets of records.

99. The Statement also reflects arrears of revenue totalling Kshs.321,636,880.00 in respect of Rent of Buildings and Land and Landing fees relating to 2001/2002 and earlier years. No efforts appear to have been made during the year to recover these arrears.

REVENUE HEAD 180 – 140 AVIATION REVENUE

100. The Statement of Revenue for Head 180 – 140 – Aviation Revenue for the year ended 30 June 2003 reflects actual receipts of Kshs.1,270,068,477.30 against the estimated amount of Kshs.952,200,000.00 resulting in over-collection of Kshs.317,868,477.30 or approximately 33% of the estimated amount. As in the previous years however, the total collection of Kshs.1,270,068,477.30 is reflected under item 655 – Aviation Fees, while the other three items with total estimated revenue of Kshs.857,200,000 reflect nil collection. No attempt appears to have been made to resolve this persistent anomaly which could have been resolved by obtaining an itemized breakdown from Kenya Revenue Authority showing how much collection was made under each item of revenue.

101. Further, while as stated above the Statement reflects actual collections of Kshs.1,270,068,477.30 during the year, records held at the Kenya Revenue Authority indicate that such collections amounted to Kshs.1,218,834,240.10. The difference of Kshs.51,234,237.20 between the two sets of records has not been reconciled or explained.

102. In the report for 2001/2002, it was stated that the Ministry of Transport and Communications through the Directorate of Civil Aviation had collected outstanding arrears of revenue totalling Kshs.64,342,054.15 as at 30 June 2001 relating to the year 2000/2001 and earlier, in respect of Aviation Fees, Air Navigation Charges and Sundry Revenue which had not been paid over to the Receiver of Revenue by 30 June 2002. During 2001/2002, arrears of revenue amounting to Kshs.4,848,646.40 were collected raising the cumulative total of arrears of revenue collected but not paid over to the Receiver of revenue as at 30 June 2002 to Kshs.69,190,700.55.

103. This amount is not therefore as in the previous years accounted for in the statement of Revenue Head 180-140. In addition and as was the case for

2001/2002, the Statement of Revenue Head 180 – 140 Aviation Revenue for 2002/2003 does not have as a footnote the Statement of Arrears of Revenue due as at 30 April, 2003 but uncollected as at 30 June, 2003 as required under Government Financial Regulations. In the absence of evidence of payment of arrears of revenue amounting to Kshs.69,190,700.55 to the Receiver of revenue and in view of the non-preparation and submission for audit of a Statement of Arrears of Revenue due as at 30 April 2003 but uncollected as at 30 June 2003, the accuracy of the Statement of Revenue for Head 180 – 140 cannot be confirmed.

REVENUE HEAD 190-070 INVESTMENT REVENUE – IRREGULAR LOAN TO NATIONAL BANK OF KENYA

104. As stated in the Reports for the past two years, Treasury, on 7 May 2001, through a direct debit on the Exchequer Account, paid an amount of Kshs.2 billion to the National Bank of Kenya with the amount being recorded as a loan to the Bank. Although this amount was provided for in the Ministry's Approved Estimates for Vote D.07 for 2000/2001, and was authorized for withdrawal from the Exchequer on 07 May 2001, the treatment of the payment as a loan to the National Bank of Kenya does not appear to have complied with Government procedure for granting loans to institutions. The procedure requires that a sessional paper be tabled in parliament for approval before the loan is granted and that a loan agreement be signed between Treasury and the institution being lent money. These two conditions were not met with regard to the loan granted to the Bank.

105. A review of the position during the year 2002/2003 indicated that no corrective action has been taken to regularize the loan and the situation therefore remains as earlier reported. Further, the irregular loan has not been reflected in the Ministry of Finance Statement of outstanding loans as at 30 June 2003.

STATEMENT OF REVENUE HEAD 210 – 070 – TRADING LICENCES

106. The Statement of Revenue for Head 210-070 Trading Licences for the year ended 30 June 2003 reflects actual receipts of Kshs.109,124,716.20 against estimated collections of Kshs.135,540,000 resulting in a shortfall of Kshs.26,415,283.80 or approximately 19% of the estimated receipts.

107. The shortfall occurred mainly under Items 753 – Licences under Trade Licensing Act, Item 756 – Registration of Banks and Financial Institutions and Item 760 – Professional fees against which receipts totalling Kshs.80,386,864.00 were recorded against estimated receipts of Kshs.116,600,000.00. As in the previous years overestimation is indicated in the footnotes to the Statement as the cause of the undercollection but it has not been explained how this persistent problem of inaccurate estimation of receipts is being addressed.

REVENUE HEAD 250-070 – REIMBURSEMENT AND OTHER FUND CONTRIBUTIONS

108. The Statement of Revenue Head 250-070-Reimbursement and Other Fund Contributions reflects actual receipts of Kshs.281,314,172.25 against estimated receipts of Kshs.315,000,000.00 in respect of Item 681 – Contributions – Widows and Children Pension Scheme. The explanation given for the under collection is that the item was over estimated.

109. The Statement further shows that no receipts were received under Item 682 – Contributions – M.P's Pension Scheme although contributions amounting to Kshs.100,000,000.00 were expected. The footnote to the Statement however indicate that an amount of Kshs.105,459,739.70 had actually been received by KRA in respect of this particular item but this amount appears not to have been remitted to the Exchequer resulting in the Statement reflecting nil balance against the Item. No explanation has been provided for this anomaly.

110. In addition and as previously reported, the Statement of Arrears of Revenue due as at 30 April 2003 and uncollected as at 30 June 2003 reflects an amount of Kshs.149,566,280.00 as owing from Kenya Port Authority and relating to 1997/98. Available information shows that this amount was due from the Authority on account of Uganda compensation under the East African Community Mediation Treaty of 1984. Further information indicate that the Authority withheld a total of Kshs.287,231,400.00 due to Government in respect of reimbursement for Uganda Compensation including the sum of Kshs.149,566,280.00 shown in the Statement. Correspondence seen further indicates that the sum of Kshs.287,231,400 was due to the Authority from Government on account of dredging costs incurred by the Authority on Government Projects.

111. Although the Authority had suggested that Treasury either writes off these amounts in a reciprocal arrangement with the Authority or alternatively both parties agree on an exchange of cheques to resolve the matter, no action appears to have been taken by Treasury on these options.

REVENUE HEAD 260-070 - MISCELLANEOUS RECEIPTS

112. The Statement of Revenue Head 260-070 – Miscellaneous Receipts for the year ended 30 June 2003 reflects actual receipts of Kshs.1,307,197,380.35 against an estimated amount of Kshs.759,000,000.00 resulting in an overcollection of Kshs.548,197,380.35 or 72% of the estimated receipts. The excess receipts were realized mainly under item 999 – Extra Exchequer Receipts where an amount of Kshs.1,211,411,050.50 was received against an estimated sum of Kshs.705,998,000.00.

113. The Statement further reflects a debit balance of Kshs.3,391.00 being an overpayment of revenue to the Exchequer while the Statement of Assets and Liabilities for Deposits as at 30 June 2003 shows a debit balance of Kshs.2,350,371,757.40 under Miscellaneous Revenue resulting in an unreconciled and unexplained difference of Kshs.2,350,368,366.40 between the two sets of records.

STATEMENT OF REVENUE HEAD 300-070 – IMPORTS, EXPORTS AND ESSENTIAL SUPPLIES

114. Records Maintained at the Treasury in respect of Revenue Head 300-070-Imports, Exports and Essential Supplies reflects Pre-shipment Inspection collections of Kshs.6,473,890,493.90 as having been received during the year 2002/2003, out of which Kshs.3,600,000,000.00 was accounted for under revenue head 300-070 and Kshs.1,339,703,235.20 under appropriations-in-aid while Kshs.521,999,999.30 was paid as grants to Kenya Bureau of standards, Kenya Plant Health Inspectorate and Horticultural Crops Development Authority leaving unspent balance of Kshs.1,011,867,258.90. When the balance of Kshs.1,011,867,258.90 is added to the amount brought forward from 2001/2002 of Kshs.789,621,362.10, the cumulative unused balance stands at Kshs.1,801,488,621 as at 30 June 2003.

115. The cumulative balance of Kshs.1,801,488,621.00 as at 30 June 2003 however differs from the amount of Kshs.2,469,878,596.00 reflected under Preshipment Account in the Statement Assets and Liabilities for Deposits by an amount of Kshs.668,389,975/00. Further, the balance of Kshs.1,801,488,621.00 differs by an amount of Kshs.1,213,863,305.45 from the cumulative figure of Kshs.587,625,315.55 shown under the Account in the Central Bank of Kenya Management report as at 30 June 2003. No reconciliations or explanations have been provided for these differences between the three sets of records.

116. In addition, the analysis provided for the Pre-shipment Inspection Service reflects Appropriations-In-Aid totalling Kshs.1,081,711,897.50 as having been transferred to Item 651 – Preshipment Inspection Fees in the Appropriation Account for Vote R07 for 2002/2003 while the Account on the other hand shows receipts of Kshs.1,339,703,235.20 against the item. The difference of Kshs.257,991,337.70 between the two sets of records has not been reconciled or explained.

REVENUE HEAD 570-070-OTHER TAXES

117. In the Report for the year 2001/2002, reference was made to an amount of Kshs.140,293,220.00 which was reflected in the Statement of Revenue for Head 570-070 - Other Taxes for 1997/98 as the balance on hand as at 30 June, 1998 and which however did not include a balance of Kshs.105,546,720.00 on hand as at 30 June, 1997. When the balance for 30 June,1997 is taken into account, the

correct balance on hand as at 30 June 1998 should have been Kshs.245,939,940.00. A review of the position in 2002/2003 showed that the balance of Kshs.105,546,720.00 as at 30 June, 1997 had still not been accounted for and the amount is therefore still excluded from the closing balance of Kshs.240,273,269.75 as at 30 June 2003. Apart from the exclusion from the statement of revenue amounting to Kshs.105,546,720.00, it has not been explained why the substantial balance of Kshs.240,273,269.75 shown as carried forward to 2003/2004 was not remitted to the exchequer as at 30 June 2003.

118. The statement also shows that as in the previous year, nothing was collected against estimated revenue of Kshs.80 million in respect of Item 722 – Second Hand Motor Vehicle Purchase Tax. This however does not appear to be the correct position as records maintained at the Kenya Revenue Authority indicate that during the year 2002/2003, such Tax totalling Kshs.89,780,594.00 was collected and paid over to the Exchequer. No explanation has been provided for the anomaly and it is unclear how the revenue was accounted for in the exchequer records.

119. Further, the statement reflects receipts of Kshs.919,047,213.50 in respect of Item 731 - Stamp Duty while records at the Ministry of Lands and Settlement Headquarters show an amount of Kshs.921,695,862.50 as having been collected under the Item. The difference of Kshs.2,648,649.00 between the two sets of records has not been reconciled or explained.

120. The statement also shows that no collections were made during the year against Item 725, Casino Tax, although records maintained at the Kenya Revenue Authority indicate that during the period, revenue in the sum of Kshs.236,818,875.00 was collected under the item. Again no explanation has been provided for the discrepancy.

REVENUE HEAD 600 – 070 – INVESTMENT REVENUE

121. In the report for 2001/2002, reference was made to the over collection of revenue amounting Kshs.1,079,140,530.35 under Revenue Head 600-070-Investment Revenue for the year ended 30 June 2002 where a total of Kshs.1,432,140,530.35 had been collected against estimated receipts of Kshs.353,000,000. The explanation given for the over-collection was that the revenue had been under-estimated.

122. The Statement of Revenue Head 600-070-Investment Revenue for the year 2002/2003 reflects revenue collection of only Kshs.144,502,611.10 against estimated receipts of Kshs.1,194,000,000.00 or about 12% of the estimated receipts. The reason given for the under-collection of revenue in the year 2002/2003 is over-estimation.

123. Clearly the reasons given for the over collection and under collection, of under estimation and over estimation respectively, is inadequate as it does not explain the underlying causes for the inaccurate estimation of revenue collectable under this Revenue Head. Further no explanation has been provided as to why no revenue was expected or received from Kenya Pipeline Ltd. and Petroleum Refineries Ltd, both of which had remitted revenue totaling Kshs.147,693,200.00 in the previous year.

REVENUE HEAD 620-070 LOAN INTEREST RECEIPTS

124. The Statement of Revenue Head 620-070 – Loan Interest Receipts for the year ended 30 June 2003 reflects actual collections of Kshs.211,244,752.42 or approximately 59% of the estimated revenue of Kshs.360,807,000 resulting in a shortfall of Kshs.149,562,247.58. Although the actual receipts increased by an amount of Kshs.98,785,717.42 from Kshs.112,459,035.00 in 2001/2002 to Kshs.211,244,752.42 during 2002/2003, nothing was received from some thirty nine (39) parastatals and companies from which a total of Kshs.180,711,970.00 was expected. The main reasons given for the non receipt of expected revenue are liquidity problems, irrecoverable on lent loans, restructuring programme in process, privatization programme and plain non-payment by some of the organizations.

125. The Statement of Arrears of Revenue for the year 2002/2003 shows that such arrears increased by an amount of Kshs.1,594,801,950.00 from Kshs.12,363,695,560.00 as at 30 June 2002 to Kshs.13,958,497,510.00 as at 30 June 2003. Like in the previous year, the increase of Kshs.1,594,801,950.00 during the year under review was mostly attributed to arrears amounting to Kshs.897,363,889.00 due from Kenya Electricity Generating Company amongst other amounts owing from National Housing Corporation, Kenya Pipeline Corporation, Cereals and Sugar Finance Corporations, Kenya Railways and the Co-operative Bank of Kenya. No evidence has been made available to ascertain the action being taken by the Ministry to reduce the arrears.

REVENUE HEAD 630-070-LOAN REDEMPTION RECEIPTS

126. The Statement of revenue Head 630-070-Loan Redemption Receipts for the year ended 30 June 2003 reflects actual receipts of Kshs.389,606,282.05 against estimated receipts of Kshs.642,381,500.00 resulting in a shortfall of Kshs.252,775,217.95, or approximately 61% of the estimated amount. The Statement shows that nothing was received from some thirty one (31) organisations from which receipts totalling Kshs.244,540,270.00 were expected. The reasons given in the footnotes to the statement for non-collection of estimated receipts include; non payment by companies/corporations, liquidity problems, unrecoverable loans on lent to cooperative societies and restructuring programme.

127. In addition, the Statement reflects payments to the Exchequer amounting to Kshs.389,606,282.05 while the Exchequer records maintained at the Treasury show receipts totalling Kshs.388,906,680.00. The difference of Kshs.699,602.05 between the two sets of records has not been reconciled or explained.

128. The Statement of Arrears of Revenue due as at 30 April 2003 but uncollected as at 30 June 2003 reflects arrears of revenue amounting to Kshs.14,769,933,340 made up of Kshs.13,355,110,179.00 relating to 2001/2002 and earlier years and Kshs.1,414,823,161.00 for 2002/2003. Out of the total arrears of Kshs.14,769,933,340, significant amounts totalling Kshs.11,731,896,992.00 were outstanding from six major parastatals.

129. According to the footnotes to the Statement, the reasons for increase in arrears include liquidity problems, on-going restructuring programmes and unrecoverable loans on-lent to Co-operative Societies and Farmers.

STATEMENT OF OUTSTANDING LOANS

130. In the report for 2001/2002, reference was made to total loans lent of Kshs.54,753,438,025.00 reflected in the Consolidated Statement of Outstanding Loans as at 30 June 2002 out of which an amount of Kshs.6,653,159,961.00 had been repaid, leaving a balance of Kshs.48,100,278,064.00 outstanding as at 30 June 2002.

131. The Consolidated Statement of Outstanding Loans as at 30 June 2003 reflects loans totalling Kshs.60,714,427,355.00 lent to various organizations through eleven (11) Ministries. The net increase by Kshs.5,960,989,330.00 in the amount lent is attributed to four (4) new loans totalling Kshs.6,538,394,450 lent during the year through the Ministries of Trade and Industry and Energy and a downward adjustment of Kshs.577,405,120.00 against loans lent through the Ministries of Finance and Tourism & Information. The downward adjustments of Kshs.577,405,120.00 against the loans under Ministries of Finance and Tourism & Information have not however, been explained. This apart, loan agreements in respect of the new loans issued under the Ministries of Trade and Industry and Energy have not however, been made available for audit review and it has not therefore been possible to ascertain the nature and propriety of the new loans.

132. The Statement also reflects a repayment of Kshs.61,992,020.00 against National Housing Corporation under Ministry of Roads and Public Works. However, no information has been provided as to how much money had been lent to the Corporation, purpose and authority for the loan and the terms of repayment.

133. In the Report for 2001/2002, it was stated that the Statement for that year reflected a balance of Kshs.1,717,693,580 representing total amount lent to various organizations through Ministry of Finance and Planning. As indicated in

the report, the figure of Kshs.1,717,693,580.00 did not include a loan of US\$33 million (equivalent to Kshs.2,608,881,000) which Government through Ministry of Finance lent to Telkom Kenya (Limited) in the year 2000/2001. According to the Loan Agreement, the purpose of the loan was to enable the company pay its share of a mobile phone license fee. Further, although Government was to recover this loan through the sale of Telkom Kenya (Limited) shares at the Nairobi Stock Exchange, the disposal of the company's shares did not materialize. This position did not change, during the year under review and as far as it has been possible to ascertain, the loan of Kshs.2,608,881,000 to Telkom (K) Ltd, remained outstanding as at 30 June 2003.

134. Further and as observed in the previous year's Report, Government Shareholding in Telkom Kenya following the split of the defunct KPTC into Telkom (K) Ltd, Postal Corporation of Kenya and Kenya Communication Commission has still not been explained.

135. A review of the Loans Register maintained by the Ministry revealed that the Register was not regularly updated as exemplified by loans relating to Ministry of Lands and Settlement – Agricultural Settlement Fund whereby repayment balances against three loans in the Register significantly differ with those reflected in the Statement. No explanation has been given for failure to update the Register.

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT

136. The Statement of Outstanding Obligations Guaranteed by Kenya Government as at 30 June 2003 reflects contingent liability of Kshs.14,659,726,397.41 which is an increase of Kshs.3,500,351,269.75 over the previous year's liability of Ksh.11,159,375,127.66. The increase of Kshs.3,500,351,269.15 was attributed to additional National Bank of Kenya Loans of Kshs.3,117,917,480.00 to civil servants, members of National Assembly for purchase of Motor Vehicles and parastatals as well as to other private and public organisations, new loans of Kshs.827,474,765.80 and Kshs.59,919,247.46 respectively to the Kenya Post and Telecommunication Corporation, and additional loan of Kshs.26,311,926.00 from lenders in respect of capital and interest owed by Cereals and Sugar Finance Corporation. The increase of the National Bank Loans by Kshs.3,117,917,480 during the year has not been explained and also no analysis has been provided for the figure of Kshs.3,117,917,480.00 to ascertain what it represents and its correctness. The amount of Kshs.14,659,726,397.41 also includes obligations totalling Kshs.2,776,086,714.74 against which no confirmation letters were received from Kenya Posts and Telecommunication, Kenya Railways Corporation and Industrial and Commercial Development Corporation.

137. With regard to Kenya Posts and Telecommunications Corporation, it was observed that the Corporation ceased to exist in 1998/99 upon its split into three (3) separate entities namely; Telkom (K) Ltd, Postal Corporation of Kenya and Communications Commission of Kenya. From the available information, it has not been possible to ascertain which of the three new corporations took over the five loans reflected against the former KPTC all totalling Kshs.2,734,801,383.00.

138. Further, and as was also stated in the report for 2001/2002 four loans totalling Kshs.4,759,960,582.00 indicated by Kenya Railways Corporation as having been guaranteed by Kenya Government were not disclosed in the Statement and no explanation was given for this omission.

139. In the reports for previous years, concern has been expressed over the contingent liability reflected against Reserve Account Deficiency of the Kenya Post Office Savings Bank which represents the amount that Government may have to meet on account of losses incurred by the bank. Although the Statement as at 30 June 2003 reflects a reduced balance of Kshs.500,529,920.92 against the Reserve Account compared to Kshs.512,729,921 as at 30 June 2002, as earlier stated, it still remains unclear why Government should compensate Kenya Post Office Savings Bank for losses which appear to have arisen as a result of weak management and poor investment strategies.

STATEMENT OF INVESTMENTS BY THE FINANCIAL SECRETARY IN LOCAL COMPANIES

140. In the reports for the previous years, mention was made of the fact that the Statement of Investment by the Financial Secretary in local companies showed that Government had substantial investments in local companies many of which however remitted nil dividends year after year.

141. A review of the position during the year 2002/2003 indicates a similarly unsatisfactory state of affairs in that the Statement of Investment as at 30 June 2003 reflects twenty nine (29) companies in which Government had 229,619,329 shares with nominal value of Kshs.3,491,465,720.00 which did not remit any dividends during the year.

142. In the report for 2001/2002 it was stated that the Statement of investment by the Financial Secretary in Local Companies showed Government share holding of 1,485,675 shares valued at Kshs.29,713,500 in Busia Sugar Company and 250,000 shares worth Kshs.5,000,000 in East African Sugar Industries. However and as indicated in the report, the existence of these shares could not be confirmed due to non-availability of share certificates. A review of the position during the year 2002/2003 indicates that the position has not changed in that the share certificates with total nominal value of Kshs.34,713,500 in the two companies have not been made available for audit verification.

143. In the same report for 2001/2002, reference was also made to the fact that the Government was holding 10,549,994 shares with nominal value of Kshs.210,999,880 in respect of Kenya Industrial Estates Ltd. However and as observed in the report the Corporation's Managing Director in October 1993 advised that 2,499,996 shares issued on 21 June, 1978 were erroneous as this was duplication of shares worth Kshs.49,999,980.00 issued on 11 November 1977. Consequently, the shares issued on 21 June, 1978 were cancelled. As a result of the above error, Government shares of 10,549,994 reflected in the Statement for 2001/2002 were overstated by 2,499,996 shares worth Kshs.49,999,920.00.

144. A review of the position during 2002/2003 revealed that despite the notification of the error to the Ministry by Kenya Industrial Estate Ltd, the Statement as at 30 June 2003 continued to reflect Government Shareholding in the Kenya Industrial Estates of 10,549,994 shares valued at Kshs.210,999,880.00 instead of 8,049,998 shares worth Kshs.160,999,960.00.

145. Further and as was similarly stated in 2001/2002, the Statement as at 30 June, 2003 indicates that although the Government was holding in Ken Ren Chemical and Fertilizer Ltd 5,073,529 shares valued at Kshs.101,470,480.00, only share certificates for 3,640,000 shares with nominal value of Kshs.72,800,000.00 were made available for audit review. Consequently, the existence of Government shareholding of 1,433,529 worth Kshs.28,670,580.00 could not be confirmed.

146. With regard to Government Share holding in Kenya Airways Ltd, the position as reported in 2001/2002 has not changed in that the Government share holding in the company as at 30 June 2003 should stand at 115,403,904 shares and not 106,171,561 as shown in the Statement. As in the previous year, no reasons have been given for failure to include 9,232,343 shares valued at Kshs.184,646,860 in the Statement as at 30 June 2003.

STATEMENT OF PARTICIPATION BY KENYA GOVERNMENT IN QUASI-GOVERNMENT AND OTHER STATUTORY ORGANIZATIONS

147. In the report for 2002, it was stated that the Accounts of the Central Bank of Kenya reflected an overdrawn balance of Kshs.8,245,000,000.00 against some four Commercial Banks which were under liquidation. A review of the position during the year 2002/2003 indicates that the Accounts of the Central Bank of Kenya for the year ended 30 June 2003 show a reduced overdraft balance of Kshs.8,233,860,036.40 at 30 June 2003 from Kshs.8,245,000,000.00 as at 30 June 2002 against five banks which are under liquidation.

148. Additional information available indicate that the reduction of Kshs.11,000,000.00 was arrived at following recoveries totalling

Kshs.37,110,486.40 from Post Bank Credit and payment of legal fees amounting to Kshs.26,100,897.90 for both Exchange Bank and Euro Bank.

149. Apart from the uncertainty surrounding full recovery of the overdraft of Kshs.8,233,860,036.40 outstanding as at 30 June 2003, it is a matter of concern that the balance of Kshs.8,233,860,036.40 includes additional overdrafts of Kshs.26,100,897.90 arising from payment of legal fees in respect of collapsed banks during the year. Further, it has not been explained how the legal fees of Kshs.26,100,897.90 arose, who were the beneficiaries and under what authority the amounts were paid.

150. Further and as reported in the previous year, the Statement has not disclosed additional 50,000,000 ordinary shares of Kshs.10 each valued at Kshs.500,000,000 allotted to the Permanent Secretary, Treasury by Kenya Reinsurance Corporation in May 2002 through utilization of the Revaluation Reserve. No explanation has been given for this omission.

DISTRICT CASH FUND

151. In the Report for the year 2001/2002, reference was made to Advances totalling Kshs.58,654,953.60 which had been issued to the District Treasuries during that year and which should have been accounted for on or before 30 June 2002 but had remained outstanding and unaccounted for as at that date. A review of the position during 2002/2003 revealed that advances issued to the District Treasuries during the year in respect of the Development expenditure totalled Kshs.42,318,795.00. These advances had not been accounted for as at 30 June 2003 and no explanation has been provided for failure by the District Treasuries to account for them.

152. As previously indicated, advances are meant to serve as a temporary measure for assisting District Treasuries to accommodate excess expenditure over and above the authorized cash funds so that cash books and bank accounts are not overdrawn. However as observed previously and apparently arising from excess liquidity in various Treasuries including Embu, Nyeri, Meru Central, Nakuru, Kericho, Kisumu, Kakamega, Busia, Bungoma, Malindi and Kilifi, the Treasuries went into unrestrained issuance of Temporary Imprests and IOUs and incurred unexplained losses. As a result it has not been possible for the District Treasuries concerned to fully account for the Advances as required.

153. Unexplained and unreconciled discrepancies were also noted between the amounts shown in some of the District Treasuries records as advances from the PMG and the amounts shown as advanced in the records maintained by the PMG. Such discrepancies affected six District Treasuries.

154. The Income and Expenditure Account for the Fund reflects expenditure amounting to Kshs.329,779,960.00 and Kshs.2,500,000.00 as incurred on

Recurrent and Development activities respectively which also represents total cash issued by the PMG to the District Treasuries during the year. A verification of receipts of the cash in the Treasuries however revealed many differences between the amounts recorded as issued by the PMG and the amounts recorded as received by the District Treasuries. These differences have not been reconciled or explained.

155. In the absence of reconciliations and explanations for the anomalies and discrepancies mentioned above, it has not been possible to ascertain the accuracy of the District Cash Fund Accounts for the year 2002/2003.

FINANCIAL IMPROPRIETIES AT BUSIA DISTRICT TREASURY

Unremitted Revenue and Appropriations-In-Aid – Kshs.3,668,778.00

156. Examination of revenue records maintained at the Busia District Treasury revealed that during the year 2001/2002, Immigration Department, National Registration Bureau, Registrar of Births and Deaths and Police Department all of which fall under the Office of the President had surrendered revenue and Appropriations-In-Aid totalling Kshs.3,668,778.00 to the District Treasury. However, as at 30 June 2003, the District Treasury had not surrendered the money to the Accounting Officer and no explanation was given as to why the money had not been surrendered as required by Government financial regulations and procedures. Further examination revealed that the money was not available at the District Treasury for remission and appears to have been used irregularly for other purposes.

Unsurrendered Imprests/IOUs – Kshs.7,422,104.10

157. Examination of imprest records at Busia District Treasury further showed that a total of Kshs.7,422,104.10 was being held as imprests and IOUs by various Ministry/Department officials. The imprests/IOUs were issued between November 1997 and May 2003 and had not been surrendered by 30 June, 2003 contrary to the regulations in force. Included in the outstanding amount of Kshs.7,422,104.10 were 115 imprests/IOUs totalling Kshs.3,006,981 issued to a former District Accountant between January 2001 and June 2002 while a Higher Clerical Officer and a Senior Clerical Officer were issued with 37 and 13 imprests/IOUs amounting to Kshs.245,125.00 and Kshs.169,000.00 respectively between August 2001 and November 2002. So far as I have been able to ascertain, the imprests are still outstanding and no explanation has been given for failure to recover them from the holders.

Misuse of Deposits – Kshs.425,170

158. According to the Government Financial Regulations and procedures, deposits should be used only for purposes for which they are lodged. Contrary to these regulations, Busia District Treasury issued temporary Imprests/IOUs totaling Kshs.425,170.00 to various officials from the deposits funds between April 2001 and June 2003. Out of the outstanding figure of Kshs.425,170.00, three imprests amounting to Kshs.100,685.00 were issued to a former District Accountant with one for Kshs.15,000.00 being issued in June 2002 while the other two totalling Kshs.85,685.00 were issued on unknown dates. The imprests were outstanding as at 30 June 2003 and no explanation has been given for these irregularities or why recoveries have not been made so far.

MISMANAGEMENT OF CASH AT TESO DISTRICT TREASURY

Unsurrendered Recurrent Revenue – Kshs.2,141,232.55

159. Examination of revenue records maintained at Teso District Treasury showed that revenue totalling Kshs.15,774,235.15 had been collected during the year 2002/2003. Out of this figure, revenue totalling Kshs.10,464,588.20 had been accounted for through the P.M.G. Account leaving a balance of Kshs.5,309,646.95 unaccounted for. The explanation given was that the revenue was not surrendered because it had been used to cover shortfall of District Treasury's cash fund arising from rejection by the Pay Master General of District reimbursement claims and delays in receiving reimbursements. However, by 24th April 2004, Kshs.3,168,414.40 of the outstanding revenue had been accounted for leaving a balance of Kshs.2,141,232.55 still outstanding.

Unsurrendered Imprest/IOUs – Kshs.929,138.90

160. The cash survey also showed that the Teso District Treasury had issued imprests/IOUs totalling Kshs.4,275,783.95 which formed part of Cash for Recurrent and Development Cash Books. Out of the outstanding figure of Kshs.4,275,783.95, imprests/IOUs totalling Kshs.3,384,794.95 were issued from the Recurrent Cash Book while imprests/IOUs amounting to Kshs.890,989.00 were issued from the Development Cash Book. It was also observed that the District Treasury was approving and issuing more than one imprests/IOUs before the earlier ones were surrendered. In this regard, a former Internal Auditor, was issued with a total of 16 imprests amounting to Kshs.393,000.00 between December 2001 and September 2002 while two other officials were issued with 6 and 12 Imprests/IOUs amounting to Kshs.172,000.00 and Kshs.177,000.00 respectively between March 2002 and March 2003. Available information indicates that so far only Kshs.1,487,189.85 has been recovered out of the total outstanding amount of Kshs.4,275,783.95 leaving a balance of Kshs.2,788,594.10 still outstanding. Although it has been indicated that the names of the defaulters have been sent to the Ministry Headquarters for

recovering a total of Kshs.1,859,455.20, no evidence has been produced to show that any of the imprests/IOUs have been recovered. It has also not been explained how the balance of Kshs.929,138.90 will be recovered.

Partly Paid Vouchers – Kshs.1,598,270.05

161. Also forming part of Recurrent and Development Cash funds as at 30 June 2003 were partly paid vouchers amounting to Kshs.2,225,874.05. Of this amount, Kshs.1,771,484.05 related to the Recurrent Cash Book while Kshs.454,390.00 related to the Development Cash Book. Also included in the total sum of Kshs.2,225,874.05 was a total of Kshs.791,354.45 refundable to the Teso District Commissioner for buying Building Materials, Stationery, Fuel Repairs etc. So far, payment vouchers amounting to Kshs.630,604.00 have been processed leaving a balance of Kshs.1,598,270.05 still outstanding allegedly due to non receipt of A.I.Es

GOVERNMENT CLEARANCE AGENCY FUND

162. The Statement of Assets and Liabilities as at 30 June, 2003 for Government Clearance Agency Fund reflects a Paymaster General Account credit balance of Kshs.1,003,592,254.05 compared with a credit balance of Kshs.1,012,001,481.15 reflected in the Statement for 30 June 2002. As was stated in the previous years reports, the overdraft was as a result of failure by various Government Ministries/Departments and Parastatals to reimburse the Fund, expenditure incurred on their behalf, which stood at Kshs.1,013,519,737.80 as at 30 June 2003.

163. Although according to correspondences seen a recommendation was made to treat the outstanding debts as pending bills to be cleared through Ministry of Finance, no action appears to have been taken on this recommendation.

164. Included in the debtors balance of Kshs.1,013,519,737.80 are two unidentified items described as Clearance Accounts with a total debit balance of Kshs.21,181,140.25 made up of Kshs.16,099,190.45 and Kshs.5,081,949.80. Although this Account showed a balance of Kshs.35,289,548.25 made up of debit balances Kshs.31,222,137.75 and Kshs.4,067,410.50 respectively as at 30 June 2002, no analysis or explanation has been provided to show movement of these balances and in particular the decrease of Kshs.14,108,408.00 from the balance of Kshs.35,289,548.25 as at 30 June 2002 to Kshs.21,181,140.25 as at 30 June 2003.

165. The Statement also reflects capital Fund Balance of Kshs.2,147,492.05 while the Ministry's Final Trial Balance as at 30 June, 2003 reflects nil balance. No explanation has been provided for the difference of Kshs.2,147,492.05 between the two sets of records.

TREASURY MAIN CLEARANCE FUND

166. In the Report for the year 2001/2002 concern was expressed over a credit balance of Kshs.94,017,623.35 under a Suspense Account out of which an amount of Kshs.93,717,891.20 was cleared through journal entries passed in 1995/96 leaving a balance of Kshs.299,732.15. This balance was still outstanding as at 30 June, 2003 and as in the previous year, no explanation has been provided for its non-clearance.

167. Further concern was expressed in the same Report over the Fund's debtors which stood at Kshs.2,339,577,800.60 as at 30 June 2002. A review of the position in 2002/2003 revealed that the debtors balance increased from Kshs.2,339,577,800.60 as at 30 June 2002 to Kshs.2,361,930,394.25 as at 30 June 2003, representing a net increase of Kshs.22,352,593.65 which consisted of increase in Crown Agent amount of Kshs.23,497,873.65 and reduction in Pension Department balance by Kshs.1,145,280.

168. Apart from the fact that it has not been possible to ascertain the accuracy of the balances totalling Kshs.2,361,930,394.25 due to lack of analyses and other supporting documentation, it has also not been explained why the balances most of which have been outstanding for a considerably long period of time have not been recovered or otherwise cleared.

169. In addition four (4) credit balances totalling Kshs.2,347,930,394.25 which are reflected in the balance sheet under suspense and deposits accounts have not been analysed. In the absence of the necessary analysis, these balances accuracy could not be ascertained. The balances have also been outstanding for a long period of time and no explanation has been given for their non-clearance.

PETROLEUM DEVELOPMENT LEVY FUND

170. In the reports for the previous years, reference was made to a sum of Kshs.306,371,140.00 which had irregularly been retained by National Oil Corporation of Kenya (NOCK) some years back in respect of Petroleum Development Levy Fund (PDL) and which was reportedly used to acquire and develop various assets in the oil industry as well as to pay for consultancy services without parliamentary approval. In its reports for 1996/97, the Public Accounts Committee of Parliament expressed concern that the amount had not been recovered in spite of its recommendation that it be recovered. Although the committee recommended that the Accounting Officer recovers the money from NOCK by 30 October 2000, no action has, as far as I have been able to ascertain, been taken on the PAC recommendation.

171. Further, and as stated in the Reports for the previous years, Government directed that the amount be provided for as expenditure in the Ministry of Energy in order to pay it over to the Fund on behalf of NOCK. A review of the position in

2002/2003 however, revealed that no action has been taken as directed to resolve the matter and therefore the position remains as reported in the previous years.

172. In addition, the Income and Expenditure Account for the year 2002/2003 in respect of Petroleum Development Levy Fund reflects total collections of Kshs.253,623,615.50 while records maintained at the Kenya Revenue Authority show receipts of Kshs.257,746,383.40, occasioning an unexplained difference of Kshs.4,122,767.90.

173. Similarly the Balance Sheet of the Fund as at 30 June 2003 reflects a Paymaster General Account (PMG) debit balance of Kshs.735,043,807.35 which differs by an amount of Kshs.178,256.90 with the credit balance of Kshs.735,222,064.25 shown in the Statement of Assets and Liabilities for Deposits 07 as at 30 June 2003. The PMG balance of Kshs.735,043,807.35 also differs by an amount of Kshs.710,853,366.00 with the balance of Kshs.24,190,441.35 appearing in the Management Report of the Central Bank of Kenya as at 30 June 2003. No reconciliation or explanation has been provided for the differences between the three sets of records.

RURAL ENTERPRISE FUND

174. In the report for 2001/2002, reference was made to the unsatisfactory manner in which the Rural Enterprise Fund was being managed. In the report, it was stated that although the Fund Regulations provide for procedures to be followed in the management of the Fund including documentation on loan applications, accounting, administration and loan recovery terms to enable the Rural Enterprise Fund evolve into a revolving Fund, a review of the Fund Accounts for the year 2002/2003 still revealed inadequate operational arrangements as indicated below:-

Loans Beneficiaries

175. In the report for 2001/2002, concern was expressed over the failure to submit lists of the Fund's beneficiaries, including names of the borrowers, amounts borrowed and dates of loan disbursements to the Ministry's Headquarter by the various District Commissioners as required. A review of the position during the year 2002/2003 revealed the unsatisfactory situation has not changed in that no such lists have been submitted to the headquarter by the District Commissioner.

176. Further, while loans totalling Kshs.394,323,939.70 reflected in the Fund's Statement of Assets and Liabilities as at 30 June, 2003, were derived from statements of accounts of the various Districts, only loans amounting to Kshs.208,990,506.15 were supported with returns from some twenty two (22) districts leaving a balance of Kshs.185,333,433.55 from some other twenty five

(25) districts unsupported. In the absence of the list of individual beneficiaries of the loans and non-submission of returns by twenty five (25) districts, it has not been possible to confirm that loans totalling Kshs.394,323,939.70 reflected in the Fund Account for the year ended 30 June, 2003 represent the entire portfolio issued out of the Fund or that such loans were issued to the targeted groups. In addition, the Statement reflects an increase of Kshs.1,708,973.75 in respect of Loanee Accounts from Kshs.392,614,965.95 as at 30 June 2002 to Kshs.394,323,939.70 as at 30 June, 2003. No documents have however been made available to identify who the beneficiaries of the new loans were and to indicate how such beneficiaries had been identified as eligible for grant of the loans.

Loan Repayment

177. As has been the case in the previous years, loan repayments during the year 2002/2003 continued to be unsatisfactory in that whereas repayments during the year 2001/2002 amounted to Kshs.2,245,348.90 such repayments reduced during 2002/2003 to Kshs.2,175,202.10. No explanation has been provided for the decline in loan recovery and no indication has been given as to the efforts being made by the Ministry to reverse this unsatisfactory trend. Out of the loan repayment of Kshs.2,175,202.10 realised during 2002/2003 only an amount of Kshs.1,764,350.60 was supported with returns from some ten (10) Districts while the balance of Kshs.410,841.50 from some other nine(9) Districts remained unsupported. Consequently, the correctness of repayments of Kshs.2,175,202.10 could not be confirmed.

Interest Repayment

178. The Statement further reflects interest repayments totalling Kshs.4,255,986.10 during the year 2002/2003 against Kshs.4,739,700.65 repaid in 2001/2002, indicating a decline of Kshs.483,714.55 during 2002/2003. As in the case of loan repayments, no explanation has been provided for this unsatisfactory performance.

Consolidated Income and Expenditure

179. The Fund's Income and Expenditure Account for the year ended 30 June, 2003 reflects excess expenditure over income of Kshs.24,753.75 compared to excess of Kshs.4,991.91 recorded during 2001/2002. The Account shows that the entire expenditure of Kshs.25,924.95 charged during the year was in respect of bank charges.

Consolidated Balance Sheet

180. The Fund's Balance Sheet as at 30 June, 2003 reflects a Capital Fund balance of Kshs.416,183,505.90 as having been brought forward from the year

2001/2002 while the audited Balance Sheet as at 30 June, 2002 reflects a balance of Kshs.416,074,204.35 against the same item resulting in an unexplained difference of Kshs.109,301.55 between two figures. Further, out of the Capital Fund balance of Kshs.416,183,505.90, an amount of Kshs.221,712,250.90 was supported with verifiable returns from some twenty two(22) Districts leaving a balance of Kshs.194,471,255.00 in respect of some other twenty five (25) Districts unsupported.

Unbanked Cash

181. The Fund's Balance Sheet as at 30 June, 2003 reflects amounts totalling Kshs.3,740,771.60 in respect of loan repayments, interest and miscellaneous deposits all unbanked as at 30 June 2003, and held at various District Commissioner's Offices. No explanation has been provided for failure to bank the balance of Kshs.3,740,771.60.

182. Further, the accuracy of the balance of Kshs.3,740,771.60 could not be ascertained as it included an amount of Kshs.1,078,604.00 against which no supporting returns from some twenty five (25) Districts were submitted. Again, no explanation has been provided for failure to submit returns from the Districts.

Cash at Bank

183. The Statement also reflects cash balances totalling Kshs.8,059,217.45 held at a number of branches of the Kenya Commercial Bank under various accounts. No bank certificates or statements in support of the balances totalling Kshs.8,059,217.45 were made available for audit review and as a result it has not been possible to ascertain the correctness of the cash at bank total of Kshs.8,059,217.45. In addition, the Statement of Assets and Liabilities for Deposit 07 as at 30 June, 2003 reflects a credit balance of Kshs.661,182.50 against Rural Enterprise Fund which could not be confirmed as correct due to non-availability of verifiable documents in form of individuals' loans records, bank certificates or statements.

Irregular Advances

184. In the previous years' reports, reference was made to five officers attached to the District Commissioners Office, Kisumu who were irregularly granted advances amounting to Kshs.355,164.40 during 1997/98 from the District Rural Enterprise Fund in form of I.O.U's. Although as indicated in the reports an amount of Kshs.145,320.15 was recovered, a balance of Kshs.209,844.25 was still outstanding. As similarly observed in the reports, the chances of recovering the remaining balance of Kshs.209,844.25 were remote since two of the officers had since died while the others had retired. A review of the position in 2002/2003 showed that the situation had not changed and the amount of Kshs.209,844,25 remains outstanding.

Returns for Siaya District

185. As reported in 2001/2002, a total sum of Kshs.999,000.00 from the Funds main and interest accounts was shown as having been disbursed in 1998/99 to various loan applicants. A schedule of loan beneficiaries was not however made available for audit review to confirm proper disbursements of the sum of Kshs.999,000.00. This position did not change during the year under review and the schedule of beneficiaries loaned the Kshs.999,000.00 has still not been made available for audit review.

186. In the absence of individual details of loan beneficiaries, bank certificates and statements and returns from all the Districts in support of the balances reflected in the Fund's Balance Sheet as at 30 June, 2003 it has not been possible to confirm the correctness of the Rural Enterprise Fund Account for the year 2002/2003.

EXCHANGE RISK ASSUMPTION FUND

187. In the Report for the previous year, it was stated that balances of Kshs.10,530,209.00, Kshs.158,399,115.50 and Kshs.145,413,288.45 relating to Industrial Development Bank (IDB), Industrial and Commercial Development Corporation (ICDC) and Housing Finance Company of Kenya (HFCK) respectively which were reflected in the Exchange Risk Assumption Fund for 2001/2002 could not be confirmed as correct due to numerous disputes which arose between the respective parties over the balances submitted by the Financial Institutions and those submitted in a report by private auditors appointed by Treasury and which were therefore accepted by the Treasury and reflected in the Fund Accounts for the year 2001/2002.

188. A review of the position during the year 2002/2003 shows that the Funds Accounts for the year ended 30 June 2003 reflects claims totalling Kshs.569,955,875.06 as payable to three (3) Financial Institutions as shown below:-

Financial Institution	<u>Amount (Kshs)</u>
Development Finance Company of Kenya (DFCK)	123,430,988.00
Housing Finance Company of Kenya (HFCK)	242,191,541.00
Industrial and Commercial Dev. Corporation (ICDC)	<u>193,803,137.06</u>
	<u>569,955,875.06</u>

189. The Housing Finance Company of Kenya and the Development Finance Company of Kenya have confirmed and accepted the amounts of Kshs.242,191,541.00 and Kshs.123,430,988 as due and correctly payable to

themselves respectively and have as a result proceeded to request Treasury to settle the claims.

190. In the case of I.C.D.C. however, an amount of Kshs.193,803,137.06 is reflected in the Fund Accounts for the year 2002/2003 as payable to the Corporation while the Corporation on the other hand claims a figure of Kshs.318,591,166.67 resulting in a difference of Kshs.124,788,029.61 which is in dispute. As similarly observed in the report for 2001/2002, part of the difference of Kshs.124,788,029.61 under dispute relates to pending bills for a sum of Kshs.104,147,876 which was rejected by the private auditors appointed by the Treasury to evaluate pending bills. Information available indicate that the dispute has not been resolved.

191. With regard to the net balance of Kshs.10,530,209.00 appearing under the Industrial Development Bank in the Accounts for 2001/2002, the amount was disallowed by the private auditors consequent upon which the balance of Kshs.10,530,209.00 was excluded in the Accounts for 2002/2003. However, no confirmation of this position has been received from the bank.

ASIAN OFFICERS FAMILY PENSION FUND

192. In the reports for the previous years, concern was expressed over inability to confirm the completeness and accuracy of the Fund Accounts for 2001/2002 and earlier years due to failure by the Ministry to prepare and submit for audit the Fund Accounts for the years 1973/74 to 1995/96 which would have provided a basis for confirmation of the correctness of the balances brought forward and reflected in the Accounts for subsequent years. A review of the position during the year 2002/2003 revealed no change in that the Accounts for 1973/74 to 1995/96 had still not been prepared and had not been submitted for audit.

193. During the year 2002/2003, an Income and Expenditure Account and a Balance Sheet as at 30 June 2003 were, however, prepared and submitted for audit. The Balance Sheet reflects an investment balance of Kshs.67,938,980.00 brought forward from 2001/2002 which confirms that the proceeds of Kshs.22 million in Kenya stock redeemed in July 2001 had not been re-invested and therefore continued to lie dormant in the Funds Deposit Account No.4-876-101-002-6 as at 30 June 2003.

194. The Balance Sheet also continues to reflect Cash on Deposit placed with Joint Consolidated Fund(J.C.F.) and Cereals and Sugar Finance Corporation of Kshs.248,021,691.45 and Kshs.15,200,000.00 respectively whose existence could not be confirmed in the absence of Fixed Deposit Receipts or Investment Certificates. Further, and as in previous years there was no verifiable evidence to confirm that any interest or dividend from the two investments was received. In addition and considering that the Cereals and Sugar Finance is insolvent and is likely to be wound-up, it appears unlikely that cash on deposit balance of

Kshs.15,200,000.20 and interest receivable of Kshs.12,088,782.20 held in the Corporation will be realised.

195. The Balance Sheet also reflects accumulated Excess Income Over Expenditure balance of Kshs.305,633,701.70 while the Trial Balance on the other hand shows a surplus of Kshs.433,595,120.20 resulting in an unreconciled and unexplained difference of Kshs.127,961,418.50 between the two sets of records. Similarly reflected in the Balance Sheet are various credit balances brought forward from 2001/2002 which have not been adequately explained or analysed to show what they represent.

196. The Balance Sheet also shows a P.M.G. balance of Kshs.115,683,665.15 which is not supported by a Bank Balance Certificate or a Bank Reconciliation Statement. It has not therefore been possible to confirm the correctness of the balance.

PROVIDENT FUND ACCOUNT FOR 2002/2003

197. In the Report for the previous years it was stated that the Provident Fund Accounts for the years 1973/74 to 1995/96 were not prepared and submitted for audit. Consequently, it was not possible to confirm the correctness of the opening balances of the Funds Accounts for the subsequent years up to 2001/2002.

198. During the year under review, the Ministry prepared and submitted for audit an Income and Expenditure Account for the year ended 30 June 2003 and a Balance Sheet as at 30 June 2003. As in the previous year, and for similar reasons, the correctness of the amounts appearing in the Balance Sheet as accumulated balances and which include balances brought forward from previous years could not be confirmed and therefore the accuracy of the Provident Fund Account for the year 2002/2003 as now presented is in doubt. Further, amounts of Kshs.6,666,990.00 and Kshs.3,796,226.25 reflected in the Balance Sheet in respect of debt receivable from and cash deposits with Cereals and Sugar Finance Corporation respectively may not be realizable as indications are that the Corporation is insolvent and may eventually be wound-up.

199. In addition, the Balance Sheet reflects two credit balances of Kshs.92,385.50 and Kshs.6,060,900.00 described as Interest due from Kenya Government and Accumulated Interest receivable from Cereals and Sugar Finance Corporation respectively while under normal circumstances, such balances which represent assets of the Fund should appear as debits. Although the initial indication by the Ministry was that the two credit balances represented interest payable to the original contributors of the Fund, no reliable and verifiable evidence has been provided to this effect and the position as it stands now is that the total credit balance of Kshs.6,153,285.50 against the two balances has not been ascertained.

ASIATIC WIDOWS AND ORPHANS PENSION FUND

200. In the Report for 2002/2003, reference was made to failure by the Ministry to prepare and submit for audit Funds Accounts for the years 1973/74 to 1995/96. Consequently and as stated in the previous year's Report, it was not possible, in the absence of audited accounts for those years to confirm the accuracy of the Fund Accounts for the years 1996/97 to 2001/2002 which were prepared and submitted for audit.

201. A review of the position during the year 2002/2003 indicates that the situation remained the same in that the Fund Accounts for the years 1973/74 – 1995/96 have not been prepared and submitted for audit. Consequently, the Fund Balance Sheet as at 30 June 2003 submitted for audit consists of unconfirmed balances brought forward from the previous years.

202. With regard to the Paymaster General balance of Kshs.578,917.25, it has not been possible to ascertain the accuracy of the balance as no bank certificate was made available for audit review.

KENYA LOCAL LOANS SUPPORT FUND

203. The Balance Sheet of the Kenya Local Loan Support Fund as at 30 June 2003 reflects a Paymaster General balance of Kshs.68,088,383.50 while the Trial Balance shows a balance of Kshs.46,028,733.50 against the same account. Although according to a footnote provided the difference of Kshs.22,059,650 between the two balances relates to redemption of investments of equivalent amount in the years 2000 and 2001, no explanation has been provided as to why the necessary book keeping adjustments have not been made to reconcile the two statements.

204. The Balance Sheet also reflects Investment at cost of Kshs.10,410,373.50 which differs by an amount of Kshs.22,059,650.00 with the balance of Kshs.32,470,023.00 reflected in the Statement of Assets and Liabilities for Deposits as at 30 June 2003. Although information available indicate that the difference of Kshs.22,059,650.00 as stated above, represents redemption of investments, it has not been explained why this redemption has not been reflected in the Fund Account. It has also not been possible to ascertain whether or not the proceeds of the investment redeemed amounting to Kshs.22,059,650.00 were received in the Exchequer Account. Further, the balance of Kshs.10,410,373.50 shown against Investment at cost includes an unidentified and unexplained balance of Kshs.6,406,773.50.

205. The Balance Sheet similarly reflects interest accrued balance of Kshs.5,940,000 in respect of an initial investment of Kshs.4,000,000 made in July, 1992 with Cereals and Sugar Finance Corporation. Available information however indicate that no interest has been received by the Ministry from the

Corporation since the investment was made while on the other hand current indications are that the Corporation is insolvent and therefore likely to be wound up as soon as the necessary legal procedures are concluded.

206. Further and as was stated in the report for 2001/2002, the Fund Account still reflects an unanalysed credit balance of Kshs.732,977.35 in respect of Items Awaiting Clearance. In the absence of analyses, it has not been possible to establish what the balance represents.

EUROPEAN WIDOWS AND ORPHANS PENSION SCHEME

207. In the Report for the previous year, mention was made of an investment of Kshs.9,000,000.00 shown as held by the Fund in 11% Kenya Stock 2000 which matured and was redeemed in July 2001 but whose proceeds were not disclosed in the Fund Accounts for 2001/2002 because no Balance Sheet in which such cash balance would have been disclosed was prepared and submitted for audit. The money was instead credited in the Ministry's Deposits Account No.4-4867-102-002-1 where it was held instead of being re-invested to generate income for the Fund.

208. A review of the position during the year 2002/2003 revealed that although a Balance Sheet for the Fund was prepared and submitted for audit, it does not disclose the proceeds of Kshs.9,000,000 realised in July 2001 on the redemption of the 11% Kenya Stock 2000 and the amount is still credited in the Deposit Account as stated above.

209. The Balance Sheet as at 30 June 2003 also reflects an amount of Kshs.16,900,000 described as cash with Cereals and Sugar Finance Corporation, which amount as stated in the Report for the previous year was not supported with any verifiable documentary evidence that would confirm its existence.

210. Further, the PMG balance of Kshs.73,789,277.50 as at 30 June 2001 increased by an amount of Kshs.8,976,543.65 during the year under review to stand at Kshs.82,765,821.15 as at 30 June 2003. No explanation has however been provided for the increase and no Bank Certificate has been availed to confirm the existence of the balance of Kshs.82,765,821.15.

211. Although the balance of Kshs.13,440,825.50 shown under Sundry Debtors (interest receivable from Cereals and Sugar Finance Corporation) is reflected as an asset in the Balance Sheet, it is doubtful that this debt will ever be realized into revenue considering that Cereals & Sugar Finance Corporation is insolvent and on verge of a winding up.

212. Also reflected in the Balance Sheet is Accumulated Interest receivable from Cereals & Sugar Finance Corporation of Kshs.12,218,932.00 which apart

from being erroneously treated as a liability has not been explained or analysed to show what it represents. Similarly unexplained and unsupported is debit balance of Kshs.312,461.85 indicated as representing Accumulated Excess expenditure.

OFFICE OF THE PRESIDENT

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

213. The Appropriation Account for Vote D.01 for the year 2002/2003 reflects under expenditure of Kshs.3,023,797,546.95 or about 42% of the approved gross estimate of Kshs.7,175,341,724.00, and a deficiency of Appropriations-In-Aid of Kshs.2,149,368,607.60 or 58.9% of the estimated Appropriations-In-Aids of Kshs.3,649,346,368.00. The reasons given for this situation in the footnotes to the Appropriation Account include delays in processing certificates of work completed, over provisioning during the budgetary process and delays in counter signing contract agreements among other explanations.

MISALLOCATION AND UNVOUCHED EXPENDITURE

The audit of the Appropriation Account for Vote D.01 – Office of the President for the year ended 30 June 2003 has revealed the following unsatisfactory matters:-

214. Contract documents in support of expenditure of Kshs.274,291,395.45 shown in the Account as incurred on Construction of Kitale District Headquarters and Acquisition of new CD Headquarters (Mazingira) were not availed for audit review. In the absence of contract documents in respect of these projects it has not been possible to ascertain the propriety of this expenditure.

215. In addition, although Account No.1-006-660-408 relates to construction of Kitale District Headquarters, examination of vouchers revealed that expenditure of Kshs.105,374,026.00 charged to this account was in respect of construction of Migori District Headquarters. The Approved Estimates for 2002/2003 indicate that there was no budgetary allocation for Migori District Headquarters during the year and it would appear that the above expenditure on Migori was deliberately and irregularly charged to the Kitale Account. The expenditure on Migori was therefore incurred without Parliamentary Authority and no explanation has been given for this irregularity.

216. Discrepancies between the figures reflected in the Trial Balance and those reflected in the Appropriation Account were observed on twelve (12) items of expenditure. The discrepancies affected Subvote 010, Head 198 – Arid Lands Resource Management Project and had the effect of increasing the expenditure reflected in the Appropriation Account under Head 198 by a total of Kshs.536,927.75. No explanation has been given for these discrepancies.

UNVOUCHED EXPENDITURE AT BONDO DISTRICT TREASURY – KSHS.1,110,687.00

217. Six payment vouchers totalling Kshs.1,110,687.00 though posted in the Vote Book and Cash Book for 2002/2003 were not made available for audit review. The missing payment vouchers included a voucher dated 14 October 2002 for Kshs.991,200.00 which was paid to an Engineering firm for the alleged construction of water supply while the other five (5) payments totalling Kshs.119,487.00 were paid to various individuals and a company and charged to construction of water Supply and construction of structures accounts. In the absence of the payment vouchers, it has not been possible to confirm the propriety of the total expenditure of Kshs.1,110,687.00.

OMISSION OF FOOTNOTES – VOTE D.01

218. The Appropriation Account for Vote D.01 for the year 2002/2003 reflects variances between approved and actual collection of Appropriations-In-Aid (AIA) in excess of Kshs.1,000,000.00 on five (5) items for which no explanations have been provided in the form of footnotes to the Account. The Appropriation Account further reflects variances of over Kshs.1,000,000.00 in respect of over expenditure on two items and under expenditure on four items for which no explanatory footnotes are given. The omission of such explanatory footnotes is contrary to the Government Financial Regulations and Procedures. No explanation has been given for the omission.

COMPENSATION AND EX-GRATIA PAYMENTS

219. The Appropriation Account for Vote R.01 for the year 2002/2003 reflects expenditure of Kshs.119,964,759.10 under Subvote 010, Head 001, Item 198 Compensation and Ex-gratia payments. However, the schedule of compensation and ex-gratia payments submitted with Account reflects expenditure of Kshs.120,134,944.10 resulting in a difference of Kshs.170,185.00 between the Account and the supporting schedule. It has been explained that the difference of Kshs.170,185.00 represents expenditure, which was not captured in the ledger but no reasons have been given for the omission.

Unvouched Expenditure

220. Case files in respect of compensation and ex-gratia payments totalling Kshs.57,625,655.70 were provided for audit. However, case files for ten (10) payments totalling Kshs.62,509,288.40 were not provided for audit review. In absence of case files to support these payments, the propriety of the expenditure of Kshs.62,509,288.40 could not be confirmed.

Awards in Which Office of the President Did Not Enter Any Defence

221. Available information shows that the Office of the President made payments amounting to Kshs.2,729,623.20 to claimants in respect of various court cases in which judgments were entered against Government and in which the Office was not represented. Details of such cases are given in the ensuing paragraphs.

Kitui SRMCC NO.327 of 1997

222. The Plaintiff was assaulted by a policeman whereby she partially lost sight of one eye and she sued the Government. The case was not defended as the defendant and the Counsel representing the defendant and Government did not attend the hearings. Judgement was entered in the plaintiff's favour for Kshs.188,260.00 but due to delay in settling the claim accrued interest of Kshs.35,200.00 for the period 2 November 2000 to 30 August 2002 was incurred to bring the total amount owing to Kshs.223,460.00 which was paid in February, 2003.

Eldoret HCCC NO.67 of 1993

223. This case arose after the plaintiff relative was assaulted and fatally injured by Police Officers in Eldoret resulting in his death. The defendants did not appear on the hearing date hence the Court allowed the plaintiff to proceed *ex parte*. Judgement was entered against the Government, which was ordered to pay a decretal amount of Kshs.855,118.30 on 3 December 1998. This amount was paid on 6 December, 2000 by which time it had accrued interest of Kshs.58,687.20 which was paid on 24 June 2003 to bring the total amount paid to Kshs.913,805.50.

RMCC(HOMABAY) No.138 of 1999

224. This case arose after the plaintiff was arrested by a Chief and subsequently charged in Court. He was, however, acquitted without trial. He sued the Government and even though all the defendants were properly served with summons to appear in Court, they all failed to do so and did not file any defence. Judgement was entered in favour of the plaintiff for a total of Kshs.84,350,00 in respect of special and general damages and costs. There

was however, delay in payment of the above decretal amount as a result of which the total amount payable increased to Kshs.141,702.00 as at 15 November, 2002 as a result of application of interest. This amount was eventually paid on 30 June 2003. The Government therefore incurred unnecessary extra expenditure of Kshs.57,352.00 as a result of delay in payment of the decretal sum.

NRB HCCC No.1301 of 1994

225. The plaintiff in this case lost two children on 22 March 1992 after they were fatally shot by Police. The case was heard and judgement entered *ex parte* in her favour in the absence of the defendants who although duly served did not enter an appearance or file a defence. The Government was ordered to pay the plaintiff a total of Kshs.419,415.00 as damages and costs on 29 September 1997. The amount however, remained unpaid and in April 1999 the Court ordered the Government to pay accrued interest of Kshs.78,000.00 thus bringing the total to Kshs.497,415.00 as at 9 April 1999. The amount of Kshs.497,415.00 however remained unpaid until 14 February 2003 by which time it had accrued further interest of Kshs.112,586.00 to bring the total amount to Kshs.610,000.00. Although the amount of Kshs.497,415.00 was paid on 14 February 2003 the interest of Kshs.112,586.00 remains unpaid to date.

KITALE HCCC No.91 of 1997

226. This case arose after a man was arrested, assaulted and fatally injured by an Assistant Chief, a Police Constable and a KANU Youth Winger on 8 April 1993. He died in the police cells on 9 April 1993. The case was heard and ruled against the State, which was ordered to pay the plaintiffs Kshs.1,628,360.00. Although an appeal was lodged by the government, the plaintiff offered and the Government accepted as a reasonable settlement of the judgement a sum of Kshs.1,808,360.00 being inclusive of costs of Kshs.180,000.00. The amount of kshs.1,808,360.00 was eventually paid through on 21 January 2003.

Unjustified Expenditure

227. In the Reports for the financial years 2000/2001 and 2001/2002, it was observed that a Court had awarded a firm Kshs.40,500,148.40 but the Ministry made unexplained extra payments to the firm totalling Kshs.6,960,837.55 in 2000/2001 and a further Kshs.22,100,000.00 in 2001/2002. The total payments therefore stood at Kshs.69,560,985.95 as at 30 June 2002.

228. During the year 2002/2003, Office of the President made two(2) additional payments amounting to Kshs.8,413,869.05 to the firm. The total payments to the firm therefore stood at Kshs.77,974,855.00 as at 30 June 2003. This amount is Kshs.66,717,739.00 over and above the firm's initial claim of Kshs.11,257,118.00

and Kshs.37,474,706.60 in excess of the Court award of Kshs.40,500,148.40. No explanation has been provided for these extra payments.

Avoidable Expenditure

229. During the year under review, Office of the President neglected to settle a total of thirty four (34) court awards all totalling Kshs.20,182,303.75 in time and as a result incurred extra expenditure of Kshs.5,713,932.15 in form of accrued interest and costs of suits by claimants. No reasons have been given for the failure to pay the decretal sums on time.

OUTSTANDING IMPRESTS

230. Records held at the Office of the President Headquarters show that imprests totalling Kshs.199,358,937.75 had not been surrendered by the due dates and were outstanding as at 30 June 2003. Out of the total outstanding amount of Kshs.199,358,937.75, imprests totalling Kshs.99,270,298.60 were issued in stations within Nairobi area and the balance of Kshs.100,088,639.15 in outstations. However, out of Kshs.99,270,298.60 issued in Nairobi, only imprests amounting to Kshs.36,225,449.15 were analysed leaving the balance of Kshs.63,044,760.45 unanalysed. In addition, the analysis of imprests totalling Kshs.100,088,639.15 which were issued in out stations was also not produced for audit review. Consequently, the correctness and propriety of imprests totalling Kshs.163,133,399.60 could not be ascertained because of lack of analysis. No explanation has also been given for the non-recovery of the analysed imprests totalling Kshs.36,225,449.30 due from stations within Nairobi.

GOVERNMENT PRESS FUND ACCOUNT

231. In the previous years report, reference was made to the delay by the Fund in collecting debts due from Ministries, Departments, State Corporations and Presidential Commissions of Inquiries. The position improved marginally during the year 2002/2003 as out of the figure of debtors brought forward on 1 July 2002 of Kshs.80,162,898.50 debts amounting to Kshs.17,042,839.00 representing 21.3% of the total debts were collected leaving a balance of Kshs.63,120,059.50 outstanding as at 30 June 2003. Additional debts of Kshs.4,651,928.00 were incurred during the year 2002/2003 to bring the total debtors figure as at 30 June 2003 to Kshs.67,771,987.50.

232. As in the previous year, the Raw Materials balance of Kshs.177,000,153.65 includes an amount of Kshs.5,089,035.00 in respect of papers which were stolen in January 2001. No provision has been made in the accounts under review for the write-off of this loss and for this reason the excess income over expenditure of Kshs.32,694,851.00 is over stated by the same figure of Kshs.5,089,035.00.

IRREGULAR USE OF APPROPRIATIONS-IN-AID TO PAY OVERTIME TO POLICE OFFICERS

233. In paragraph 271 of the Report for 2000/2001, reference was made to irregular manner in which the Kenya Ports Authority remitted a total of Kshs.10,921,049.00 to the Office of the President as reimbursements for services rendered by Police Officers to the Authority. The receipts were not accounted for as Appropriation-In-Aid, but were instead, irregularly paid to the Police Officers and termed as overtime.

234. Examination of revenue records for the year 2002/2003 in respect of hire of Police services at the Kilindini Port Mombasa, revealed that the Commissioner of Police was paid by the Kenya Ports Authority a total of Kshs.7,278,573.00 between June 2002 and March 2003 an amount which was described as overtime. As previously reported, the receipts were not treated as Appropriations-In-Aid but were instead treated as additional personal emoluments to the officers. No explanation has been given for this irregularity and no authority has been seen to use the receipts to pay overtime to the police officers working at Port.

REVENUE HEAD 210-010 - TRADING LICENCES

235. In the reports for the previous years, reference was made to the non-payment of revenue totalling Kshs.13,042,140.00 to the Exchequer Account, revenue which related to the years between 1997/98 and 1999/2000. The Office of the President subsequently explained that an amount of Kshs.3,079,560.00 had been paid to the Exchequer leaving a balance of Kshs.9,579,640.00 but that the payment had been inadvertently made to the Receiver of Revenue instead of the Recurrent Exchequer at the Treasury. Although the Office of the President further explained that it had requested the Treasury to make the necessary adjustments to account for the amount as a payment to the Exchequer no such adjustment has apparently so far been made. In addition, a footnote is not provided under item 753 – Motor Vehicle Component Licences to explain the overcollection of revenue of Kshs.1,530,000 under the item.

REVENUE HEAD 170-010 – TOURIST AND WILDLIFE REVENUE

236. The Statement of Revenue Head 170-010 – Tourist and Wildlife Revenue for the year ended 30 June 2003 shows that revenue amounting to Kshs.8,974,350 was realized during the year whereas such revenue was not estimated or included in the Estimates for 2002/2003. The statement further reflects a balance of Kshs.9,070,340 as brought forward from 2001/2002 to bring the total revenue collected to Kshs.18,044,690 as at 30 June 2003. Out of the amount of Kshs.18,044,690 only a sum of Kshs.1,236,300 was paid to the Exchequer leaving a balance of Kshs.16,808,390 to be carried forward to the

year 2003/2004. No explanation has been given for not paying the whole amount to the Exchequer.

OLD DISTRICT CASH FUND

237. In the Report for 2001/2002 reference was made to the transfer of the operation of the District Cash Fund from the Office of the President to the Ministry of Finance with effect from 1 July 2001. It was also stated that not all the funds issued to the District Treasuries had been accounted for by 30 June, 2002. A review of the position in 2002/2003 revealed that the District Treasuries were required to account to the Office of the President Headquarters for a total amount of Kshs.614,800,000.00, issued to them under the Old District Cash Fund. The Office of the President would then have remitted back to the Exchequer a total amount of Kshs.626,000,000.00 including Kshs.11,200,000.00 which it had not issued to the Districts.

238. The Balance Sheet of the Old District Cash Fund as at 30 June 2003 indicates that an amount of Kshs.436,189,800.60 was received from the Districts and accounted for under Item 4-007-003-012. However, an analysis provided, listing the amount received from Districts indicates that a total amount of Kshs.416,985,791.65 was actually received as at 30 June 2003 resulting in an unexplained difference of Kshs.19,204,008.95.

239. Records at the Office of the President further indicate that out of the amount received of Kshs.416,985,791.65 an amount of Kshs.187,745,199.40 was remitted to the Exchequer in March 2002. No explanation has however been provided for failure to remit the difference of Kshs.229,240,592.25.

240. The Ministry's Statement of Assets and Liabilities for Deposits indicates that an amount of Kshs.237,698,740.45 was held in deposit in respect of the Old District Cash Fund as at 30 June 2003. The amount differs from the amount not remitted to the Exchequer of Kshs.229,240,592.25 by Kshs.8,458,148.20 which difference has not been explained.

241. An amount of Kshs.197,814,208.35 is explained as outstanding with the District as at 30 June 2003. This balance is also indicated as being tied up in PMG Rejections, Bank Charges, Outstanding Imprests and Partly Paid Vouchers. The Ministry has not followed up the Districts to ensure that the full amount of the Old District Cash Fund is accounted for.

242. Further, a team of Accountants appointed by Office of the President to inspect the records of the Old District Cash Fund and to recover the unremitted Cash Fund reported losses in some Districts and lack of records necessary to account for the Cash Fund in others. The team reported actual losses in a number of Districts as detailed in the ensuing paragraphs.

Baringo District – Kshs.248,294.80

243. The Bank Reconciliation Statements reflected a loss of Kshs.93,938.00 for the Recurrent Account and a loss of Kshs.154,356.00 for the Development Account. The amount of Kshs.93,938.00 was payments in the Bank Statement not yet recorded in the Cash Book. These payments had been made through the District Treasury cheques and no explanation has been given for failure to record them in the cash book. On the other hand the amount of Kshs.154,356.00 in respect of Development Cash Book was in respect of receipts in the cashbook not in bank statement an indication that the amount was not actually banked.

Nakuru District – Kshs.18,540,000.00

244. The entire Old Nakuru District Cash Fund amounting to Kshs.13,540,000.00 was not recovered or otherwise accounted for. Additionally, an advance from the Office of the President of Kshs.5,000,000.00 was not reflected in the books of account of the Old District Cash Fund.

Nandi North District – Kshs.5,000,000.00

245. The Old District Cash Fund of Kshs.5,000,000.00 was not recovered or otherwise accounted for. The funds were said to be tied up in partly paid vouchers totalling Kshs.8,834,631.60 and PMG rejection of Kshs.1,167,439.60.

West Pokot District – Kshs.3,361,842.25

246. An amount of Kshs.513,367.75 had reportedly been misappropriated. The individuals concerned were prosecuted but the case was said to have been thrown out by court. A further amount of Kshs.2,848,474.50 was withdrawn from the bank account without corresponding entries in the cashbook.

Migori District Treasury – Kshs.9,326,119.25

247. An amount of Kshs.1,000,000.00 was said to have been advanced to the District in 1998/99 financial year but was apparently not received at Migori District Treasury. In addition, losses amounting to Kshs.5,615,724.75 are said to have been reported in the District Treasury. The final recurrent cash fund reconciliation also revealed a further unreported loss of Kshs.2,705,394.50. An amount of Kshs.5,000.00 of the Cash Fund was also reported to be held in form of an RD cheque in the District. The RD cheque had reportedly been drawn by a former MP for the constituency and cashed at the District Treasury. The drawer has declined to make good this cheque. The total loss reported therefore stood at Kshs.9,326,119.25 as at 30 June 2003.

Kisii District Treasury – Kshs.18,143,466.05

248. The Reconciliation for the Old Kisii District Cash Fund shows that losses amounting to Kshs.21,091,323.65 had been reported. These losses included Kshs.7,365,883.95 attributed to a former cashier and stale cheques totalling Kshs.10,777,582.10 which were in respect of PMG reimbursements and which had been received in the Treasury's Bank Account but could not be released as there were no funds in the Bank Account.

249. The Office of the President does not appear to have followed up on the amounts claimed to have been lost and ensured that the cases are fully investigated and action taken against the concerned officers. The reconciliation also shows unrepresented cheques totalling Kshs.13,963,678.45 which cannot however be cleared because the bank account does not have the equivalent cash to clear them.

**UNPAID PENSIONS - MACHAKOS DISTRICT TREASURY –
KSHS.1,938,281.10**

250. Audit examination of Pensions records maintained at the Machakos District Treasury as at 30 June 2003 revealed nineteen unpaid pensions payrolls totaling Kshs.1,938,281.10 for the period August 1999 to February 2001. These pension payrolls were not receipted by the pensioners and had not been surrendered to the Director of Pensions as required. It was noted that although, the pension had not been paid to the pensioners, the related pension cash was not held in the office or anywhere else.

251. The non payment of pensions payrolls was attributed to a cashier who in turn blamed the former District Accountant for misusing the pensions cash by issuing cash to various officers and other persons in the form of I.O.U.s which were not surrendered. In some cases the I.O.U holders claimed that they had cleared the IOUs with the Accountant. In one case, a Livestock officer was given an I.O.U for Kshs.200,000.00 on a date not indicated but repaid only Kshs.35,000.00 leaving a balance of Kshs.165,000.00 uncleared. The officer claimed that he had paid the balance to the District Accountant who did not give it to the cashier. However, the details of the unsurrendered I.O.U.s were not given. It has also been indicated that the cashier is repaying the outstanding and unaccounted for money but it has not been indicated how, when and how much he has so far repaid. No explanation has been given for this very unsatisfactory state of affairs and no indication has been given as to the action being taken to rectify the situation.

RD CHEQUES – MOMBASA DISTRICT DEPOSITS ACCOUNT – KSHS.135,068/95

252. A cash survey carried out in September 2003 at Mombasa District Treasury revealed that the Deposits Cashier held nineteen (19) Return to Drawer (RD) cheques amounting to Kshs.135,068.95 which formed part of his cash. The cheques were drawn by individuals, Sacco Societies, Companies, Government Ministries and Institutions between January 1998 and June 2003. They were payable to the District Commissioner – Mombasa, Resident Magistrate Court – Mombasa, Kadhi's Court – Mombasa and the Principal – G.T.I. Mombasa. The services the drawers were paying for were not indicated. All the cheques were encashed at the District Treasury but when banked, they were returned by the banks for various reasons which included payment stopped by drawer, exceeds arrangements not advised, 2nd signature required and Accounts stopped. In four (4) cases, the banks did not give the reasons for returning the cheques. It was also noted that one of the cheques for Kshs.50,000.00 was drawn by a former Cabinet Minister and payable to the District Commissioner – Mombasa but the bank did not give any reasons for returning it. So far, no efforts appear to have been made to recover the money from the drawers.

FINANCIAL IMPROPRIETIES AT KILIFI DISTRICT TREASURY

Unsurrendered old district cash fund – Kshs.436,492.55

253. According to the Treasury Circular No.7/2001 of 25 April 2001, the old District Cash Fund System and related Bank Accounts were to be frozen with effect from July 2001 pending reconciliations to be carried out by District Treasuries with a view to closing the account and surrendering the balances to the Accounting Officer, Office of the President. Audit examination of the records held at Kilifi District Treasury, carried out in June 2003, however, showed that out of the Recurrent Cash Float of Kshs.7,500,000.00, issued to the Kilifi District Treasury, Kshs.7,063,507.45 had been surrendered to Office of the President with Kshs.5,187,714.35 being surrendered in August and December 2001, Kshs.1,861,173.95 in June 2002 and Kshs.14,619.15 in December 2002. Although it has been explained that the clearance of the remaining balance of Kshs.436,492.55 was still being followed up, it has not been indicated when this amount will be cleared.

Recurrent Bank Reconciliation Statement as at 31 January 2002

254. It has further not been explained how various bank reconciliation items were cleared from the old Recurrent Cash Fund or accommodated in the new recurrent bank account. In particular the recurrent bank reconciliation statement as at 31 January 2002 showed un-presented cheques totalling Kshs.5,637,422.65 issued between August 1996 and June 2001, payments in bank statement not in cash book totalling Kshs.7,524,585.55 paid between June

1991 and December 2001, receipts in cash book not in bank statement totalling Kshs.21,274,918.95 received between January and June 2001 and receipts in bank statement not recorded in cash book amounting to Kshs.21,000,309.85 received between September 1992 and July 2001.

Pending Bills – Kshs.974,767.50

255. Examination of records at the Kilifi District Treasury showed that there were pending bills amounting to Kshs.974,767.50 for year 2000/2001. Although it has been indicated that the payment vouchers have been submitted to the Office of the President for an A.I.E. to be issued to clear the pending bills, this has not been done so far.

Outstanding Imprests/IOUs Kshs.2,087,062.55

256. Examination of imprests records also showed that imprests totalling Kshs.2,087,062.55 were outstanding as at 30 June 2003. These imprests were issued to members of staff from various Ministries/Departments between January 1998 and February 2003. Included in the outstanding amount, were imprests/IOUs amounting to Kshs.46,000.00 which were issued from Development account, Kshs.487,500.40 from deposits account, Kshs.331,762.50 from recurrent account and Kshs.1,221,799.65 from unknown accounts which were not committed in the vote book. According to the current financial regulations, deposits should not be used for purposes other than those for which they were lodged. No explanation has however been given for issuing the above imprest from Deposits cash.

257. Also included in the uncommitted Imprests/IOUs of Kshs.1,221,799.65 were eleven imprests/IOUs totalling Kshs.551,695.65 issued to the former District Commissioner, between December 1999 and March 2001 for unspecified official duties and security operations. Although records seen indicated that the former District Commissioner's imprests/IOUs are being recovered at the rate of Kshs.10,000 p.m. it is a matter of concern because it will take four years and seven months to fully recover the amount. It has not been indicated how the other outstanding imprests/IOUs are going to be recovered.

Outstanding PMG Reimbursements Kshs.518,596.70

258. The recurrent cash book at Kilifi District Treasury showed that there were seven (7) outstanding reimbursements claims totalling Kshs.289,566.70 as at 30 June 2003 while the development cash book showed that there were six outstanding reimbursement claims totalling Kshs.229,030.00. All the claims were for the week ending May and June 2002 and related to the Ministries of Agriculture, Labour, Water and Energy. It was explained that the claims were rejected by the Treasury for reasons which were not indicated.

OLD DISTRICT CASH FUND – BUNGOMA DISTRICT TREASURY – KSHS.2,044,695.95

259. The Treasury Circular No. 7/2001 of 25 April 2001, stipulated that the old district cash funds system and the related bank accounts were to be frozen from 1 July 2001 pending reconciliations to be carried out by the District Treasuries with a view to closing the accounts and surrendering the cash floats to the Accounting Officer, Office of the President. Later, the District Treasuries were given up to 15 January 2002 to surrender the old cash funds. However, examination of records held at Bungoma District Treasury in March 2004 showed that out of a Recurrent Cash Float of Kshs.5,000,000.00 as at 30 June 2001, only a total of Kshs.2,955,304.05 was surrendered through cheques No.009501 and No.009502 of 22 February 2002 and 22 May 2003 for Kshs.2,565,172.00 and Kshs.390,132.05, respectively, leaving a balance of Kshs.2,044,695.95 still outstanding as at the time of audit in March 2004.

260. The outstanding balance included eight (8) RD cheques totalling Kshs.87,015.80 drawn between October 1991 and January 1997 by one Advocate, the Pensions Department and the NSSF. Two of the cheques amounting to Kshs.81,100.00 issued by the Advocate, were payable to Webuye Resident Magistrate and the other six cheques in respect of Pension and NSSF were payable to individuals. The eight cheques were encashed at Bungoma District Treasury where they were banked and returned by the bank for various reasons. So far the cheques have not been replaced or cash payments made by the drawers and the amounts still formed part of the old recurrent district cash fund as at April 2004.

261. The outstanding balance of Kshs.2,044,695.95 also includes fake dollars currency totalling Kshs.23,140.00 which were received by Teso Toll Station Manager in June 1997. After banking, they were found to be fake and returned by the bank. So far the amount has not been recovered and still forms part of the old recurrent district cash fund.

262. Also forming part of the old recurrent district cash fund and included in the unsurrendered balance of Kshs.2,044,695.95 are IOUs amounting to Kshs.1,857,684.65 issued to various officers between August 1997 and August 2001. Although it has been indicated that a list of those involved was forwarded to the Office of the President for recoveries, no evidence was produced to show that recoveries were being made.

263. In view of what is stated in the foregoing paragraphs, it is not known when the outstanding balance of Kshs.2,044,696.95 will be surrendered to the Office of the President.

OUTSTANDING IMPRESTS AT NYAMIRA DISTRICT TREASURY – KSH.1,773,356.00

264. A cash survey carried out at Nyamira District Treasury on 12 March 2003 revealed that Safari Imprests totalling Ksh.4,065,159.90 issued between February 1998 and February 2003 were still outstanding as at that date. It was further noted that the imprests had been issued from deposits cash funds contrary to Government Financial Regulations which prohibit the use of deposits for purposes other than the ones for which such moneys were deposited. It was also noted that various officers were issued with additional or new imprests before surrendering the earlier ones contrary to Government Financial Regulations. A review of the position as at 30 June 2003 indicated that out of a total imprests of Ksh.4,065,159.90, Ksh.2,291,803.90 had been surrendered leaving a balance of Ksh.1,773,356.00 still outstanding at that date. It has not been explained why the imprests were not accounted for on the due dates or why the imprests were issued from deposits cash.

OUTSTANDING IMPRESTS/IOUs – MOMBASA DISTRICT TREASURY KSHS.2,501,047.00

265. Examination of imprest records maintained at the Mombasa District Treasury revealed that imprests/I.O.U.s amounting to Kshs.2,501,047.00 were outstanding as at 30 June 2003. The outstanding imprests were issued to staff from various Ministries/Departments between July 1997 and June 2003 and included Kshs.978,256.00 from the Recurrent Cash Book, Kshs.63,600.00 from the Development Cash book, Kshs.567,320.00 from the Deposits Cash book and Kshs.891,871.00 from unknown accounts which were not committed in the vote books. It was observed that regulations regarding issuance of imprests were not followed resulting in some officers being issued with new imprests before surrendering the previous ones. Four officials were issued with several imprests totalling over Kshs.100,000.00 each with one of the officials holding a total of Kshs.458,390.00 in imprests. As indicated above some of the imprests were issued without any corresponding vote book commitments while others related to officers who had either been transferred, absconded or retired. Also according to the standing financial regulations, deposits should not be used for purposes other than those for which they were lodged and issues of imprests from deposit cash totalling Kshs.567,320.00 was therefore highly irregular. It has not been explained what action is being taken to recover the outstanding imprests/IOUs.

LACK OF FINANCIAL CONTROLS AT MALINDI DISTRICT TREASURY

Irregular and Doubtful Expenditures – Kshs.394,994.80

266. The Examination of payment vouchers at the Malindi District Treasury for 2002/2003 financial year revealed serious lack of internal controls amongst other irregularities. In particular, It was noted that between August 2002 and June 2003, the Malindi District Commissioner and his staff incurred expenditure totalling Kshs.394,994.80 in respect of stores, services and lunches. Out of this figure, Kshs.206,254.80 was spent on the purchases of consumable stores like stationery, hardware and timber among others. These stores were not accounted for in the stores ledger cards (S.3s) and no counter receipt and issue vouchers (S.11s) were seen to show how the items were issued to the user points.

267. Further, an amount of Kshs.165,240.00 was indicated as spent on motor vehicle spare and office equipment repairs. However, this could not be confirmed due to lack of proper records. In this connection, the vehicle repairs/spares were not entered in the vehicle log books as required while

services like telephone/electrical repair, fax messages, unblocking AP lines toilets could not be confirmed due to lack of records. No evidence was adduced to confirm that these services were actually rendered.

268. The balances of Kshs.23,500 was indicated to have been incurred by the District Commissioner to buy lunches for people whose names, ID numbers were not attached to the payment vouchers and the propriety of the expenditure could not therefore be confirmed.

269. Available information indicates that most of the goods/services were paid for in cash by the staff who then claimed refunds totalling Kshs.353,554.80 without indicating the source of funds while the balance of goods/services costing Kshs.41,440 were purchased through imprests. In the absence of vital supporting documents, the propriety of the total expenditure of Kshs.394,994.80 could not be ascertained.

Unsupported Claims – Kshs.283,000.00

270. Further examination of records at Malindi District Treasury further revealed that a total of Kshs.283,000 was paid to various officers in respect of travelling accommodation expenses while on official duties in various places. However, it was noted that the claims were not supported by bus tickets and where Government vehicles were allegedly used, work tickets were not produced to confirm that the journeys were actually performed. In the absence of these

travel documents, the expenditure of Kshs.283,000 could not be confirmed as a proper charge to public funds.

Unaccounted for Fuel – Kshs.235,735.00

271. Audit examination of fuel records revealed that between September 2002 and June 2003, a total of 1515 litres of super petrol and 3,336.13 litres of diesel were bought from M/S Muhindi Total Service Station at a total cost of Kshs.235,735. Although it was indicated that the fuel was recorded in the fuel register or in S.3 cards, such records were not produced for audit confirmation. Further, no detail orders or work tickets were produced to confirm the vehicles which had used the fuel. In the absence of such records, it was not possible to confirm that the fuel was actually bought and used by Government vehicles. Consequently the total expenditure of Kshs.235,735.00 could not be confirmed to be a proper charge to public funds.

OVERPAYMENT OF INMATES FOOD CONTRACTOR AT TESO O.C.P.D's OFFICE – KSHS.851,580.00

272. A comparison made between the Occurrence Book maintained at the Office of the Officer Commanding Police Division in Teso district and the schedules and invoices submitted by the contracted food supplier for remand inmates showed that there was an overpayment of Kshs.851,580.00 made between February 2002 and April 2003. In most cases, it was observed that the schedules were altered upwards such that the numbers of meals shown in the Occurrence book was less than that shown in the schedules. Also in some cases, the Occurrence book showed nil entries in respect of inmates while the schedules showed that there were inmates who took meals. For example, occurrence book record for 19 April 2003 showed nil entries but the schedules showed that there were inmates who took 48 lunches and 57 supers for a total of Kshs.3,150.00. Although the supplier has accepted liability and indicated that she would repay the money by off-setting the overpayment against new claims for meals supplied to the inmates, it has not been confirmed that the repayment has been made. It is also not clear why the police continued to retain the services of a food supplier who was clearly dishonest or why no disciplinary action was taken against the officer or officers who were responsible for the overpayments.

STATE HOUSE

EXCESS VOTE

273. The Appropriation Account for Vote R02 - State House for the year ended 30 June, 2003 reflects an Excess Vote of Kshs.3,608,809.00. The Excess Vote appears to have been mainly caused by overexpenditure against a number of expenditure items including personal emoluments and other personal allowances, official entertainment, purchase of plant and equipment and the Presidential Press Service.

PENDING BILLS – VOTE R02

274. The State House records show that bills totalling to Kshs.54,339,337.45 chargeable to Recurrent Vote R.02 during the year 2002/2003 were not settled but were instead carried forward to 2003/2004. Had the bills been paid and charged to the Account for 2002/2003, the Recurrent Appropriation Account would have reflected an Excess Vote of Kshs.57,948,146.45 instead of Kshs.3,608,809.00 now shown.

PENDING BILLS – VOTE D.02

275. Examination of records maintained at State House, revealed that Pending Bills totalling Kshs.11,682,160.00 and chargeable to vote D.02 were not settled during the year but were instead carried forward to 2003/2004. It has been explained that the bills could not be settled because they were not approved for settlement by the Treasury Pending Bills Committee. However, available information indicates that the Treasury Pending Bills Committee's recommendation was that the Ministry of Public Works should draw measurements on work done for a final account settlement but this had not been done.

276. Had the bills been paid and charged to the Appropriation Account, the Development Appropriation Account for Vote D 02 would have reflected a reduced net surplus of Kshs.63,095,440 instead of Kshs.74,777,600 now shown.

MISALLOCATION OF EXPENDITURE

277. Examination of records at State House Nairobi revealed that during the year 2002/2003 expenditure totalling Kshs.6,623,594.00 which was incurred at State House Mombasa and State House Nakuru was charged to Head 020 – State House Nairobi instead of Heads 021 and 022 State Houses, Mombasa and Nakuru respectively. It has been explained that this expenditure was for urgent renovation of State House, Mombasa and supply, delivery and installation of air

conditioning system, kitchen, cold room and mechanical ventilation at State House, Nakuru and was charged to Head 020 where funds were available.

DIRECTORATE OF PERSONNEL MANAGEMENT

THE UNDER EXPENDITURE AND UNDER COLLECTION OF APPROPRIATIONS IN AID

278. The Appropriation Account for Vote D.03 – Directorate of Personnel Management for the year 2002/2003, reflects gross under-expenditure of Kshs.166,824,324.85 or approximately 43% of the gross estimated expenditure of Kshs.397,196,932. The Account also reflects under collection of Appropriations-In-Aid under Head 223 – Civil Service Reform Secretariat of Kshs.127,340,698.70 or approximately 71% of the estimated Appropriations-In-Aid of Kshs.179,199,994.00.

279. The reasons given in the footnotes for the under expenditure are freezing of procurement activities by Treasury and a number of contracts for consultancy services not being finalised during the year. The under collection of Appropriations-in-Aid is explained as arising from over-estimation of receipts and the freezing of procurement activities by Treasury during the year. The Directorate of Personnel Management has indicated that measures have been put in place to monitor project implementation in order to avoid under expenditure and or under collection of Appropriation-in-Aid.

COMPENSATION AND EX-GRATIA-PAYMENT

280. Records at the Directorate of Personnel Management show that a contract for construction of a four storey office block and staff houses at the Government Training Institute, Mombasa, was awarded to one firm as a main contractor, at a sum of Kshs.21,800,000.00 and the works were to be completed by 28 December 1982. At the same time the electrical works were sub-contracted to another firm but the tender documents for the sub-contract have not been made available for audit review. Available information indicate that the main contract was subsequently terminated in 1989 but no reasons have been provided for the termination. However by the time of termination of the main contract, the electrical sub-contractor claimed to have executed works valued at Kshs.1,373,465.25. For unexplained reasons the electrical sub contractor's claim was not paid and the sub-contractor apparently pursued the matter through the court. Again for unexplained reasons the Permanent Secretary, Directorate of Personnel Management (DPM) who was the Accounting Officer responsible

for the project was apparently not fully briefed or even informed of the court proceedings and only became aware of the case in September 2002 when he was informed of the case by the Permanent Secretary Ministry of Roads and Public Works.

281. In his letter the Permanent Ministry of Roads and Public Works informed the Permanent Secretary DPM of the High Court award of Kshs.6,173,465.25 to the electrical sub contractor in the High Court case No.122 of 1991 through which the sub-contractor had pursued his claim of Kshs.1,373,465.25.

282. It would appear that the Directorate of Personnel Management was not adequately defended in Court and this resulted in Government incurring extra cost of Kshs.4,799,941.95 over and above the initial amount of Kshs.1,373,465.25. The extra payment of Kshs.4,799,941.90 clearly constitutes a nugatory payment which could have been avoided if the claim was handled properly initially or defended adequately in court.

MINISTRY OF FOREIGN AFFAIRS

EXCESS VOTE

283. The Appropriation Account for Development Vote D.04 for the year 2002/2003 reflects an Excess Vote of Kshs.19,492,757.20. The excess appears to have been caused mainly by over expenditure of Kshs.4,918,770.85 incurred under Sub-Vote 014 – Diplomatic Representation, where Kshs.120,567,190.85 was spent against a provision of Kshs.115,648,420.00 while the balance of Kshs.14,573,986.35 arose from deficiency of Appropriations-in-Aid (A.I.A). The reason for the shortfall in Appropriations-In-Aid as given in the footnotes to the Account is that the anticipated sale of property never took place in time.

OUTSTANDING TEMPORARY IMPRESTS AS AT 30 JUNE 2003

284. The audit of the Ministry's imprest records indicates that as at 30 June 2003, temporary imprests issued to officers amounting to Kshs.42,764,472.95 had not been surrendered on the due dates as required by the Government Financial Regulations and Procedures. A review of the position as at 30 September 2003 showed that imprests totalling Kshs.35,498,005.85 were still outstanding.

285. According to Government Financial Regulations and Procedures a holder of temporary imprest is required to account for or surrender the imprest within 48 hours after returning to duty station failing which the Accounting Officer should

take immediate action to recover the full amount from the salary of the defaulting officer. No explanation has been given for the Ministry's failure to take action on the above cases.

Imprests Issued for Clearing Personal Effects – Kshs.6,905,844.95

286. The Ministry's records reflected outstanding temporary imprests totalling Kshs.6,905,844.95 as at 30 June 2003 issued to various officers to clear their personal effects on return from their tours of duty abroad. As at 30 September 2003 the figure outstanding had reduced only slightly to Kshs.6,004,917.90. Financial regulations do not provide for issue of imprest for clearing personal effects and such imprests were therefore issued irregularly. It is not clear why the clearance of officers personal effect is not undertaken directly and paid for by the Ministry instead of being undertaken by individual officers using imprests. It is also not clear why such imprests are not accounted for or recovered by the due dates.

Issue of Imprest for Unofficial Duties – Kshs.621,405.20

287. The audit revealed that various officers were issued with imprests on various dates for purposes other than those stipulated in Financial Regulations. The Imprests were issued to the officers either as financial assistance or to cater for medical expenses and stood at Kshs.621,405.20 on 30 June 2003 and Kshs.520,405.20 on 30 September 2003. No explanation has been provided as to why these imprests were issued to the officers for purposes other than what is stipulated in the financial regulations.

Officers Issued With More Than One Imprest

288. The imprest records also indicated that various officers were issued with new imprests before surrendering the ones issued earlier contrary to Government Financial Regulations. No explanation has been provided as to why the regulations were disregarded.

DEVELOPMENT APPROPRIATION ACCOUNT – D.04

289. The Development Appropriation Account for Vote D.04 for the Ministry of Foreign Affairs for the year ending 30 June 2003 reflects expenditure of Kshs.1,776,844.10 incurred on construction of buildings, non-residential at the Kenya High Commission, Dar-es-Salaam. Included in this figure is an amount of Kshs.1,692,010.80 which was a transfer of funds from an Agency Account held at Kenya Commercial Bank to Development Account held at the same bank. Transfer of funds from one account to another does not constitute actual expenditure. Consequently the above transfer of funds from one bank account to

another which has been irregularly treated as an expenditure has led to the overstatement of actual expenditure under Vote D.04 for 2002/2003 by Kshs.1,692,010.80.

290. The Kenya High Commission, Kampala, spent Kshs.2,181,925.15 on construction of buildings, non-residential against the allocated amount of Kshs.1,843,430.00. This led to an over expenditure of Kshs.338,495.15. Out of the total expenditure incurred, Kshs.649,826.05 being 50% down payment for renovations to be carried out at Government owned property, Mbuya Road Plot 10, Bugolobi was paid to a firm in August 2002. The agreement between the firm and the Mission required a 50% down payment to be made before the commencement of the works. However, according to the minutes of a committee meeting on renovation of the building dated 6 November 2002, new quotations were called after the contracted firm failed to complete the work. It is not clear how much work the firm had undertaken by the time the contract was stopped. However, another firm was awarded the contract to complete the required renovations and was paid a total of Kshs.1,532,099.10, for work done which is an indication that the originally contracted firm had not carried out any substantive repairs on the said property. The payment of Kshs.649,826.05 to the firm would therefore appear to be nugatory.

Irregular Payment of Extraneous Allowances – Kshs.57,214.00

291. The audit of the Ministry's salaries and establishment records revealed that various officers were paid extraneous allowances amounting to Kshs.57,214.30. According to the Office of the President circulars governing the payment of extraneous allowances, extraneous allowances were to be paid to those officers while they were attached to the Cabinet Office in the Office of the President. The continuation of payment of extraneous allowances after their deployment to the Ministry of Foreign Affairs was therefore irregular. No explanation has been given for the payment of these irregular allowances and no evidence has been seen of their recovery.

Irregular Payment of Special Duty Allowance - Kshs.41,119.20

292. The audit of the Ministry's salaries and establishment records also revealed that two officers of the Ministry of Foreign Affairs were paid special duty allowances totalling Kshs.61,678.80 for the period 1 July 2000 to 30 June 2003. These payments were made on the strength of DPM authority dated 24/07/2000 which authorized the payment of the special duty allowance to the officers for a period of 12 months with effect from 1 July 2000 or up to the time the posts for which they were being paid the allowances were substantively filled, whichever was earlier. The payment should therefore have stopped on 30 June 2001. The payment of the allowances to the two officers for the period beyond 12 months was therefore irregular. No recoveries have been made from the officers for the

total amount of Kshs.41,119.20 paid irregularly to the two officers for the period beyond twelve months.

IRREGULAR PAYMENT OF FOREIGN SERVICE ALLOWANCE – KSHS.31,309.40

293. In April 2002 a home based officer was paid Foreign Service Allowance amounting to Kshs.54,791.45 for the first 7 days of April 2002 on completion of his tour of duty at the Gaborone Mission with effect from 4 of April 2002. The officer was later in May 2002 paid Kshs.30,816.85 as subsistence allowance for 5 days from 4 to 8 April 2002 while in transit by road from Gaborone, a confirmation that the officer left his foreign service post on 4 April 2002. According to Foreign Service Regulation, an officer ceases to draw Foreign Service Allowance from the date he vacates his post at the end of his service at a Mission outside Kenya. The Foreign Service Allowance of Kshs.31,309.40 paid to him from 4 to 7 April, 2002 therefore appears irregular because he had already left his duty station on 4 April 2002.

UNACCOUNTED FOR CASH SHORTAGE – KENYA HIGH COMMISSION, GABORONE

294. Examination of payment vouchers for the financial year 2002/2003 for the Kenya High Commission Gaborone, revealed that during the handing over of the Financial Attaché's office from one officer to another on 24 February 2003, a cash shortage of Kshs.2,960,499.20 was discovered. The shortage of Kshs.2,960,499.20 was occasioned by irregular advances to five Mission home based staff in the form of I.O.U's on dates that have not been indicated. In an internal memo dated 4 March 2003, one of the beneficiaries of the advances acknowledged the shortage and undertook to pay the full amount indicated against his name. However, no evidence has been seen to confirm that the officer or any of the other officers has repaid these irregular advances.

KENYA EMBASSY – BEIJING

295. Examination of payment vouchers related to Kenya Embassy, Beijing revealed that in November 2001 an amount of Kshs.442,400.00 was paid to a firm in Nairobi being cost of three (3) return air tickets (Nairobi-Beijing – Nairobi). The tickets were issued in Nairobi to enable three (3) children of the Mission Counsellor to visit her in Beijing during December school holidays.

296. Available information however indicates that in January 2002 another payment of Kshs.201,690.00 was made to an Airline being cost of new air tickets for the children's return journey Beijing - Nairobi. It has been explained that the return portion of first air tickets had not been fully used because when the children traveled from Beijing to Bangkok on their return journey on 02 January

2002 they missed the Bangkok connecting flight due to flight delay and were flown back to Beijing, hence the need to buy new air tickets for their return flight to Nairobi.

297. Available information indicates that the partly used return air tickets were forwarded to the Ministry Headquarters by the Mission to facilitate claim for refund. The latest available information indicates that the Ministry's claim for refund of Kshs.221,200.00 being the cost of the unutilized tickets was rejected by the airline.

KENYA MISSIONS FLOAT FUND

Bank Overdrafts – Kshs.37,934,647.60

298. Examination of the Kenya Missions Float Fund as at 30 June, 2003 revealed a number of unsatisfactory matters. Eight (8) Kenya Missions abroad had overdrawn their bank accounts to the tune of Kshs.37,934,647.60 as at 30 June 2003 without Treasury authority. No reasons were provided for these Missions' breach of laid down regulations or for failure to seek and obtain Treasury authority to regularize the overdrafts.

Excess Fund – Kshs.66,108,941.50

299. Examination of Cashbooks and bank reconciliations revealed that twelve (12) Missions had accumulated cash in excess of the authorized float fund levels totaling Kshs.66,108,941.50 without Treasury authority. Apart from the fact that Treasury authority for the retention of the excess funds was not seen, no explanation has been provided for the failure to surrender the excess amount to the Exchequer.

OFFICE OF VICE PRESIDENT AND MINISTRY OF HOME AFFAIRS

PENDING BILLS

300. Records held by the Ministry indicate that bills amounting to Kshs.346,173,464.97 chargeable to the Recurrent Vote R.05 were not settled during the year 2002/2003 but were instead carried forward to 2003/2004. Had the bills been paid during the year under review, the Appropriation Account for Vote R.05 for 2002/2003 would have reflected an Excess Vote of

Kshs.113,609.37 instead of a Surplus to be surrendered to the Exchequer of Kshs.290,138,082.80 now shown.

UNDER-EXPENDITURE AND UNDER- COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D.05

301. The Appropriation Account for Vote D.05 for the year ended 30 June, 2003 reflects under- expenditure of Kshs.174,156,697.15 or approximately 15% of the Approved Estimates of Kshs.1,126,657,093 and under-collection of Appropriations-in-Aid of Kshs.113,378,717.45 or about 86% of the estimated receipts of Kshs.130,443,202.00.

302. The under-expenditure and under-collection of Appropriations-in-Aid have been attributed to non-submission of expenditure returns by Donors, late start of projects, suspension of procurement by the Government and termination of contracts. As previously stated no action appears to have been taken to deal with the underlying causes for this unsatisfactory performance in project implementation.

OUTSTANDING TEMPORARY IMPREST

303. Records maintained at the Ministry's Headquarters indicate that Imprests totalling Kshs.1,291,418.85 were outstanding as at 30 June, 2003. Out of the sum of Kshs.1,291,418.85, Imprests amounting to Kshs.1,201,631.95 were outstanding against officers in Job Group 'M' and above, while the balance of Kshs.89,786.90 was outstanding against officers on Job Group 'L' and below. No explanation has been provided for failure to account for the imprests on or before 30 June 2003. Further, Imprests records examined revealed that contrary to regulations governing control over issuance of imprests, five officers had been issued with additional imprest before surrendering imprests issued to them earlier.

OVER-EXPENDITURE ON PERSONAL EMOLUMENTS AND OTHER ALLOWANCES

304. The Appropriation Account for Vote R.05 for the year ended 30 June 2003 reflects over-expenditure totalling Kshs.33,407,358.95 against Personal Emoluments and Other Allowances under various Heads. The reason given in the footnotes to the Account for the over expenditure is under-estimation. This explanation however does not appear to be plausible because the actual staff establishment within the ministry is under normal circumstances known at the beginning of the financial year and therefore the budgetary provision for personal emoluments for the year can be estimated with reasonable accuracy.

APPARENT LOSS OF REVENUE AT SHIKUSA G.K. PRISON

305. Examination of revenue records maintained at Shikusa G.K. Prison revealed that on 13 and 20 December 2002, a total of Kshs.287,403 was paid in by a local sugar company through two cheques in respect of harvest and sugarcane sales. Further audit verification revealed that the two cheques were credited to Kakamega District Deposit Bank Account No.243970802 on 18 December 2002 and 24 December 2002 respectively. However, although a cheque for Kshs.287,403.00 payable to the Commissioner of Prisons should have been issued by the District Treasury to pay over the money to the Commissioner for the credit of Prisons Farm Fund, no such cheque was issued.

306. Further, records also show that a cheque No.001248 dated 14 February 2003 for Kshs.320,000.00 was received from Kakamega District Commissioner's Office in respect of farm produce sales. The records at the prison show that additional cash collection of Kshs.46,423.50 was received at the Prison to bring the total collection to Kshs.366,423.50. A cheque for this amount was made out and sent to Kakamega District Treasury where a contra cheque No.009695 dated 20 February 2003 for the amount of Kshs.366,423.50 was made out to the Commissioner of Prisons for the surrender of revenue. Further examination of the Kakamega District Deposit Bank Account Statement revealed that cheque No.009695 was however only for Kshs.46,423.50 instead of Kshs.366,423.50 leaving a balance of Kshs.320,000.00 unaccounted for and that the Commissioner of Prisons had acknowledged receipt of only Kshs.46,423.50.

307. Further investigation revealed that the three cheques totalling Kshs.607,403.00 were encashed at the Kakamega District Treasury by a Prison official in collusion with the District Treasury officers and the proceeds apparently misappropriated. Although it has been indicated that the Prison official has since been interdicted, no recoveries have so far been made and no loss report appears to have been submitted to the Accounting Officer as required under Government Financial Regulations and Procedures.

HOLA – GARSEN – MALINDI ROAD

308. In September 1995, the Office of the President through the Department of National Youth Service competitively awarded a tender for construction to bitumen standard of a 202 Km stretch of the Hola-Garsen-Malindi Road to a contractor at a contract sum of Kshs.341,024,419.64. The project was jointly financed by Overseas Economic Co-operation Fund (OECF) of Japan, which availed 84% of the total cost while Government of Kenya provided the remaining 16%. The commencement date of the project was agreed upon between the parties as 8 October 1995 while that of completion was to be 7 September 1998.

309. Information available however indicate that due to apparent financial constraints amongst other reasons, the project's contract period of approximately 2 years and 10 months to 7 September 1998 was extended four times with the consent of both parties to a total of 4 years and 19 days to 15 June 2001.

310. Available information further indicate that expenditure on the project had accumulated to Kshs.2,333,468,887.04 as of June, 2002 which was Kshs.1,992,444,467.40 or 684% over and above the contract sum of Kshs.341,024,419.64 , although only approximately 62% of the works had been completed. Further, although available information indicates that the contract for the project was terminated in November 2001, a review of the position during the year 2002/2003 indicates that additional expenditure of Kshs.765,690,595.80 was incurred during the year raising the total expenditure on the project to Kshs.3,099,159,482.84 as at 30 June 2003. It is not however clear whether a new contract for completion of the stalled project had been entered into between Government and the contractor to warrant the additional expenditure.

311. It is a matter of concern that a project which originally was expected to be completed in September 1998 at a cost of Kshs.341,024,419.64 has not yet been completed six years down the line with Kshs.3,099,159,482.84 having been spent on it as at 30 June 2003, a cost overrun of Kshs.2,758,135,063.20 or 908% cost escalation.

KENYA PRISONS INDUSTRIES FUND

312. The Accounts of the Prisons Industries Fund for the year 2002/2003 contain a number of unsatisfactory matters, which cast doubt on their accuracy. The Income and Expenditure Account for the year ended 30 June 2003 and Balance Sheet as at the same date reflects balances against various items brought forward from the year 2001/2002, which differ from those shown as carried forward against the same items in the audited Accounts for 2001/2002. Further the operating expenses of Kshs.23,294,685.50 shown in the Income and Expenditure Account for 2002/2003 do not include expenditure incurred against the Fund in the Districts.

313. The Fund Balance Sheet as at 30 June 2003 further reflects a balance of Kshs.7,643,575.00 against debtors which however differs by an amount of Kshs.926,472.25 from the figure of Kshs.8,570,047.25 reflected in the debtors schedule. In addition, the debtors balance of Kshs.8,570,047.25 includes an amount of Kshs.8,259,669.75 due from Government Ministries and Departments, Kshs.310,377.50 due from private individuals including a former Assistant Minister of the Ministry, former Members of Parliament, the Officer-In-Charge – King'ong'o Prison and former Prisons Officers. Some of these debts have remained outstanding for a considerably long period of time while little or no effort appears to have been made to recover them.

314. Although the Balance Sheet as at 30 June 2002 reflected under Assets an amount of Kshs.2,926,440.00 in respect of scrap machinery, this balance was not carried forward to the year 2002/2003. Further, there is no evidence of disposal or sale of the machinery and therefore the question arises as to whether the machinery was disposed of or sold as provided for under Section 43 and 44 of the Public Procurement Regulations (2001) and if disposed of or sold how the proceeds realized were accounted for.

315. The Fund's Balance Sheet as at 30 June, 2003 is out of balance and the resultant difference of Kshs.1,073,178.40 between the assets figure of Kshs.86,377,965.70 and the liabilities balance of Kshs.85,304,787.30 has been posted to the Suspense Account as a balancing item.

PRISON FARMS REVOLVING FUND ACCOUNTS

316. The Prison Farms Revolving Fund Accounts for the year ended 30 June 2003 revealed various unsatisfactory matters. The Trading Profit and Loss Account for the year ended 30 June 2003 reflects total operating expenditure of Kshs.18,622,010.00, the accuracy of which could not be ascertained as the relevant supporting records for the expenditure were not made available for audit review. Consequently, the net loss of Kshs.10,373,787.45 shown in the Account could not be confirmed as correct. Further, Authority to Incur Expenditure (AIE) for an amount of Kshs.11,439,902.00 sent to the Districts for purposes of the Fund has not been accounted for and no explanation has been provided.

317. The Balance Sheet as at 30 June 2003 reflects Debtors Balance of Kshs.17,995,841.95 made up of Kshs.299,260.50 due from private individuals and Kshs.17,696,581.45 from Government Ministries and Departments. As in the previous year, no effort appears to have been made to recover the debts.

318. Further, a creditors balance of Kshs.353,323.35 appearing in the Balance Sheet has not been analysed and therefore it has not been possible to ascertain accuracy of the balance or establish who the Creditors were.

319. The Balance Sheet as at 30 June 2003 also reflects a Pay Master General balance of Kshs.26,821,877.80 while the Ministry's ledger shows a balance of Kshs.36,267,463.85 against the same item resulting in an unreconciled and unexplained difference of Kshs.9,445,580.05 between the two sets of records.

320. Scrap Farm Machinery worth Kshs.1,775,580.00 was omitted in the Balance Sheet as at 30 June 2003 apparently because the machinery was in the process of being revalued. The net assets of Kshs.85,940,218.60 have therefore been understated by an equivalent amount.

321. As reported in the previous years, the Share Capital of the Fund stood at Kshs.26,702,180.00 as at 30 June 2003 made up of Kshs.6,740,000.00 in respect of ledger balance and Kshs.19,962,180.00 in respect of manual ledger balance, while the Legal Notice which created the Fund in July, 1992 set the Initial Capital at Kshs.4,200,000.00, an amount appropriated by the Parliament for the purpose in 1992/93. It has not however been explained why action has not been taken to seek authority to raise the fund capitalization level to Kshs.26,702,180.00 as reflected in the Accounts.

322. The Balance Sheet as at 30 June 2003 is out of balance with the total assets of Kshs.85,940,218.60 exceeding total liabilities of Kshs.54,448,547.30 by an amount of Kshs.31,491,671.30.

MECHANICAL, TRANSPORT AND PLANT MAINTAINANCE FUND

323. The Income and Expenditure Account for the Mechanical, Transport and Plant Maintenance for the year ended 30 June 2003 reflects expenditure on maintenance totalling Kshs.17,229,058.00 which could not be verified as the supporting documents are apparently still being held in the Office of the President where the Department of National Youth Service was, prior to its transfer the Office of the Vice-President and Ministry of Home Affairs in 2003. For the same reason, income totalling Kshs.23,215,512.00 and the resultant surplus of Kshs.5,986,454.00 could not be ascertained as correct.

324. The Balance Sheet as at 30 June 2003 reflects an opening balance of Kshs.49,122,209.85 against the Fund which differs by an amount of Kshs.266,146.00 from the balance of Kshs.48,856,063.85 shown against the same item in the audited Balance Sheet as at 30 June 2002. No reconciliation or explanation has been provided for the difference. Further, the Balance Sheet as at 30 June 2003 excludes various assets of the Fund including motor vehicles, tractors, mobile workshops, water pumps and other farm implements.

325. The Balance Sheet as at 30 June 2003 also reflects against Sundry Debtors a balance of Kshs.30,786,174.45 which is understated by an amount of Kshs.9,078,488 being debtors not accounted for. No explanation has been provided for these unaccounted debts.

326. The Balance Sheet as at 30 June 2003 further shows a Paymaster General balances of Kshs.29,787,011.40 against which no Bank Confirmation Certificate was availed for audit review. Consequently, the correctness for the balance could not be ascertained.

MECHANICAL, TRANSPORT AND PLANT RENEWALS FUND ACCOUNT

327. Examination of the Mechanical, Transport and Plant Renewals Fund Accounts for the year ended 30 June, 2003 revealed a number of unsatisfactory matters. The Income and Expenditure Account for the year ended 30 June 2003 reflects expenditure totalling Kshs.19,485,045.00 incurred in respect of various items relating to the Fund. The balance is however not reflected in the Ministry's Ledger for 30 June 2003 and no explanation has been provided for the omission.

328. The Fund's Balance Sheet as at 30 June 2003 reflects against the Sundry Debtors a balance of Kshs.65,692,458.85 made up of Kshs.40,639,151.05 and Kshs.25,053,307.80 owed to the Fund by the General Service Unit (GSU) and the National Youth Service respectively. The balance of Kshs.65,692,458.85 is however, understated by an amount Kshs.6,536,251.00 representing debts relating to outstanding hire charges during the year 2002/2003. No explanation has been provided for failure to incorporate in the Debtors Account the amount of Kshs.6,536,251.00. This apart, it has also not been explained why the above debts have not been recovered.

329. The Balance Sheet as at 30 June 2003 further reflects a balance of Kshs.18,626,729.75 against the Paymaster General Account. The balance could not however be ascertained as correct due to non-availability of a Bank Balance Certificate and as in the previous instances, no explanation has been provided for the anomaly.

MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

UNDER- EXPENDITURE – VOTE R.06

330. The Appropriation Account for Vote R.06 for the year ended 30 June 2003, reflects actual gross expenditure of Kshs.418,470,416.65 against gross approved estimate of Kshs.526,830,000 resulting in an under-expenditure of Kshs.108,359,583.35 or approximately 20% of the approved estimates.

331. According to the explanations provided in the footnotes to the Accounts, the under-expenditure was caused by suspension of procurement activities by Ministry of Finance, continued payment of Salaries and Other Allowances by Ministry of Finance to staff who had been transferred to the newly created

Ministry of Planning and National Development as well as suspension of payment of honoraria by the Directorate of Personnel Management.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D.06

332. The Appropriation Account for Vote D.06 for 2002/2003 reflects gross under-expenditure of Kshs.209,104,528.65 or approximately 37% of the approved estimates of Kshs.570,352,221.00 and under-collection of Appropriations-In-Aid (AIA) of Kshs.145,741,548.80 or about 32% of the estimated receipts of Kshs.466,109,231.00.

333. The reasons given in the footnotes for under-expenditure and under-collection of Appropriations-In-Aid include non-receipt of supporting documents for expenditure from Donors, delay in the implementation of projects and suspension of all procurement services by the Government during 2002/2003.

UNVOUCHED EXPENDITURE

334. Payment Vouchers for expenditure totalling Kshs.50,425,208.65 incurred in respect of various projects were not made available for audit review. In the absence of the supporting payment vouchers, the propriety of the expenditure could not be ascertained.

EXPENDITURE NOT PROVIDED FOR IN THE APPROVED ESTIMATES

335. The Appropriation Account for Vote D.06 for the year ended 30 June 2003 reflects gross actual expenditure of Kshs.361,247,692.35 which includes an amount of Kshs.4,059,765.00 incurred against items for which no provision had been made in the printed estimates. No explanation has been given for incurring this expenditure without parliamentary authority.

EXPENDITURE EXCLUDED FROM APPROPRIATION ACCOUNT

336. Available records show that expenditure totalling Kshs.4,763,381.00 which was incurred under Sub-Vote 061 – Head 614 in respect of Central Kenya Dry Areas Small Holders and Community Project was not captured in the Ministry's Ledgers and was therefore excluded from the Appropriation Account for Vote D06 for 2002/2003. Had the expenditure been taken into account and charged as appropriate, the Account would have recorded a reduced net surplus to be surrendered to Exchequer of Kshs.58,599,598.85 instead of Kshs.63,362,978.85 now shown.

DISTRICT DEVELOPMENT FUND ACCOUNTS 1999/2000, 2000/2001 AND 2002/2003

337. In the Report for 2001/2002, reference was made to the failure by the Ministry to prepare and submit for audit Accounts for the District Development Fund for the years 1999/2000 and 2000/2001 contrary to Government Financial Regulations. It was also stated that the Income and Expenditure Account for the year ended 30 June, 2002 reflected nil expenditure while the Trial Balance as at the same date showed expenditure of Kshs.5,754,808.40 incurred under Head 207 – Item 316 - Mwingi Bus Park and Open Market.

338. A review of the position during the year 2002/2003 showed that the Ministry prepared and submitted for audit the Accounts for 1999/2000 and 2000/2001 alongside those for 2002/2003. The audit of the three sets of Accounts has however revealed unsatisfactory matters as detailed in the ensuing paragraphs.

339. The Income and Expenditure Account for the year ended 30 June, 2000 reflects Government Contribution of Kshs.10,000,000.00 against nil expenditure. Available information however indicate that an amount of Kshs.4,883,762.00 was spent during the period on clearing various pending bills relating to 1999/2000. The Surplus Income Over Expenditure for the period shown as Kshs.10,000,000 was therefore overstated by Kshs.4,883,762.00.

340. The accuracy of the Paymaster General (PMG) balance of Kshs.32,413,596.80 in the Balance Sheet as at 30 June 2000 and as at 30 June 2001 could not be ascertained as no Bank Certificates or Bank Reconciliation Statements as at 30 June 2000 and 30 June 2001 were made available for audit review.

341. Although the Fund Account for 2000/2001 reflects a figure of Kshs.32,413,596.80 as the closing PMG balance as at 30 June 2001, the Account for 2001/2002 reflects an amount of Kshs.22,413,596.80 as the PMG Fund balance brought forward from 2000/2001. No explanation has been given for the difference of Kshs.10,000,000.00 between the two accounts.

342. The Balance Sheet as at 30 June 2003 reflects a PMG balance of Kshs.22,413,596.80 which is a brought forward figure from 2001/2002. The Statement of Assets and Liabilities for Deposits 06 as at 30 June 2003 on the other hand shows an amount of Kshs.12,850,610.50 against the PMG Account resulting in a difference of Kshs.10,000,000.30 between the two sets of records. No reconciliation or explanation has been provided for the difference.

RURAL DEVELOPMENT FUND –1999/2000

343. As previously reported, the Ministry did not prepare and submit for audit the Rural Development Fund Account for 1999/2000 on the due date of 30 October 2000. The Ministry however submitted the Fund Account for that year in August 2003. A review of the Rural Development Fund Account for the year ended 30 June 2000 now submitted reveals that the Account reflects income of Kshs.3,873,440.00 representing GOK contribution to the Fund during the year 1999/2000. The Appropriation Account for Vote D.07 for the year 1999/2000 on the other hand shows GOK grants to Rural Development Fund totalling Kshs.4,298,400.00 resulting in an unreconciled and unexplained difference of Kshs.424,960.00 between the two sets of records.

344. Further, the Balance Sheet as at 30 June 2000 reflects a balance of Kshs.15,379,064.85 against the Paymaster General Account (PMG) which is not supported with a Bank Certificate or a Bank Reconciliation Statement. Consequently, it has not been possible to ascertain the correctness of this balance. In addition, the Statement of Assets and Liabilities for Deposit 07 as at 30 June 2000 shows a balance of Kshs.3,268,075.75 in respect of the Fund while as indicated above, the Fund Balance Sheet reflects a figure of Kshs.15,379,064.85 resulting in a difference of Kshs.12,110,989.10 which has not been reconciled or explained.

RURAL DEVELOPMENT FUND ACCOUNTS - 2000/2001

345. As Previously reported, for unexplained reasons, the Ministry did not prepare and submit for audit Fund Accounts for the year 2000/2001 on the due date. The Fund Accounts for that year were however submitted in August 2003. The audit of the Accounts revealed that the Balance Sheet of the Fund as at 30 June 2001 reflected a balance of Kshs.15,379,064.85 against the Paymaster General Account, a balance which however has not been ascertained as correct because as in the previous years, no Bank Certificate or Bank Reconciliation Statement have been availed for audit review. Further, the Ministry's Statement of Assets and Liabilities for Deposit 07 as at 30 June, 2001 reflects a debit balance of Kshs.2,794,714.55 against the Rural Development Fund Account which is not only unsupported with analysis but also differs by an amount of Kshs.12,584,350.30 from the figure of Kshs.15,379,064.85 shown in the Fund Balance Sheet as at 30 June 2001. No reconciliation or explanation has been provided for the difference.

RURAL DEVELOPMENT FUND ACCOUNTS –2002/2003

346. The Rural Development Fund Balance Sheet as at 30 June, 2003 reflects a Paymaster General (PMG) Account balance of Kshs.15,379,064.85. However,

no Bank Certificate or Bank Reconciliation Statement has been seen to confirm the correctness of the PMG balance. Further, this particular balance differs by an amount of Kshs.12,528,454.30 from the figure of Kshs.2,850,610.55 shown in the Ministry's Statement of Assets and Liabilities for Deposits 6 as at 30 June, 2003 in respect of the Fund. No reconciliation or explanation has been provided for the difference of Kshs.12,528,454.30 between the two sets of records.

DEPARTMENT OF DEFENCE

PENDING BILLS

347. Records held by the Department of Defence show that bills amounting to Kshs.1,418,575,619.80 as at 30 June 2003 chargeable to the Recurrent Vote R.08 were not settled during the year but were instead carried forward to 2003/2004 financial year. Had the bills been paid and charged to the Appropriation Account for Vote R.08 for 2002/2003, the Appropriation Account would have reflected an excess vote of Kshs.1,391,272,532.10 instead of a net surplus of Kshs.27,303,087.70 now shown.

COMPENSATION AND EX-GRATIA

348. The Recurrent Appropriation Account for Vote R.08 for the year ended 30 June 2003 includes expenditure of Kshs.10,748,738.00 incurred on thirty four (34) claims paid as Compensation and Ex-gratia Payments resulting from accidents involving the Department of Defence's vehicles. Out of the total sum of Kshs.10,748,738.00 an amount of Kshs.810,600.45 was accrued interest arising from delays in settlement of three claims. The expenditure of Kshs.810,600.45 could have been avoided if the three claims were settled in time.

OVERPAYMENT OF SALARY AND ALLOWANCES – KSHS.276,658.00

349. Available information indicates that a Shorthand Typist I, was deployed as a Personal Secretary to the United Nations Force Commander, in Sierra Leone (UNAMSIL) for two (2) years, from 16 December 2000 to 05 December 2002. The officer was released to proceed to UN mission in Sierra Leone on the basis of Directorate of Personnel Management authority of 20 November 2000 which stipulated that all her Personal Emoluments for that period of absence from the civil service were to be paid by the UN. The officer could not, however, be absorbed as a UN employee and the Department therefore decided to

recommend and consider her among the military personnel deployed to UN mission. It was noted that an approval was then granted by a Senior Military Officer that she be paid per diem allowance, continue to receive her salary and also get the UN mission service allowance in accordance with the UN mission guidelines.

350. Apparently, the officer was paid per diem allowance at the rate of Kshs.85,912.50 instead of the approved rate of Kshs.80,698.00 per month for fourteen (14) months which resulted into an excess payment of Kshs.73,003.00. In addition, the officer was paid salary for the months of December 2002 and January 2003 totalling to Kshs.31,830.00 after a PCA No.449/2002/2003 of 16.01.2003 had been issued to stop her salary with effect from 1 December 2002. Further although her assignment with the UN Mission ended on 5 December 2002, the officer continued to draw her UN mission allowance at the rate of Kshs.85,912.50 for the months of December 2002 and January 2003 which totalled to Kshs.171,825.00. The officer has therefore been overpaid by a total of Kshs.276,658.00 in respect of per diem allowance, salary and UN mission allowance. To date no recoveries have been made.

IRREGULAR PAYMENT OF RENT

351. A payment of Kshs.75,000.00 was made to a Major General for rental charges for a house on Plot No.32001/MN – Nyali for three (3) months at the rate of Kshs.25,000.00 per month from July 2003 to September 2003. However, no authority for the payment was quoted and no evidence was seen to show that the house was on lease to the Department of Defence. The authenticity of the payment could not therefore be established.

IRREGULAR AWARD OF CONTRACT FOR PROVISION OF WATER AND REPAIRS

352. The Department of Defence awarded a contract to a firm in Nairobi in 1998/99 to supply and install storage water tanks to married and single quarters at the Department's Camp Administration Unit (DOD CAU), install water at the Unit, put inner structure and fittings in the living quarters and in the mess facilities, and conduct repairs in officers mess houses outside the Unit. The amount to be paid was initially Kshs.25,879,650.00 on completion of the work.

353. The matter was not however discussed or approved by Armed Forces Tender Board and it is therefore unclear how the firm was identified for the award of the contract or how the contract price of Kshs.25,879,650.00 was determined. Available information indicates that the work was carried out under the overall supervision of the Commandant of DOD CAU who was also the A.I.E holder.

354. Available information further indicates that, all payments made to the contractor were made against Local Service Orders (L.S.Os) issued by the A.I.E

holder and care was taken not to exceed the limit of Kshs.200,000 set out in the procurement regulations then in force in respect of LSOs. By June 1999 the contractor had already been paid Kshs.12,561,925.00 leaving a balance of about Kshs.13,879,650.00 which was being disputed by the Department due to the quality of work performed by the contractor. The dispute resulted in protracted correspondence between the contractor and the Department and eventually led to the filing of a Civil case Ref No.2201/2000 at the High Court by the contractor.

355. The case was later settled out of court whereby the contractor was awarded an amount of Kshs.26,436,468.80 in final settlement. The decision to pay out of court was ratified by the Department Tender Committee and the claim thereafter settled by two installments of Kshs.14,000,000.00 and Kshs.12,436,468.80 of 16 August 2002 and 9 April 2003 and charged to Compensation General Account.

356. It is evident that practically all payments to the contractor were made against L.S.O.s originating from DOD CAU. However, the documents together with vouchers in support of the initial payments totalling Kshs.12,561,925.00 were not made available for audit review in spite of efforts made to have them produced. As stated above, the total expenditure of Kshs.38,998,393.80 incurred in the year 2002/2003 and earlier years in respect of provision of water and repairs at DOD CAU appears to have been full of waste and extravagance and exceeded the initial contract sum of Kshs.25,879,650.00 by Kshs.13,118,743.80.

IRREGULAR SALE OF VEHICLES

357. Records maintained by the Department of Defence indicate that a tender notice was advertised in the local daily newspapers in April 2002, to dispose of vehicles, stores, plants and equipment owned by the Department on “as-is-where-is” basis. It was however noted that ten (10) military Land Rovers were sold to three (3) companies for a total of Kshs.1,164,000.00. This amount was received through three bankers cheques dated 9 October, 2002.

358. Available information shows that the ten boarded vehicles were first repaired and/or fitted with new assorted spares and accessories and painted at a total cost of Kshs.3,725,776.15 at Base Workshop (Kahawa) before they were delivered to the three (3) companies. It is a matter of concern to note that the amount realised on sale of these vehicles was not enough to offset the expenditure incurred on repairs. The value of the ten vehicles was therefore not recovered and the additional expenditure of Kshs.3,725,776.15 was extra loss to Government.

LOSS OF DRUGS – MOI AIR BASE (MAB)

359. Examination of records held at Moi Air Base (MAB) revealed that assorted drugs were received and stored at the main drug store. The drugs were then

issued to Base Medical Centre (BMC) drug store through the internal demand and issue vouchers on a monthly basis arrangement. However, on verification it was observed that drugs valued at Kshs.276,189 could not be accounted for. It was alleged that there was a break-in and theft from the main drug store on the night of 19 and 20 August 2003. Though investigations into the theft was said to have been carried out, no loss report was seen or submitted to the Accounting Officer as required under the regulations in force and no action appears to have been taken against the officer or officers who may have been responsible for the security lapse.

Grounded Vehicles

360. Examination of motor vehicle records revealed that 54 vehicles or 40% of the 130 vehicles at Moi Airbase were grounded for various reasons such as engine knock, accident, clutch and gear box fault. Although in some cases the vehicles have been grounded for over three years, there was no indication that any action was being taken to repair them or if not repairable to board them.

PAYMENT FOR SPARES NOT DELIVERED

361. Available information indicate that the Department of Defence ordered aircraft spares and batteries for a total of Kshs.1,536,500.00 from a firm in Nairobi. Subsequently on 22 May 2003 Armed Forces Ordinance Depot (AFOD) wrote a letter to Defence Tender Committee (DTC) requesting for authority to pay in advance the supplier for the purchases because they were urgently needed. In June 2003, DTC granted the authority to AFOD to make advance payment to the supplier subject to the supplier providing bank guarantee from first class overseas or local bank. The firm through a letter dated 9.06.2003 however, indicated its inability to procure a bank guarantee within the available time frame owing to the impending closure of the financial year and requested AFOD to process payment while awaiting the delivery of the spares within fourteen (14) days . Later on, AFOD sought authority from the Logistics section of the Kenya Army Headquarters to process payment in respect of the firm but have the cheque withheld until the spares are delivered.

362. It would however appear that the firm was paid the total sum of Kshs.1,536,500.00 before delivery of spares and although in September 2003, the Logistics section of Kenya Army Headquarters made attempts to have the firm deliver the spares the attempt was unsuccessful because the firm did not respond. So far as I have been able to establish, the firm has not delivered the spares despite having been paid in advance.

ERECTION AND COMPLETION OF MARRIED QUARTERS

363. Records of the Department of Defence in respect of tenders and contracts indicate that the Ministry of Public Works and Housing (MOPWH) advertised

tenders for the erection and completion of married quarters at Moi AirBase (MAB), Kahawa Garrison, Embakasi Garrison and Langata Barracks through a tender notice dated 15/02/2002 in the local daily newspapers on behalf of the Department. On 20/03/2002, the MOPWH opened the tenders and carried out evaluation on 16/04/2002. However, the following Unsatisfactory matters relating to the resultant contracts awarded were detected:-

Erection And Completion Of 192 Married Quarters At Moi Airbase-Job No.0632 Pp -

364. A firm in Nairobi, which had a quotation of Kshs.378,292,119.20 and was evaluated the second lowest tenderer, was awarded a contract to erect and complete thirty two (32) accommodation blocks each consisting of six (6) dwelling units at Moi Airbase in May 2002. The contract commenced on 7/05/2002 with an expected completion date of 21/05/2005. The lowest evaluated bidder, which had a quotation of Kshs.369,735,720.00, was not awarded the contract due to the application of a ten percent (10 %) preferential bias for firms incorporated in Kenya with fifty one percent (51 %) indigenous ownership. However, the Procurement Procedures as stipulated in the Public Procurement Regulations 2001 of 31/03/2001 do not provide for such preferential bias.

365. The then Minister of Finance and Planning, however, opted for a counter offer on 22/07/2002, as earlier requested by Department of Defence, and gave a go ahead for contract documents to be prepared in line with the lowest bid of Kshs.369,735,720.00 in order to resolve the above issue among others. The Public Procurement Regulations however do not provide for a counter offer. Nevertheless the selected second lowest firm accepted the counter offer of Kshs.369,735,720.00 as requested by the Department and opted for by the then Minister for Finance and Planning.

366. Further, the Department made an advance payment of Kshs.75,658,423.80 to the contractor, being twenty percent (20%) of the quoted amount of Kshs.378,292,119.20 which was approved by the Defence Tender Committee in its meeting number 18/01/02 instead of Kshs.36,973,572.00 being advance of ten percent (10%) of the contract sum of Kshs.369,735,720.00 as stipulated in the contract agreement. No justification has been made for the extra advance of Kshs.38,684,851.80.

Erection and Completion of 96 married Quarters at Kahawa Garrison – Job No.0639F.

367. A contract to erect and complete sixteen (16) accommodation blocks each consisting of six (6) dwelling units was awarded to a firm in Nairobi in May 2002 at a contract sum of Kshs.219,858,325.00 the third lowest evaluated bidder. The contract commenced on 21/05/2002 with an expected completion date of

21/04/2004. It is however observed that another firm, the second lowest bidder which quoted Kshs.208,613,421.60 and was recommended for award by the MOPWH evaluation committee was not awarded the contract by the Department on the pretext of not wanting to “put all our eggs in one basket”. As far as it has been possible to ascertain this criteria is not provided for in the Public Procurement Procedures.

368. However, the selected firm accepted a counter offer of Kshs.208,613,421.60 on 23/07/2002 as requested by the Department and approved by the then Minister in charge of Finance and Planning on 22/07/2002. A counter offer is not provided for in Procurement Regulations.

369. On 14/8/2002, the Department made an advance payment of Kshs.43,971,665.00 to the Contractor being twenty percent (20%) of the quoted amount of Kshs.219,858,325 as approved by the Defence Tender Committee on 25/04/2002. The amount payable should however, have been Kshs.20,861,342,10, being ten percent (10%) of the contract sum of Kshs.208,613,342.10, as per the contract agreement.

Erection and Completion of 96 Married Quarters at Embakasi Garrison – Job No.6978R

370. A contract to erect and complete sixteen (16) accommodation blocks each consisting of six (6) dwelling units was awarded to a construction firm in Nairobi in May 2002. The contract commenced on 21/5/2002 with expected completion date of 21/4/2004. The contractor quoted Kshs.210,601,309.00 and was therefore evaluated the third lowest responsive bidder. Another firm, the lowest responsive bidder, which quoted Kshs.199,194,484.60 and was recommended for award by the MOPWH evaluation committee, was not considered for award, for reason of not wanting to “put all our eggs in one basket” since the firm was committed on two other sites, Langata Barracks and Moi Airbase.

371. The selected firm however, accepted a counter offer of Kshs.199,194,484.00 on 23/07/2002 as requested by the Department and approved by the then Minister in charge of Finance and Planning, on 22/07/2002. A counter offer is not however provided for in procurement regulations.

372. On 15/8/02, the Department paid Kshs.42,120,261.80 being twenty percent (20%) of Kshs.210,601,309.00 as advance payment which was approved by the Defence Tender Committee on 25/04/2002. The amount payable should have been Kshs.19,919,448.40 being ten percent (10%) of Kshs.199,194,484.00 as provided for in the contract agreement.

Erection and Completion of 192 Married Quarters at Langata barracks – Job No.072G.

373. A construction firm in Nairobi, which quoted Kshs.361,736,959.20 and was evaluated the lowest responsive bidder was awarded a contract to erect and complete thirty two (32) accommodation blocks each consisting of six (6) dwelling units at Langata Barracks in May 2002. The contract commenced on 07/05/2002 with expected completion date of 21/05/2005.

374. On 11/11/2002 the Department paid the Contractor Kshs.72,347,391.80 being twenty percent (20%) of Kshs.361,736,959.20 as advance payment which had been approved by Defence Tender Committee on 25/04/2002. The amount payable should have been Kshs.36,173,695.90 being ten percent (10%) of Kshs.361,736,959.20 as provided for in the contract agreement. No explanation has been provided for the above anomalies.

FAILURE TO DEFEND COURT CASE

375. A contract for supply of one hundred and thirty five (135) electrical items and equipment was awarded to a firm in Nairobi by Department of Defence through Tender No. 423 (171) 94/95 which was duly adjudicated and approved by the Armed Forces Tender Board (AFTB) in a meeting dated 28.09.1995. The contract was to run for one year from 28.09.1995 to 27.09.1996, on 'as and when required' basis. The contractual period was subsequently renewed for another year to run from 28.09.1996 to 27.09.1997.

376. However, in January 1997 the Audit Inspectorate Branch (A.I.B) of the Department of Defence carried out an audit at Moi Air Base (MAB) which revealed that the firm had tendered invoices totalling Kshs.2,082,754.00 and had been paid for them while no goods had been supplied. In February 1997, the Department terminated the tender and blacklisted the company. The company however, insisted it was innocent of any accusations of wrongdoing and filed a suit in court claiming among other things, special damages for goods supplied but not paid for. The Department did not, however, brief the Attorney General to enable him defend the case. As a result the case was not defended and judgment was entered against the Government in January 2002 and special damages of Kshs.7,465,765.00 were ordered to be paid to the company and other costs of Kshs.305,122.50 plus interest of Kshs.1,955,786.30 at the rate of 12% per annum from October 1999 to January 2002. The decretal amount was not however paid until June 2003 when accrued interest had risen to Kshs.2,763,581.90. The total amount of Kshs.10,534,469.40 was finally paid in June 2003 and charged to Account No. 0-554-004-423 (Compensation General). It is not clear why the Department failed to make available their witnesses when called upon by the Attorney General to do so or why it failed to give necessary instructions to the Attorney General to enable him take up defence on behalf of the Government when the matter was taken to court.

OUTSTANDING FEES AT NATIONAL DEFENCE COLLEGE

377. Examination of records maintained by the Department of Defence revealed that as at 30 June 2003 training fees totalling Kshs.71,300,000.00 were outstanding in respect of sixty two (62) local non-military students who were sponsored by various government Ministries and Departments to various courses at the National Defence College during the years 1997/1998 to 2002/2003. The fees was payable at the rate of Kshs.1,150,000.00 per course per student. No explanation has been given for failure to recover the outstanding training fees from the sponsoring Ministries and Departments. Further there is no evidence of follow up action taken to secure the recovery.

MINISTRY OF REGIONAL DEVELOPMENT AUTHORITIES

ERRONEOUS DOUBLE ENTRIES IN THE LEDGER

378. The Recurrent Appropriation Account for Vote R.09 - former Office of the Vice President and Ministry of National Reconstruction, for the year 2002/2003 reflects over expenditure of Kshs.12,014,736.65 under Sub-Vote 093 – Regional Development, arising mainly under the following Heads:

<u>Head</u>	<u>Details</u>	<u>Amount (Kshs)</u>
989	Lake Basin Development Authority (LBDA)	2,999,999.75
992	Ewaso Ng'iro South Development Authority (ENSDA)	2,999,974.74
993	Coast Development Authority (CDA)	2,999,999.50
994	Ewaso Ng'iro North Development Authority (ENNDA)	<u>3,223,608.20</u>
	Total Kshs.	<u>12,223,582.20</u>

379. The reason given in the footnotes to the Account is that the over-expenditure arose from erroneous double entries in the ledger of expenses incurred by the Ministry of Agriculture before the transfer of the Regional Authorities to the then Office of the Vice President and Ministry of National Reconstruction. It has not however been explained why the erroneous entries were not corrected through normal accounting adjustments. As a result, the Appropriation Account for Vote R.09 does not accurately reflect the operations of the then Office of the Vice President and Ministry of National Reconstruction for the year 2002/2003.

MINISTRY OF AGRICULTURE

PENDING BILLS

380. The records of the Ministry of Agriculture show bills totalling Kshs.742,343,060.65 were not settled during the year 2002/2003 but were instead carried forward to the year 2003/2004. Out of the amount of Kshs.742,343,060.25, Kshs.641,355,681.85 related to the Recurrent Vote R.10 while Kshs.100,987,378.80 related to the Development Vote D.10. Had the bills been paid and the resultant expenditure charged to the Accounts for the year 2002/2003, the Appropriation Account for Vote R.10 would have reflected an Excess Vote of Kshs.365,083,226.25 instead of net surplus of Kshs.276,272,455.60 now shown while the Appropriation Account for Vote D.10 would have reflected a reduced net surplus of Kshs.448,106,974.00 instead of the net surplus of Kshs.549,094,352.80 now shown.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

381. The Appropriation Account for Vote.D10 for the year ended 30 June 2003 reflects gross under-expenditure of Kshs.1,075,022,608.15 or about 37.5% of the estimated gross expenditure of Kshs.2,866,673,062.00 and under-collection of Appropriations-in-Aid of Kshs.525,928,255.35 or 45.17% of the estimated receipts of Kshs.1,164,385,854.00. The reasons given for the under-expenditure and under collection of Appropriations-in-Aid include suspension of procurement process, non availability of expenditure returns from the donor funded projects, non-release of funds by Treasury, delay in documentation process and non implementation of some project activities. Similar reasons have been given in the past and the Ministry appears not to have taken adequate measures to overcome the underlying causes for this situation.

ARREARS OF APPROPRIATIONS-IN-AID

382. In the previous years Reports, reference was made to Arrears of Appropriations-in-Aid (A.I.A) in respect of Agricultural Mechanization Services Stations and Veterinary Services Stations which were omitted from the Statement of Arrears of Appropriations-in-Aid as at 30 June, 1999, 30 June 2000, 30 June 2001 and 30 June 2002. Reference was also made to the arrears which were not brought forward from previous years implying that the debts were either abandoned or settled but there were no supporting documents to confirm the position. The Reports also drew attention to the failure to recover various debts under the Soil and Water Conservation Services for 1991/1992 and earlier years from Prominent Personalities, Government Departments and Private Institutions.

383. A review of the position in 2002/2003 showed that the situation had not changed as the statement for the year had similar unsatisfactory matters. In particular Arrears of Appropriations-in-Aid totalling Kshs.18,755,306.35 from thirteen (13) Mechanisation Services Stations were omitted from the statement of arrears of appropriations-in-aid. No explanation has been provided for this unsatisfactory situation.

ARREARS OF APPROPRIATIONS-IN-AID AT KITENGELA AGRICULTURAL MECHANISATION SERVICES STATIONS-KSHS.1,915,000.00

384. Examination of Revenue Records maintained at Kitengela Agricultural Mechanisation Services (A.M.S.) station in Kajiado District showed that service fees totalling Kshs.1,915,000 due from three farmers for Dam Construction, bush clearing and wheat harvesting services rendered between June and December 1998 were still outstanding as at 30 June 2003. With regard to two of the farmers owing a total of Kshs.1,870,000, it was observed that no job applications were made but the jobs were done allegedly on the instructions of the Deputy Director, Engineering Division, Nairobi and although invoices were sent to him after completion of the jobs, no payments were apparently received from the two farmers. It was also learned that one of the farmers owing a total of Kshs.1,200,000 was a former Head of Civil Service and Secretary to the Cabinet who has since died without paying the debt. Although it was indicated that letters were sent to the defaulters in December 2001, no further action appears to have been taken to recover the amounts from the deceased officer's estate or from the other two defaulters.

UNSUPPORTED EXPENDITURE

385. The Ministry's Appropriation Account for Vote D.10 for the year ended 30 June 2003 submitted for audit includes expenditure of Kshs.189,045,045.00 in respect of two(2) donor funded projects which has been charged in the Account through two Journal Vouchers. The two journal vouchers are not however supported by appropriate documents detailing the nature of the expenditure, the suppliers and the procurement process. In the absence of supporting documentation it was not possible to confirm the propriety of the expenditure.

386. The Appropriation Account further reflects expenditure totalling Kshs.40,777,663.75 which is charged to the Pan African Programme for the control of Epizootics funded by a donor. However payment vouchers supporting this expenditure have not been made available for verification as they were said to be under the custody of the donor. Some photocopies of the payment vouchers made available for audit were illegible and not adequately supported.

387. Further, although some journal vouchers in respect of total expenditure of Kshs.37,072,831.55 were made available for audit review they were found not to

be supported by necessary documentation. In the absence of the original payment vouchers and supporting documentation, it has not been possible to confirm the authenticity of the above expenditure.

EXAMINATION OF PAYMENT VOUCHERS FOR VOTE D.10 FOR 2002/2003

Doubtful Supply and Delivery

388. Examination of payment voucher No.001544 dated 15 August 2002 revealed that Kshs.797,712.50 was paid to a firm for the supply of five (5) Desktop Computers with a unit cost of Kshs.159,542.50. The Counter Receipt Voucher (S13) No.J662410 dated 17 June 2002 indicates that the five(5) Desktop Computers were received. The five (5) Computers were taken on charge on S3 Card No.458470 from which four were issued to DVO Samburu, Moyale, Kajiado and Marsabit. The S3 Card does not indicate where the fifth computer was issued and to whom. The fifth computer was also not physically produced for audit verification and in the circumstance it was not possible to ascertain whether it was actually received and if received how it was accounted for.

389. Examination of payment voucher No.004994 dated 8 November 2002 for Kshs.239,956.00 and payment voucher No.004901 dated 15 November 2002 for Kshs.179,967.00 revealed that these amounts were paid to a firm for the supply of seven printers at a cost of Kshs.59,989.00 per unit. The Counter Receipt Vouchers (S13) No.J796975 and J796974 both dated 16 October 2002 indicate that the printers were taken on charge on stores ledger and card (S3) No.245667. The S3 card does not indicate how the seven printers were distributed and the original S11 which could have been used to confirm who was issued with printers from the store was not made available for audit verification.

390. A visit to the office of the Chief Veterinary Field Officer (CVFO) to confirm the physical existence of the printers revealed that they were not available with CVFO. Further, Senior Assistant Director of Veterinary Services of the CVFO office who had raised the requisition for procurement of the printers confirmed that his office did not receive any printers.

391. Examination of payment voucher No.004993 of 15 November 2002 revealed that Kshs.89,975.00 was paid to a firm for the supply of one UPS 1000VA Serial No.0146230040. The S13 NoJ796972 indicates the UPS was taken on charge on S3 Card No.245668 which was not made available for audit verification. Further, although the S3 indicated that the UPS was issued to the office of CVFO through issue voucher (S11) No.T812222 the original S11 was not made available for audit verification. Physical verification in the office of CVFO revealed that there was only one UPS 1000VA with Serial

No.76PB1100C. In view of the discrepancy in the Serial Numbers it was not possible to confirm whether UPS paid for was received.

392. Examination of payment voucher No.05000 dated 18 November 2002 for Kshs.179,976.00 revealed that the payment was made to a firm for the supply of 6 UPS 650VA at a cost of Kshs.29,996.00 each. The Counter Receipt Voucher (S13) No.J796973 indicated that the six (6) UPS were taken on charge on S3 Card No.217377. However, the relevant issue voucher was not made available for audit verification to confirm who was issued with the six UPS from the store. Although the triplicate copy of S11 indicates the UPS were requisitioned for procurement by Senior Assistant Director of Veterinary Services, the Officer confirmed that the office of CVFO never received the UPS and physical verification revealed that the items were not in the stores. No explanation has been given as to the whereabouts of the six UPS.

EXCLUSION OF EXPENDITURE AND APPROPRIATIONS-IN-AID- KSHS.124,674,364.00

393. The Appropriation Account for Vote D.10 for the year 2002/2003 excludes expenditure totalling Kshs.124,674,364.00 which was incurred during the year through direct payments in respect of four(4) donor funded projects. The Appropriation Account also excludes matching Appropriations-In-Aid in respect to the same expenditure. No explanation has, however, been given for the exclusion of the expenditure and Appropriations-In-Aid from the Appropriation Account.

394. Had the direct payments totalling Kshs.124,674,364.00 been included in the Appropriation Account for Vote D.10 for 2002/2003 both as expenditure and as Appropriations-In-Aid the account would have reflected a higher gross actual expenditure of Kshs.1,916,324,817.85 instead of Kshs.1,791,650,453.85 now reflected. The account would similarly have reflected a higher actual collection of Appropriations-In-Aid of Kshs.763,131,962.65 instead of Kshs.638,457,598.65 now reflected. For the same reason the Appropriation Account would have reflected a reduced surplus of gross estimate over expenditure and reduced deficiency of Appropriations-In-Aid by Kshs.124,674,364.00 respectively but with no effect on the net surplus to be surrendered to the Exchequer of Kshs.549,094,352.80

FAILURE TO PROVIDE FOOTNOTES FOR MATERIAL DIFFERENCES

395. Government Financial Regulations and Procedures require Footnotes to be provided to explain variances of over Kshs.1,000,000.00 above or below the approved estimates and the actual expenditure or actual Appropriations-in-Aid. The Development Appropriation Account for Vote D.10 for the year 2002/2003, however, reflects variances in excess of Kshs.1,000,000.00 under twenty-nine

(29) items of expenditure for which no footnotes have been provided to explain the reasons for the variances.

IRREGULAR PURCHASE OF COMPUTERS AND ACCESSORIES AT THE FISHERIES DEPARTMENT

396. Examination of tender documents at the Fisheries Department for 2001/2002 revealed that on 21 February 2001 tender quotations were invited for the supply of twelve (12) computers and that quotations were received from five (5) firms. A firm which quoted the lowest at a total amount of Kshs.1,560,000.00 was however disqualified on the grounds that it had been blacklisted for failing to supply or supplying substandard products in respect of an earlier tender. The Department was therefore advised to raise fresh quotations.

397. Further examination of tender/procurement documents revealed that fresh quotations were not raised. Instead Agricultural Information Centre (AIC) quotations of different specifications but of superior quality were used to procure the computers. Available information shows that using the AIC quotations the Fisheries Department awarded to the highest bidding firm which had been assessed as being technically qualified to supply twelve (12) Desk Top Computers and Accessories at a unit price of Kshs.150,060.00 all costing Kshs.1,800,720.00 instead of the lowest bidder, which had quoted Kshs.115,000.00 per unit for a total price of Kshs.1,380,000.00. Had the contract been awarded to the lowest tenderer the Ministry would have realised a saving of Kshs.420,720.00.

398. It is not clear why fresh quotations were not called for by Fisheries Department or why a decision was taken to use Agricultural Information Centre (AIC) quotations. This irregularity apart it is not understood why the highest quotation was selected instead of the lowest.

IRREGULAR PAYMENT MADE TO KENYA POWER AND LIGHTING COMPANY LTD. (K.P.L.C.)

399. Examination of payment vouchers revealed that expenditure of Kshs.49,143,183.00 was incurred on payments to Kenya Power and Lighting Company between 4 May, 2000 to 19 May 2002 purportedly being bills for supply of electricity to the Ministry of Agriculture. The payments were made without any reference or consideration of the actual electricity bills indicating account numbers, consumption data and billing details. Under the circumstances, it has not been possible to confirm the propriety of the expenditure of Kshs.49,143,183.00 said to have been incurred for the supply of electricity to the Ministry.

400. Further, the Ministry settled electricity bills totalling Kshs.353,220 for five (5) unclassified customers (Private Individuals) who apparently have no official

position in the Ministry. It was not possible to confirm how long the Ministry had been paying electricity bills for these individuals and private companies, and why public funds were used for this purpose.

401. In the case of Kenya House where one of the unclassified customers is located, the Ministry ceased to occupy that building in 1996 and it has not been possible to ascertain whether it had been paying electricity bills for the existing occupant since that time because the relevant documents were not made available for audit review to ascertain the position. Further the dispatch register maintained at the Ministry's cash office shows that such cheques were either collected by employees of the Ministry who had nothing to do with the payment of electricity bills or employees of the K.P.L.C. Ltd.

402. It has not therefore been possible to confirm the total amounts paid to settle private bills not related to the Ministry in the absence of records showing when the Ministry started paying for such customers.

IRREGULAR ALLOCATION OF GOVERNMENT LAND – KENYA VETERINARY VACCINES INSTITUTE (KEVEVAPI)

403. Examination of records maintained at Kenya Veterinary Vaccines Institute (KEVEVAPI) showed that out of Government Land measuring 93.02 hectares on which Kenya Veterinary Vaccines Production Institute (KEVEVAPI) was established in 1990, 63.97 hectares had been sub divided into separate plots and allocated to seven (7) private firms and individuals leaving a balance of only 29.05 hectares for the Institute.

404. The Ministry appealed against the allocation because the 29.05 hectares left could not conform to the International standards required for production of veterinary vaccines which require that the Institute land be put in quarantine and be isolated to stop straying virus from contaminating the environment. In addition, other than for isolation purposes, the land was used to keep experimental cattle for use in testing the efficacy and safety of the vaccines before they are released to the farmers. However, no action appears to have been taken by the Ministry of Lands to revoke the allocations. It is therefore a matter of concern that land required for veterinary research and drug production has been allocated to individuals leaving inadequate land for this vital activity of national interest.

IRREGULAR ALLOCATION OF GOVERNMENT LAND – KENYA AGRICULTURAL RESEARCH INSTITUTE (KARI) – KIBOKO

405. Examination of records shows that a National Research Centre was started at Kiboko in an area of 22,512 hectares in 1969 to carry out research and implement projects for Range based Livestock Production for the benefit of pastoralists. Although indications are that the Ministry surrendered only 93

hectares to the Ministry of Lands in 1995, available information shows that 4,000 hectares were excised in 1992 and 3239 hectares in 1997 and sub-divided and allocated to unidentified individuals whose records have not been provided for audit review. The status of the balance of more than 15,319 hectares is not known since KARI has not so far managed to acquire the title deed to the land in order to forestall any more illegal allocation to individuals. No explanation has been given for allocating land originally set aside for research to individuals. Further and as stated above the particulars of the allottees remain unknown because the necessary records have not been made available for audit review.

IRREGULAR ALLOCATION OF GOVERNMENT LAND – SOIL AND WATER CONSERVATION FARM NAKURU.

406. Examination of records show that the Nakuru Soil and Water Conservation Farm was set up for Soil Conservation, including Dam Construction, Water Hotels, Bush Clearing and Testing of Machinery. The farm and workshop was also equipped with very expensive equipment. However in December 1995 the Commissioner of Lands approved the allocation of 33 acres out of the initial acreage of 165 acres belonging to the farm 5.25 acres were given to private developers, 14.75 acres were allocated for a primary school while 13 acres on which there are ten (10) Senior Government Quarters and Canteen were allocated to eleven (11) individuals who paid the Government between Kshs.80,000 and Kshs.120,000. The valuations of both land and houses was clearly on the low side since the location is a prime area and each house occupies more than one acre of land.

407. No explanation has been given for abandoning the original objective for which the farm had been set up or for giving up the Government land and houses to private individuals. Further, the initial objectives and purposes for which the soil conservation farm and workshop were set up appear to be still necessary and vital for the country's agricultural development and water and soil conservation but no action appears to have been taken to repossess the Government land and property.

UNCOLLECTED RENT -GOVERNMENT QUARTERS AT KABETE VETERINARY RESEARCH LABORATORIES

408. Examination of records maintained at the Kabete Veterinary Research Laboratories revealed that officers occupying Government Quarters had not paid rent totalling Kshs.11,634,000.00 between 1 July 2001 and December 31 2003. It was noted that some of the occupants of these quarters are employees of parastatals under the Ministry of Agriculture while others are either retired or retrenched officers of the Ministry who should have vacated these quarters immediately after their retirement or retrenchment. No explanation has been provided for failure to collect the rents although it is understood that rent

payments for the houses has since been effected starting from 1st January 2004. No explanation has also been given as to why employees of parastatals, retirees and retirees should continue to occupy Government Quarters.

GRANTS TO KENYA AGRICULTURAL RESEARCH INSTITUTE (KARI)

409. The Appropriation Account for Vote D.10 for the year 2002/2003 reflects grants to Kenya Agricultural Research Institute (KARI) totalling to Kshs.525,535,080.00. However, payment vouchers and journal vouchers made available for audit in support of the payment of grants to the Institute totalled Kshs.400,913,263.25. The difference of Kshs.124,621,916.75 has not so far been explained.

410. In addition, the Institute's accounts for the year ended 30 June 2003 which have been submitted for audit show total grants received by the Institute to be Kshs.509,198,000.00 resulting in a difference of Kshs.16,337,080.00 between the grants reflected in the Ministry's Accounts and those shown in KARI Account. This difference has not been explained.

Grants to other Parastatals

411. During the financial year ending 30 June 2003 the Ministry of Agriculture gave grants totalling Kshs.662,767,934.20 under Development Vote D.10 and Kshs.1,366,512,974.20 under Recurrent vote R.10 to various Organisations and Parastatals. The audited accounts of the Organisations and Parastatals have not, however, been made available for audit review and it has not therefore been possible to confirm whether the grants totalling Kshs.2,029,280,908.40 were received, properly accounted for and utilised for the intended purposes.

PAYMENT FOR WORK NOT DONE AT BONDO DISTRICT FISHERIES OFFICE – KSHS.957,155.00

412. In June 2003 a firm in Eldoret and another in Kisumu were contracted to construct a Jetty and Fish Banda at Uhanya and a Boat Moor at Nambo Beach at contract sums of Kshs.809,155.00 and Kshs.148,000.00 respectively. Local Service Orders were issued to the contractors on 11/6/2003. However, even before the construction work started, payment vouchers were prepared and payments made to the two contractors on 13-6-2003 for the full amounts respectively. The explanation given is that payments were made in advance to comply with the District Accountant's circular dated 6/6/2003 which stated that all payments for goods/services had to be processed by 13-6-2003 in order to close 2002/2003 financial year. Further although in a letter dated 19/6/2003, Bondo District Fisheries Officer wrote to Bondo District Accountant requesting him to withhold the cheques for the two contractors until delivery of goods and services was confirmed, the cheques were nevertheless released but the date of

release is not known. Further, a site verification in September 2003 revealed that the construction work for Jetty and Fish Banda at Uhanya Beach was only at foundation stage with corner and lintel pillars completed while no work had started on the construction of a boat Moor at Nambo beach. I have however been informed that there has been some further progress and that as of 12 February 2004 the construction work done on the Jetty and Fish Banda at Uhanya Beach was at 85% completion level. However, nothing had been done on the Boat Moor at Nambo Beach. No signed contract agreements were seen and it is not known what would happen in case of default by the contractors who were apparently paid before doing the work contrary to Government regulation and procedures. In view of the foregoing, the Government has not obtained full value for the total payment of Kshs.975,155.00.

STATEMENT OF OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA AS AT 30 JUNE 2003

413. In the reports for 2001/2002 and earlier years, it was stated that the records relating to obligations guaranteed by the Government were inadequate and unsatisfactory for proper management of the loan guarantees, as a result of which it was not possible to confirm the accuracy and completeness of the Ministry's Statement of Obligations Guaranteed by the Government as at 30 June, 2002 and earlier years.

414. The Statement of Obligations Guaranteed by Government as at 30 June 2003 shows that total contingent liability of Kshs.9,690,378,106.60 comprising ten loans has not been confirmed by either the Lenders or the Borrowers. The Ministry's records relating to loans guaranteed by the Government continue to be inadequate and unsatisfactory for proper management of the loans guarantees. As a result of the inadequate records, it has not been possible to ascertain the accuracy and completeness of the Ministry's Statement of Obligations Guaranteed by the Government as at 30 June 2003.

STATEMENT OF INVESTMENT BY GOVERNMENT IN LOCAL COMPANIES

415. The Statement of Investment by Government in Local Companies for 2002/2003 reflects shares valued at Kshs.494,180.00 held in eight (8) companies. The audited accounts of these companies have not however been made available for audit verification and consequently it has not been possible to ascertain whether any dividends were receivable from the companies. Further, share certificates with nominal value of Kshs.9,800.00 in five of the companies have not been made available for audit verification and it has therefore, not been possible to confirm Government ownership of the investment.

416. The Statement of Investment by Government in Local Companies as at 30 June, 2003 also reflects shares for Kshs.8,540.00 in the Uplands Bacon Factory,

a company which has been under receivership for many years and whose property has already been transferred to another firm as part of compensation for the land on which Eldoret Airport has been constructed.

417. During the year 1996/97, the Ministry received twenty five (25) ordinary shares of twenty-five (25) shillings each and a further twenty-five (25) bonus ordinary shares from a local company all of which are not reflected in the statement. No explanation has been provided for the omission of these shares in the Statement of Investment by Government since 1996/97.

418. The statement further shows shares valued at Kshs.240,000.00 in Galana Ranching Company which was acquired by the Agricultural Development Corporation on 15/10/1998. As stated in the previous years' reports, the Ministry does not appear to have sorted out the issue of the shares with the transferor and the ownership of shares by Government in this company through the ADC is therefore in doubt.

VETERINARY SERVICES DEVELOPMENT FUND FOR THE YEAR 2002/2003

419. The audit of the Veterinary Services Development Fund Accounts for 2002/2003 has revealed contains a number of unsatisfactory matters. No Bank Reconciliation Statement was prepared during the year under review to reconcile the Bank balance and the Cash Book balance. The Cash Book was also not written up to date. In the absence of a bank reconciliation statement and up to date Cash Book it was not possible to ascertain the cash position of the Fund.

420. The Ministry's Trial Balance as at 30 June 2003 reflected Veterinary Services Development Fund (VSDF) cash held in the Ministry of Agriculture Deposit Accounts amounting to Kshs.145,193,491.25 which amount differed from the amount of Kshs.153,350,370.05 reflected in the Veterinary Services Fund Account. The difference of Kshs.8,156,878.80 has not been reconciled or explained.

421. Revenue amounting to Kshs.214,700.00 generated in the form of Appropriations-in-Aid from sale of a GK Vehicle at DVO's Office in Embu was erroneously remitted to Veterinary Services Development Fund Account instead of being remitted to the Permanent Secretary, Ministry of Agriculture as A.I.A. No action appears to have been taken to transfer the amount to the Ministry's A.I.A. Account.

422. The audit of payment vouchers relating to Veterinary Services Development Fund (VSDF) for the year 2002/2003 revealed a number of unsatisfactory matters. Payment vouchers totalling Kshs.1,083,982.00 were not made available for audit review and therefore the propriety of this expenditure

could not be ascertained. Further, expenditure of Kshs.124,980.00 had no supporting documents and it was therefore not possible to ascertain its propriety.

423. Expenditure of Kshs.647,187.00 was not reflected in the June II ledger and was therefore excluded from the Account. In addition, goods worth Kshs.129,550.00 were purchased by D.V.S. Kabete through the V.S.D.F. for AHITI Kabete Veterinary Services Stores and issued to AHITI Kabete. However, on verification at AHITI it was not possible to ascertain whether the goods were received because they were not taken on charge and there were no records maintained indicating who received them on behalf of the Principal AHITI – Kabete.

424. A firm was awarded the tender to supply furniture items and was paid Kshs.99,000.00 through payment voucher No.0203. Evidence of competitive bidding for supply of the items was not however made available for audit review.

425. Goods valued at Kshs.716,740.00 were received in the stores (DVs Stores) and issued to the workshop but no records were maintained in the stores indicating how they were used or to whom they were issued.

426. A payment voucher No.0723 dated 07 May 2003 for Kshs.106,280.00 indicated that the amount was paid to a firm for the supply of materials for partitioning Deputy Director of Veterinary Services' Office and that the said materials were issued directly to that office. Out of the total quantity of materials purchased, materials valued at Kshs.79,950.00 were not accounted for in the stores records and no explanation has been given for this situation.

427. Kabete Veterinary Water Supply Rehabilitation Augmentation, Construction works costing Kshs.1,479,980.00 was split into four quotations to avoid adjudication by the Ministerial Tender Board which deals with tenders with a value above Kshs.500,000.00. The works were awarded to four separate firms which quoted amounts below Kshs.500,000.00 each. In January, 2004 when an audit inspection was undertaken it was observed that water was not flowing to the respective users although all the four (4) contractors had been paid purportedly having completed the works. It was observed that certificates of completion of the works had been issued by the Provincial Water Officer although no water was flowing to the respective users. No explanation has been given for this state of affairs.

HIDES AND SKINS CESS FUND ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 2003

428. In the Reports for the previous years, reference was made to various unsatisfactory matters relating to the Hides and Skin Cess Fund Accounts for the respective years. In particular, although the fund was abolished in 1986 the necessary winding up formalities have never been undertaken and no

explanation has been given for the failure to take the necessary action. The audit of the Fund Accounts for the year ended 30th June 2003 revealed a number of unsatisfactory matters.

Sundry Accruals and Interest due to other Organizations

429. The balances of Kshs.10,000.00 and Kshs.5,881,85 which have continuously been reflected in the Balance Sheet as Accountancy Fees and Interest due to other organizations are as in previous years, reflected on the Balance Sheet for the year 2002/2003. No explanation has been provided as to how these balances arose and to which other organizations the amounts are due and why they have not been settled.

Sundry Debtors

430. The balance sheet also shows a balance of Kshs.1,397,700.15 and Kshs.246,250.80 as Sundry Debtors M.O.A and other Sundry Debtors respectively while the Trial Balance sheet reflect nil balances under these items. The difference of Kshs.1,643,950.95 has not been reconciled or explained.

Income and Expenditure Account Items

431. The Trial Balance as at 30 June 2003 further reflects two Credit Balances of Kshs.246,250.80 and Kshs.1,397,700.15 under Account Nos.4-187-001-003 and 4-187-001-004 sale of Stores and Interest on Investments respectively. It has however, not been possible to confirm the nature and correctness of these balances because no supporting documents have been made available for audit review. However the credit balances appear to represent fund income, but since an Income and Expenditure Account for the year ended 30 June 2003 has not been produced or submitted for audit, the correct position cannot be confirmed.

Non Inclusion of Debit and Credit Balances in the Account

432. The Trial Balance as at 30 June 2003, reflects three Debit Balances and five Credit Balances which have not been incorporated in the Accounts. One of these Accounts reflecting a debit balance and three of the Accounts reflecting credit balances have no description and it is, therefore, not known what the balances represent. No explanation has been provided for the failure to incorporate these credit and debit balances in the Fund Accounts for 2002/2003 or for the failure to identify the unnamed Accounts.

Cash with Paymaster General

433. The Balance Sheet as at 30 June 2003 reflects Cash Balance of Kshs.49,707,561.25 against Paymaster General Account. The cash balances in the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at

the same date has, however, not been analysed to show separately the balances of each fund under the Ministry. Consequently, it has not been possible to confirm the correctness of the cash balance of Kshs.49,707,561.25.

434. In the absence of Income and Expenditure Account and the necessary explanations and analysis as indicated in the above paragraphs, it has not been possible to attach a meaningful certificate to the balance sheet of the Fund as at 30 June 2003.

DEMONSTRATIONS FARMS FUND FOR THE YEAR 2002/2003

435. As in the previous years, the Funds statement of Income and Expenditure Account for the year under review is inaccurate in that the amounts reflected therein are cumulative from July 1990 when the Fund was established. The Income and Expenditure Account should reflect only the Income and Expenditure for the year under review while the Balance Sheet should reflect cumulative balances of assets and liabilities with necessary adjustments.

436. Although the Income and Expenditure Account for the year under review does not reflect any changes in expenditure for sixteen (16) Farmers Training Centres (FTC) when compared to previous year's Account, the monthly returns show that there was expenditure of Kshs.3,317,075.60 incurred in the sixteen (16) Centres. No explanation has been given for exclusion of this expenditure from the Account.

437. Unlike in the previous years, the Fund's Balance Sheet for 2002/2003 does not reflect the capital of the Fund which according to the 2001/2002 Balance Sheet amounted to Kshs.19,500,000. The Balance Sheet for 2002/2003 does not also reflect the accumulated PMG cash balance which according to the 2001/2002 Balance Sheet stood at Kshs.26,202,442 as at 30 June 2002. No explanation has been given for this omission.

AGRICULTURAL INFORMATION CENTRE-REVOLVING FUND ACCOUNT FOR THE YEAR ENDED 30 JUNE, 2003

438. In the previous years' reports reference was made to unsatisfactory situation regarding the record keeping and accounting for the Agricultural Information Centre (A.I.C.) Revolving Fund. As indicated then, although the Ministry subsequently submitted the accounts for the years 1994/95 to 1997/98 it was not possible to attach a meaningful certificate to those Accounts because the accounts for 1993/94 were still not prepared and submitted for audit. In the absence of the 1993/94 Accounts it is still not known how an amount of Kshs.14,400,000.00 received from a donor during that year was accounted for. A review of the position of the Fund account as at 30 June 2003 showed that the unsatisfactory matters mentioned in the previous years' reports have not been

resolved and it is still not possible to give a meaningful certificate to the A.I.C Fund Accounts for the years 1994/95 to 2002/2003.

439. Further, the approved Budget for the Centre for 2002/2003 indicates that the Centre was expected to raise an income of Kshs.13,793,400.00 during the year against estimated expenditure of Kshs.9,689,530.00 thus realising a budgeted surplus of Kshs.4,103,870.00. However, the Centre only realised actual income of Kshs.7,172,519.65 against actual expenditure of Kshs.7,094,662.30 thereby realising actual surplus of only Kshs.77,857.35. It would therefore appear that either the budgeted figures were unrealistic or the controls over the collection of revenue during the year were inadequate.

440. Available information indicate that debtors amounting to Kshs.2,324,142.00 out of which Kshs.1,815,625.00 related to the years 1997/1998 to 2001/2002 were still outstanding as at 30 June 2003. However, the Fund Account under review reflects only Kshs.508,517.00, leaving out Kshs.1,815,625.00 being the total of outstanding balances which should have been brought forward from the previous years. No explanation has been given for the omission.

441. Further the Revolving Fund Account for 2002/2003 as currently drawn appears to be a hybrid between an accrual and cash account. Under the circumstances it has not been possible to ascertain the correctness of the surplus of Kshs.77,857.35 shown in the Income and Expenditure and the balances shown in the Balance Sheet.

MINISTRY OF HEALTH

PENDING BILLS

442. The records of Ministry of Health show that bills totalling Kshs.468,518,912.60 were not settled in the year 2002/2003 but were instead carried forward to the year 2003/2004. Out of the total figure of Kshs.468,518,912.60, an amount of Kshs.420,878,528.20 was chargeable to the Recurrent Vote while the balance of Kshs.47,640,384.40 was chargeable to the Development Vote. The total of Kshs.468,518,912.60 does not however include returns from Provincial and District Offices and therefore may not be complete and accurate.

443. Had the known bills been paid and expenditure charged to the accounts for the year, the Appropriation Account for the Recurrent Vote R.11 for 2002/2003 would have reflected an Excess Vote of Kshs.377,846,118.20 instead

of the Net Surplus of Kshs.43,032,410.00 now shown while the Development Appropriation for Vote D.11 for the same period would have reflected a reduced Net Surplus to be surrendered to Exchequer of Kshs.498,811,210.60 instead of Kshs.546,451,595.00 now shown.

ACCURACY OF THE APPROPRIATION ACCOUNT FOR RECURRENT VOTE R.11

Double Postings

444. The Appropriation Account for the Recurrent Vote R.11 for the year 2002/2003 shows net total expenditure of Kshs.14,315,629,590 and net surplus to be surrendered to Exchequer of Kshs.43,032,409.00. Examination of the Ministry's ledger however, revealed that there were double postings in the ledger for debits totalling Kshs.2,150,280.65. The net effect of these double postings is the over-statement of net total expenditure of Kshs.14,315,629,590.00 by Kshs.2,150,280.65 while under-stating the net surplus of Kshs.43,032,409.00 by an equivalent amount.

Expenditure on Personal Emoluments and Other Allowances

445. Examination of payrolls and related vouchers for 2002/2003 which were produced for audit review indicated that during the year, the Ministry paid Personal Emoluments, House Allowance, Other Personal Allowances and Medical Allowances in the amounts of Kshs.3,713,398,747.40, Kshs.1,902,243,553.35, Kshs.1,717,687,513.30 and Kshs.400,197,536.55 respectively. However, the Appropriation Account for the Recurrent Vote R.11 for 2002/2003 reflects expenditure against these items as Kshs.3,717,448,980.65, Kshs.2,933,370,904.55, Kshs.1,870,950,960.80 and Kshs.400,181,284.10 respectively.

446. The resultant effect is that, the respective item totals are overstated by Kshs.4,050,233.25, Kshs.1,031,127,352.20, Kshs.153,263,447.50 and understated by Kshs.16,252.45 in the Appropriation Account. In the circumstance, it has not been possible to determine the correctness of the net total expenditure of Kshs.14,315,629,590.00 and net surplus to be surrendered to Exchequer balance of Kshs.14,032,410.00 reflected in the Account.

Unexplained Variations

447. Examination of the Appropriation Account for the Recurrent Vote R11 for 2002/2003 revealed that there were material variations of Kshs.1,029,943.85 and Kshs.23,875,386.15 between approved estimates and actual expenditure under the External Travelling and Accommodation Expenses and Other Personal Allowances items respectively. No explanation has been provided for these variations by way of footnotes.

ACCURACY OF THE DEVELOPMENT ACCOUNT FOR VOTE D. 11

Double Posting Errors

448. The audit of the Appropriation Account for Vote D.11 for the year 2002/2003 revealed that the Ministry's ledger from which the Appropriation Account was drawn shows double posting errors resulting in the over-statement of the expenditure charged in the Account by a total of Kshs.1,484,796.25. No explanation has been given for these errors.

Unvouched Expenditure

449. The propriety of expenditure totalling Kshs.18,574,718.50 shown as incurred in respect of Rural Health II, Integrated Rural Health and Decentralized HIV/AIDS and Reproductive Health Project (DARE), could not be confirmed because the relevant payment vouchers and documentation supporting the expenditure were not made available for audit review. Further, the Trial Balance as at 30 June 2003 reflects a credit balance of Kshs.106,447.40 under Rural Health Project II which has not been analysed or explained. In the absence of an analysis or explanation, it has not been possible to ascertain the accuracy of the balance or establish what it represents.

Exclusion of Expenditure from the Appropriation Account

450. Expenditure totalling Kshs.38,812,261.65 incurred in various Districts in respect of Decentralized HIV/AIDS and Reproductive Health (DARE) and Integrated Rural Health and Reproductive Health Projects was not captured in the Ministry's ledger and was therefore excluded in the Appropriation Account for Vote D11 for the year 2002/2003. As a result of double posting error of Kshs.1,484,796.25 and the exclusion of expenditure of Kshs.38,812,261.25, the Net Expenditure of Kshs.606,671,490.00 reflected in the Appropriation Account for Vote D11 for the year 2002/2003 is under-stated by a net amount of Kshs.37,327,765.00, while the Net Surplus to be surrendered to the Exchequer of Kshs.546,451,596.00 is over-stated by an equivalent amount.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D 11

451. The Development Appropriation Account for Vote D11 for the year ended 30 June 2003 reflects gross under-expenditure of Kshs.3,948,024,195 or approximately 81 per cent of the gross estimate of Kshs.4,893,665,202.00. The Account also reflects under-collection of Appropriations-In-Aid of Kshs.3,401,572,600 or about 91 per cent of the estimated receipts of Kshs.3,740,542,116.00.

452. Reasons given in the footnotes to the Account for the under-expenditure and under-collection of Appropriations-In-Aid include liquidity problems, over estimation, non-receipt of expenditure returns from donors, delay in finalizing modalities for projects implementation and non-release of funds by donors. No evidence has been provided of the steps being taken by the Ministry to address these underlying causes.

NON-COLLECTION OF APPROPRIATIONS-IN-AID

453. Although the Appropriation Account for Vote R.11 for the year ended 30 June 2003 reflects total actual receipts of Kshs.90,824,326.00 against estimated Appropriations-In-Aid of Kshs.89,832,537.00 resulting in excess collection of Kshs.991,789.00, the Account shows that nothing was received from some eighteen (18) Heads from which Appropriations-In-Aid totalling Kshs.3,336,384.00 were expected. The reason given in the footnotes to the Account for non-collection of Appropriations-In-Aid was over estimation.

OUTSTANDING IMPRESTS

454. Records maintained at the Headquarters of Ministry of Health indicate that Temporary Imprests totalling Kshs.9,796,963.95 some of which have been outstanding since 1995 were still outstanding as at 30 June 2003. Out of the above total, imprests amounting to Kshs.2,898,342.00 were due from officers in Job Group 'M' and above, Kshs.2,704,592.20 from officers in Job Group 'L' and below while the balance of Kshs.4,194,029.75 was due from Ex-Officers of the Ministry.

455. Further, Standing Imprests amounting to Kshs.72,587,630.05 which were issued to four (4) officers of the Ministry between July 2000 and January 2002 had not been surrendered as at 30 June 2003. No explanation has been given for not accounting for and or surrendering the above imprests on the due dates.

UNSURRENDERED IMPRESTS AT BARINGO DISTRICT HOSPITAL

456. According to the prevailing Government regulations, Temporary Imprests should be surrendered within 48 hours after the purposes for which they were issued are accomplished. Despite the above regulations, it was observed that imprests totalling Kshs.504,320 issued to various Baringo District Hospital staff for various purposes between July 2001 and February 2003 had not been surrendered as at 30 June 2003. The imprests were issued from Cost-Sharing Account which is contrary to the facility improvement fund procedures that prohibit the spending of cost sharing money at source.

457. Included in the outstanding amount of Kshs.504,320 were two imprests of Kshs.65,000 and Kshs.70,000 issued in December 2001 and January 2003 for

the purchase of foodstuff and preparation of year-end parties for the hospital staff respectively. There is no provision in Government financial regulations for Government funds to be used for funding staff parties and it is not clear why Government funds were used for such purposes in this case. No explanation has been given for failure to recover the outstanding imprests or for the irregular use of public funds for staff parties.

OVER-EXPENDITURE ON PERSONAL EMOLUMENTS AND OTHER ALLOWANCES

458. The Appropriation Account for Recurrent Vote R.11 for the year ended 30 June 2003 shows net over expenditure of Kshs.792,435,869.10 on Personal Emoluments and Other Personal Allowances.

459. Although as in the previous year it has been explained that the over-expenditure was caused by personnel deployed in some stations being paid through Headquarters provision and vice-versa and also due to under-estimation, it is not clear why such considerable over expenditure occurred considering that estimates on Personal Emoluments, House and Other Personal Allowances are based on known actual staff establishments. It is further observed that some heads ended up being grossly over-spent or under-spent. It has not been indicated how the Ministry is addressing this persistent deficiency in budgetary management.

IRREGULAR PROCUREMENT

460. During the year 2002/2003, the Ministry of Health incurred expenditure amounting to Kshs.2,696,050.00 on supply and installation of cold room equipment, insulation of body cubicles, body racks, testing and commissioning of Mukurweini Sub-District Hospital Mortuary in Nyeri District. The expenditure was irregularly charged against Subvote 111, Head 316 Item 222 – Supply of Medical Equipment Phase II as no provision had been made in the estimates for 2002/2003 for the project.

461. Examination of the expenditure and other records at the Ministry's Headquarter further show that the contract for the supply and installation of the equipment and other facilities to the hospital to a local firm in October, 2001 was done by the Hospital Board without the District Tender Committee being involved at any time or informed about the procurement process and the eventual award of the contract to the firm. This was in contravention of the First Schedule to the Public Procurement Regulations (2001) which spells out composition and role of Tender Committees which in the case of the above project and for the purpose of inviting and reviewing quotations for works within the threshold of Kshs.5,000,000.00 should have been the District Tender Committee. No explanation has been provided as to why the procurement regulations were not followed in the above project.

FUEL NOT ACCOUNTED FOR AT KITALE DISTRICT HOSPITAL

462. Examination of fuel records maintained at Kitale District Hospital showed that the Medical Officer of Health bought from two local firms a total of 9,193.88 litres of petrol for Kshs.529,971.00 and of 550 litres of diesel for Kshs.24,750 between June 2002 and December 2002. It was however noted that a total of 5225.88 litres of petrol worth Kshs.325,000/= were paid for using proforma invoices, an indication that the fuel was paid for before it was received while the balance of 4,518 litres worth Kshs.229,721.00 were supported by normal invoices. Further examination however revealed that all the 9743.88 litres of fuel were not received using counter receipt vouchers (S.13) or entered in the bulk fuel register. The fuel was also not entered into the vehicles work tickets and no detail orders were seen to show the vehicles which drew the fuel. In the absence of receipt and disposal documents therefore, it has not been possible to confirm that the fuel was delivered and used by Government vehicles.

MISUSE OF COST SHARING REVENUE AT KISUMU DISTRICT HOSPITAL

463. A cash survey carried out at the Kisumu District Hospital on 29 July 2003 showed that between November 1998 and 30 June, 2003, the hospital had collected a total of Kshs.16,796,271.00 in respect of cost-sharing receipts. According to Facility Improvement Fund (FIF) or Cost Sharing Operations Manual, all the money collected in respect of cost sharing must be banked intact at least once in every two weeks and receipt vouchers (F.O. 17) surrendered monthly to the District Treasury. The Manual further states that it is irregular to spend cost-sharing revenue at source.

464. Contrary to the above requirements, it was observed that out of the total collection of Kshs.16,796,271.00, the Hospital irregularly spent a total of Kshs.11,321,532.00 directly instead of banking the revenue intact and accounting for it at Kisumu District Treasury. An amount of Kshs.10,762,843.00 out of the total irregular expenditure was held at the Hospital in the form of partly paid vouchers not yet accounted for comprising of Kshs.236,446.00 paid to individuals between February 1999 and January 2003, and Kshs.10,526,397.00 paid to the Medical Superintendent on various dates which were not indicated. An amount of Kshs.558,689.00 had been issued to various officials in the form of irregular IOUs. Seven of the IOUs totalling Kshs.27,863.00 had been issued to five (5) officials between March 1998 and December 2000 while 18 IOUs totalling Kshs.363,972.00 had been issued to one (1) official between July 2001 and June 2003. The IOUs were issued for various purposes which included transport operating expenses, purchase of non-pharmaceuticals, stationery, maintenance of buildings and stations among others. So far, both partly paid vouchers and IOUs have not been accounted for.

UNDER-UTILIZATION OF FUNDS FOR MEDICAL SUPPLIES

465. The Appropriation Account for Vote R.11 for 2002/2003 reflects under - expenditure totalling Kshs.121,466,789 or 9.7 per cent of the voted provision of Kshs.1,258,967,297.00 in respect of item 151 – Purchase of Drugs and Dressings, under various heads. The reasons given for the under-utilization of funds include non-delivery of items tendered for by the suppliers and over-estimation. However, considering the acute shortage of drugs and dressings and other medical supplies at Government Medical Institutions, especially in the rural areas, it is not clear why the Ministry failed to make adequate plans to fully utilize the funds provided in the estimates for this purpose.

MEDICAL SUPPLIES FUND'S STATEMENT OF ASSETS AND LIABILITIES

466. The Medical Supplies Fund's Statement of Assets and Liabilities as at 30 June 2003, submitted for audit is a replication of the previous year's Statement. As in the previous years, the Ministry has not provided documents and analyses in support of the balances appearing in the Statement. These include Stock Account balance of Kshs.41,248,486.15, Stock Adjustment Account balance of Kshs.55,916,741.75, Debtors balance of Kshs.34,814,028.00, Goods in Transit balance of Kshs.88,042,217.45 and Creditors balance of Kshs.220,562.95. Consequently, it has not been possible to ascertain the correctness of these balances. Similarly, it has not been possible to ascertain the true financial position of the Fund as at 30 June 2003 including such balances as the Fund Capital and Fund Surplus shown as Kshs.180,743,304.05 and Kshs.36,500,000.00 respectively.

467. As stated in the Report for 2001/2002, the Board of the new Agency, Kenya Medical Supplies established under Legal Notice No.17 of 11 February 2000 was expected to take over all assets and liabilities of the Medical Supplies Fund existing as at that date. However, in the absence of accurate and reliable accounting records and statement of the Fund's financial position, it is not clear how the take over will be effected.

HEALTH CARE SERVICES FUND ACCOUNT

468. The audit of the Health Care Services Fund Account for the year ended 30 June 2003 revealed that the Fund's Income and Expenditure Account for the year ended 30 June, 2003 reflects receipts totalling Kshs.1,111,780,676.90 from various Health facilities while the Trial Balance reflects a balance of Kshs.1,405,815,715.30 giving rise to an unreconciled and unexplained difference of Kshs.294,035,038.40 between the two sets of records. Further, the receipts figure of Kshs.1,111,780,676.90 is not supported by income returns from individual Health Facilities or the Health Care Financial Information System

Report for the year 2002/2003 which were not made available for audit review. The correctness of this figure has not therefore been ascertained.

469. The Income and Expenditure Account also reflects expenditure totalling Kshs.1,063,707,809.70 while the Trial Balance reflects a figure of Kshs.1,422,003,447.25. The difference of Kshs.358,295,637.55 between the two sets of records, has not been explained. The balance of Kshs.1,063,707,809.70 is also not supported with expenditure returns from Health facilities or the Health Care Financial Information Systems Report and therefore it has not been possible to confirm its accuracy. The accuracy of the figure is also in doubt because it does not include expenditure incurred in four(4) Districts where unlikely nil expenditure was recorded.

470. The Trial Balance as at 30 June 2003 further reflects eight (8) Districts which show total receipts figures which are exactly or almost the same as those in the Trial Balance and Income and Expenditure Account for the year ended 30 June 2002. Similarly, the Trial Balance as at 30 June 2003 also shows five(5) districts which reflect total payments figures which are exactly the same as those reflected in the Trial Balance and Income and Expenditure Account for the year ended 30 June 2002.

471. No explanation has been provided for the highly unusual coincidence of the Trial Balances and Accounts for 2001/2002 and 2002/2003 reflecting the same receipts and payments balances in respect of thirteen districts. The indications however are that the Ministry simply transferred the balances in the Trial balance and Income and Expenditure Account for 2001/2002 to 2002/2003.

472. The Trial Balance as at 30 June 2003 further shows that twelve (12) Districts Health facilities incurred expenditure in excess of receipts during the year 2002/2003 in that while the total collections were Kshs.310,045,699.95, the expenditure was Kshs.381,707,479.05 resulting in an excess expenditure of Kshs.71,661,779.10. The source of funding for the excess expenditure of Kshs.71,661,779.10 has not been explained.

473. The Balance Sheet as at 30 June 2003 shows a Paymaster General's balance of Kshs.1,000,200.00 and a Cash at Bank amount of Kshs.196,712,529.25. It has however not been possible to confirm the correctness of the two balances as no Bank Reconciliation Statements have been submitted for audit review.

MINISTRY OF LOCAL GOVERNMENT

PENDING BILLS

474. The Ministry's records indicate that bills amounting to Kshs.1,011,440,956.15 were pending as at 30 June 2003. Out of this amount, Kshs.478,671,313.50 was in respect of Recurrent Vote R.12 while Kshs.532,769,642.65 was in respect of Development Vote D.12.

475. Had the bills been paid during 2002/2003 and charged in the accounts for the year, the Appropriation Account for Recurrent Vote would have reflected Excess vote of Kshs.456,323,458.00 while the Development Appropriation Account would have reflected an Excess Vote of Kshs.375,656,714.60 instead of surpluses of Kshs.22,347,855.50 and Kshs.157,112,928.05 respectively now shown.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D.12

476. The Development Appropriation Account for Vote D.12, for the year ended 30 June, 2003 reflects gross under-expenditure of Kshs.539,698,187.30 which is equivalent to 42.6% of the total gross estimated expenditure provision of Kshs.1,266,564,890. The under-expenditure is explained as resulting mainly from non receipt of certificates from contractors, delays in processing of procurements for the projects, lack of expenditure statements from the implementing and funding Agencies and suspension of funding of Kenya Urban Transport Infrastructure Project.

477. The Development Appropriation Account also reflects under-collection of Appropriations-in-Aid amounting to Kshs.382,585,259.25 out of a total estimated receipts of Kshs.612,180,320. No reasons have been provided in the footnotes for the under-collection.

478. The Appropriation Account further shows two (2) payments made direct to the beneficiaries by donors amounting to Kshs.229,595,060.75 and accounted for as Appropriations-in-Aid under items 940 and 913. The ministry has not made available the relevant documents to enable an audit review of this expenditure and in the circumstance, it has not been possible to confirm the propriety of the expenditure.

UNDER EXPENDITURE AND UNDER COLLECTION OF APPROPRIATIONS-IN-AID (A.I.A) – VOTE R.12

479. The Recurrent Appropriation Account for Vote R.12 for the year 2002/2003 reflects an under expenditure of Kshs.632,708,279.70 or approximately 17% of the gross estimated provision of Kshs.3,668,875,144 in respect of seven (7) items. The Appropriation Account also reflects under collection of Appropriations in Aid (A.I.A) of Kshs.620,150,845 or approximately 18% of the estimated receipts of Kshs.3,367,575,000. The reasons given for the under expenditure and under collection of Appropriations-In-Aid include non release of funds (LATF) to some councils due to failure to comply with LATF regulations, delays in billing by Telkom Kenya and Land Lords and over estimation. However, no action appears to have been taken to overcome these handicaps which adversely affect the Ministry's performance.

LOCAL AUTHORITY TRANSFER FUND

480. The Appropriation Account for Recurrent Vote R12 for the year ended 30 June 2003 reflects Grants to Local Authorities (LATF) amounting to Kshs.2,746,713,640.00 against a provision of Kshs.3,267,000,000.00 under the Local Authorities Transfer Fund resulting in under expenditure of Kshs.520,286,360. As already stated the reason given for non transfer of these funds was failure by some councils to meet the conditions set out in the LATF regulations for Local Authorities to qualify for LATF grants.

481. As a condition for the release of or the transfer of funds to Local Authorities, the Authorities are required to keep proper records and books of accounts and to prepare and submit for audit Abstracts of Accounts for current years. As reported in the previous years the position has been unsatisfactory as most Local Authorities are in arrears in the preparation and submission of the Abstracts of Accounts. Nationally, the 175 Local Authorities had as of 30 June 2003 arrears of some 1183 years of accounts out of which 818 years' arrears were in respect of 44 Local Authorities which were in arrears for periods in excess of 10 years. In the absence of Abstracts of Accounts it has not been possible to ascertain how the resources made available to Local Authorities under the Local Authorities Transfer Fund (LATF) and through other sources of revenue, have been used and or accounted for.

482. Further, although the Appropriation Account reflects disbursement to Local Authorities of Kshs.2,746,713,640.00 as at 30 June 2003 the records held by Kenya Local Government Reform Programme show a figure of Kshs.2,969,243,738.00 thereby resulting in unexplained and unreconciled difference of Kshs.222,530,080.00.

INTERIM OVERSIGHT BOARD FOR NAIROBI CITY COUNCIL

483. The Ministry's records indicate that a total of Kshs.17,309,248.00 was spent on the activities of the Interim Oversight Board for Nairobi City Council in the financial year 2002/2003, out of which Kshs.12,000,000.00 and Kshs.5,309,248.00 were charged to Recurrent Vote R.12 and the Development Vote D.12 respectively. As reported in the previous year, the Agreement between the Ministry and Nairobi City Council setting out the terms of the Government Grant has not been availed and it has therefore not been possible to confirm the propriety of the expenditure of Kshs.17,309,248.00 incurred in the financial year 2002/2003. The total expenditure in respect of which propriety has not been confirmed, therefore stood at Kshs.48,914,953 as at 30 June 2003.

484. In addition, no evidence has been seen to show that the Interim Oversight Board was transformed into a fully-fledged Financial and Management Control Board by the extended deadline of 31 August, 2000 as required in the Agreement between the World Bank and Government of Kenya.

OVER PAYMENT – BUNGOMA SEWERAGE PROJECT

485. A local construction company was on 12 November 1998 awarded Contract No.WW/LA 762B whose main works involved completion of collection sewers and oxidation ponds including necessary appurtenances (supplements) of Bungoma Sewerage Project at an initial contract sum of Kshs.126,472,427.50 which was later revised in April, 2000 to Kshs.171,052,613.40. The project commenced on 4 January 1999 and was to take 12 months as the completion period.

486. Although the actual payment vouchers have not been made available for audit review, the Ministry's Pending Bills records as at 30 June 2003 show that the contractor was over paid by Kshs.9,555,320.25 on certificate Nos. 9 and 10 whose certified amounts are indicated as Kshs.14,938,396.00 and Kshs.20,002,990.70 respectively. The overpayments were Kshs.1,351,989.70 and Kshs.8,203,330.55 on certificates 9 and 10 respectively.

No explanation has been given for the failure to demand refund of the amount or to recover the overpayments from subsequent certificates due to the contractor.

CONSTRUCTION OF AHERO BUSINESS KIOSKS

487. Contract No. KLGRP/009 for construction of Ahero Business Kiosks was awarded to a local contractor in July, 2001 to construct eighty (80) Kiosks at a total cost of Kshs.7,660,637.00. The duration of the contract was to be 6 months while the Project was to be financed 90% by IDA and 10% plus VAT by Stakeholders who were Ahero Town Council and Ahero Jua Kali Traders Groups.

488. The audit examination of records relating to the contract has revealed that the contractor was in August 2001 paid an advance of Kshs.1,179,072 in order to expedite the execution of the works in accordance with Article 24 of the conditions of the contract. However, as stated in the ensuing paragraph the works remain incomplete to date and although there was an unconditional bank guarantee equivalent to the advance payment, the amount has not been recovered and no action appears to have been taken by the Ministry to recover the same.

489. Physical verification carried out at the site in February 2004 revealed that out of the projected eighty (80) kiosks, only sixty (60) were erected from the foundation to near lintel level while the construction of the remaining twenty (20) Kiosks stalled immediately after the foundation level.

490. Although the contract was terminated in January, 2003, reportedly as a result of suspension of KUTIP credit, the Ministry does not appear to have done any assessment of the value of works done. In any case with suspension of the project, the total expenditure of Kshs.3,919,547.15 comprising of Kshs.3,269,264.35 and Kshs.650,282.80 in respect of the Government and other stakeholders respectively, may have gone to waste.

491. The delay in construction and completion of the Kiosks has continued to deny the Council revenue while the other stakeholders who contributed towards the construction have been denied benefit out of their investment.

MINISTRY OF ROADS AND PUBLIC WORKS

PENDING BILLS

492. Examination of records of the Ministry of Roads, Public Works and Housing showed that Pending Bills amounting to Kshs.1,308,895,779.35 were outstanding as at 30 June 2003 out of which Kshs.637,206,000.85 were chargeable to Recurrent Vote R13 and Kshs.671,689,778.50 to Development Vote D.13. Had the bills been settled during 2002/2003 financial year, the Recurrent Appropriation Account for Vote R.13 for the year ended 30 June 2003 would have reflected an excess vote of Kshs.99,743,955.85 instead of net surplus of Kshs.537,462,045.00 now shown while the Development Appropriation Account for vote D.13 would have reflected a reduced net surplus of Kshs.147,031,636.50 instead of a net surplus of Kshs.818,721,415.00.

493. The total pending bills of Kshs.1,308,895,779.35 however exclude uncleared compensation and ex-gratia claims of Kshs.6,209,359.95 and litigation claims due to a supplier of Kshs.417,287,173.00 which were outstanding as at 30 June 2002 and which were carried forward to 2002/2003 financial year.

EXCLUSION OF EXPENDITURE FROM APPROPRIATION ACCOUNT

494. The Appropriation Account for Vote R13 for the year ended 30 June 2003 reflects Under Head 411 – Housing Department Item 361 – Contribution to UN Habitat and Human Settlement an expenditure of Kshs.915,692 against the approved estimates of Kshs.3,662,769. The resultant under expenditure of Kshs.2,747,077 has been explained in the footnotes to the Account as due to delay in processing payment documents for contribution. However, available information indicates that the total amount remitted to the United Nations Human Settlement Programme during the year was Kshs.3,662,769 and not Kshs.915,692 as reflected in the Appropriation Account. The explanation given in the footnotes for the under expenditure does not therefore appear to be correct. It is apparent therefore that the expenditure incurred under Item 361 has been understated by Kshs.2,747,077 resulting in Gross Total Expenditure of Kshs.7,137,682,431.00 reflected in the account being under-stated by Kshs.2,747,077 and Net Surplus to be surrendered to Exchequer of Kshs.537,462,045.00 being over-stated by the same amount.

EXCLUSION OF EXPENDITURE – VOTE D.13

495. In the reports for 2000/2001 and 2001/2002 financial years, it was stated that the Government of Kenya and a firm in Belgium had signed a contract in August 1997 for supply of PABX systems to 198 sites in Government buildings. Expenditure returns at the Ministry's Headquarters indicated that although the PABX were supplied and installed at the total cost of Kshs.1,151,457,735.70 as at 30 June 2002 only expenditure totalling Kshs.1,022,284,702.20 had been accounted for in the Appropriation Accounts for Vote D 13 for the relevant four years. A balance of Kshs.129,173,033.50 was therefore not included in the Appropriation Accounts Vote D 13 for any of the four years during which the project was implemented and no reasons were given for the exclusion of this expenditure from the accounts.

496. Examination of the Appropriation Account for 2002/2003 revealed that during the financial year expenditure of Kshs.37,000,000 out of the excluded amount was accounted for in the Appropriation Account for Vote D 13 leaving a balance of Kshs.92,173,033.50 still excluded. As previously reported, no reason have been given for its exclusion.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

497. The Appropriation Account for Recurrent Vote R.13 for the year ended 30 June 2003 reflects gross under-expenditure of Kshs.3,573,462,093.00 or approximately 33% of the gross approved estimates of Kshs.10,711,144,524.00 in five (5) sub-votes. The Appropriations Account also reflects net under collection of Appropriations-in-Aid (A.I.A.) of Kshs.3,036,000,048 or approximately 35.7% of the total estimated receipts of Kshs.8,481,082,824 in five items of sub-votes.

498. The reasons given for the under expenditure include overestimation and retirement of some employees, late receipt of bills, reduced presidential programmes, limit on the usage of vehicles, suspension of procurement by Government, suspension of training programmes in the field, fuel levy budgetary ceilings and late approval by the Kenya Roads Board.

499. The main reasons given for the under-collection of Appropriations-in-Aid are failure by the Kenya Roads Board to remit all road use levy collections as provided in the Estimates and reduced activities in which students at Kenya Institute of Highways and Building Technology (KIHBIT) participate and charges are raised to generate funds. No explanation has however been provided for failure by the Roads Board to remit to the Ministry the full amount of Kshs.8,256,301,809 approved in the Estimates under Road Use Levy.

500. Records maintained at the Kenya Roads Board also show that the Board disbursed a total of Kshs.5,367,508,374 to the Ministry during the year while the Appropriation Account for Vote R.13 reflects receipts of Kshs.5,172,007,044 in respect of Road Use Levy. The resultant difference of Kshs.195,501,330 has not been explained or reconciled.

WASTEFUL EXPENDITURE

501. In the previous years' reports reference was made to the irregular manner in which consultants were commissioned to design various projects in respect of which there was no adequate provision in the Estimates in respect of both the contracted professional services or for the development of the project. It was indicated that the total fee notes then submitted by the various professional consultants amounted to Kshs.194,251,027.95 against a provision of only Kshs.22,759,800 for the years 1990/91 to 1993/94 out of which Kshs.181,277,765.25 had been certified for payment by June 1994. It was also indicated that while the then Ministry of Lands and Housing had still not sorted out the funding of the projects for which it had commissioned consultants, the Ministry continued commissioning consultants for development of other pool houses without financial allocations for the construction of the houses. The level of fees claimed suggested considerably high cost of the projects as well as

substantial progress in the project implementation while the opposite was the reality.

502. A review of the position during 2002/2003 indicated that the Ministry of Roads, Public Works and Housing received additional fee notes amounting to Kshs.7,273,819.35 and paid under head 400 item 184 and head 404 item 298 in respect of commitments entered into by the Ministry of Lands and Housing for the years 1991/92 to 2002/2003 raising the claims so far submitted to Kshs.481,958,030.80. The fee notes for the projects included claims amounting to Kshs.157,102,853.90 relating to twelve projects which as previously stated have not taken off. It is still not clear whether the plots which had earlier been earmarked for the housing development are still reserved for the purpose and whether the Government is still keen to proceed with the development.

COMPENSATION AND EX-GRATIA PAYMENTS

503. In the Report for 2001/2002, reference was made to compensation and ex-gratia payments totalling Kshs.10,564,358.10 for which subject files in support of the claims had not been produced for audit review and in the absence of which the propriety of the expenditure could not be ascertained. Attention was also drawn to pending claims amounting to Kshs.6,209,359.95 brought forward from 2001/2002 which continued to attract interest. A review of the position in 2002/2003 indicated that the files were still not made available and the pending claims totalling Kshs.6,209,395.95 were still outstanding as at 30 June 2003.

504. The Appropriation Account for Vote R.13 for 2002/2003 reflects expenditure of Kshs.6,061,508.85 in respect of compensation and ex-gratia payments out of which a sum of Kshs.666,755.10 or 10.11% was in respect of interest accrued on delayed payments. Interest accrued on delayed payments constitute nugatory expenditure which could have been avoided if the amounts decreed by the courts were paid within the decreed period. The amount also included a sum of Kshs.1,362,396.40 paid to a firm in respect of repair to the Ministry's lorry, related costs of suit for non-payment and accrued interest thereon.

505. In 1997 the Police Department borrowed the Ministry's vehicle, a Nissan Diesel UD Lorry registration No.GK W 895 for operation purpose during the December 1997 General Elections. The vehicle was subsequently involved in an accident and taken by Police Department to a garage in December 1997 for repairs. Although it is not clear as to when the repairs on the vehicles were done, the firm's advocates on 26 January 2000 served the Attorney General with a notice of intention to sue for non-payment of charges for repair, storage and insurance totalling Kshs.900,000.00 in addition to costs of the suit and interest. Judgment was entered against the Attorney General in the High Court of Kenya on 27 February, 2003 and the Government was ordered to pay a total of Kshs.1,005,640.00 with interest thereon at the rate of 12% per annum from 05

January 2001 until payment in full. This amount included a sum of Kshs.900,000.00 being damages awarded for costs of repairs although the Chief Mechanical and Transport Engineer had given a repairs estimate of Kshs.660,554.20 in his Inspection Report dated 05 May, 1999.

506. During 2002/2003 financial year, payment totalling Kshs.1,362,396.40 was made to the garage in settlement of the case out of which accrued interest and cost of the suit amounted to Kshs.128,386.40 and Kshs.228,370.00 respectively. A review of the position in February 2004 showed that the defects claimed to have been rectified were not well done since the vehicle was taken back to the same garage on 08 January 2004 for major repairs.

GOVERNMENT HOUSING RECORDS – NAIROBI PROVINCE

Houses Allocated to Individuals/Private Developers

507. Audit of housing records relating to Nairobi Province in March and April 2003 revealed that a total of four hundred and twelve(412) government houses had either been allocated to individuals or private developers. Particulars of the allocations and authority for the allocations were not availed for audit review as it was claimed that the records were with the Government Properties Investigation Committee. It was not possible to ascertain the plot numbers, where these houses stood or the names of the allottees in the absence of the records. Although the Committee has since then completed its work and handed over the report to the Minister, the Ministry has not so far availed the records.

Rent Arrears By Occupants of Government Houses

508. Rent arrears amounting to Kshs.960,442.65 were due from fifty six (56) officers as at 31 January 2003. No explanation has been given to show how the arrears came about because under normal circumstances rents are recoverable through the payroll; why the officers have been allowed to continue occupying government houses without paying appropriate rents and how the Ministry intended to recover the rent arrears from the respective tenants.

Government Houses Occupied By Non-Civil Servants

509. Examination of residential houses occupants' records maintained by the ministry showed that some officers employed by parastatal Organizations occupy twenty (20) residential Government houses in various locations within Nairobi. The parastatals for which the officers work include, Kenya Anti Corruption Commission (KACA), Kenya Revenue Authority (KRA), Moi University, Kenyatta National Hospital and Kenya Railways Corporation. The circumstances under which these non-civil servants were allocated government houses has not been explained.

Officers Occupying Government Houses Without Paying Rent

510. It was observed that fifteen (15) officers from the Ministry of Roads, Public Works and Housing were occupying government residential houses without paying rent. On the basis of available information such unpaid rent totalled Kshs.65,800 per month. No explanation has been given as to why these officers were not paying rent or how the Ministry intended to recover all the rent arrears accumulated by the officers.

Ex-Officers Occupying Government Houses

511. Thirty one (31) ex-officers who had either retired or been retrenched were noted to be still occupying government houses. It has not been explained whether such ex-officers continued to pay rent to the government or why they had not vacated government houses.

SUPPLY OF PORTABLE WEIGHBRIDGES

512. Available records show that following award of contract No. RDS/5/2001-2002 to a Nairobi firm the Ministry issued two LPO's No. D209692 and D247477 to the company on 16 January 2002 and 11 April 2002 for Kshs.1,163,530.26 and Kshs.12,529,742.60 respectively for the supply of eleven portable vehicle Weighbridges and training of officers on the operations and maintenance of the equipment. On 28 June, 2002, the Ministry drew cheque No. 113259 for Kshs.12,529,742.60 in favour of the firm and charged the expenditure to Account No. 0-384-013-288. The cheque was not however, released to the payee because the equipment had not been supplied by 30 June 2002. Although the cheque was subsequently released to the firm in December 2002 on condition that the payee provided a "Bank Guarantee", the Bank Guarantee has not been produced to audit review.

513. Inspection of Stores Records maintained by the Weighbridge Section of the Ministry and physical verification of the portable weighbridges on 6 April 2004 showed that the Ministry had not received any of the eleven portable vehicle Weighbridges. Documents produced revealed that, the purported Weighbridges imported into the country by the firm to be supplied to the Ministry did not meet the technical specifications (pre-delivery inspections) due to anomaly with printed tickets, chord length, levelling mats, software and operator's safety. In addition, approval certificate expected to be issued by Weights and Measures Department of the Ministry of Trade and Industry prior to delivery to the Ministry has not been issued and thus proper calibrations can not be confirmed. Further, according to the Ministry's Internal Memo of 19 December 2003 the Bank Guarantee had expired and consequently, the Ministry has no contractual hold on the contractor against which it can recover the money irregularly paid in advance.

REHABILITATION OF SULTAN HAMUD – MTITO ANDEI SECTION OF NAIROBI – MOMBASA ROAD

514. A Contract No. RD 0380 for rehabilitation of Sultan Hamud – Mtito Andei section of Nairobi – Mombasa Road was awarded to an international firm on 11 December, 2002 at their tender sum of Kshs.4,642,112,700.71 following an international competitive bidding. The consultancy service contract for the project was awarded to another international firm on 9 August 2000 at their initial tender sum of Kshs.130,258,267.00 but since the contracting authority was not able to conclude the works contract with the main contractor until 13 December 2002, the contract sum was revised to Kshs.142,436,303 in consideration of the general price increase over the period.

515. It is understood that both contracts were technically evaluated at Treasury but no details have been obtained on how the process was carried out to show whether the tenders were awarded to the most competitive bidders and whether the tenders were adjudicated by the relevant Tender Committees.

516. Available records indicate that the project is wholly financed by the European Development Fund through the European Commission in accordance with the Fourth Lome Convention signed on 15 December 1989, with the maximum fund commitment fixed at EUR 79,500,000. The Government of Kenya funded bill amount to Kshs.81,512,245.90 for general expenses and passage of traffic.

517. The works involved rehabilitation/re-alignment construction of 130.5 Km between, Sultan Hamud to Mtito Andei, with a 7.0m wide carriageway and 2.0m shoulders and the following pavement layers; Single surface dressing; 50mm Asphaltic concrete wearing course; 150 mm Dense Bitumen Macadam (DBM); 125mm graded crushed stone; and 250mm cement improved gravel sub base. The works commenced on 1 April 2003 and are scheduled for completion in thirty months on 30 September 2005.

518. A total of Kshs.2,042,029,888.15 had been certified up to interim certificate No.13 of December 2003. The expenditure includes amount of Kshs.464,211,523.40 and Kshs.928,422,540.14 in respect of 10% advance mobilization and 20% materials advance in accordance with contract, the recovery of which is in progress.

Interest on Delayed Payment

519. A number of unsatisfactory matters have been observed in respect of the project. The contractor has raised two claims for interest on delayed payments on the advance mobilization and the materials advance. The supervisor's representative has recommended payment of these claims at a total sum of Kshs.2,485,894.50 made up of Kshs.168,207.27 in respect of interest on local

currency portion of advance mobilization, Kshs.1,081,039.88 in respect of interest on foreign currency portion of the advance mobilization and Kshs.1,236,647.35 for interest on delayed payment on material advance. It is understood that these claims will be borne by Government of Kenya.

VOP, Taxes and Duties

520. Although the project is duty and tax free, the recommendation for remission of duties and VAT in respect of fuels, oils and lubricants was approved on 18 February 2004, which is over ten months after commencement. An amount of Kshs.49,453,973 had been incurred up to certificate No.12A for valuations as at 30 November 2003 in respect of duties, and taxes for diesel and industrial diesel oil due to the Ministry failure to obtain the necessary approvals for remission on time. It is understood that this expenditure will also be borne by the Government of Kenya.

IMPROVEMENT AND CONSTRUCTION TO BITUMEN STANDARD OF OLENGURUONE – KIPTAGICH ROAD (D319) – CONTRACT NO RG 740-3

521. In the Report for 1997/98 it was stated that in April 1998 Nakuru District Tender Board awarded a tender No.740-1 for improvement and gravelling of some 68 kilometres of Sururu- Likia – Pombo (Olenguruone) roads to a Construction Company at a contract price of Kshs.148,138,716.70. Although the firm was the lowest bidder, the rate of charge for the project worked out to Kshs.2,178,510 per kilometre. Thereafter the company was paid Kshs.22,220,870.50 as advance mobilisation fee but justification for payment of advance mobilisation was not provided.

522. It was further stated that during the same month, the residents of Olpusimoru Location wrote to the Provincial Commissioner, Nakuru, requesting the Government to murram the road between Kiptunga and Metikei alongside the one from Pombo as part of Sururu – Olenguruone Road improvement. The Provincial Engineer, Rift Valley, wrote to the Accounting Officer requesting that a further 179 kilometres be added to the project and also recommended that the works be given to the same contractor. As indicated in that report the then Accounting Officer issued the Construction Company an award letter dated 30 July 1998 for the works as contract No. 740-2 for a contract sum of Kshs.555,125,285 following deliberation and recommendation of the District Tender Board.

523. Available information has revealed that the contract sum was revised upwards from Kshs.555,125,285 to Kshs.1,034,266,782.66 in May 2002 through an Addendum No.1. This variation order of Kshs.470,141,497.66 was approved by the Nakuru District Tender Board on 23 May 2002 after the matter was referred to the Board by the Accounting Officer on 17 May 2002. This variation

order has been attributed to the increase in quantities on the road project, total reconstruction and realignment in most sections which were not originally planned and the establishment of the actual total length of the road by survey works to be 189.3 kilometres as opposed the original 174 kilometres at the inception of the project.

524. A review of the position during the year 2002/2003 has revealed that another Contract No.RG 740-3 was awarded to the Construction company on 20 December 2002 through a variation order for improving and construction to bitumen standard of 24 kilometre road and gravelling of 13 Kilometre of the loop section of Olenguruone – Kiptagich Road (D319) for a sum of kshs.695,858,449. This was awarded as a variation to the original contract No. RG 740-1 for Kshs.148,138,716.70 which was awarded to the same firm in April 1998. It was to run for twenty four months from 23 December 2002 to 23 December 2004. This brought the total cost of the three contracts to Kshs.1,878,263,948.36. The total contract sum now standing at Kshs.1,878,263,948.36 is 1168% of the original contract sum of Kshs.148,138,716.70. The Government Financial Regulations and Procedures in force currently allow variations of only 10% of the original contract sum and requires any variation above 10% of the original contract to be tendered for as a separate contract. No explanation has been provided for the Ministry's failure to adhere to Government Financial Regulations and Procedures in this case.

525. When the project was inspected in December 2003, it was observed that twelve months of contract period for Contract No.RG 740-3 had elapsed but only 26% or about 6 kilometres of the works had been done. According to Payment Certificate No.8 expenditure amounting to Kshs.79,674,837.89 had been incurred on Contract No. RG 740-3 as at 28 November 2003. On the other hand expenditure totalling Kshs.934,573,918.80 had been incurred on the three contracts as at 30 June 2003 out of the total contracts sum of Kshs.1,878,263,948.36.

CONSTRUCTION OF KATUMANI – WOTE

526. In the Report for 2001/2002 it was stated that the contract for construction of 67.1 Km Katumani - Wote road was tendered through international competitive bidding and awarded jointly to a South African and a Kuwait firm in December 1998 at a cost of Kshs.2,065,574,712.93. A Nairobi consulting engineering firm was engaged to supervise the project at a cost of Kshs.74,287,275. The project was funded by the Kuwait Fund for Arab Economic Development, the OPEC fund for International Development and the Government of Kenya in the proportions of 70%, 18% and 12% respectively.

527. The scope of work involved construction, completion and maintenance of 67.1 Kilometres of earth/gravel road to bitumen standard, 8 Kilometres of bitumen standard township roads and 7 Kilometres of extensions. The works

commenced on 24 February 1999 and were originally scheduled for completion on 23 February 2002. However, citing increase in cut to spoil quantities, delays in approval of customs exemptions and bad weather, the contractor applied for and was granted extension of (77) days up to 11 May 2002. The works were not however, completed by the approved time extension period and the contractor submitted a further time extension request for (12) months. The project was inspected and approved for substantial completion on 28 November 2002 subject to finalization by the contractor of the outstanding works during the defects liability period. In this regard, Certificate No. 45 for valuation up to November 2002, indicated total certified expenditure of Kshs.1,705,982,119.21 or 83% of the contract sum of Kshs.2,065,574,712.93. However, due to the extended project period, the supervision contract cost had increased from Kshs.74,287,275 to Kshs.104,731,299.

Provision and Maintenance of Staff Houses

528. An examination of the contract records following the final completion inspection held on 17 December 2003 has revealed a number of unsatisfactory issues. The contractor had tendered and constructed five types of houses numbering forty three (43) for Resident Engineer's staff at a total cost of Kshs.63,059,805.21. The houses were also furnished and equipped. According to clause 141 of the special specifications, payment for the houses was to be made, 40% lump sum on completion and acceptance, 40% equal monthly instalments over the contract period and the balance of 20% when buildings are handed over or removed from site.

529. The contract further provided that the contractor was to be paid for maintenance of the houses for any granted time extension but no payment was payable beyond the authorized time extension. The scheduled project period was extended from 23 February 2002 to 20 May 2002. A scrutiny of payment certificate no. 51 of February/March 2003 reflects a total payment of Kshs.70,373,735.49 for the houses, which, based on the referred contract payment procedure and an additional 3 months time extension, included an overpayment of Kshs.4,676,284.04.

Sale of Furniture and Equipment

530. Clause 132 on housing for Resident Engineer's senior staff had also provided a list of new furniture and equipment to be installed in the houses. Available evidence indicates that upon completion of the project a board of survey was convened on 17 December 2002, by the Provincial Works Officer Eastern where the disposal of furniture and equipment was discussed and a list of reserve prices agreed upon. Although it is understood that the good furniture and equipment was sold while the broken furniture was found to have been stored in one of the currently unoccupied houses, it has not been indicated to whom and how the furniture and equipment was sold and who was holding the amount realized from the sale.

Variation of Prices

531. A total of Kshs.330,083,466.43 has been certified for variation of prices upto certificate No. 52 of October 2003 out of which Kshs.134,954,515.29 relates to rise in labour costs and the balance of Kshs.195,128,951.20 on other items under clause 70 of the conditions of contract. The expenditure of Kshs.330,083,466.43 represents a variation of Kshs.82,214,500.80 or 33% from the tendered provision of Kshs.247,868,965.59. Although variation of prices due to market forces is catered for and acceptable under the contract it is important that the Ministry puts in place appropriate control measure to ensure that contractors do not quote low basic prices only to cash in on the VOP claims as appears to have happened in this case resulting in the variation of prices of 33% or Kshs.82,214,500.80.

Cost Overruns

532. It has been observed that overall an amount of Kshs.1,883,495,584.66 had been certified on the project up to Certificate No. 51 of March 2003. However, six (6) items in the bills of quantities reflect massive over expenditure of between 45% to 204% without any specific explanations being provided for the over expenditure.

Liquidated Damages

533. The adopted date for the substantial completion of the project is 22 January 2003. Liquidated damages amounting to Kshs.4,920,000 are therefore recoverable from the extended completion date of 20 May 2002 to 21 January 2003 at the rate of Kshs.20,000 per day. A total of Kshs.4,240,000 has been recovered up to certificate No. 52. The balance of Kshs.680,000.00 has however not been recovered.

REGRAVELLING OF KIRIMA – NDUNYU NJERU – GATE A (D389/D391/D392) AND RESEALING OF KIRIMA – NAIVASHA (D393) ROADS

534. In the Report for 2001/2002 it was stated that in May 2001 a contract for regravelling of a 34.57 kilometres stretch of road between Kirima – Ndunyu Njeru – Gate A and resealing of 14.06 kilometres Kirima – Naivasha roads was awarded to a construction firm at a contract sum of Kshs.458,894,028.90. Works commenced in September 2001 for a contract period of (18) months with an expected completion date of March 2003. In December 2002, slow progress of the works was noted and this was later confirmed in the project monthly Progress Report dated July 2003. It was also indicated that work certified and paid up to Certificate No.14 of May 2003 amounted to Kshs.388,613,036.12 or 84.5% of the contract sum of Kshs.458,894,028.90 against 74% of permanent works achieved.

535. A review of the position during the audit of 2002/2003 accounts revealed that works certified and paid up to Certificate No.16 of February 2004 amounted to Kshs.418,845,861.46 or 91.3% of the contracted sum of Kshs.458,894,028.90 but only 74% of permanent works had been achieved. As reported previously payment vouchers and six supporting certificates Nos. 5 to 10 for total expenditure of Kshs.172,303,498.88 for the period up to July 2003 have not been produced to date for audit review. In the absence of these six certificates, it has not been possible to ascertain the propriety and validity of the expenditure of Kshs.172,303,498.88 out of the amount of Kshs.418,845,861.46 paid up to certificate No.16 of February 2004.

Cost Overruns

536. Further examination of payment certificate No.16 of 9 February 2004 indicate quantity overruns and resultant cost overruns of Kshs.93,690,430.00 in fifteen (15) items in the bills of quantity. No explanation has been given for these overruns.

Material Tests

537. Records held at the Ministry indicate that the contractor has been using 6/10 chipping for surface dressing, whose flakiness index of 37 to 41 is very high and their grading too fine. Tests indicate that Asphalt concrete (AC) which is being surface dressed had failed the required standard.

CONTRACT NO. RG 870 – 03 FOR IMPROVEMENT AND GRAVELLING OF KORMOR – BARWESA (D364), KINYACH – ARROR (E 332) AND BARWESA – KINYACH – KOLOWA KAMUSINO – CHEPTUKOL (E 333) ROADS

538. The contract for improvement and gravelling of Komor – Barwesa (D364), Kinyach – Arror (E 332) and Barwesa – Kinyach – Kolowa – Kamusino – Cheptukol (E333) roads was awarded to a construction firm on 20.5.2002 at their tendered contract sum of Kshs.450,384,855.00.

539. The scope of works involves gravelling a total length of 132.7 Km in Kerio Valley and other auxiliary works. The project commenced on 6 August 2002 under the supervision of the Ministry and is scheduled for completion in 24 months on 6 August 2004.

Proposed Assignment of Contract

540. On 7 August 2002, the contractor requested and was granted approval by the Chief Engineer to sub-contract works valued at Kshs.128,286,960.00 to another construction firm but subject to providing details of particular works to be subcontracted as per the bill items to ensure a coordinated and continuous

output of works. However as the works progressed, it emerged that the approved sub-contractor was performing most of the works. In a bid therefore to regularize this position the originally contracted firm citing their implementation of a major restructuring programme including financial re-organisation, requested the Ministry for an approval to assign the contract to the sub-contractor who they said had accepted to take full responsibility for the contract.

541. Although the Ministry on 5 August 2003 asked the contractor to submit a contractual justification for their request to assign the contract, no such contractual justification appears to have been submitted and no evidence has been seen of a decision having been made to assign the contract accordingly.

Suspension of Contract and Demobilisation

542. Besides the matter of contract assignment, the implementation of the project was from the onset grossly affected by delayed payment of interim certificates, forcing the contractor to slow down the works from 17 April 2003 after duly serving the required notices under the contract agreement. In this regard available evidence shows that by 30 June 2003 no payment had been made to the contractor and as a result the contractor formally suspended the works from 2 July 2003 by which date a total of Kshs.76,510,539.50 was outstanding for certificates No.1 to 6 for the period November 2002 to March 2003.

543. Subsequently, citing prohibition by contract clauses from claiming idle time during period of suspension/reduced progress of works, the contractor sought and was granted authority to demobilize from site on 11 September 2003. By this date partial payment had been made amounting to Kshs.21,746,128.92 for certificates Nos. 1 and 2. By the time of demobilization the percentage of works completed was 22.2% including actual completed gravelling between Km 00 to Km 16 + 725.

Financial Status and Nugatory Payments

544. Payments certified for works carried out upto 15 December 2003 amounted to Kshs.97,266,564.80 or 22% of the contract sum. This amount included Kshs.5,081,357.44 in respect of avoidable interest caused by delays in payment of certificates No.1 to 7. The amount also includes Kshs.3,385,738.80 for time related costs during the period of contract suspension. The continued breach of contract by the Ministry continues to increase the risk of escalation of nugatory payments and possibility of contractual claims which will undoubtedly increase the cost of the project.

CONTRACT NO. RD0394 FOR PERIODIC MAINTENANCE OF NGONG-KISERIAN ROAD (D523)

545. Audit of records and expenditure documents in respect of contract No.RD0394-Periodic Maintenance of Ngong-Kiserian Road (D523) project has revealed a number of unsatisfactory matters. The contract was awarded to a construction firm through a letter dated 29 June 2001 at a contract sum of Kshs.217,265,687.50. However, no evidence has been produced to show that it was procured through competitive tendering in accordance with the Public Procurement Regulations. Further, relevant tender committee minutes have not been produced for audit review.

546. The order to commence work was issued on 4 September 2001 and the actual work started on 4 October 2001 for a contract period of eighteen months up to 4 April 2003. An audit site inspection on 13 November 2003 revealed that the works were still on going and were approximately 75% complete as evidenced in Monthly Progress Report No.14 of October 2003.

547. According to Monthly Progress Report No.14 of October 2003 the contractor had applied for extension of contract period by (416) days but the Engineer approved 19 days only. The contractor again submitted another request on 20 August 2003 for the extension by additional (87) days which apparently has not yet been considered by the employer. It is not clear therefore whether the Ministry has invoked section 128 of the Special Specifications of the contract and started charging the contractor liquidated damages of Kshs.30,000.00 per day with effect from 23rd April 2003 for failure to complete the works within the time stipulated in the contract.

548. In the Bills of Quantities, provisions had been made under items 1.02 and 1.03 of Kshs.1,000,000.00 and Kshs.2,000,000.00 respectively for acquisition of land and construction of Resident Engineer's Office. Pursuant to that provision, one (1) hectare of land was to be bought at Kiserian and registered under Permanent Secretary, Ministry of Roads and Public Works. A sum of Kshs.2,000,000.00 was to be used to construct, equip, furnish and maintain engineer's Representative Office and (3) No.Uni-huts of 3.5m diameter each. Examination of Interim Payment Certificate No.7 of 17 October 2003 for Kshs.12,423,753.15 revealed that no expenditure has been incurred so far on items 1.02 and 1.03. No explanation has been provided as to why the office has not been constructed despite the provisions in the Bills of Quantities. However as indicated in paragraph 5 below the contractor has irregularly occupied Ministry's Works camp and facilities at Ngong and this appears to be the reason for failure to construct and equip the Resident Engineers Office as provided for in the contract.

549. Information available indicate that following the award of the contract to the firm on 29 June 2001, the contractor immediately mobilised and camped

illegally at Kenya Institute of Highway and Building Technology – Ngong Residential Maintenance Camp, without obtaining prior permission from the Accounting Officer. Having unilaterally allocated himself Government facilities he has to-date not constructed site office and has continued to use the Ministry’s land and buildings evidently without even paying rent, electricity, water and ground maintenance charges.

IMPROVEMENT OF SIAKAGO TOWN – UGWERI MARKET – ENA JUNCTION ROADS: CONTRACT NO.MRE/19/98-99

550. A contract for Improvement of Siakago Town – Ugweri Market – Ena Junction roads was awarded by the Mbeere District Tender Board on 9 April 1999 to a firm at a sum of Kshs.27,794,010.80. The project was financed by the European Commission through Stabex Fund. The works commenced on 18 August 1999 and were expected to be completed on 18 March 2000. The scope of works involved rehabilitation to gravel standard of approximately 19.24 Km roads. Audit of the project records has revealed the following matters:-

551. Although the project was substantially completed on 25 February 2003 by which time work valued at Kshs.25,054,286.80 had been done according to Certificate No.6, the contractor was owed Kshs.4,021,335.09. This amount included pending claims of Kshs.2,074,861.50 in respect of Certificate No.4.

552. Information available indicate that the pending claims by the contractor includes amounts advanced by the contractor to the projects two Resident Engineers but which the Engineers have failed to account for. The information shows that two Resident Engineers had been advanced a total of Kshs.1,370,540.00 by the contractor to pay quarry owners compensation for material sites acquired. The Resident Engineers appeared to have accounted for a sum of only Kshs.355,000.00 leaving a balance of Kshs.1,015,540.00 unaccounted for. The unaccounted for balance included an amount of Kshs.429,000.00 due to three quarry owners.

553. The contractor also issued the two Resident Engineers with a total of Kshs.1,211,137.45 for Resident Engineer’s vehicle maintenance, support staff allowances and casual wages. The Resident Engineers apparently accounted for a sum of only Kshs.640,328.45 only leaving a balance of Kshs.570,809.00 unaccounted for.

554. The contractor was also entitled to overhead costs and profits equivalent to 20% in respect of compensation and acquisition of material sites costs and 50% in respect of Resident Engineer’s vehicle maintenance costs and support staff allowances and casual wages respectively. However, such overhead costs and profits totalling Kshs.203,108.00 and Kshs.285,404.50 respectively had not been paid to the contractor.

555. The claims in respect of the pending bills of Kshs.2,074,841.50 to the contractor are contained in a letter dated 06 June 2003. According to the letter, the Ministry had agreed to prepare an AIE for the payment of the pending bills. The circumstances under which the Ministry was to meet the contractor's pending bills are not clear considering that the money from which the bills should have been met appear to have been misappropriated by the two Resident Engineers who are still in service with the Ministry.

STATEMENT OF REVENUE HEAD 200-130 RENT OF BUILDINGS

556. Audit of the Statement of Revenue Head 200-130 Rent of Buildings for the year ended 30 June 2003 and related records has revealed the following unsatisfactory matters:

Rent of Government Buildings and Housing

557. The statement shows that revenue received in respect of Rent of Government Buildings and Housing during the year amounted to Kshs.583,953,908.85 whereas the Rent Collection Register maintained by the Buildings and Housing Maintenance Section of the Ministry reflects an amount of Kshs.601,522,777.40. The difference of Kshs.17,568,868.55 between the two figures has not been reconciled or explained.

558. Further, the amount of rent received by Rent Collectors as shown in their respective registers differs considerably with related rents received by the Accountant in the Buildings and Housing Maintenance Section. The Building and Housing Maintenance Section recorded a total collection of Kshs.601,522,777.40 while the collection from the individual collectors amounted to Kshs.484,805,584.30 only. The difference of Kshs.116,747,193.10 has not been explained.

559. The estimated rent receivable in respect of Government Buildings and Housing in the year 2002/2003 was Kshs.434,000,000 against the actual collection of Kshs.583,953,908.85 reflected in the statement of Revenue. Although the over collection of Kshs.149,953,908.85 has been explained in the footnotes to the Statement of Revenue as rent recoveries of June 2002 which had not been received by the Ministry as at 30 June 2002, detailed analysis has not been provided to support the explanation.

Rent Records

560. In the Report for 2001/2002 it was stated that the Buildings and Housing Maintenance Section of the Ministry had assigned certain officers to collect rent due from tenants occupying government houses and cheques for rent recoveries from Government Ministries. Each officer was said to maintain a register in which the rents and cheques collected were entered before being handed over to

the Accountant in charge of rent collections who also maintained the Main Collection Register. During the year under review cheques amounting to Kshs.5,181,034.80 collected by various collectors and recorded as received in the registers maintained by individual officers could not be traced in the main Rent Collection Register. It was not therefore possible to ascertain whether the cheques in respect of rent receipts not recorded in the Main Rent Collections Register were properly accounted for.

Webuye Housing Scheme – Rent

561. The statement of Revenue for the year ended 30 June 2003 shows that no revenue was collected under Webuye Housing Scheme against estimated receipts of Kshs.5 million. According to the foot-notes, the under collection of the same amount was due to the revenue being received directly by the Treasury from tenants rather than through the Ministry of Roads, Public Works and Housing. As indicated in the previous Report, the Financial Secretary, Treasury, has not been appointed Receiver of Revenue for Head 200-130 but continued to collect the rent for Webuye Housing Scheme directly instead of the Ministry. The arrangement apparently arises out of the fact that the lease agreement covering the houses between Government and Webuye Paper Mills was signed by the Financial Secretary as the landlord. The Financial Secretary, Treasury, also maintains the rent payment records. No explanation has however been given for not appointing the Financial Secretary as the Receiver of this Revenue.

MINISTRY OF TRANSPORT & COMMUNICATION

PENDING BILLS

562. Records maintained by the Ministry show that bills totalling Kshs.91,871,019.10 relating to 2002/2003 were not settled during the year but were instead carried forward to 2003/2004. Out of the total amount of Kshs.91,871,019.10, bills amounting to Kshs.75,171,098.10 were not settled due to lack of adequate provision while the balance of Kshs.16,699,921.00 was due to liquidity problems. Had the bills been settled and charged to the accounts for the year 2002/2003, the Recurrent Appropriation Account for Vote R.14 would have reflected an excess vote of Kshs.83,303,522.55 instead of a net surplus to be surrendered to the Exchequer of Kshs.8,567,496.55 now shown.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

563. The Development Appropriation Account for Vote D.14 for the year 2002/2003 reflects gross under-expenditure of Kshs.213,988,300.00 or approximately 71% of the gross total estimate of Kshs.299,699,730.00. The Account also reflects under-collection of Appropriations-In-Aid of Kshs.180,000,000.00 representing 100% of the estimated receipts of Kshs.180,000,000.00.

564. The reason given in the footnotes for under-expenditure and under-collection of Appropriations-In-Aid is failure by the donor to release funds during the year for the overhaul of the Kenya Railways Locomotives. No reason has however been given as to why the donor failed to release the funds.

EXPENDITURE ON PERSONAL EMOLUMENTS

565. The Appropriation Account for Vote R.14 for the year ended 30 June 2003 reflects total expenditure of Kshs.622,167,938.80 in respect of Personal Emoluments which however differs by an amount of Kshs.15,512,987.55 from the total expenditure figure of Kshs.606,654,951.25 shown in the payroll and other salary payment vouchers. No satisfactory explanation or reconciliation has been provided for the difference of Kshs.15,512,987.55 between the two sets of records.

IRREGULAR EXPENDITURE

566. In October 2002, the Permanent Secretary, Ministry of Transport and Communications wrote to the Permanent Secretary, Ministry of Finance and Planning requesting for funds to facilitate campaign for a former Director of Kenya Meteorological Services who was bidding for the post of Secretary General of the World Meteorological Organization (WMO). In the request, the Permanent Secretary indicated that the President of the WMO had in June 2002 announced retirement of the then incumbent Secretary General after expiry of his term on 31 December 2003. A new Secretary General was therefore to be appointed during a World Meteorological Congress then scheduled for 5 May 2003 to 24 May 2003.

567. In his letter, the Permanent Secretary Ministry of Transport and Communications also indicated that the Government had nominated the former officer to vie for the post and highlighted the activities relating to the campaign as including: visits by the candidate to Presidents of six regional Associations of WMO; visits to a number of influential member countries in Europe, America and Asia; assistance to the economically disadvantaged WMO member countries that are known to be supportive of the candidate through facilitation of their

attendance to the congress where they would participate in voting; and travel to Geneva, Switzerland by some members of staff of the Kenya Meteorological Department to provide logistical support during the period of voting.

568. In a response to the request dated 11 November 2002, the Permanent Secretary, Ministry of Finance and Planning declined to provide the funds explaining that the financial support requested was not permissible within Government Financial Regulations. He further advised the Permanent Secretary to mobilize support for the officer's election from other WMO member countries either directly or through the Ministry of Foreign Affairs and International Co-operation.

569. Nevertheless and in an apparent complete disregard of Treasury's decision and advice in the matter, the Ministry went ahead and spent a total of Kshs.53,200,000.00 incurred on the campaign for the officer, the money being issued in two tranches to the Permanent Mission of the Republic of Kenya to the United Nations. Apart from the fact that the above expenditure was unauthorized and irregular, payment vouchers and other relevant records relating to the expenditure have not been made available for audit review. Further, information available indicate that despite the very substantial expenditure of Kshs.53,200,000.00 incurred on the campaign, the officer was not successful in his bid for the post of Secretary General of MWO.

UNACCOUNTED FOR EXPENDITURE

570. Expenditure records maintained at the Ministry's Headquarters indicate that an amount of Kshs.5,000,000.00 was sent to the Office of the Kenya Representative to the International Civil Aviation Organisation (ICAO) in Ottawa, Canada through the Ministry of Foreign Affairs and International Co-operation, against payment voucher number 000309 dated 7 August 2002. The amount represented the 1st half allocation budget for the office for the year 2002/2003. However, according to the Appropriation Account for Vote R14 for the year ended 30 June 2003, expenditure of Kshs.4,120,190.05 was incurred against the amount of Kshs.5,000,000.00 and charged to Sub-Vote 140, Head 443, Item 360 - Office of Kenya Representative to International Civil Aviation Organisation (ICAO). There was therefore an unspent balance of Kshs.879,809.95. It has not been explained how the unspent balance of Kshs.879,809.95 was accounted for.

UNAUTHORISED RE-ALLOCATION OF VOTED PROVISIONS

571. Examination of payment vouchers for the Recurrent Appropriation Account Vote R.14 for the year 2002/2003 revealed that an amount of Kshs.1,532,451.70 was re-allocated from Sub-Vote 148 Head 475-Transport Licensing and Registration to Sub-Vote 140, Head 443 – Directorate of Civil Aviation and Head 440-Headquarters Administration Services. The re-allocation however appears

to have been made without approval from Treasury as required under the current Government Financial Regulations and Procedures and was therefore irregular.

ACQUISITION OF LAND-KENYA FERRY SERVICES

572. The Development Appropriation Account for Vote D.14 for the year ended 30 June 2003 reflects an expenditure of Kshs.58,340,103.00 against Sub-Vote 140, Head 440 item 400 – Acquisition of Land for the Kenya Ferry Services. According to information available, the need for the Kenya Ferry Services to own a facility for maintenance of its fleet of ferries arose out of the fact that since the company's inception in 1989, maintenance of the ferries has had to be carried out on hired or borrowed facilities, an arrangement which was not only costly but also negatively impacted on the quality of maintenance workmanship and services of the vessels.

573. Against this background therefore, and coinciding as it did with an intended sale of a similar facility by a private company in Mombasa, the Board of Directors of Kenya Ferry Services gave approval on 19 December 2002 for the company to purchase the facility offered for sale by the company at a negotiated price of Kshs.58,340,103.00. Available information indicate that this negotiated price was within the professional valuations of between Kshs.50,000,000.00 and Kshs.76,270,000.00 obtained for the property.

574. However, although indications are that the transaction has been concluded and payments made, records relating to ownership of the facility indicate that the facility is still registered in the name of Government of Kenya and the vendor contrary to Clause 2 (a) (i) and (ii) of the Sale Agreement between the vendor and Kenya Ferry Services. No explanation has been given for this anomaly.

APPROPRIATIONS-IN-AID - CIVIL AVIATION BOARD

575. In the Report for 2001/2002, reference was made to failure by the Civil Aviation Board to maintain a cashbook to record receipts and payments, as a result of which the status of cash held by the Board as at 30 June 2002 could not be confirmed.

576. The unsatisfactory situation persisted during the year 2002/2003 in that a cashbook to record receipts and payments had still not yet been opened. Further, records maintained by the Board in respect of Application, Provision, Licenses, Ad-Hoc and Lease Agreement Fees for the year 2002/2003 reflect an amount of Kshs.5,569,931.00 as having been collected while the Ministry's Ledger and Appropriation Account show a sum of Kshs.11,496,349.90 against the item, resulting in an unreconciled and unexplained difference of Kshs.5,926,418.90 between the two sets of records.

577. In the absence of a cashbook for recording receipts and payments and a reconciliation or explanation in respect of the difference mentioned above, it has not been possible to confirm the correctness of the above balances and in particular, the Appropriations-in-Aid figure of Kshs.11,496,349.90 shown in the Appropriation Account.

STATEMENT OF OBLIGATIONS GUARANTEED BY KENYA GOVERNMENT

578. In the previous year's Report, reference was made to failure by the Ministry of Transport and Communications to maintain proper records of obligations guaranteed by Government which in turn resulted in the Ministry being unable to prepare accurate Statements of Obligations Guaranteed.

579. A review of the position during 2002/2003 revealed that the unsatisfactory state of affairs continued to persist in that the Statement for the year, prepared and submitted for audit by the Ministry reflects the same balances as those appearing in the audited Statement for 2001/2002. Further, other unsatisfactory matters which are similar to those raised in the Report for 2001/2002 were observed as indicated in the ensuing paragraphs.

580. The Statement of Obligations Guaranteed by Government as at 30 June 2003 reflects Contingent Liabilities totalling Kshs.4,487,011,093.19 in respect of twenty six (26) loans guaranteed by Government. The twenty six (26) loans have however not been confirmed by either the loan recipients or the lenders. In the absence of confirmations from either the loan recipients or the lenders coupled with lack of evidence of existence of guarantees by Government, the accuracy of balances and the existence of Government guarantees on the loans have not been ascertained.

581. The Statement also reflects six (6) obligations with total loan balances of Kshs.49,086,574.00 as at 30 June 2003 which relate to loan stocks of the former East African Community taken over by Kenya Government in accordance with the East African Mediation Agreement of 1994. As observed in the previous year's report, the redemption dates for the stocks fell between 1977 and 1991 and therefore Government Obligation towards the contingent liability of Kshs.49,086,574.00 should have ceased by 1991 upon redemption. These stock balances were subject to Public Accounts Committee Report for 1996/97 when it recommended that the Ministry of Finance reviews them with a view to clearing them from the Ministry's records. Although these balances are as stated above reflected in the Statement as at 30 June, 2003, it has not been explained why a review has not been carried out as recommended by Public Accounts Committee to ascertain and reflect the correct position.

582. The Statement also shows that Government guaranteed other loans amounting to Kshs.60,281,780.00 and Kshs.758,114,958.97 from National Bank

of Kenya to Kenatco Company, now under liquidation and the defunct Kenya Posts and Telecommunications (KPTC) respectively. It has not however been possible to confirm the obligations due to non-availability of reports from the Liquidators of Kenatco while there is no evidence that the guarantee for the loan to KPTC was ever reported to Parliament.

583. In addition, the Statement does not show a Kenya Commercial Bank loan of Kshs.525,879,200.00 arising from a request to the Bank by the Permanent Secretary to the Treasury, in October 1990, to open letters of credit under the account of Kenya Railways Corporation. The loan was to facilitate acquisition of equipment from foreign suppliers by Nyayo Motor Corporation now renamed Numerical Machining Complex. Despite the recommendations by the Public Accounts Committee in its report for 1996/97, Parliamentary approval has not been sought for the guarantee of Kshs.525,879,200.00.

STATEMENT OF PARTICIPATION BY GOVERNMENT OF KENYA IN QUASI – GOVERNMENT AND OTHER STATUTORY ORGANIZATIONS

584. In the previous years' Reports, reference was made to failure by Ministry of Transport and Communications to maintain adequate records that could be relied upon for the preparation of Statements of Participation by Kenya Government in Quasi-Government and Other Statutory Organizations. The problem appears to have persisted through to the year 2002/2003 and as a result a review of the Statement of Participation by Kenya Government in Quasi-Government and other Statutory Organizations as at 30 June 2003 has revealed unsatisfactory matters as detailed below:-

585. The Statement reflects the Ministry's investment totalling Kshs.58,469,960.00 in two companies which have since been wound up without the Ministry realizing anything for amounts invested. As observed in the previous year's report, it is not clear why authority for the write-off of these unrealizable investments has not been sought from the Treasury in order to clear them from the Ministry's books of account.

586 The Statement further reflects the Ministry's Participation of Kshs.386,504,000.00 in Kenya Ferry Services Ltd. as at 30 June, 2003. However, the Corporation's Accounts for the year ended 30 June, 2003 reflect Government share holding of Kshs.399,904,000.00, resulting in an unreconciled and unexplained difference of Kshs.13,400,000.00. The Accounts further show that the Corporation is insolvent in that they reflect an accumulated deficit of Kshs.811,131,811.00 as at 30 June 2003 against total assets employed of Kshs.491,474,413.00, notwithstanding an yearly Government subsidy of Kshs.200,000,000.00 for the last 4 years. As noted in previous year's report, the Ministry's investment in the Corporation has therefore been rendered valueless by the deficit and it is not clear what the Ministry is doing to avoid further losses

in the Corporation whose only other shareholder is Kenya Ports Authority which is also a Government Corporation.

587. the previous year's report, it was pointed out that the Ministry's grants to Nyayo Motor Corporation which was renamed Numerical Machining Complex totalled Kshs.330,100,000.00, an amount that was not reflected in the Statement of Participation by Government in Quasi-Government and Other Statutory Organizations for that year. The Statement of Participation for the year under review reflects a balance of Kshs.114,182,590.00 as Government participation in the Numerical Machining Complex, a balance which differs by Kshs.215,917,410.00 from the total Government investment in the corporation of Kshs.330,100,000.00. In addition, the total Government investment and grants figure of Kshs.330,100,000.00 reflected in the Ministry's accounts differs by Kshs.96,796,505.00 from the balance of Kshs.233,303,495.00 reflected in the Complex's draft Accounts for the year 2002/2003. No satisfactory explanation or reconciliation has been provided for the variations between the three sets of records.

588. The Ministry's Statement shows Government participation of Kshs.659,000,000.00 in Kenya Railways Corporation as at 30 June, 2003 while the Corporation's draft Accounts for the year ended 30 June 2003 reflect Kshs.518,000,000.00 as Government Subvention and Equity in the Corporation. The resultant difference of Kshs.141,000,000.00 has not been reconciled or explained. In the absence of a reconciliation or explanation for the difference, the participation in Kenya Railways Corporation reflected in the Statement as Kshs.659,000,000.00 cannot be ascertained as correct.

MINISTRY OF LABOUR AND HUMAN RESOURCE DEVELOPMENT

GRANTS TO TEACHERS' SERVICE COMMISSION

589. Audit of Appropriation Account for Recurrent Vote R.15 for the year ended 30 June 2003 has revealed that during the year the Ministry disbursed to Teachers' Service Commission grants totalling Kshs.351,588,897.45 under sub-vote 155, Head 664 Harambee Institute of Technology. However, according to the Teachers' Service Commission records grants received from the Ministry during the year totalled Kshs.334,680,657.60. No explanation has been given for the resultant difference of Kshs.16,908,239.85.

Footnotes to Account

590. The Appropriation Account reflects variances in excess of Kshs.1,000,000.00 under Sub-Vote 150, Head 480 – Headquarters Administrative Services, Item 640 – Miscellaneous receipts – under-collection of Kshs.4,944,260.00 and Sub-Vote 151, Head 464 – Office of the Labour Commissioner, Item 340 – Workman’s compensation – under-expenditure of Kshs.2,295,190.00. The causes of these variances have not been explained in the footnotes to the Account as required by Government Financial Regulations and Procedures.

Understatement Of Expenditure

591. The Audit of Appropriation Account for Development Vote D.15 for the year ended 30 June 2003 reflects expenditure of Kshs.3,304,395.00 against Item 302 – Private Micro Enterprise Development under Sub-Vote 154 Head 598. However, the actual expenditure incurred against the item was Kshs.5,524,825.00. This expenditure was in respect of payment of Kshs.5,524,825.00 to a Construction firm on 19 March 2003 for electrical installation works carried out at Migori Jua Kali sheds. It has not been explained why the whole amount was not captured in the ledger and in the Appropriation Account. The omission of the expenditure in the Appropriation Account has the effect of understating the Gross Total Expenditure of Kshs.327,656,815.10 and overstating the Net Surplus to be surrendered to the Exchequer of Kshs.23,632,048.20 by Kshs.2,220,430.00 respectively.

Unsupported Expenditure And Appropriations In Aid

592. The Appropriation Account for Vote D. 15 also reflects expenditure totalling Kshs.91,596,623.30 under three (3) budget items under Head 598 being in respect of donor assistance to Micro Finance institutions and Micro Enterprise Development. The account similarly reflects matching Appropriations In Aid totalling Kshs.91,596,623.30 in respect of the same expenditure under three (3) Appropriations-in-Aid items. The Ministry has not however made available for audit review supporting documentation in respect of this expenditure and Appropriations In Aid. It has not therefore been possible to ascertain the propriety and accuracy of both the expenditure and Appropriation-in-Aid.

593. In view of the exclusion from the Account of expenditure amounting to Kshs.2,220,430.00 and lack of supporting documentation for direct donor payments of Kshs.91,596,623.30, it has not been possible to confirm that the Appropriation Account for vote D15 for the year 2002/2003 presents fairly the Vote’s financial outturn for the year.

MINISTRY OF TRADE AND INDUSTRY

PENDING BILLS

594. Records maintained at the Ministry's Headquarters show that pending bills totalling Kshs.648,622.65 chargeable to the recurrent vote were not settled during the year under review but were instead carried forward to the year 2003/2004. Had the bills been paid and charged to the accounts for 2002/2003, the Appropriation Account for the recurrent vote would have reflected a reduced net surplus of Kshs.57,208,378.35 to be surrendered to the Exchequer instead of Kshs.57,857,001.00 now shown.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATION-IN-AID – VOTE D16

595. The Appropriation Account for Vote D16 for the year ended 30 June 2003 reflects gross expenditure of Kshs.164,899,242.00 against approved provision of Kshs.234,625,520.00 resulting in an under-expenditure of Kshs.69,726,278.00 or about 29% of the estimated amount. The under-expenditure mainly occurred under Sub-Vote 165 – Export Development and Promotion and Sub-Vote 167 - Industrial Training Services. The Account also recorded under-collection of Appropriations-in-Aid of Kshs.37,554,743.00 or approximately 50% of the estimated amount of Kshs.75,000,000.00. The under-collection mainly occurred under Sub-Vote 165 – Export Development and Promotion where an amount of Kshs.27,554,743 was not realized.

596. The reasons given for under-expenditure and under-collection of Appropriations-in-Aid include austerity measures taken by Treasury to limit expenditure, conclusion of the project inside the financial year and non-capture of expenditure incurred in the purchase of a PABX Machine for the Ministry.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE R16

597. The Appropriation Account for Vote R.16 for the year ended 30 June, 2003 reflects gross expenditure of Kshs.1,764,200,714 against gross estimate of Kshs.2,203,298,545 resulting in an under-expenditure of Kshs.439,097,831 or approximately 20% of the estimated amount. The Account also reflects under-collection of Appropriations-In-Aid totalling Kshs.381,240,844 or about 71% of the estimated receipts of Kshs.539,176,635.

598. The under-expenditure mainly occurred under Sub-Vote 160, Head 530, Item 187 – Kenya Bureau of Standard Import Inspection, while the under-

collection occurred largely under the same Head, Item 651 – Import Inspection Fees. No reasons have been given for the under-expenditure and under-collection of Appropriations in aid.

UNVOUCHED EXPENDITURE – VOTE D16

599. Payment vouchers for expenditure totalling Kshs.43,434,968.00 incurred in respect of Micro Enterprises Support Programme and Construction of Non-Residential Buildings were not availed for audit review. In the absence of the vouchers, it has not been possible to ascertain the propriety of this expenditure.

UNAUTHORISED EXPENDITURE

600. The Appropriation Account for Vote R.16 for the year ended 30 June, 2003 reflects an expenditure of Kshs.30,103,194.00 against Sub-Vote 162 Head 559, Item 375 – Contribution to East African Community Secretariat. No provision for the expenditure however appears to have been made in the Estimates for 2002/2003 and no explanation has been provided for failure to seek Parliamentary approval for the expenditure.

OUTSTANDING IMPREST

601. Imprest records at the Ministry's Headquarters show that Temporary Imprests totalling Kshs.13,947,899.70 which should have been accounted for on or before 30 June, 2003 were still outstanding as at the date. Out of this total sum, an amount of Kshs.2,333,757.95 was owing from officers in Job Group 'M' and above, Kshs.7,917,214.45 from officers in Job Group 'L' and below, while the balance of Kshs.2,997,587.30 was due from Ministers and Assistant Ministers, most of whom are no longer in the service or in Parliament. It was further noted that some Imprests have been outstanding since 1990/91.

602. The records similarly show that Standing Imprests amounting to Kshs.699,340.00 which should have been surrendered on or before 30 June, 2003 were still outstanding as at the date. It was further observed that the Imprest Register is not properly maintained and important details such as date and month of the issuance and surrender of imprest are not indicated. No explanation has been provided as to why the outstanding Imprests were not accounted for on the due dates or why the Register was not properly maintained.

EXPENDITURE INCURRED ON FOREIGN TRADE OFFICES

603. In the previous years reports, mention was made of differences between the figures reflected in the returns of expenditure from Overseas Trade Offices and the figures reflected in the Ministry's Accounts Ledgers. A review of the position in 2002/2003 revealed a similar situation in that the Ministry's Accounts Ledger reflected total expenditure of Kshs.239,561,209.45 against Overseas

Trade Offices while the returns of expenditure from the Offices showed an amount of Kshs.221,476,073.20 resulting in a difference of Kshs.18,085,136.25. No reconciliation or explanation has been provided for the difference

GRANTS TO ORGANIZATIONS

604. The Recurrent Appropriation Account for Vote R.16 – Ministry of Trade and Industry for the year ended 30 June 2003 reflects grants totalling Kshs.82,985,537.00 as having been issued to the Investment Promotion Centre through Sub-Vote 166, Head 165, Item 311. The Centre's Unaudited Accounts for the same year however shows grants amounting to Kshs.86,303,396.25 as having been received resulting in a difference of Kshs.3,317,895.25 which has not been reconciled or otherwise explained.

605. The Account also reflects grants totalling Kshs.175,265,970.00 as having been issued to the Export Processing Zones Authority through Sub-Vote 165, Head 796 while the Unaudited Accounts of the Authority for the same period shows grants amounting to Kshs.175,165,970.00 as having been received resulting in difference of Kshs.100,000.00 which has similarly not been explained.

IRREGULAR HIRING OF CONSULTANCY SERVICES

606. In February 2002, Government authorised the Ministry to negotiate a contract with a Consultant to lobby, market, mobilize resources and woo American investors and business community with a view to facilitating Kenya's maximization of benefits associated with the African Growth Opportunity Act (AGOA).

607. In April 2002, the Permanent Secretary, Ministry of Trade and Industry sought Treasury's concurrence and guidance on the mode of procuring the Consultancy. In response, the Permanent Secretary Treasury in May 2002 advised the Ministry to comply with Sections 20 and 36 of the Public Procurement Regulations 2001 which allow procurement by means of request for proposals for consultancy services or a combination of goods and services for which open or restricted tendering is not suitable because of the difficulty in defining the services.

608. In what was clearly unusual and unprecedented however, the then Minister for Trade and Industry appeared to have been dissatisfied with the advise and asked the Permanent Secretary, Ministry of Trade and Industry to write to the then Minister for Finance directly and appeal to him to reconsider the Treasury (PS) decision and approve the procurement to be under Section 17(4) of the Procurement Regulations 2001 instead of Sections 20 and 36. Section 17(4) allows exceptionally and when justified on sound economic grounds, for the

use of a procedure other than open tendering in situations not provided for elsewhere in the procurement Regulations.

609. In the same month of May 2002, the Minister for Finance approved direct procurement of the consultant under Section 17(4) of the Regulations citing the urgency of the exercise which if subjected to Regulation 20 as recommended by the Treasury, would take considerable time and in effect undermine the need for urgent provision of the services. Shortly thereafter, and in consultation with the Office of the Attorney General, a Consultant and Services Agreement dated 6 June 2002 for a contract sum of Kshs.US\$600,000.00 or Kshs.48,000,000.00 was signed between the Permanent Secretary, Ministry of Trade and Industry on behalf of Government and an American Company based in Texas, USA.

610. It is not clear how this particular firm was identified, evaluated and considered as capable of providing the required consultancy services. This apart, the basis on which the contract sum of US\$600,000.00 was arrived at has not been established and it has not therefore been possible to confirm whether the contract price of US\$600,000.00 represented a fair and competitive value for money. Additional information further indicate that the firm was not listed by the NGO Coordination Council of Washington DC which coordinates activities of all prospective American businessmen and companies seeking to invest in Africa under the auspices of AGOA.

611. Nevertheless, and without an evaluation or profile of previous performance of the firm, the now signed and effective Agreement provided for and required the firm as an exclusive agent for Government in the United States of America to identify trade opportunities for Kenya under AGOA, work to develop trade missions to the United States for Kenyan Industry emphasising AGOA, work to develop trade missions to Kenya of potential United States corporate partners for the promotion of investment and Trade in Kenya, emphasising AGOA.

612. The firm was also to identify potentially beneficial grant and loan programs provided by the U.S. Government, private and non-profit sectors, identify projects for the development of infrastructure and various other projects within the territory of the Republic of Kenya, identify appropriate suppliers in the United States to provide certain investments, goods and services to Government in connection with the projects, generally assist Kenya in its trade promoting activities including identifying potential trading partners and opportunities and promote Government's economic and socio-economic interests.

613. The Terms of Reference and Expected Outputs which is an annex to the agreement, included a list of major proposed projects earmarked for possible funding by U.S. Overseas Private Investment Corporation (OPIC). The Agreement was to be terminated, renewed, extended or modified after one year from the date of signing.

614. Although records available indicate that as of 30 June 2003 payments totalling Kshs.54,534,400.50 had been made to the firm, the following unsatisfactory observations regarding the contract have been observed.

615. In the absence of competitive bidding for the Consultancy Services and as observed elsewhere in this report, Government was clearly denied the advantages associated with open bidding as a result of which it has not been possible to ascertain whether or not the contract price of US\$600,000.00 represented fair and competitive value for money.

616. Considering that the consultancy firm was not listed by the NGO Coordination Council of Washington DC which coordinates activities of all prospective American businessmen and companies seeking investment opportunities under AGOA, it is doubtful that the firm had the network, capacity and even resources to deliver and sustain the ambitious projects listed in the Terms of Reference and Expected Output.

617. AGOA is a medium term initiative and hence the reason given for the adoption of Section 17(4) of the Public Procurement Regulation instead of Sections 20 and 36, that it would have taken a considerable period of time to conclude and award the Consultancy does not appear to be justifiable.

618. Although article 3 of the Agreement provides that the parties shall every quarter meet and review the firm's performance with a view to ensuring that the anticipated results are being realized and that Government is satisfied with the services being rendered, only one such review relating to the Fourth Quarter in the month of June 2003 appear to have been carried out. Besides, the review does not provide a nexus between what has been achieved and payments totalling Kshs.54,534,400.50 made to the firm as at 30 June 2003.

619. The accuracy of the expenditure figure of Kshs.54,534,400.50 could not be ascertained as payment vouchers for an amount of Kshs.4,745,131.35 included in the above figure were not made available for audit review.

620. The firm does not appear to have paid Income Tax and other taxes applicable under the Kenyan Laws although no exemption for payment of such taxes had been provided for in the Agreement.

CREDIT AND DEBIT BALANCES REFLECTED AGAINST EXPENDITURE ACCOUNTS AND NON-EXISTENT ACCOUNTS

621. The Ministry's Trial Balance as at 30 June, 2003 reflects credit balances totalling Kshs.716,266.60 against three (3) expenditure items and two unidentified and non-existing accounts. Further, debit balances totalling Kshs.183,745.15 are reflected in the Trial Balance against five (5) unidentified and non-existent accounts. No explanation has been given for the credit

balances in expenditure accounts or indication given as to what the balances in the unidentified and non existent accounts represent.

MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS

APPROPRIATION ACCOUNT FOR VOTE R17

Accuracy of Account

622. Audit of the Appropriation Account for Vote R17 for the year ended 30 June 2003 revealed a number of unsatisfactory matters. The account reflects expenditure balances under five items of Head 557 which do not tally with the balances appearing in the June III ledger/trial balance from which the account has been prepared. The differences which total Kshs.5,100,000.00 are attributed to temporary imprests which were erroneously recognised as expenditure in the ledger/trial balance. Although a journal voucher was passed on 18 March 2004 to correct the error it was not posted in the ledger and consequently the above differences between the ledger/trial balance and the account persist to date.

Under Expenditure

623. The account reflects under expenditure of Kshs.25,379,217.00 or approximately 34% of the estimated expenditure of Kshs.76,190,160.00. The under expenditure occurred under most of the budget items through out the vote. The under expenditure has been explained in the footnotes to the account as due to the operations of the Ministry starting very late in the financial year, delay in appointment of commissioners, non hiring of private lawyers as had been anticipated, delay in processing contract documents and delay in constituting board members on Human Rights.

MINISTRY OF GENDER, SPORTS, CULTURE AND SOCIAL SERVICES

PENDING BILLS

624. Records held at the Ministry's Headquarters show that bills totalling Kshs.82,834,098.55 chargeable to the Recurrent Vote R.18 were not settled during the year under review but were instead carried forward to 2003/2004. Had the bills been settled during the year under review, the Recurrent Appropriation Account for Vote R.18 for 2002/2003 would have reflected an Excess Vote of Kshs.8,104,390.45 instead of the net surplus of Kshs.74,729,708.10 now recorded.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

625. The Appropriation Account for Vote D.18 for the year 2002/2003 reflects under-expenditure of Kshs.130,949,122.75 or approximately 48% of the approved estimates of Kshs.270,787,580.00 and under-collection of Appropriations-In-Aid of Kshs.99,771,639.00 or about 52% of the estimated receipts of Kshs.188,372,910.00. No explanation has been provided as to what caused the under-expenditure and under-collection of Appropriations-In-Aid.

OUTSTANDING TEMPORARY IMPRESTS

626. Records of the Ministry show that Temporary Imprests totalling Kshs.218,646.65 were outstanding as at 30 June 2003. Out of the total figure of Kshs.218,646.65, Imprests amounting to Kshs.173,993.65 were outstanding against officers in Job Group 'M' and above while the balance of Kshs.108,993,003.00 was outstanding against officers on Job Group 'L' and below. No reason has been provided for not accounting for these imprests on their due dates.

OMISSION OF FOOTNOTES

627. Current Government Financial Regulations and Procedures require the Accounting Officer to explain by way of footnotes, the reasons for any variances of Kshs.1,000,000.00 and above between the estimated and actual expenditure or collection of Appropriations-In-Aid in any item of the account. The Appropriation Account for Vote R.18 for the year ended 30 June, 2003 however reflects material differences between Approved Estimates and Actual Expenditure under various items of expenditure but no explanations have been provided by way of footnotes for the variances.

628. In the absence of explanatory footnotes, it has also not been possible to ascertain the reasons for the gross under-expenditure of Kshs.85,124,263.50 or approximately 11% of the gross estimate of Kshs.761,625,562.00 and under-collection of Appropriations-In-Aid of Kshs.10,394,555.40 or about 41% of the estimated collections of Kshs.24,476,562.00 reflected in the Account.

MINISTRY OF WATER RESOURCES MANAGEMENT

EXCESS VOTE

629. The Appropriation Account for Vote R.20 for they year ended 30 June 2003 reflects an Excess Vote of Kshs.26,106,620.90. The Excess Vote was caused by a deficiency of Appropriations in Aid of Kshs.190,200,039.90 attributed to under collection of Kshs.160,183,887.50 and Kshs.32,919,950.00 under Sub Vote 207, Head 887 Item 601 and Head 892, Item 601, respectively, both items being in respect of water rates.

PENDING BILLS

630. The records of the Ministry of Water Resources Management and Development show that bills totalling Kshs.350,728,190.30 made up of Kshs.288,068,401.15 chargeable to Recurrent Vote 20 and Kshs.62,659,789.15 chargeable to Development Vote 20 were not paid during 2002/2003, but were instead carried forward to 2003/2004. Had these bills been paid and charged to the accounts for 2002/2003, the Recurrent Appropriation Account would have reflected an Excess Vote of Kshs.314,175,022.05 instead of Excess Vote of Kshs.26,106,620.90 now shown while the Development Appropriation Account would have reflected a net surplus of Kshs.56,948,058.70 instead of net surplus of Kshs.119,607,847.85 now shown.

UNDER-EXPENDITURE AND UNDER COLLECTION OF APPROPRIATIONS-IN-AID

631. The Appropriation Account for Vote D.20 for the year 2002/2003 reflects gross under expenditure of the Kshs.844,269,461.50 or about 36% of the approved gross estimate of Kshs.2,354,621,927.00 and a deficiency of Appropriations-in-Aid of Kshs.724,661,613.65 or about 54% of the estimated receipt of Kshs.1,354,705,930.00. Reasons given in the footnotes to the Account for the under expenditure and under collection of Appropriations-in-Aid include

cash liquidity problems, short time given after approval of supplementary estimates, delay in project implementation and non-receipt of credit purchase invoices.

NUGATORY PAYMENT – KIRANDICH RIVER DAM – KSHS.430,000,000.00

632. Available information indicates that on 30 July 1990, the National Water Conservation & Pipeline Corporation entered into a contract with a firm in Italy for construction of Kirandich River Dam at a contract sum of Kshs.980,046,239.15 equivalent to 56,431,062,450.00 Italian Liras at the time. At the time of entering into contract, the Government was negotiating with Italian Government for a loan to finance the Project. The negotiations continued up to 8 August 1994, when an agreement for a soft loan of Italian Liras 56,211,434,701 was signed. In the meantime when the contractor was approached to commence work, he requested for price increase of 10% of the contract sum due to the delay in the commencement of the Project. The request was turned down by the Kenya Government and re-tendering of the Project was done in December 1993. The originally contracted firm declined to take part in the re-tendering process and subsequently the contract for construction of Kirandich Dam was awarded to a new contractor on 18 February 1994, at a contract sum of Kshs.334,111,901.60 and Italian Liras 47,995,623,041 at the exchange rate of one (1) Kshs. to 24.59 Liras. Thus a total sum of Kshs.2,285,946,917.00.

633. Thereafter, in 1996, the originally contracted firm sought damages for breach of contract through the International Court of Arbitration sitting in Paris, France. After a lengthy hearing the Court in June 2002 ruled in favour of the contractor awarding him damages amounting to Kshs.430,000,000.00. In December 2002 the Government settled the award by paying this amount through the National Water Conservation and Pipeline Corporation.

634. The Kirandich River Water dam was completed by the new contractor on 23 August, 1994 at a total cost of Kshs.2,435,946,917.50 which exceeded the contract sum of Kshs.2,285,946,917 by an unexplained Kshs.150,000,000.00.

635. This is clearly a case of mishandled contract where Government eventually spent a total of Kshs.2,865,946,917 including nugatory payment of Kshs.430,000,000.00 against a sum of Kshs.1,078,050,863.00 which would have been spent if Government had agreed to the first contractor's request for a 10% increase of the original contract sum of Kshs.980,046,239.00. A number of unauthorized questions therefore arise namely:-

- Why the National Water Conservation and Pipeline Corporation entered into a contract before the loan to finance the project had been secured by Government.

- Why the contractor's request for price increases was turned down despite a provision in the contract allowing for such increases arising from delay in Commencement of implementation of the project.

TURKANA DISTRICT WATER OFFICE

Cheque Payments – Kshs.566,383.00

636. Audit inspection carried out at the Turkana District Water Office in October 2003 revealed a number of unsatisfactory matters. A comparison between the Recurrent cash book and the paid (waste) cheques showed that cheques totalling Kshs.566,383.00 were paid to payees whose names differed from those appearing in the payment vouchers, vote book, cash book and the cheque counter foils. For example, two cheques dated 30 September 2002 and 26 November 2002 for Kshs.280,000/- and Kshs.260,080/- respectively were payable to two hardware firms but the paid cheques seen show that they were drawn in the name of the District Water Officer. In another case, a cheque dated 26 March 2003, for Kshs.16,303.00 was payable to the District Water Officer in the Recurrent Cash Book but cashed by the Turkana District Commissioner and charged to the Turkana District Deposit Account. Under the circumstances, it has not been possible to ascertain whether the rightful payees shown in the cash book actually received the money due to them.

Doubtful Delivery of Fuel- Kshs.523,600.00

637. Examination of payment vouchers showed that a total of Kshs.523,600.00 was paid to a firm in March 2003 for allegedly supplying 8000 litres of light diesel, 800 litres of regular petrol, 150 litres of hydraulic oil and 150 litres of diff oil HD 140. Further verification of fuel records revealed that the fuel was not received through Counter Receipt voucher (S.13) or entered in the Bulk Fuel Register. Its consumption could also not be traced in vehicle Work Tickets or Detail Orders made available for audit review. Under the circumstances it was not possible to ascertain that the fuels and oils were actually received and used for Government purposes.

LOSS OF WATER REVENUE AT MARAGUA DISTRICT WATER OFFICE KSHS.1,286,849.25

638. Between January 1999 and July 2001, a total of Kshs.1,286,849.25 was collected at Maragua Water Office. Of this, figure, an amount of Kshs.615,619.50 was collected at Kangare Water Revenue Office while Kshs.671,229.75 was collected at Kigumo Water Revenue Office. It was noted that the revenue was not surrendered to the Maragua District Treasury as required but instead was used by the revenue collectors for personal use. Further investigations carried out by a team of inspectors from the Ministry

Headquarters in June 2002 revealed that the loss was occasioned by four officers.

639. In May 2003 show cause why letters were written to two of the officers giving them 21 days to respond failure to which dismissal proceedings would be instituted against them. So far no further action appears to have been taken against the two officers. Further, it has not been explained why a show cause letter was not addressed to the third officer. It has also not been indicated how Kshs.173,431.75 would be recovered from the fourth officer, who has since died.

OUTSTANDING WATER BILLS AT KIAMBU DISTRICT WATER OFFICE –KSHS.88,402,047.00

640. Examination of water records maintained at Kiambu District Water Office revealed that as at 30 June 2003, the unpaid water bills amounted to Kshs.88,402,047.00. The water bills are for the period up to 30 June 2003 and include arrears going back many years. Further the amounts are owed by Government institutions, schools, private companies, a church and individuals. One private company owes a total of Kshs.20,749,876.00 or 23.47% of the total bills while Kenya Police and Nairobi University owed a total of Kshs.10,436,080.00 and Kshs.4,318,944.50 respectively. Although the District Water Officer has promised to take necessary action to recover the amounts like disconnections, suing the private defaulters and requesting for intervention from the Ministry Headquarters, there is no evidence that any action has been taken as the water bills are still outstanding.

OUTSTANDING WATER BILLS AT NYANDARUA DISTRICT WATER OFFICE – KSHS.9,375,113.00

641. Examination of water records maintained at Nyandarua District Water Office revealed that water bills amounting to Kshs.9,375,113.00 for year 2002/2003 and earlier were outstanding as at 30 June 2003. Out of the uncollected amount of Kshs.9,375,113.00, Kshs.7,913,782.00 or 84.4% was owed by individual consumers while Kshs.1,461,331.00 or 15.6% was owned by Government Institutions which included District Education Office – Kshs.575,666.00, Ministry of Health – Kshs.361,631.00, OCPD Nyandarua – Kshs.229,239.00 and the Office of the President – Kshs.182,147.00 among others.

642. Although in October 2002 the District Water Officer indicated that he had formed a task force that was visiting all the water supplies disconnecting the defaulters' water in an effort to collect the arrears, such action if taken was ineffective since the water bills were still outstanding as at 30 June 2003. No further action appears to have been taken to recover the amounts from the defaulters.

MINISTRY OF ENVIRONMENT & NATURAL RESOURCES

EXCESS VOTE

643. The Appropriation Account for D. 21 for the year ended 30 June 2003 reflects an Excess Vote of Kshs.36,458,423.85. The Excess Vote is attributed to unbudgeted expenditure of Kshs.60,475,576.15 incurred on fourteen budget items which had no provision in the Approved Estimates.

PENDING BILLS

644. The records of the Ministry of Environment, Natural Resources and Wildlife show that bills totalling Kshs.353,345,081.30 made up of Kshs.63,746,495.40 chargeable to Recurrent Vote 21 and Kshs.289,598,585.90 chargeable to Development Vote 21 were not paid during 2002/2003, but were instead carried forward to the year 2003/2004. Had these bills been paid and charged to the accounts for 2002/2003, the Recurrent Appropriation Account would have reflected net surplus of Kshs.11,956,463.05 instead of a net surplus of Kshs.75,702,958.45 now shown while Development Appropriation Account would have reflected an Excess Vote of Kshs.326,057,009.75 instead of excess vote of Kshs.36,458,423.85 now shown.

EXCLUSION OF EXPENDITURE

645. The audit of the Appropriation Accounts for Vote R21 for the year 2002/2003 has revealed that expenditure totalling Kshs.19,146,391.00 chargeable to four (4) expenditure items was omitted from the account. Although the Ministry has explained that the expenditure was to be taken over by the Ministry of Water Resources, Management and Development as agreed upon its creation this did not happen and the expenditure therefore remains excluded from the Appropriation Account.

OUTSTANDING IMPRESTS

646. The Statement of Assets and Liabilities for the year ended 30 June 2003 for vote R.21 reflects imprests totalling Kshs.40,586,179.70 made up of Temporary and Standing Imprests which should have been accounted for on or before 30 June 2003 but were outstanding as at that date. Available records indicate that no recoveries are being made on imprests outstanding from officers who transferred to other Ministries or Government Departments. Out of the outstanding imprests of Kshs.40,586,179.70, Kshs.2,062,888.70 is in respect of imprests held by two (2) former Permanent Secretaries, two(2) former Deputy Secretaries, one(1) former Under Secretary and eight (8) former Members of

Parliament who are no longer in the Ministry's payroll. To date, no indication has been given of the action being taken to recover the amounts.

LAKE VICTORIA ENVIRONMENTAL MANAGEMENT PROJECT – CREDIT NO.IDA 2907 KE & GEF/28319 KE

647. Examination of payment vouchers and other related documents on Lake Victoria Environmental Management Project Accounts for the year ended 30 June 2003 revealed a number of unsatisfactory matters as indicated in the ensuing paragraphs.

Undelivered Goods – Kshs.961,700.00

648. A firm in India was paid Kshs.961,700.00 in November 2002 for supply of glassware to the project, Audit verification carried out revealed that the glassware was not supplied. No explanation has been given as to what action is being taken to ensure that the glassware is supplied or the amount paid is recovered.

Idle Laboratory Equipments – Kshs.1,144,001.00

649. A firm in England was paid Kshs.5,826,912 in February, 2003 for supply of Laboratory equipments to the project. Although the equipments were supplied and taken on charge at Kenya Marine & Fisheries Institute, Kisumu, equipment valued at Kshs.1,144,001.00 could not be installed as they did not meet the specifications. No action appears to have been taken to date to either have the correct equipment supplied or the money refunded.

Unspent Funds 508,677.90

650. Under Micro Projects, a Women Group in Nyando District was paid Kshs.400,000.00 being second allocation for a borehole project. The project encountered numerous technical problems and the group was finally advised by the District Water Engineer to abandon the idea of sinking a borehole. At the time of abandoning the project, the group had Kshs.508,677.90 in their bank account made up of Kshs.400,000.00 from the second allocation and Kshs.108,677.90 from the first allocation. No efforts appear to have been made by the National Executive Secretary, Lake Victoria Management Project, to have the funds refunded by the group.

Overpayment Kshs.113,411.30

651. A construction firm in Kisii was contracted to build a laboratory at the Provincial Water Office, Kisumu, at a cost of Kshs.7,871,265.00. However, the firm was paid Kshs.7,984,676.30 resulting into an overpayment of Kshs.113,411.30. No explanation has so far been given for this overpayment.

Unaccounted Fuel Kshs.12,051.00

652. A firm in Kericho was paid Kshs.12,051.00 for supplying 224 litres of fuel to Soil and Water component – Kericho. No vehicle work tickets were produced for audit to show how the fuel was utilized.

Outstanding Imprests Kshs.1,766,796.35

653. Records examined revealed that imprest totaling Kshs.1,766,796.35 which had been issued to various officers working for the project were still outstanding as at 30 June 2003. No explanation has been provided as to why these imprests had not been surrendered by 30 June 2003.

REVENUE HEAD 160-210 – FOREST AND MINING REVENUE

654. The Statement of Arrears of Revenue due and uncollected as at 30 June 2003, shows arrears of Kshs.210,938,382.30 relating to 2001/2002 and earlier years. No effort appears to have been made to collect the outstanding revenue during the year 2002/2003.

**MINISTRY OF CO-OPERATIVE DEVELOPMENT AND
MARKETING**

UNDER-EXPENDITURE -VOTE R 22

655. The Appropriation Account for Vote R22 for the year ended 30 June 2003 reflects under-expenditure of Kshs.83,425,026.00 or 15.3% of estimated gross expenditure of Kshs.544,370,140.00. The reasons given for the under-expenditure include delay in approving the Supplementary Estimates, delay in transfer of staff, delay in reimbursement and shifting of field officers from rented offices to Government buildings.

656. However, examination of the Ministry's records show that bills totalling Kshs.4,983,439.55 which were chargeable to the Recurrent Vote R.22 were not paid during the year but were instead carried forward to 2003/2004. Had these bills been paid and expenditure charged to Appropriation Accounts for 2002/2003 the Recurrent Appropriation Account for Vote R.22 would have reflected a reduced net surplus of Kshs.78,414,000.45 instead of Kshs.83,397,440.00 now shown.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID

657. The Appropriation Account for Vote D22 for the year ended 30 June 2003 reflects under-expenditure of Kshs.9,874,913.00 or about 17.65% of the estimated gross expenditure of Kshs.55,952,310.00 and under-collection of Appropriations-in-Aid of Kshs.6,919,708.00 or about 19.2% of the estimated collection of Kshs.36,000,000.00. The reason given for the under-expenditure and under collection of Appropriations-in-Aid is over-estimation in the budget. No explanation has however been given for over-estimating the budget requirement for the vote.

MANAGEMENT AND SUPERVISION AND LIQUIDATION FUND ACCOUNT

658. In the previous year's Report, reference was made to unexplained discrepancies and unreconciled balances in the Ministry's Management and Supervision and Liquidation Fund Account. The audit review of the Funds Accounts for 2002/2003 revealed the following unsatisfactory matters:-

Unreconciled Balances

659. The Management and Supervision Fund figure of Kshs.2,160,868.20 differs from June I Trial Balance figure of Kshs.2,181,868.20 by Kshs.21,000.00 which has not been explained. Further the Paymaster General Liquidation Fund figure of Kshs.5,861,400.95 differs from June I Trial Balance figure of Kshs.5,840,400.95 by Kshs.21,000.00 which has also not been explained.

Societies Debtors

660. While the Societies Debtors control Account figure of Kshs.39,141,908.70 agrees with the Trial Balance, it does not tally with the totals of individual societies balances of Kshs.40,812,704.55 shown in the schedule attached to the account in support of the Trial Balance figure. The difference of Kshs.1,670,795.85 has not been explained or reconciled.

Paymaster General Accounts

661. The cash balance for management and supervision fund of Kshs.2,160,868.20 and liquidation fund of Kshs.5,861,400.95 totalling Kshs.8,022,269.15 differs from the cash book total of Kshs.5,790,901.70 comprising cash balance of Kshs.20,396.90 and bank balance of Kshs.5,770,504.80. The difference of Kshs.2,231,367.45 has not been explained. Further separate cash books are not maintained for the funds and it has not therefore been possible to confirm how the two PMG cash balances were

arrived at. In the absence of explanation or analysis in support of the figures, it appears the amounts were inserted in the accounts as balancing figures.

Unanalysed Transfer Balances

662. Journal vouchers effecting transfer of Registration fees and Miscellaneous Deposits amounting to Kshs.1,012,225.00 and inquiry fees and deposit amounting to Kshs.944,399.00 at the separation of the Ministry of Co-operative Development from the Ministry of Agriculture were not made available. In the absence of the journal vouchers and supporting analysis, it was not possible to ascertain what the two transferred balances represented.

Cooperative Societies Liquidation Control Account

663. The records and list of Liquidated/Under Liquidation Societies attached to the account show that the amount held by the Registrar of Cooperatives of Kshs.5,745,582.90 comprising a debit balance of Kshs.193,575.30 and a credit balance of Kshs.5,939,158.20 differs by Kshs.427,459.75 from the balance sheet figure of Kshs.5,318,123.15. The difference has not been reconciled or explained.

Inquiry Fees and Deposit Account

664. Two payment vouchers amounting Kshs.53,900.00 were not made available for audit review. Under the circumstances the propriety of this expenditure could not be ascertained.

665. Further, eleven (11) payment vouchers totalling Kshs.380,575.00 were not included in the schedule of inquiry fees and deposits even though the expenditure was incurred. The exclusion of the expenditure of Kshs.380,575.00 from the schedule of inquiry fees deposit casts doubts on the accuracy of inquiry fees and deposits account balance.

Motor Vehicles

666. The balance sheet as at 30 June 2003 reflects motor vehicles valued at Kshs.570,267.60. However, physical verification does not show existence of any vehicle either operating or grounded. No explanation has been given for the inclusion of the amount of Kshs.570,267.60 in the accounts.

667. In view of the unexplained discrepancies, unreconciled balances, incompleteness of the Trial Balance on which the fund accounts are based and other matters raised in the foregoing paragraphs it has not been possible to confirm the completeness and accuracy of the fund accounts for the year ended 30 June 2003.

OFFICE OF THE ATTORNEY GENERAL

PENDING BILLS

668. Records examined at the Office of the Attorney General indicate that as at 30 June, 2003 bills totalling Kshs.5,651,199.41 chargeable to the Recurrent Vote R.25 were not paid during the year ended 30 June, 2003 due to what has been explained as inadequate provision. Out of the total pending bills of Kshs.5,651,199.41, only two bills totalling Kshs.878,795.40 have been confirmed as due for payment while supporting documents for the balance of bills totalling Kshs.4,772,404.01 have not been made available for audit review and it has not been possible therefore to ascertain their authenticity. Assuming that the bills were valid and charged to the accounts for 2002/2003, the Appropriation Account for Vote R.25 for the year would have reflected a reduced net surplus of Kshs.9,402,515.79 instead of Kshs.15,053,715.20 now shown.

OUTSTANDING IMPRESTS

669. Imprest records held at the Office of the Attorney General show that imprests totalling Kshs.4,527,670.05 which should have been accounted for on or before 30 June, 2003 were still outstanding as at that date. Out of this sum, imprests amounting to Kshs.2,892,023.70 were outstanding against officers on Job Group 'M' and above while imprests totalling Kshs.1,360,168.90 and Kshs.275,477.45 were outstanding against officers on Job Group 'L' and below and Non-civil servants respectively. It was noted that contrary to Government Financial Regulations some officers were issued with fresh imprests before accounting for the previous ones. It was also observed that some imprests have been outstanding for a long period of time and no effort appear to have been made to recover them.

670. A review of the position as at 31 December, 2003 indicated that out of total imprests of Kshs.4,527,670.05 outstanding as at 30 June, 2003 an amount of Kshs.1,256,515.40 had been accounted for leaving unaccounted balance of Kshs. 3,271,154.65 made up of Kshs.2,132,869.70 due from officers on Job Group 'M' and above, Kshs.924,521.90 from officers on Job Group 'L' and below and Kshs.213,763.05 from Non-Civil Servants. No explanation has, however, been provided as to why the imprests were not accounted for on the due dates. No explanation has also been given of the circumstances under which non-civil servants were issued with imprests from Government funds.

IRREGULAR PAYMENT OF PERSONAL EMOLUMENTS

671. Salaries and establishment records at the Office of the Attorney General revealed that between October 2001 and April 2003 the Office irregularly paid

salaries and other allowances totalling Kshs.962,870.00 to a Principal State Counsel who had been interdicted with effect from 15 October 2001. According to the records, the officer was arrested by the police on 15 January 2001 and charged in court with the criminal offence of making a document without authority. He was interdicted on half salary with effect from 15 October 2001 and instructed not to leave his duty station without express permission of his Head of Department and to be reporting to the Head of Department once a week until his case was concluded. It appears that the officer never reported to his Head of Department and was, therefore, suspended with effect from the same date i.e. 15 October 2001. However, it was not until 1 May 2003 when a P.C.A No. 400/2002-2003 was raised and his salary stopped by which time he had been irregularly paid a total of Kshs.962,870.00.

672. The records also indicate that between July 2002 and October 2002, the Office irregularly paid salaries and other allowances totalling Kshs.210,040.00 to a Senior State Counsel, who was dismissed from the service with effect from 1 July 2002 on account of absence from duty without lawful authority. The circumstances under which salary and allowances amounting to Kshs.210,040.00 were paid to the officer after desertion from duty have not been explained.

673. No action appear to have been taken against the officer(s) who occasioned the combined irregular payment of Kshs.1,172,910.00 or to recover the amounts from the payees.

IRREGULAR ACCOUNTING AND UNDER-EXPENDITURE

674. In the report for 2001/2002 reference was made to irregular transfer of Kshs.7,448,721.60 from Development Vote D 25 to items awaiting clearance in the Deposit Account contrary to the Government Financial Regulations and Procedures. The balance of Kshs.7,448,721.60 comprised of an amounts of Kshs.4,000,000.00 and Kshs.3,448,721.60 which were transferred from Item - 295 Minor Alterations and Maintenance Works and Item 296 – Extension of Attorney General's Chambers (Lift Modernisation) respectively. A review of the position during 2002/2003 revealed that out of the balance of Kshs.4,000,000.00 referred to above, an amount of Kshs.1,709,990.00 was spent on repairs of leaking roof at Sheria House while Kshs.639,950.00 out of the balance of Kshs.3,448,721.60 was irregularly spent on office furniture. This left a total balance of Kshs.5,098,781.60 still in suspense account under items awaiting clearance as at 30 June, 2003. No explanation has been provided for the continued violation of financial regulations in the above manner.

675. The Appropriation Account for Vote D25 office of the Attorney General for the year 2002/2003 reflects gross expenditure of Kshs.10,655,916.00 against gross estimated expenditure of Kshs.15,656,990.00 resulting in an under-expenditure of Kshs.5,001,074.00 or 32% of the estimated expenditure. The

under expenditure has been attributed to delay in processing contract documents and cancellation of a contract between a supplier and the Department.

IRREGULAR ACCOUNTING PROCEDURE

676. Available information indicates that a payment voucher No.8740 dated 30 June 2003 for Kshs.3,605,702.00 was prepared and authorized for payment to a company for installation of Network and E-mail Services for the Office of the Attorney General and charged to item 184. The contract documents in respect of this work has, however, not been made available for audit review and it has therefore not been possible to ascertain whether the contract was competitively awarded.

677. In addition, out of the Kshs.3,605,702.00 only Kshs.2,662,852.00 was captured in the Ledger and is included in the total expenditure of Kshs.2,748,689.00 reflected in the Appropriation Account for vote R.25 for the year ended 30 June, 2003 under item 184. No reason has been given for the difference of Kshs.942,850.00 between the amount in the voucher and that captured in the Ledger.

678. Further information indicates that the payee's name on the voucher for Kshs.3,605,702.00 was later cancelled and substituted with the Attorney General as payee and a cheque No.033716 for the same amount of Kshs.3,605,702.00 was drawn in favour of the Attorney General. On 3 September 2003, the cheque was receipted under the Recurrent Vote R.25 for the year 2003/2004 and credited to Head 269 – Item 184 – Contracted Professional Services. This action resulted in irregular transfer of the voted funds from the year 2002/2003 to the year 2003/2004. Although no explanation has been given it would appear that the action was meant to ensure that the funds were not surrendered to the Exchequer at the close of the financial year.

679. On 2 September 2003 a new cheque No.34338 for Kshs.3,600,000.00 was drawn and paid to a firm on 3 September, 2003. The whole expenditure of Kshs.3,600,000.00 has been captured in September 2003 ledger under Item 184 – Contracted Professional Services Heads 269,851 and 858 for 2003/2004. As a result of this irregular accounting, the Gross Total Expenditure of Kshs.423,310,311.00 for 2002/2003 has been overstated and Net Surplus to be surrendered to the Exchequer of Kshs.15,053,715.00 understated by Kshs.2,662,852 respectively. In the circumstances, the Appropriation Account for Recurrent Vote R.25 for the year ended 30 June, 2003 does not reflect fairly the financial outturn of the vote for the year.

PURCHASE OF LIBRARY BOOKS FROM LONDON

680. The records at the Office of the Attorney General indicate that in November, 2002, the Office sent an amount of Kshs.5,577,265.00 to the Kenya

High Commission – London through the Ministry of Foreign Affairs and International Co-operation for purchase of law books from a London bookshop. However, an invoice dated 6 June, 2003 produced for audit indicate that only books worth Kshs.2,881,184.40 (B£24,009.87) were bought. It has not been explained whether the balance of Kshs.2,696,080.60 will be utilized to purchasing additional books or will be refunded to the Office of the Attorney General.

WORLD DUTY FREE COMPANY LIMITED VS. REPUBLIC OF KENYA ICSID CASE NO.ARB/00/7

681. Records maintained at the Office of the Attorney General indicate that on diverse dates between October, 2000 and September 2003 expenditure totalling Kshs.91,418,826.60, was incurred by the Office in respect of ICSID Case No.ARB/00/7 involving World Duty Free Company Limited and the Republic of Kenya.

682. The records show that between 03 October, 2000 and 14 February, 2003, payments totalling Kshs.59,418,150.50 were made to a French firm of solicitors and registered foreign lawyers of Paris as retainer fees for services rendered in the case.

683. On 27 December, 2000 and 04 September, 2003 further payments totalling to Kshs.4,388,700.00 were made to the International Centre for Settlement of Investments Disputes (ICSID).

684. On 16 May, 2001 a sum of Kshs.27,232,106 was paid to a local firm of advocates for what is stated to be services rendered in the case.

685. On 15 June, 2001, a sum of Kshs.99,107.85 was paid to a firm of lawyers of London as retainers fees for services rendered in the case. Similarly, on 29 June, 2001, a payment of Kshs.280,762.25 was made to another Law firm in London also as retainer fees for services rendered in the case.

686. However, the case files as well as the contract documents between the Government of Kenya and the legal firms have not been made available for audit review. Consequently, it has not been possible to establish, how the Government got involved or enjoined in a case which appears to be between private parties,

687. It has also not been possible to establish how the local firm of advocates was identified to assist in the arbitration or how its terms of engagement were determined. Similarly, it has not been possible to ascertain how the lead counsels in Paris and in London were identified and their retainer fees determined. It has also not been possible to ascertain the current status of the case.

PUBLIC TRUSTEE ACCOUNTS

Audit Mandate

688. The Public Trustee is required by Rule 21(2) of the Public Trustee Rules to maintain ledger accounts in respect of estates and other trusts under administration by him/her and have such accounts closed on 30 June, every year and to have the final accounts prepared for audit. The Act does not, however, indicate specifically who the auditors should be or how and who should appoint such auditors. However, Rule 21(3) authorizes the Controller and Auditor General to inspect trust accounts maintained by the Public Trustee but does not give the Controller and Auditor General specific mandate to audit and report to Parliament the results of his audit of the Public Trustees Accounts.

689. Consequently the Public Trustee Accounts are currently audited by a private firm of Certified Public Accountants (Kenya) who were first appointed by the Public Trustee in 1984 under Rule 14 of the Public Trustee Rules which authorises the Public Trustee to take and use professional assistance and advice in regard to legal, investment and other matters relating to Public Trustees funds. However, this Rule does not appear to cover the appointment of private auditors to audit and report on the Accounts for the Public Trustee. The appointment of the private firm to carryout this function therefore appears to be irregular.

690. In considering the Report of the Controller and Auditor General on the Government of Kenya Accounts for the year 1989/90, the Public Accounts Committee of Parliament recommended that the Public Trustee Act be amended with the view to providing for the accounts of the Public Trustee to be audited by the Controller and Auditor General who would then report to the National Assembly. The Act has not however so far been amended and no explanation has been provided for failure to implement this recommendation.

Public Trustee's Accounts for 2001/2002

691. The preparation and audit of the Public Trustee Annual Accounts is in arrears as the latest audited Accounts of the Public Trustees are those for the year 2001/2002. The delay has been attributed to the manual accounting system currently in use at Public Trustee's Office and also to gross under-staffing. A review of the Trustees' Accounts for 2001/2002 and the accompanying audit reports by the private auditors appointed by the Public Trustee under Rule 14 of the Public Trustee Rules Cap. 168 of the Laws of Kenya reveals a very unsatisfactory state of affairs as summarized in the ensuing paragraphs.

Deposits in Public and Private Financial Institutions

692. The Balance Sheet of the Public Trustee Administration Consolidated Accounts, Public Trustee Investment Income Account, Public Trustee Trust

Estates Account and the Public Trustee Sundry Expense Account show that amounts of Kshs.68,489,708, Kshs.341,276,839, Kshs.17,950,000 and Kshs.10,466,904 respectively, were deposited in various Public and Private financial institutions as at 30 June 2002. Although the notes to the accounts indicate that recovery of part of these deposits amounting to Kshs.32,489,708, Kshs.93,776,839, Kshs.11,250,000 and Kshs.6,466,904 under the Public Trustee Administration Consolidated Account, Public Trustee Investment Account, Public Trustee Estates Account and the Public Trustee Sundry Expenses Account respectively is doubtful, no provision has been made in the account for possible loss of these doubtful deposits.

Investment at Cost

693. The Public Trustee Administration Consolidated Accounts, Public Trustee Investment Account, Public Trustee Trust Estates Accounts and Public Trust Sundry Expenses Accounts show investments at cost of Kshs.35,822,460, Kshs.43,707,161, Kshs.3,135,240 and Kshs.4,476,900 respectively in Consolidated Bank of Kenya, City Finance Ltd. and Trust Bank Ltd. These investments represent irrecoverable deposits which were converted into shares in these financial institutions. The recoverability of these investments is doubtful in view of the reported weak financial position of these financial institutions.

Public Trustee Administration Consolidated Accounts

694. The Public Trustee Administration Consolidated Balance Sheet reflects under current assets an amount of Kshs.2,133,775 described as Estates with overdrawn balances. According to the notes to the accounts, this represents overpayments made to various beneficiaries. It has not however been explained how the overpayments occurred or how the Public Trustee intends to recover the overpayments. The Public Trustee Administration Consolidated Balance Sheet also reflects under Current Assets an amount of Kshs.1,121,176 described as trial balance difference, an indication that the account did not balance. The difference of Kshs.1,121,176 represents an increase of Kshs.112,337 over the difference of Kshs.1,008,839 reflected in the account for 2000/2001. It has not been explained what these trial balance differences represents.

695. The Public Trustee Administration Consolidated Balance Sheet further reflects an amount of Kshs.2,022,599 described as Loss of Funds representing cash and cheques stolen and fraudulently en-cashed. This figure has continued to appear in the books from year to year and its recovery appears doubtful. No provision has however, been made in the accounts for the possible loss of the amount.

Public Trustee Trust Estates Accounts

696. The Public Trustee Trust Estates Balance Sheet reflects under Current Assets an amount of Kshs.15,747 described as Estates with overdrawn balances and which apparently represents overpayments to various beneficiaries. It has however, not been explained how such overpayments arose or how it is intended to recover the amounts.

697. The Public Trustee Trust Estates Balance Sheet also shows an amount of Kshs.5,288 described as trial balance difference which has been in existence for a considerably long period. No explanation has been provided for this difference or for the failure to clear it.

overtime Allowance

698. The Public Trustee Sundry Expenses Income and Expenditure Account for the year ended 30 June, 2002 shows staff overtime payments of Kshs.3,670,436. Available information indicates that these payments were made on the basis of a Directorate of Personnel Management (DPM) letter dated 15 July, 1991 an authority which has been overtaken by lapse of time and is no longer applicable. It has not been explained why the Public Trustee did not seek DPM authority as required under current regulations before the staff overtime payments of Kshs.3,670,436 were made.

JUDICIARY

Under – Expenditure

699. Audit of the Appropriation Account for Development Vote D26 for the year ended 30 June, 2003 has revealed a number of unsatisfactory matters. The Account reflects an under-expenditure of Kshs.39,402,251 or approximately 62% of the gross estimates of Kshs.63,711,038. The under expenditure occurred under Item 240 – Installation of Security Equipment and Item 296 – Rehabilitation and Partitioning of Income Tax Building. The under-expenditure has been explained in the footnotes to the accounts as due to late acquisition of drawings specifications and identification of equipment resulting in equipment not being brought in time and drawings and specifications for renovation of Income Tax Building not being ready during the year.

Unvouched Expenditure

700. The Account reflects total expenditure of Kshs.15,936,929 under Item 295 – Minor Alterations and Maintenance Work. However, payment vouchers for expenditure totalling Kshs.7,136,053 charged to the item have not been made available for audit review. In the absence of these payment vouchers and relevant supporting documents, it has not been possible to ascertain the propriety of this expenditure.

Failure to Produce Tender Documents

701. On 27 March, 2003, the Judiciary paid Kshs.252,734 to a firm for installation of automatic alarm system at the official residence of one of the Judicial officers. Although, an advertisement had been put in one of the local dailies inviting pre-qualification tenders, no tender documents have been made available for audit review. Consequently, it has not been possible to establish how the firm was identified or the amount of Kshs.252,734 paid to the firm and charged to Item 240 – Installation of Security Equipment was determined.

OUTSTANDING IMPRESTS

702. Imprest records maintained at the Judicial Department indicate that temporary imprests totalling Kshs.1,800,443.85 out of which an amount of Kshs.1,670,313.85 was issued between June 1996 and June 2002, and the balance of Kshs.130,130.00 during the year under review, remained outstanding as at 30 June, 2003. Out of the total amount of Kshs.1,800,443.85, a sum of Kshs.527,813.75 was due from Judges while the balance of Kshs.1,272,630.10 was due from other officers. It was also noted that some officers were holding more than one imprest contrary to the regulations governing issuance and surrender of imprests.

703. A review of the position as at 31 December, 2003 showed that a sum of Kshs.1,022,534.75 had been recovered leaving a balance of Kshs.777,909.10. Out of this balance Kshs.289,530.80 was due from Judges while Kshs.488,378.30 was due from other officers.

LOSS OF REVENUE AT TAITA-TAVETA DISTRICT MAGISTRATE'S COURT – KSHS.732,786.35

704. Examination of revenue records maintained at the Taita Taveta District Magistrate's Court revealed that between May 2000 and February 2003, a total of Kshs.869,024.35 was collected as court fees and fines but only Kshs.136,238.00 was accounted for to the District Treasury leaving a balance of Kshs.732,786.35 unaccounted for as at 30 June 2003. The loss was attributed to a former Revenue Clerk, who has since been dismissed from the service with effect from 27 January 2003 after he disappeared from the office. In addition,

two receipt books serial No.403351 – 403400 and No.683701 – 683750 issued to the same officer in June 2001 and March 2002 respectively were found missing. In the absence of the missing receipt books it has not been possible to establish the amount of revenue which may have been collected using them and which may have been misappropriated.

705. It was also noted that the District Treasury issued the revenue clerk with new receipt books before the old ones were surrendered. Further, available information indicates that although the Revenue Clerk was charged in court, he subsequently disappeared into Tanzania and that the matter was referred to the Attorney General to institute legal proceedings. No evidence has however been seen of any such legal proceedings having been taken by the Attorney General.

UNACCOUNTED FOR REVENUE AT MUKURWE-INI DISTRICT MAGISTRATE'S COURTS – KSHS.380,316.00

706. A cash survey carried out at Mukurwe-ini District Magistrate's Courts on 29 August 2003 revealed that a total of Kshs.380,316.00 collected between 29 June 2001 and 5 October 2002 in respect of court fines had not been accounted for or surrendered to the District Treasury. Available information indicates that the non-surrender of revenue was attributed to one Executive Assistant, who was collecting the fines during the material period but did not surrender the money to the District Treasury or bank it. Although in October 2003, the Chief Court Administrator wrote to the officer giving her thirty (30) days notice to pay back the money in full, she has not to date responded to the letter or repaid the money. No evidence has been seen of the matter having been reported to the police and no disciplinary action appears to have been taken against her.

THE NATIONAL COUNCIL FOR LAW REPORTING

707. The National Council for Law Reporting was established under Act No.11 of 1994 as a body corporate to publish Kenya Law Reports and to undertake such other related publications. Although Section 17(2) of the Act provides for the accounts of the council to be audited annually by the Controller and Auditor General no accounts of the council have been prepared and submitted for audit since the commencement of the Act in January 1995. No explanations has been given for failure by the council to comply with the provision of the Act.

708. The Appropriation Account for Recurrent Vote R.26 for the year ended 30 June 2003 reflects an expenditure of Kshs.18,214,470 under Item 300 – Grants to National Council of Law Reporting. In the absence of the Council's accounts for 2002/2003 it has not been possible to confirm the receipt by the council of these grants and proper accounting for them. However out of total expenditure of Kshs.18,214,470, payment vouchers and other supporting documents in respect of expenditure of Kshs.12,249,633 were not availed for audit review and

vouchers for the balance of the expenditure amounting to Kshs.5,964,837 which were made available were not adequately supported.

709. Further, although Government Financial Regulations and Procedures require A.I.E. Holder/Head of Accounting Unit to ensure that every payment voucher processed is entered in the Vote Book, the expenditure of Kshs.18,214,470 reflected in the Appropriation Account differs with the expenditure of Kshs.16,893,892 reflected in the Vote Book in respect of Item 300 – National Council for Law Reporting by Kshs.1,320,578.

REVENUE HEAD 220 – 260 FINES AND FORFEITURES

Under-Collection Of Revenue

710. The Statement of Revenue in respect of Head 220 – 260 Fines and Forfeitures for the year ended 30 June 2003 shows that revenue amounting to kshs.200,481,687.00 was collected as at 30 June 2003 against estimated receipts of kshs.223,000,000.00 thereby resulting in an under-collection of Kshs.22,518,318.50. The Under-collection of Kshs.22,518,318.50 or approximately 10% of total estimated receipt is explained as having been caused by over-estimation but the underlying reasons for over-estimation have not been given.

Arrears Of Revenue

711. The Statement of Revenue Head 220 – 260 Fines and Forfeitures for the year ended 30 June 2003 also reflects total arrears of revenue of Kshs.140,650,809.00. However, the accuracy of this figure could not be confirmed as Kilungu, Kaloleni, Butere and Garissa courts did not submit their returns of arrears of revenue as at 30 June 2003. The failure to collect the arrears of revenue has been attributed to problems in enforcing collection under the existing collection machinery. Such problems include notification of fines by the Courts being not honoured by the offenders, collection being not enforceable where the motor-vehicle has been sold and ownership transferred to a third party, offenders often deliberately providing wrong particulars of themselves such as wrong addresses etc. and police failure to execute warrant of arrest issued by the courts for the apprehension of the defaulting offenders.

712. Although correspondence seen indicate that attempts have been made to resolve the deficiencies in the existing collection machinery such attempts have apparently been unsuccessful.

NATIONAL ASSEMBLY

OVERPAYMENT ON MILEAGE CLAIMS BY MEMBERS OF PARLIAMENT

713. Examination of mileage claims by Members of Parliament for travelling between their respective constituencies and Parliament Buildings shows that distances claimed by some members of Parliament were far in excess of the official schedule of distances provided by the Ministry of Roads and Public Works. The exercise revealed that between January and September 2003 such overpayments to members totalled Kshs.37,664,423.25.

CONSTITUTION OF KENYA REVIEW COMMISSION

IRREGULAR PAYMENT OF LEAVE ALLOWANCE TO COMMISSIONERS

714. Examination of records of the Constitution of Kenya Review Commission has revealed that in January 2004 the Commission paid twenty six (26) Commissioners a total sum of Kshs.23,880,000 in respect of what is described as leave allowances. The amount paid to each of the Commissioner was calculated on the basis of their basic salaries, house allowances and responsibility/transport allowances. The payment of these allowances to the commissioners was irregular because they were paid without the approval of the Minister for Finance as required under the Constitution of Kenya Review Act CAP 3A of the Laws of Kenya.

715. Section 31 of the Constitution of Kenya Review Act provides that only the Minister in charge of Finance, in consultation with the Parliamentary Select Committee, may determine the remuneration and allowances payable to the Commissioners. However, as far as it has been possible to ascertain from available correspondence the Minister has not at any time approved the earning of leave or payment of leave allowances by the Commissioners. I have been informed that the payment of leave allowance was approved by the plenary session of the Commissioners themselves.

IRREGULAR PAYMENT OF TRANSPORT ALLOWANCE TO COMMISSIONERS

716. Examination of the records of the Commission revealed that during the year 2002/2003 expenditure totalling Kshs.17,680,000.00 was incurred on payment of transport allowances to Commissioners. A review of records relating to the year 2003/2004, reveals that a further amount of Kshs.6,800,000.00 was paid to the Commissioners to cover the months of July 2003 to November 2003. The Commissioners were paid the transport allowances while at the same time they were provided with fully maintained Commission vehicles.

717. In a letter dated November 2001 in which he approved the salaries and allowances of the Commissioners as provided for in Section 31 of the Constitution of Kenya Review Act, the Minister for Finance stated that, in determining entitlement to transport allowance, and for the avoidance of doubt, a Commissioner who is in possession of a Commission motor vehicle shall not be paid Transport Allowance. The payment of the total of Kshs.24,480,000.00 to the Commissioners who were at the same time provided with fully maintained commission vehicles is therefore irregular as it was paid in contravention of the stipulation by the Minister.

MINISTRY OF ENERGY

DEVELOPMENT APPROPRIATION ACCOUNT VOTE D.30

718. Audit of the Appropriation Account for Vote D.30 for the year ended 30 June 2003 revealed a number of unsatisfactory matters which are detailed in the ensuing paragraphs.

Under Expenditure And Under Collection Of Appropriations In Aid – Vote D.30

719. The Appropriation Account for Vote D.30 for the year ended 30 June 2003 reflects Gross under expenditure of Kshs.1,233,529,324.00 or approximately 19% of the Gross Approved Estimate of Kshs.6,710,061,253.00 and a deficiency in Appropriations In Aid amounting to Kshs.599,871,954.00 or approximately 11% of the Estimated Receipts of Kshs.5,623,317,007.00. The under expenditure and the under collection of Appropriations in Aid have been explained in the footnotes to the Accounts as having been caused mainly through under estimation, inability to utilize the allocated funds, delay in project activities, expiry of financial contract agreements, reduction in construction activities,

reduced expenditure on capital costs, delay in project implementation, non receipt of electricity levy and non disbursement of receipts for implementation due to late release of funds.

Subvote 300 – Head 428 Item 528 – Energy Sector Development Programme

720. During the year expenditure totalling to Kshs.29,387,329.00 was charged to Item 538 – Energy Sector Development Programme. This expenditure included an amount of Kshs.22,385,332.70 which was brought to account through JE Nos.9043 and 9056 for Kshs.20,460,091.00 and Kshs.1,925,241.70 respectively. JE No.9043 has not been produced for audit review while JE No. 9056 has inadequate documentation in support of the expenditure and it has not, therefore, been possible to ascertain what the expenditure of Kshs.22,385,332.70 represents or its propriety.

Subvote 302 - Items 521, 522 and 523 – Olkaria N.E.X 32 Power Station

721. Expenditure totalling Kshs.3,610,113,318.45 was incurred by KenGen on Olkaria N.E.x32 Power Station. The Ministry was informed of this expenditure through correspondences and charged it to Items 521, 522, and 523 of SubVote 302 through ten Journal Vouchers. The ten Journal Vouchers however, have inadequate supporting documentation and as a result it has not been possible to ascertain what the expenditure represents or its propriety.

Head 444 – Rural Electrification

722. The Account reflects expenditure totalling Kshs.1,272,948,042.00 under Head 444 - Rural Electrification Programmes. This expenditure includes an amount of Kshs.1,271,431,195.00 incurred against Item 211 – Coffee Industry Rural Electrification Sub-Programme, Item 450 – Rural Electrification Programme, Item 451 – Rural Electrification Programme (Spain Phase II) and Item 452 – Rural Electrification Programme (France) brought to account under four (4) Journal vouchers. However, the four Journal Vouchers were not supported by adequate documentation to enable audit verification of the expenditure totalling Kshs.1,271,431,195.00. In the absence of adequate supporting documents it has not been possible to ascertain the propriety of this expenditure.

Item 600 - 5% Electricity Levy

723. The Account reflects against Item 600 – 5% Electricity Levy estimated Appropriations In Aid of Kshs.800,000,000.00 and a nil collection during the year. However according to correspondences seen the Kenya Power and Lighting Company Ltd collected an amount of Kshs.955,000,000.00 in respect of the 5% electricity levy during the year 2002/2003. No explanation has been provided as to why the money was not remitted to the Ministry as Appropriations-In-Aid.

Subvote 303 - Head 426 – National Oil Corporation of Kenya

724. The Account reflects under Head 426 expenditure totalling Kshs.419,362,515 being grants paid to National Oil Corporation of Kenya through eight (8) payment vouchers. The audited accounts of the National Oil Corporation of Kenya as at 30 June 2003 however reflect an amount of Kshs.516,632,977.00 as grants received from the Government during the year. The difference of Kshs.97,270,562.00 has not been explained.

APPROPRIATIONS-IN-AID - KIPEVU STORAGE FACILITY

725. The Recurrent Appropriation Account for Vote R.30 – Ministry of Energy indicates that out of a total of Kshs.160,896,251.00 collected as Appropriations In Aid by the Ministry during the financial year 2002/2003, an amount of Kshs.159,844,178.00 or 99% (2001-2002 Kshs.78,442,112.85) was received from Kenya Pipeline Company as fees collected by the company in respect of Kipevu Oil storage facility.

726. As pointed out in the Reports for previous years, Kipevu Oil Storage Facility includes five (5) tanks constructed by Government between 1983 and 1998 on Government Land. The storage facility is managed by Kenya Pipeline Company on behalf of Government without any formal agreement between the Government and the company stipulating the terms under which the company manages the facility including the fees to be levied by the company and how much of such fees is to be remitted to the government in form of Appropriations-In-Aid. Although the Kenya Pipeline Company has been remitting fees to the Government in respect of the facility, it is not clear how such fees have been determined or whether the amount received by Government constitutes the correct amount receivable. Further, no accounts have been submitted by the company to the Government to support the fees paid over to the Government.

727. In the absence of an agreement and statement of accounts on charges levied by the company at Kipevu storage facility, it has not been possible to confirm that the amount of Kshs.159,841,178.00 reflected in the Appropriation Account as received from Kenya Pipeline Company during 2002/2003 was the correct amount receivable.

ARUSHA –NAIROBI POWER TRANSMISSION LINE

728. In the Report for 2000/2001, attention was drawn to a memorandum of understanding signed between the Government of Kenya and the Government of the United Republic of Tanzania in February 2001 for feasibility study of Arusha-Nairobi Power Transmission Project under the Zambia-Tanzania-Kenya Power Interconnector project. As stated in the Report for 2000/2001, the Ministry in March 2001 opened a Current Account with the Standard Bank, Kenyatta

Avenue Branch for the Project and deposited Kshs.25,000,000.00 in the account. The amount was charged to Vote D.30 Head 429 Item 190 - Pre-development Studies, which action was irregular since the transaction did not constitute actual expenditure and appears to have been undertaken to avoid surrendering funds back to the Exchequer at the close of the financial year.

729. A review of the position in 2002/2003 shows that as at 30 June 2003, payments totalling Kshs.14,799,268.10 in respect of consultancy services had been met from the Deposit Account.

730. The Bank Certificate as at 30th June 2003 reflects a balance of Kshs.11,501,908.80 which includes interest amounting to Kshs.255,175.25 realised during the year. Further, although the memorandum of understanding provided for the project to be financed equally by both the Government of Kenya and the Government of the United Republic of Tanzania it appears that the Government of Kenya has paid for all expenses incurred on the consultancy so far.

STATEMENT OF OUTSTANDING LOANS AS AT 30 JUNE, 2003 MINISTRY OF ENERGY

731. In the previous year's report mention was made of six loans which were not serviced by Kenya Power and Lighting Company Limited (KPLC) and Kenya Electricity Generating Company Ltd. (KenGen). The statement of outstanding loans as at 30 June, 2003 for the Ministry of Energy shows that the same situation persisted in 2002/2003 in that no repayments were made by the two companies in respect of five of the six loans. No explanation has been given for the failure by KPLC and KenGen to service the loans.

732. The statement also shows two outstanding loans of Kshs.159,239,380.00 and Kshs.113,447,180.00 against KenGen company which have not been confirmed by the company. The amount outstanding cannot therefore be ascertained in the absence of confirmation.

733. The balances reflected in the consolidated statement of outstanding Loans as at 30 June 2003 produced by Treasury differ from the balances reflected in the statement prepared by the Ministry of Energy in respect of seven loans issued to KenGen for power development projects. The differences have not been explained or reconciled.

734. Further, the amounts shown as lent in respect of three loans issued to KenGen in the statement prepared by the Ministry of Energy differ from the amount reflected in Consolidated Statement prepared by Treasury. The Treasury and the Ministry's records in respect of loans advanced to Kenya Electricity Generating Company Ltd. should under normal circumstances agree and no explanation has been given for the above differences.

735. The Statement prepared by the Ministry of Energy does not include eleven loan balances amounting to Kshs.10,997,050,867 which are reflected in the consolidated statement prepared by the Treasury. No explanation has been given for the omission of the loans from the Ministry's statement.

Rescheduled Loan

736. In December 2001, the Government entered into separate agreements with the two companies in the power sector for rescheduling of repayments of outstanding debts of Kshs.2,113,000,000.00 and Kshs.2,762,000,000.00 owing from KPLC and KenGen respectively. Whereas the agreements involved twenty six loans totaling Kshs.4,875,000,000.00 the Ministry's statement of the rescheduled loans included only eleven (11) of the loans listed in the rescheduling agreements in addition to three other loans totalling Kshs.1,802,600,972.60 which were not included in the agreement. Fifteen (15) of the rescheduled loans relating to KPLC and KenGen and totalling Kshs.2,582,859,929.00 have therefore been omitted from the Ministry's statement of outstanding loans.

737. In addition, three rescheduled Ken Gen loans totalling to Kshs.1,991,729,620 appearing in the consolidated statement prepared by Treasury are not reflected in the statement prepared by the Ministry of Energy on rescheduled loans. On the other hand the statement prepared by the Ministry of Energy also shows three rescheduled loans totalling to Kshs.1,175,468,057.51 which are not reflected in the consolidated statement prepared at Treasury. No explanation has been given for the above discrepancies.

RURAL ELECTRIFICATION PROGRAMME (REP) FUND ACCOUNTS

738. As in the previous years, Rural Electrification Programme (REP) fund accounts for the year ended 30 June 2003 were prepared on cash basis contrary to Electric Power (Rural Electrification Levy) Order 1998, which requires the accounts to be prepared on accrual basis. The accounts therefore do not recognize:

- Revenue collected by Kenya Power and Lighting Company Limited (KPLC) due to the Fund but un-remitted by 30 June 2003.
- 5% levy due to the Fund from KPLC but un-remitted by 30 June 2003.
- Capital contribution to the Fund by both the Government and KPLC since inception.
- Expenditure incurred by KPLC on behalf of the Fund but unpaid to KPLC by 30 June, 2003.

739. On 4 April, 2003 a sum of Kshs.124,579,204 was paid to KPLC as 60% down-payment for implementation of some thirty six rural electrification schemes. Available information indicates this amount was a prepayment for new schemes but no evidence has been made available to confirm that these schemes were approved by the management committee of the Fund before implementation.

740. The Income and Expenditure account show that the Fund did not receive the 5% levy amounting to Kshs.955,000,000 collected on its behalf by KPLC during the year ending 30 June 2003. However, as has been the case in the previous years, the Ministry does not maintain records of the amount of levy collected on behalf of the Fund by KPLC. Audited Accounts for both the REP Schemes and KPLC have not been made available for audit review and in their absence it has not been possible to ascertain the amount of levy collected, income generated from completed schemes and expenditure incurred on behalf of the Fund by KPLC.

741. A sum of Kshs.214,600,046.00 was received from the Kenya Roads Board during the year as a refund of taxes and levies paid on fuel used by the Independent Power producers under the emergency power project after the Treasury exempted such fuel from taxes and approved the use of the refunds by REP. Subsequently the amount was banked in REP Fund current account at Kenya Commercial Bank. However, a receipt voucher for this transaction has not been produced for audit review.

742. On 27 May 2003, a four wheel-drive Mitsubishi Pajero was purchased from Simba Colt Motors Ltd at a cost of Kshs.2,825,560.00. Apart from the fact that the procurement process was irregular because it was through single sourcing it is also observed that the person who requisitioned for the vehicle was also the one who approved the local purchase order and the payment voucher as A.I.E. holder. The same person also signed the cheque as a signatory to the fund's current account and received the car upon delivery. There was therefore complete lack of internal control/check in the procurement of this vehicle for which no explanation has been provided.

743. In addition a Land Rover procured in the previous financial year at a cost of Kshs.3,363,755.00 has been at a dealer's garage since 7 July 2002 awaiting repairs after an accident on 27 June 2002 while on an un-authorized journey. No explanation has been provided for failure to have the vehicle repaired for use in REP. It is also not clear whether action has been taken against the driver or officer who caused the accident on unauthorized journey.

744. Interest income amounting to Kshs.286,301.85 earned on fixed deposits account maintained by the Fund at National Bank of Kenya has not been included in the Funds Accounts. Therefore, cash at Bank and REP Fund

balances shown in the Balance Sheet as at 30 June 2003 have been understated by the same amount.

STATEMENT OF OBLIGATION GUARANTEED BY THE GOVERNMENT OF KENYA – MINISTRY OF ENERGY

745. The audit examination of the Statement of Obligation Guaranteed by the Government of Kenya in respect of the Ministry of Energy as at 30 June 2003 revealed various unsatisfactory matters. Two Export Development Corporation (EDC) loans referenced 880-KEN-4222 and 880-KEN-5782 had attracted late interest charges of US\$423,874.20 and US\$99,115.98 respectively as at 30 June 2003 apparently because the loans were not serviced in time as stipulated in the respective loan agreements. No reason has been given as to why the loans were not serviced in accordance with loan agreements to avoid incurring the penalties totalling US\$522,963.18 in the form of late interest charges.

746. Although confirmation requests were sent out to both the lenders and borrowers in August, 2003, confirmations from lenders have not been received in respect of five loans with a total contingent liability of Kshs.9,745,105,111.91. Further, although confirmations have been received from the borrowers of the five loans it has not been possible to conclusively confirm the correctness of the outstanding balances in the absence of confirmations from the lenders.

747. As in the previous year, the Ministry failed to maintain proper records of loans guaranteed by Government of Kenya and continues to rely on confirmations from borrowers and lenders for the purpose of preparing the Statement. The Statement for the year under review was prepared from confirmations received mainly from borrowers. The explanation given by the Ministry for its failure to maintain such records is that the responsibility for maintenance of such records lies with the borrowers. Under the circumstances, it is still not clear how the Ministry expects to oversee the repayment of such loans and to ensure that their terms and conditions are adhered to.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

PENDING BILLS

748. Records maintained at the Ministry's Headquarters indicate that bills totalling Kshs.1,400,032,305.10 all relating to Development projects for the year 2002/2003 were not settled during the year but were instead carried forward to

2003/2004. Had the bills been settled and charged to the accounts for 2002/2003, the Appropriation Account for Vote D.31 for the year ended 30 June 2003 would have reflected an Excess Vote of Kshs.1,099,860,261.00 instead of the Net Surplus of Kshs.300,172,044.10 now shown.

UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE R 31

749. The Appropriation Account for Vote R.31 for the year ended 30 June, 2003 reflects under-collection of Appropriations-in-Aid of Kshs.617,707,037.80 or approximately 93% of the estimated receipts of Kshs.657,452,921.00. The under-collection occurred mainly under Sub-Vote 310 – General Administration and Planning, where a paltry sum of Kshs.18,424,990.90 was realized against estimated receipts of Kshs.613,512,921.00.

750. The reasons provided for the under-collection of Appropriations-in-Aid include fewer sales of boarded items than anticipated, non-provision of services at a fee during the year and delay in processing of reimbursements of expended funds from the World Bank.

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID – VOTE D31

751. The Appropriation Account for Vote D.31 for the year ended 30 June 2003 reflects gross under-expenditure of Kshs.1,965,582,297.05 or about 41% of the Approved Estimates of Kshs.4,745,878,844.00 and under-collection of Appropriations-in-Aid of Kshs1,665,410,252.00 or about 88% of the estimated collections of Kshs.1,898,149,979.00. The under-expenditure and under-collection mainly occurred under General Administration, Primary Education, Early Childhood Education and University Education.

752. The reasons given in the footnotes for under-expenditure include failure by various donors to release project funds, expiry of credit agreements resulting in the funds being recalled by donors, direct disbursements by the donors to the districts and failure to submit the relevant expenditure records to the Ministry for data capture.

753. The under-collection of Appropriations-In-Aid was attributed to failure by the Ministry and the donors to reach agreement on the modalities for funding details as negotiations had not been finalized and failure by the donors to submit documents relating to direct payments for the expenditure to be captured in the Ministry's records.

ACCURACY OF THE ACCOUNT – VOTE R 31

754. The Appropriation Account for Vote R.31 for the year 2002/2003 reflects a total expenditure of Kshs.60,934,156,733.20 against the Vote which includes an amount of Kshs.18,917,581.75 representing expenditure incurred in the districts during the year but which had not been paid for or reimbursed to the District Treasuries by the Paymaster General. According to information available, a number of District Treasuries incurred expenditures without regard to their authorized cash fund levels and as a result their cashbooks were not only overdrawn but also incorporated expenditure totalling Kshs.18,917,581.75 which had not been paid for by the District Treasuries or re-imbursed by the Paymaster General. The same expenditure was as a result also captured in the Ministry's ledger and Appropriation Account for 2002/2003 through the normal accounting procedures for District expenditure.

755. Upon detecting the anomaly, the Accountant General instructed the respective District Accountants to reverse transaction relating to the unpaid expenditure of Kshs.18,917,581.75 and advise the Ministry accordingly to enable it to adjust the ledger and the Appropriation Accounts. Although according to information available the Ministry was advised to adjust its ledger and Annual Accounts on 07 October 2003, so as to reflect the correct position, no such adjustments appear to have been made and as is now evident, the ledger and the Appropriation Account for Vote R31 for 2002/2003 both include unpaid expenditure of Kshs.18,917,581.75.

756. Further information available indicate that expenditure totalling Kshs.369,682,375.90 incurred against various items during the year under review was processed through the Suspense Account and was therefore not captured in the Account. Consequently, the net total expenditure of Kshs.60,894,664,355.05 recorded against Vote R31 has been under-stated by an amount of Kshs.369,682,379.90. No explanation has been provided for this omission.

ACCURACY OF THE ACCOUNT - VOTE D31

757. The Appropriation Account for Vote D31 for the year ended 30 June 2003 reflects discrepancies between expenditure totals reflected in the Account under four (4) items of sub vote 318 Head 833 and the totals of expenditure calculated on the basis of payment vouchers availed for audit review. Although the net overall effect of the discrepancies on the sub vote and Head is nil no reconciliation or explanation has been provided for the discrepancies.

758. The Account also reflects expenditure totalling Kshs.95,190,680.15 as having been incurred against Sub-Vote 310, Head 834, Item 410 – Construction of Buildings, Non-residential, while no provision for such expenditure had been made in the Approved Estimates for 2002/2003. Although according to information available Treasury had authorized reallocation of Kshs.93,694,114.00

from various items in the Vote to cover part of the expenditure, the authorization was contrary to Section 15.18.2 of the Government Financial Regulations and Procedures which disallows Treasury from authorizing reallocation to meet expenditure on an item not provided for by Parliament in the Estimates.

IRREGULAR PAYMENT OF SUBSISTENCE ALLOWANCES

759. Audit examination of payment vouchers for the year 2002/2003 revealed that an amount of Kshs.11,652,252.00 was spent on meal allowances paid to officers who had purportedly worked beyond the normal working hours. Out of the above amount, Kshs.7,812,252.00 was spent and charged against Sub-Vote 310, Head 834 Headquarters Administrative Services, Kshs.246,750.00 against Head 835 Headquarters Professional Administrative Services, and Kshs.3,593,250.00 against Sub-Vote 311, Head 845 Kenya School Equipment Scheme.

760. Apart from the fact that the tasks performed including processing of salaries and grants to educational institutions, data capturing and preparation of monthly exchequer projections, are tasks which fall within the officers' normal duties and for which they are employed to do, no evidence has been availed to show how long and late the officers worked to be eligible for payment of meal allowance. Further, allowances totalling Kshs.607,000.00 were paid at rates which were over and above the ones authorized by the Directorate of Personnel Management.

GRANTS AND GRANTS-IN-AID

761. The Recurrent Appropriation Account for Vote R31 for the year ended 30 June 2003 shows Grants and Grants-in-Aid totalling Kshs.517,094,404.75 as having been issued during the year to various institutions within or associated with the Ministry. Out of the total of Kshs.517,094,404.75, Kshs.10,896,000.00 was issued to institutions of Primary Education, Kshs.137,518,690.00 to Teacher Education, Kshs.121,392,180.00 to Schools for the Handicapped, Kshs.191,619.50 to Field Training Services, Kshs.74,972,954.00 to Secondary Education, Kshs.115,631,459.35 to Technical Education and the balance of Kshs.56,491,501.90 to National and International Institutions associated and involved in the enhancement of Education, Science and Technology, including UNESCO and ICIPE.

762. The audited Accounts for 2002/2003 of these institutions have however not been made available for audit review and as a result, it has not been possible to ascertain whether the Grants and Grants-In-Aid were received, taken into account and utilized for the intended purposes.

GRANTS TO UNIVERSITIES AND MINISTRY'S CORE ADMINISTRATIVE INSTITUTIONS

763. The Recurrent Appropriation Account for Vote R.31 for the year ended 30 June, 2003 reflects Grants totalling Kshs.4,220,019,547.00 as having been issued by the Ministry to four public universities during the year. The unaudited Accounts for 2002/2003 of the four public universities however show Grants amounting to Kshs.4,232,740,052.00 as having been received during the period. The net difference of Kshs.12,720,505.00 between the amounts of grants paid and the amounts received has not been explained.

764. The Appropriation Account for vote R31 further reflects Grants totalling Kshs.47,614,879,173.50 as having been issued to three institutions within the ministry during the same period, namely the Teachers Service Commission, the Kenya National Examination Council and the National Council for Science and Technology. The unaudited Accounts of the institutions however show Grants amounting to Kshs.47,420,051,611.20 as having been received resulting in a net difference of Kshs.194,827,562.30. No reconciliations or explanations have been provided for these differences.

BONDO PRIMARY TEACHERS TRAINING COLLEGE

765. In the report for 1998/99, reference was made to the unsatisfactory manner in which a contract for Landscaping and Construction of Sports Facilities at the Bondo Teachers Training College was handled. Among other issues, the report stated that by June 1999, the Contractor had been paid a total of Kshs.50,489,840.00 resulting in an excess of Kshs.160,600.00 over and above the contract sum of Kshs.50,329,240.00.

766. During the year 1998/99, the Ministry paid a further amount of Kshs.8,588,282.25 to the contractor under certificate No.13 raising the total expenditure on the project to Kshs.58,917,522.25 as at 30 June 1999.

767. During the same year however, a report prepared and presented by a firm of private auditors contracted by Treasury to review Government Pending Bills concluded that the Ministry had indeed overpaid the contractor by a sum of Kshs.8,048,282.00 and recommended that this particular amount be recovered from the contractor. There is no evidence so far to confirm that the overpayment of Kshs.8,048,282.00 was recovered from the contractor.

768. During the year under review and on the strength and recommendation of yet another report by another task force on pending bills referred to as Pending Bills Action Plan Committee set up in September 2002 to evaluate all Government Development pending bills as at 31 August 2002, a further amount of Kshs.15,148,159.55 purportedly representing full and final settlement of all dues on the project was paid to the contractor on 30 June 2003, effectively

bringing the total expenditure on the project to Kshs.74,065,681.80 or Kshs.23,736,441.80 over and above the contract sum of Kshs.30,329,240.00.

769. However, the basis on which the Action Plan Committee arrived at an additional payable bill of Kshs.15,148,159.55 is not clear considering that the firm of private auditors referred to above had concluded that the contractor had been overpaid by Kshs.8,048,282.00.

770. This apart, and as observed in the report for 1998/99, it is of concern that the works for which a total expenditure of Kshs.74,065,681.80 was incurred were unsatisfactorily done and still incomplete.

IRREGULAR TRANSFERS

771. The audit of the Recurrent Appropriation Account for Vote R.31 for the year ended 30 June 2003 revealed that an amount of Kshs.159,243,237.00 was on that date irregularly transferred from Sub-Vote 311, Head 844, Item 311 – Grants and Grants-In-Aid for Free Primary Education and Item 296 – Rehabilitation of Primary Schools, to the Ministry's Deposits Account No.4-608-048-031/2 – Free Primary Education, with the explanation that the money was meant to assist various schools that were experiencing financial difficulties during the year. A further sum of Kshs.54,961,603.00 was on the same date similarly transferred to the above mentioned Deposit Account from the Development Vote D-31 Sub-Vote 310, Head 836, Item 413 – Strengthening of Primary Education.

772. The total sum of Kshs.214,204,840.00 was reflected in the Deposit Account No.4-608-048-031/2 – Free Primary Education. No explanation has however been given for these transfers but it would appear that they were meant to ensure that the money was not surrendered to the Exchequer at the close of the financial year as required under Government Financial Regulations and Procedures. The transfers were therefore irregular as they were made in contravention of the above mentioned Regulations and Procedures.

PAYMENT FOR DOUBTFUL DELIVERY OF FUEL AT BUSIA DISTRICT EDUCATION OFFICE

773. Between October 2002 and March 2003, the Busia District Education Officer bought some 8, 110 litres of petrol for a total of Kshs.461,050/= from a local dealer. It was however observed that the fuel was not entered in the bulk fuel register or received through delivery notes or counter receipts vouchers (S.13). Also, detail orders were not seen to confirm direct drawing of the fuel by G.K vehicles. Further, the fuel was not entered in the work tickets making it difficult to identify the vehicles against which the fuel was drawn.

774. In the absence of receipts and disposal documents, it could not be ascertained that the fuel was delivered and used for official purposes, and further

that the total expenditure of Kshs.461,050 represented a proper charge to public funds.

FUEL NOT ACCOUNTED FOR AT WAJIR DISTRICT EDUCATION OFFICE

775. Examination of fuel records maintained at the Wajir District Education Office showed that a total of Kshs.307,603.65 was paid to two local Service Stations for allegedly supplying 5396 litres of diesel, 342 litres of petrol, 30 litres of engine oil and 1.75 litres of brake fluid. Out of a total of 5769.75 litres of fuel and lubricants bought, only 3132 litres of diesel were accounted for leaving a balance of 2264 litres of diesel, 342 litres of petrol, 30 litres of engine oil and 1.75 litres of brake fluid unaccounted for. In some cases, the fuel and lubricants were not taken on charge in the bulk fuel register and in other cases, there were no detailed orders or vehicle work tickets availed to show which vehicles drew the fuel and lubricants. In one case vehicle registration number GK 656 drew a total of 340 litres of diesel in May and June 2003 as indicated in various delivery notes while its work ticket No.H827239 showed that it was last on the road on 21 April 2003. Further, in January 2003, a private vehicle number KAM 621G was fueled with 230 litres of diesel worth Kshs.12,880.00 while in April and May 2003 another private vehicle number KAC 822Y was fueled with a total of 310 litres of diesel worth Kshs.17,360.00. It has not been explained why the two private vehicles were fueled with a total of 540 litres of Government diesel worth a total of Kshs.30,240.00. In the absence of proper receipt and disposal records and an explanation as to why private vehicles were fueled at Government expense, the total expenditure of Kshs.246,787.65 cannot be confirmed to be a proper charge to public funds.

ELECTORAL COMMISSION OF KENYA

GENERAL ELECTION AND VOTERS REGISTRATION EXPENDITURE

776. Examination of payment vouchers relating to 2002/2003 financial year revealed a number of unsatisfactory matters relating to voter Registration exercise and the General elections held in 2002, as shown in the ensuing paragraphs.

Missing Payment Vouchers – Kshs.25,902,148.00 – Mombasa

777. The District Election Coordinator, Mombasa allegedly incurred expenditure totalling Kshs.25,902,148.00 in respect of General Election expenses. However, payment vouchers which support this expenditure have not been made available for audit review although the expenditure was entered in the Cash book maintained at the District Treasury, Mombasa. In the absence of the payment vouchers and supporting documents, it has not been possible to ascertain the propriety of the expenditure or to confirm that it was a proper charge to public funds.

Supply of Polling Booths – Kshs.1,942,200.00 – Mombasa

778. A firm in Mombasa was paid Kshs.1,942,200.00 through payment voucher No.0027 of 15 January 2003. The payment was for the supply of 996 units of polling booths timber frames at Kshs.1,950.00 each as per LPO No. A 1467 of 3 December 2002. The District Election Coordinator on 8 January 2003 informed the finance Manager, Electoral Commission of Kenya that they were unable to get a cheaper supplier for the polling booths which were budgeted at Kshs.996,000.00 by the Commission. However, it was observed that the request was made long after the award of tender was made by the District Tender Committee on 28 November 2002 and after the elections were over. It is not therefore clear how this contract was awarded resulting in additional unauthorized expenditure of Kshs.946,200.00. Also no stores records were maintained as evidence that the booths were received and distributed to the various polling stations.

Irregularities On Hire Of Motor Vehicles – Kshs.1,624,800.00 – Mombasa

779. The District Election coordinator, Mombasa, paid three firms Kshs.224,000.00, Kshs.81,600.00 and Kshs.1,319,200.00 respectively for supply of transport during the General Elections. However, the following observations on the payment were revealed:-

- i) Allocation list for the private motor vehicles attached to the polling stations was not availed and it was therefore not possible to confirm whether the vehicles were all made available for Government use and if so where they were deployed.
- ii) One of the firm was in addition paid Kshs.430,000.00 for hire of 4 saloon cars for the period from 2nd to 26th November, 2002 even before the District Tender Committee had adjudicated the tender. Although the payment was supported with a photocopy of Local Service Order (LSO) No.1460 of 3 December 2002, it was observed that the original, duplicate and triplicate of the LSO were still intact in the booklet.

Under the circumstances it has not been possible to ascertain the propriety of the total expenditure amounting Kshs.1,624,800.00.

Unsupported Payments – Kshs.329,350.00 – Malindi

780. Kilifi District Election Co-ordinator (DEC) was paid Kshs.98,000.00 in January 2003 for the purpose of paying seventy seven (77) security officers who were on duty during the General Elections, Kshs.104,000.00 in December 2002 for sitting allowances for Peace Committee members, Kshs.81,750.00 in June 2003 and Kshs.45,600.00 in May 2003 for payment of allowances to officers who were involved in the Voters Registration exercise. Some payrolls signed by the recipients were not attached to payment vouchers, and in other cases no authorizing documents were attached for security officers to collect the allowances for their colleagues. It has therefore not been possible to confirm the propriety of the payments totalling Kshs.329,350.00.

Outstanding Imprests – Kshs.459,000.00 – Mombasa

781. An officer in Mombasa applied for and was issued with an imprest of Kshs.3,000,000.00 in December 2002 for payment of meal allowances to election officials. The officer later surrendered Kshs.2,541,000.00 through various payment vouchers leaving a balance of Kshs.459,000.00 outstanding. The balance has not been accounted for and there was no evidence of any action being taken to recover the amount.

Hire of Private Vehicles – Kshs.344,000.00 – Mombasa

782. A firm in Mombasa was contracted to provide transport services during Voters Registration exercise for 20 days from 16 May 2003 to 4 June 2003. A payment of Kshs.344,000.00 was made to the firm in June 2003 for hire of 4 saloon cars at Kshs.4,300.00 per day. Although the Commission had instructed the District Election Coordinator to draw plans for effective use of transport facilities provided, this was not done. As a result, it was not possible to confirm whether the vehicles were used for the voter's registration exercise.

Hire of Transport – Kilifi

783. The District Coordinator, Kilifi, paid a total of Kshs.965,000.00 for the hire of private motor vehicles for use in General Elections. Examination of the payment vouchers and supporting documentation revealed that the contracted individuals were civil servants working in the District Headquarters and a relative of the chairman of Kilifi District Tender Committee. Also there were no copies of insurance certificates, logbooks, work tickets or allocation list to show that the vehicles were actually used for the General Elections.

Hire of Transport – Kshs.2,080,500.00 – Lamu

784. The District Election Coordinator Lamu incurred expenditure of Kshs.2,080,500.00 on hire of transport from private vehicle owners during the General Election and Voters Registration. A review of the expenditure revealed a number of unsatisfactory matters relating to this expenditure.

785. A firm in Lamu was paid an amount of Kshs.273,000.00 in January, 2003 for providing 2 Land Rovers and a lorry for 2 days. Details of the movement and use of the Lorry could not be established as no work ticket was maintained. No documents were made available for audit review to ascertain how the vehicles were procured.

786. An individual in Lamu was paid a total of Kshs.825,000.00 for hire of two vehicles at the rate of Kshs.15,000.00 per day. Examination of the vehicles' work tickets revealed that some days were paid twice or thrice e.g. 21 to 29 December, 2002 and 28 to 30 December, 2002 for both vehicles.

787. Further, the District Election Coordinator allegedly incurred expenses on hire of transport for purposes which appears irrelevant to the general election such as printing of posters between 28 December, 2002 to 28 January 2003 and boat services between 4 to 10 January, 2003.

788. In addition, the firm referred to above was again paid an amount of Kshs.294,000.00 for allegedly transporting election materials from Lamu to Nairobi for warehousing. It is not possible to establish the purpose of the three (3) trips to Nairobi paid for as the tonnage of the election material or number of ballot papers was not specified to justify the three trips.

789. A total of Kshs.400,000.00 was paid to two contractors for vehicles and boat hire. It could not be established whether the alleged service was provided since no details of work done were made available for audit review.

Fuel and Batteries Not Accounted For – Kshs.216,000.00

790. An amount of Kshs.216,000.00 was paid to a firm in Lamu in January 2003. The payment was in respect of supply of fuel costing Kshs.196,000.00 and 4 batteries costing Kshs.20,000.00. However it could not be established how the fuel was utilized since no motor vehicle's work tickets or detail orders were made available for audit review. Although the batteries were indicated to have been issued, the motor vehicles to which they were issued were not indicated.

Missing Payment Vouchers – Tana River

791. The District Election Coordinator Tana River made payments amounting to Kshs.567,715.00 between February and May 2003, to himself and two other individuals. It was not possible to ascertain what the payments were in respect of as the payment vouchers and their supporting documents were not produced for audit review.

Doubtful Payment of Allowances – Tana River

792. An amount of Kshs.3,673,300.00 was paid as allowances to various officers who purportedly participated in the registration of voters exercise and the General Elections. It was however, noted that no receipted schedules bearing the names of payees were attached to the payment vouchers. It was therefore not possible to confirm that the amounts were paid to genuine payees and that they were correctly chargeable to public funds.

Doubtful Procurement of Spares and Repairs – Tana River

793. An amount of Kshs.230,589.00 was spent on purchase of motor vehicle spare parts and repairs to G.K. vehicles which were used during the December 2002 General Elections. However, the respective motor vehicles log books and work tickets were not made available for audit review and it was therefore not possible to confirm the authenticity of the expenditure.

Missing Cash and Payment Vouchers – Nakuru

794. Examination of the records held at the Nakuru District election coordinator's office revealed that payments totalling to Kshs.16,760,200.00 were entered in the cash book and the vote book, but no payment vouchers and their supporting documents were produced for audit review. It was therefore not possible to ascertain what the payments represented. Further the cash book as at 30 June 2003, showed a balance of Kshs.371,690.00 as cash on hand. However, no physical balance of cash was produced for audit count. In addition the audit survey revealed cheque payments amounting to Kshs.618,836.00 which had apparently been made without payment vouchers and which were not recorded in the cash book. As a result it was not possible to establish what the payments represented.

Procurement of Polling Booths – Meru Central

795. The District Election Coordinator, Meru Central, made two payments totalling Kshs.558,900 on 16 December 2002 to two firms being advance payment for the supply of Polling Booths. It has not been explained why the firms were advanced money to do the work they tendered for.

Doubtful Repair of G.K. Motor Vehicles – Kirinyaga

796. The District Election Coordinator Kirinyaga District, paid Kshs.1,007,705.00 to various motor garages for repair of G.K. vehicles purportedly used during the December General Elections. A review of the payment records showed that quotations for the jobs were opened by the staff of the District Election Coordinator without involving the District Supplies Officer, Local Service orders (LSO's) were issued before the quotations were opened and in some cases the invoices were raised on the date of the Local Service Order raising the question of when the works or repairs being paid for were actually carried out.

Revenue Unaccounted For – Kirinyaga

797. Revenue amounting to Kshs.16,000.00 in respect of sale of Tender documents for hire of motor vehicles to various contactors was collected and appropriate miscellaneous receipts issued. However, the receipts were not entered in the Cash Book or the revenue surrendered to headquarters. The amount was therefore not accounted for and no explanation has been given for the anomaly.

EXCLUSION OF DISTRICT EXPENDITURE

798. The District expenditure returns on election expenses shows some thirteen (13) districts with differing figures from those reflected in the main ledger and the accounts resulting in net expenditure of Kshs.5,052,494.00 being excluded from the Appropriation Account. Had the expenditure been included in the account, the Appropriation Account for vote R33 would have reflected a reduced Gross Surplus of Kshs.826,882,880.00 instead of Kshs.831,935,373 now shown. No explanation has been given for the exclusion of the expenditure from the Account for 2002/2003.

MINISTRY OF LANDS AND HOUSING

PENDING BILLS

799. Records held by the Ministry of Lands and Settlement show, that bills and claims totalling Kshs.78,932,327.35 due for payment in 2002/2003 were not settled during the year but were instead carried forward to 2003/2004. Out of this amount, bills totalling Kshs.73,777,040.35 were chargeable to the Recurrent Vote R.36 while bills totalling Kshs.5,155,287.00 were chargeable to Development Vote D.36. However, the accuracy of bills and claims chargeable to the Development Vote D.36 is in doubts following unsupported reduction of the pending bills chargeable to the Vote from Kshs.40,094,304.00 in 2001/2002

financial year to Kshs.5,155,287.00 in 2002/2003. Further, details of pending bills from Provincial and District offices have not been made available for audit review and the pending bills figure of Kshs.78,932,327.35 may not therefore be correct.

800. Had the pending bills been settled during 2002/2003 the Recurrent Appropriation Account would have reflected a reduced net surplus of Kshs.16,201,576.55 instead of Kshs.89,978,616.90 now shown, while the Development appropriation Account would have reflected a reduced net surplus of Kshs.14,498,819.00 instead of Kshs.19,654,106.00 now recorded.

APPROPRIATION ACCOUNT FOR DEVELOPMENT VOTE D.36

Unvouched Expenditure and Appropriations-In-Aid

801. The audit of Appropriation Account for Development Vote D.36 for the year ended 30 June 2003 has revealed that the Account reflects gross expenditure of Kshs.46,707,156.00 under sub-vote 362 – Department of Land Adjudication and Settlement Head 173 – SFT State Land Scheme and Head 199 – SFT-Shirika Conventional Scheme. The Account similarly reflects Appropriations-In-Aid of Kshs.28,806,504.00 under Head 173 Item 901 – Credit Purchase FRG. Payment and receipt vouchers together with supporting documents in respect of this expenditure and receipts of Appropriations-In-Aid have not, however, been made available for audit review. It has therefore not been possible in the circumstances to ascertain the correctness of these two figures or of the propriety of the expenditure.

Under Expenditure

802. The Account also reflects under Sub-vote 362 Head 084 – S.F.T. Magarini Settlement Project a nil expenditure against voted provision of Kshs.4,207,763.00. According to the footnotes to the account the under-expenditure of Kshs.4,207,763.00 resulted from non-capture of expenditure totalling Kshs.4,183,803.00 at the district re-imbusement section of the Treasury despite the expenditure being incurred against items 402, 420 and 430 under the Head. It has not been explained, however, why the expenditure was not captured at the district re-imbusement section.

803. Assuming that the expenditure was incurred as reported, its non-inclusion has the effect of understating the Gross Total Expenditure of Kshs.493,762,238 and over-stating the Net Surplus to be surrendered to Exchequer of Kshs.19,654,106 both reflected in the Appropriation Account for vote D36 for 2002/2003 by Kshs.4,183,804.

TOWNSHIP ROADS AND DRAINS ACCOUNT

804. In the previous years' reports it was indicated that four contracts for Infrastructural Development of Dandora Industrial Area involving Roads, Drains, Clear Water Reticulation, Foul Water Sewerage and Street Lighting including Supervisory work all costing Kshs.685,346,956.00 were awarded irregularly without the involvement of either Ministry of Roads and Public Works and Housing, Central Tender Board or the Treasury. In addition, the project was not properly funded through the annual budget of the Ministry. The Ministry as a result attempted to finance the project from Township Roads and Drains Account which due to inadequate receipts from plot allottees of the properties in the area ended up with a deficit of Kshs.345,873,209.65 as at 30 June, 2002.

805. The Township Roads and Drains Account for the year ended 30 June, 2003 recorded an income of only Kshs.1,394,182.70 and a surplus of Kshs.38,320.00. The surplus was applied against accumulated deficit of Kshs.345,873,209.65 as at 30 June, 2002 thereby reducing the deficit only slightly to Kshs.345,834,889.65 as at 30 June, 2003.

806. The audit review for 2002/2003 revealed that the Ministry has still not addressed the unsatisfactory issues raised in an evaluation report issued in November, 1999 by the Ministry of Roads and Public Works as follows:

- (i) Consultancy contract of Project Engineers was not signed by the government and it is not clear under what conditions the consultant was hired;
- (ii) Four construction contracts were not signed by the Government in accordance with the Government Contract Act, Cap 25 Laws of Kenya and were therefore not valid;
- (iii) The four contractors were hired through selective tendering without approval of Treasury and there was no evidence that the tenders were subjected to the normal tendering process of the Central Tender Board;
- (iv) Overpayment of Kshs.275,603,860.00 occurred as a result of over certification and mobilization claims.

807. The review also confirmed that the project has stalled and is yet to be handed over to the Ministry. Expenditure totalling Kshs.1,113,630,342.70 had by 30 June 2003 been incurred on the project against the initial contract sums of Kshs.685,346,956.00 resulting in a variation of Kshs.428,283,386.70. Information available further indicates that two of the contractors sued Government for breach of contract and were awarded damages and other costs

totalling Kshs.423,769,215.00 which was paid to the two contractors during the year 2002/2003.

PURCHASE OF LAND L.R. 12979/4 BY SETTLEMENT FUND TRUSTEES

808. Records maintained by the Ministry of Lands and Settlement indicates that on 29 November 2002 the Settlement Fund Trustees entered into a Sale Agreement with a Nairobi firm for Purchase of 650.02 hectares of land referenced LR No. 12979/4 situated in Ruai area of Nairobi for a sum of Kshs.438,492,600.00. Records further indicate that on 2 December 2002, a firm of Advocates, acting for the vendor, was subsequently paid the first installment of Kshs.100,000,000.00 through cheque No.00143 of 29 November, 2002 supported by Cash Book Voucher No.085 of 9 December, 2002. It is not clear under what circumstances the cheque which was dated 29 November 2002 was issued before the authorizing payment voucher which was prepared later on 9 December 2002.

809. The above irregularity apart, audit verification has revealed that the said property was initially registered under "The Registration of Titles Act Cap 281 through Grant No.I.R.68946 of 1 February 1996 to Nairobi City Council of P.O. Box 30075, Nairobi. According to the records seen the land was acquired by Nairobi city Council for expansion of existing sewerage treatment plant and management of waste disposal then and in the foreseeable future.

810. Evidence available, however, show that the Nairobi City Council later on 10 April 1996 transferred the property to a private developer for a consideration of Kshs.18,200,000.00 through Grant No.I.R.68946/2. The correspondence seen indicates that the property was allocated to the private developer by the then Town Clerk and Minister for Local Government without the consent of the full Council and that the transfer was approved by the Minister for Local Government on the grounds that the developer had proposed to build low income housing units on the land.

811. Further available information shows that the Nairobi City Council is claiming ownership of the same land citing the fact that the allocation was done illegally without the approval of a full Council meeting. It is therefore apparent that the ownership of the property is in dispute and the Settlement Fund Trustees are not assured of receiving value for the sum of Kshs.100,000,000.00 already paid to the vendor through its advocates. No evidence has been seen of any action being taken by the Ministry or the Settlement Fund Trustees to obtain a refund of the amount of Kshs.100,000,000.00 or to safeguard public interest in the matter.

LANDS REVENUE STATEMENT HEAD 150 – 360

Payment to Exchequer

812. The audit of Land Revenue Statement Head 150 – 360 for the year ended 30 June 2003 revealed that according to the records held in the Ministry of Lands and Settlement, Land Revenue amounting to Kshs.915,963,529.30 was paid to Exchequer during the year. The Treasury records on the other hand indicates that a total of Kshs.1,086,482,155.25 was received resulting in a difference of Kshs.170,518,625.95. Available information indicates that the difference includes three cheques amounting to Kshs.88,518,655.70 which although recorded by the Treasury as received could not be traced in the Ministry's records. The origin of the three cheques has therefore not been explained or their authenticity confirmed.

813. It would also appear that no proper and regular reconciliation is carried out by the Ministry and the Treasury in connection with remittance and receipt of Land Revenue.

Arrears of Land Revenue

814. The Arrears of Land Revenue as at 30 June 2002 stood at Kshs.3,984,204,030.75. A review of the position as at 30 June 2003 showed that out of the arrears of kshs.3,984,204,030.75, the Ministry collected an amount of Kshs.169,604,636.00 during 2002/2003 leaving a balance of Kshs.3,814,599,394.75. During the same period however, uncollected Arrears of Land Revenue increased by Kshs.1,707,484,682.75 resulting in overall increase of arrears to Kshs.5,522,084,077.50 as at 30 June 2003. As was the case in the previous years the ministry does not appear to have put in place effective measures for the collection of arrears of revenue.

GRANTS TO SETTLEMENT FUND TRUSTEES

815. Section 168 of the Agriculture Act Cap 318 established the Agricultural Settlement Fund and provided for the payment of sums provided by Parliament for the purpose of the Fund. During the period from 1995/96 to 2002/2003 the Settlement Fund Trustees received on behalf of the Fund grants totalling Kshs.367,186,608 appropriated by Parliament through the Ministry. However, Fund accounts for the years 1995/96 to 2002/2003 have not been prepared or submitted for audit. As a result, it has not been possible to confirm receipt and proper accountability of these grants.

MINISTRY OF TOURISM AND INFORMATION

UNDER-EXPENDITURE AND UNDER-COLLECTION OF APPROPRIATIONS-IN-AID.

816. The Development Appropriation Account for Vote D.46 for the year 2002/2003 reflects gross under-expenditure of Kshs.137,677,844.25 or approximately 15% of the approved estimate of Kshs.889,398,900.00 and under-collection of Appropriations-In-Aid of Kshs.119,254,207.40 or about 14% of the gross estimated collections of Kshs.834,293,200.00.

817. The reasons provided in the footnotes to the Account for under-expenditure and under-collection of Appropriations-In-Aid include various equipment having not arrived from Japan at the close of the year, non-release of funds by donors and inadequate exchequer issues by Treasury.

OUTSTANDING IMPREST

818. Temporary Imprest records at the Ministry's Headquarter show that Imprests totalling Kshs.2,853,385.00 which should have been accounted for on or before 30 June, 2003 were still outstanding as at that date. Out of the total figure of Kshs.2,853,385.00 an amount of Kshs.710,886.00 was owing from officers in Job Group 'M' and above, Kshs.2,085,397.00 from officers in Job Group 'L' and below, while Kshs.57,102.00 was due from a Minister and an Assistant Minister.

819. Similarly, Standing Imprest records at the Headquarters show an amount of Kshs.103,580.00 which should have been accounted for on or before 30 June, 2003 was still outstanding as at that date. No explanation has been provided as to why these imprests were not accounted for on the due dates.

UNVOUCHED EXPENDITURE

820. The Development Appropriation Account for Vote D.46 for the year 2002/2003 reflects under Sub-Vote 461, Head 540, Item 900-Direct Payments – European Economic Community, expenditure totalling Kshs.660,367,524.25 incurred on Tourism Institutional Strengthening and Market Promotion. Expenditure returns in respect of this expenditure have however not been made available for audit review and consequently it has not been possible to confirm its propriety. Similarly, expenditure vouchers for an amount of Kshs.7,463,421.55 incurred against various accounts under Construction of Buildings, Tourism Promotion, Modernization of Equipment and a Borehole Project were not made available for audit review and therefore it was not possible to ascertain whether the expenditure constituted a proper charge against public funds.

GRANTS TO ORGANIZATION

821. The Development Appropriation Account for Vote D.46 for the year ended 30 June 2003 reflects grants totalling Kshs.16,700,087.35 issued to Kenya Tourist Board and Kenya Utalii College. A review of the Accounts of the two organizations for the year 2002/2003 which have been submitted for audit, however, reveals that the respective grants have not been reflected in those Accounts. It has not therefore been possible to ascertain whether the grants were received by the two organizations and whether such grants were used for the intended purposes.

NEWS GATHERING EQUIPMENT

822. On 01 November 2002, the Permanent Secretary for the then Ministry of Tourism and Information requested the Treasury for authority to single source TV News gathering equipment, to be used during the General Elections which were scheduled to be held on 27 December, 2002. In her request, the Accounting Officer indicated that the Electoral Commission of Kenya had just about that time released the timetable for the Elections and therefore it was not going to be possible to go through the normal competitive tendering process as provided for in the Public Procurement Regulations (2001) and for the equipment to be in the country in time to cover the elections. Time was of essence, the request stated, and hence the need to procure the equipment through the fastest means possible. According to available information, the equipment to be single sourced was Sony Betacam Model and was to be delivered directly from the manufacturer in Japan through their Africa Representative in South Africa at a price of Euros 269,042 or Kshs.21,292,468.00.

823. On 21 November 2002, Treasury granted approval for direct procurement of the equipment and further recommended that the Ministry enters negotiations with the South African firm with the objective of securing a discount on the purchase price, with the assumption that the Ministry had comparative price data for equivalent equipment to enable it negotiate a fair and competitive deal. Evidence available so far does not however indicate any such negotiations as having been entered into between the parties or even the existence of a price data for equivalent equipment.

824. Subsequently on 10 December, 2002 an amount of Kshs.21,292,468.00 was paid to the firm and the equipment was delivered and received on 24 December 2002, three days before commencement of the elections. However soon after receipt of the equipment, it was realized that the machines could not be dispatched to the field offices as earlier planned apparently because the film officers who were to use them required training and familiarization, especially on the New Generation E.N.G. Cameras and the state of the art Edit Master Non-Linear Editing System. Arising out of this new development, it was considered too late to use the machines for purpose for which they were so urgently

procured, and alternative arrangements were made with a local firm in Nairobi to attach a number of their news gathering cameras to Kenya News Agency field units. It has however, not been possible to establish the cost at which the alternative arrangements were made as records relating thereto have not been made available for audit review.

825. The handling of the procurement and the eventual supply of the News gathering equipment raises a number of unsatisfactory and unexplained issues. After the 1997 General Elections, it was evidently clear that the next Elections would be held in the last quarter of the year 2002, that is five years down the line and therefore the request and subsequent approval for single sourcing of the equipment on account of urgency would appear to have been avoidable and therefore unjustified.

826. In the absence of price data for equivalent equipment from both local and international markets and considering the fact that no negotiations for securing of a discount on the price of the equipment appear to have taken place as recommended by Treasury, it is not clear how the Ministry determined that price of Kshs.21,292,468.00 represented fair and competitive value for the equipment.

827. Information available indicate that the Ministry did not have adequate personnel who were trained in the use of the state-of-the art equipment. Against this background it is not clear how the Ministry expected to effectively utilize the equipment or why the need to train staff on the use of the new equipment was not factored in the procurement decisions and timing.

MINISTRY OF FINANCE

BANK RECONCILIATION STATEMENTS FOR TREASURY BILLS AND TREASURY BONDS ACCOUNT AS AT 30 JUNE 2003

828. In the Reports for the previous years, it was stated that the Bank Reconciliation Statements in respect of Treasury Bills and Treasury Bonds Accounts reflected large unexplained transactions which had remained uncleared for a considerably long period of time. A review of the position during the year 2002/2003 revealed that the unsatisfactory situation persisted as indicated in the ensuing paragraphs.

Treasury Bills Account (Deposit 306)

829. The Bank Reconciliation Statement for Treasury Bills Account as at 30 June 2003 reflects a balance of Kshs.191,265,339,550.50 as payments in Cash book not in Bank Statement (unpresented cheques). According to the supporting schedule provided for the balance of Kshs.191,265,339,550.50, the amount represents mainly direct debits totalling Kshs.174,260,534,350.50 relating to the years 2000/2001 and 2001/2002 and Treasury Bills redemption of Kshs.14,004,800.00 for 2002/2003. However, considering that Treasury relies on the Central Bank (CBK) advices for transactions involving Treasury Bills, it is not clear why amounts shown in the Cashbook as direct debits or Treasury Bills redemptions would not have been debited by CBK in the Treasury Bills Account.

830. The Statement also reflects a balance of Kshs.141,427,434,462.85 as receipts in Bank not yet recorded in Cash Book. These amounts represent Treasury Bills of Kshs.98,918,185,259.15 and Kshs.42,509,249,203.70 transacted during the years 2001/2002 and 2002/2003 respectively. Although CBK had forwarded the relevant Direct Debit/Credits advices to Treasury for necessary action, no explanation has been provided as to why the amounts were not brought into account in Treasury Bills Cash Book.

831. The Statement further reflects an amount of Kshs.227,647,964,082.80 as payments in Bank not yet recorded in Cash Book made up of Kshs.196,408,196,413.80 and Kshs.31,239,767,669.10 relating to the years 2001/2002 and 2002/2003 respectively. Although indications are that Treasury received the relevant advices and documents from CBK to enable it to record the

transactions in the Cash Book, no explanation has been given for failure to record the transactions in the Cash Book.

832. Further, the Statement shows an amount of Kshs.99,856,897,565.30 as receipts in Cash Book not yet recorded in Bank. The amount of Kshs.99,856,897,565.30 which relates to the years 2000 and 2002 is made up of direct credits and Treasury Bills proceeds of Kshs.88,315,072,188.30 and Kshs.11,541,825,337.00 respectively. No reason has, however, been given as to why these receipts were recorded in the Cash Book but were not credited in the Bank considering that the proceeds from the sale of Treasury Bills are credited directly by CBK into the Treasury Bills Account.

833. As a result of the omissions indicated above, the Treasury Bills Cash Book reflects a Bank balance of Kshs.13,772,523,308.60 (OD) as at 30 June 2003 while the CBK Management Report on the other hand shows an overdraft of Kshs.3,487,812,897.90 as at the same date. No explanation or reconciliation has been provided for the difference of Kshs.10,284,710,510.70.

Treasury Bonds (Deposit 307) Account

834. The Bank Reconciliation Statement in respect of Treasury Bonds Account as at 30 June 2003 reflects an amount of Kshs.35,226,669,248.55 as receipts in Bank not yet recorded in Cash Book. The amount of Kshs.35,226,669,248.55 represents proceeds from sale of Treasury Bonds and includes an amount of Kshs.18,399,591,019.45 relating to 2001/2002 and earlier years. Since the CBK ought to have passed the necessary advices of the direct credits to Treasury, it is not clear why it has taken so long to record the transactions in the Cash Book.

835. The Statement also reflects a direct debit figure of Kshs.6,690,347.00 representing payments in Bank not yet recorded in Cash Book. Although indications are that Treasury received advices of this single direct credit dated January 2003, it has not been explained why the transaction has not yet been recorded in the Cash Book.

836. The Statement further shows an amount of Kshs.36,459,948,785.30 as receipts in Cash Book not yet recorded in Bank. The amount of Kshs.36,459,948,785.30 represents proceeds from sale of Treasury Bonds by CBK. It is not clear how CBK could have forwarded details of these direct credits to the Treasury without having in the first instance credited the transactions in the Treasury Bonds Bank Account.

837. As a result of the omission described above, the Treasury Bonds Cash Book reflects a positive balance of Kshs.4,070,990,931.20 as at 30 June 2003 whereas the CBK records reflect a positive balance of Kshs.2,857,248,869.20

resulting in a difference of Kshs.1,213,742,062.00 between the two sets of records.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.07 – MINISTRY OF FINANCE

838. The Statement of Assets and Liabilities as at 30 June, 2003 for Vote R.07 reflects a debit balance of Kshs.678,015,834.70 in respect of items Awaiting Clearance Account, which is a reduction of Kshs.52,450,351.70 from the debit balance of Kshs.730,466,316.40 reflected in the Statement of Assets and Liabilities as at 30 June, 2002. No analysis has however been provided in support of the balance of Kshs.678,015,834.70 and as a result it has not been possible to ascertain its correctness. Further details of the transactions resulting into the reduction of Kshs.52,450,351.70 realized during the year against the Account have not been disclosed and it has not therefore been possible to confirm the accuracy of the balance of Kshs.678,015,834.70.

839. The Statement also reflects a debit balance of Kshs.109,743,118.40 relating to training and representing expenditure incurred by the Ministry on behalf of the Directorate of Personnel Management (DPM). Apart from the fact that the balance is not supported with any analysis or documents to show what the expenditure was in respect of, it is notable that the amount has been increasing over the years with such increases standing at Kshs.51,210,997.00 and Kshs.23,133,636.85 during the years 2001/2002 and 2002/2003 respectively. No reasons have been provided for failure to obtain reimbursements totalling Kshs.109,743,118.40 as at 30 June 2003 from the DPM.

840. The Statement further reflects debit balances of Kshs.18,396,983.94, Kshs.3,328,193.25 and Kshs.1,145,000.00 against Temporary, Standing and Special Imprest Accounts respectively which have not been supported with analyses. In addition, no explanation has been provided as to why the three balances which relate to 2001/2002 and earlier years have not been cleared.

841. The Statement shows a credit balance of Kshs.19,225,284.75 representing stale cheques which have not been analysed and no explanation has been provided for lack of analysis. Further, no action appears to have been taken by the Ministry to have the amounts investigated with a view to having the cheques replaced or otherwise cleared from the books of account.

183. The Statement also reflects a debit balance of Kshs.4,500.00 in respect of loss of cash. The balance of Kshs.4,500.00 has not been analysed and no indication has been given as to what occasioned the loss and the measures being taken to recover or write off the amount.

842. The Statement further shows a debit balance of Kshs.5,295,962.15 under Advance of Salary Account which includes an amount of Kshs.215,276.65

advanced to some seven officers who have since been transferred to other Ministries. Records available however, indicate that the officers joined their new stations before full recovery of the advances granted had been made and appropriately recorded and as far as I have been able to establish, there is no evidence of follow-up action by the Ministry to recover the outstanding advances.

843. The following Accounts in the Statement reflect balances for 2002/2003 which do not agree with figures reflected in analyses submitted in support of the balances:-

Account Description	Balance as per Statement <u>Kshs.</u>	Balance as per Analyses <u>Kshs.</u>	Difference <u>Kshs.</u>
Returned Salary	18,251.50 Cr	17,419.80 Cr	831.70 Cr
Provincial Suspense	109,973,461.85 Cr	109,974,981.85 Cr	1,520.00 Cr
Advance of Salary	473,542.10 Cr	1,198.70 Cr	472,343.40 Cr
Net Salary Advance	1,566,596.10 Dr	293,133.65 Dr	1,273,462.45 Dr
Agency Suspense	76,325.39 Cr	-	76,325.39 Cr

It has therefore not been possible to confirm the correctness of the balances.

844. The Statement in addition reflects an Exchequer debit balance of Kshs.1,419,618,900.00 while the Exchequer records show an amount of Kshs.329,263,040.00. The difference of Kshs.1,090,355,860.00 between the two sets of records has not been reconciled or explained.

845. The Statement also reflects a PMG credit balance of Kshs.1,191,265,909.74 while the Cashbook as at 30 June, 2003 shows an overdraft of Kshs.59,272,782.70 occasioning an unreconciled and unexplained difference of Kshs.1,131,993,127.04 between the two sets of records.

STATEMENT OF ASSETS AND LIABILITIES – VOTE D.07

Building Contractors Retention Money

846. In the report for 2001/2002, reference was made to a credit balance of Kshs.389,349.65 reflected as Building Contractors Retention Money in the Statement of Assets and Liabilities for that year. As observed in the report, these monies were contractor's retention money/deposits which should have been held and accounted for in the Deposits Cashbook and ledger. A review of the position during 2002/2003 revealed that there was no change and the monies continued to be reflected under the Development Vote ledger. No explanation has been provided for the continued retention of the monies in the Development Cashbook for Vote – 07. Further, the balance of Kshs.389,349.65 has not been analysed and therefore it has not been possible to identify the contractors to whom the money is owing.

Provincial Suspense

847. The Statement of Assets and Liabilities for Vote D.07 also reflects a credit balance of Kshs.15,058,925.45 in respect of Provincial Suspense Account which includes an amount of Kshs.8,556,711.85 relating to 2001/2002 and earlier years. No explanation has however been given for non-clearance of the latter balance.

Stale Cheques

848. The Statement further reflects a credit balance of Kshs.34,375,073.05 relating to 2000/2001 and earlier years in respect of RD and Stale cheques, which have not been analysed to show what they represent. In addition, it has not been explained why the cheques which have been outstanding for a considerably long period of time have not been cleared or replaced.

Agency Suspense

849. The Statement shows a credit balance of Kshs.7,503,673.95 in respect of Agency Suspense Account which has not been analysed to indicate what the balance represents. For the same reason, it has not been possible to confirm the accuracy of the balance.

Temporary Imprest

850. The Statement also shows a debit balance of Kshs.17,874,770.15 in respect of Temporary Imprest Account which has not been fully analysed in that out of the total of Kshs.17,874,770.15, a balance of Kshs.13,883,950.00 has been analysed leaving a balance of Kshs.3,990,820.15 unanalysed. It has not also been explained why the balance of Kshs.17,874,770.15 which has been outstanding for a considerably long period of time has not been accounted for.

Training – DPM

851. The Statement further shows a debit balance of Kshs.73,570,083.45 representing amount owing from the Directorate of Personnel Management (DPM) on Account of training expenses incurred by the Ministry on behalf of the Directorate. The balance of Kshs.73,570,083.45 has however not been analysed and therefore it has not been possible to establish the nature of training against which reimbursements totalling Kshs.73,570,083.45 are due from the Directorate. Apart from lack of analysis, it has also not been explained why the amount of Kshs.51,875,424.90 relating to 2001/2002 and earlier years which is included in the balance of Kshs.73,570,083.45 has not been cleared.

Items Awaiting Clearance

852. The Statement in addition shows a debit balance of Kshs.28,886,863.45 under Items Awaiting Clearance Account which has not been analysed to indicate what it represents. The balance of Kshs.28,886,863.45 includes an amount of Kshs.27,906,611.05 relating to 2001/2002 and earlier years the non-clearance of which has not been explained.

Exchequer Account

853. The Statement also reflects an Exchequer Account balance of Kshs.1,667,068,937 for the year 2002/2003 which does not reconcile with the balance of Kshs.27,864,220.00 shown in the Exchequer records maintained at the Treasury. The difference of Kshs.169,204,717.00 between the two sets of records has not been reconciled or explained.

Paymaster General

854. The Statement further reflects a Paymaster General Account overdraft balance of Kshs.4,846,675,556.90 while the Development Cashbook as at 30 June 2003 shows a debit balance of Kshs.16,422,713.20. Like in the previous year, the difference of Kshs.4,863,098,270.10 between the two sets of records is attributed to the current accounting procedures which do not provide for the Cash Book balances for the current and earlier years to be carried forward to the ensuing periods.

STATEMENT OF ASSETS AND LIABILITIES – DEPOSIT 07

855. The Statement of Assets and Liabilities for Deposit 07 as at 30 June 2003 reflects various balances in respect of revenue accounts which differ from balances reflected in the final ledger for the month of June 2003 and in the respective revenue statements. No reconciliation or explanation has been given for the differences between the three records which should under normal circumstances reflect the same balance.

856. The Statement further reflects opening balances of Kshs.2,850,610.55, Kshs.789,621,362.10 and Kshs.41,179,474.10 against Rural Development Fund, Preshipment and Provincial Suspense Accounts respectively while the audited Statement for 2001/2002 shows closing balances of Kshs.2,794,714.55, Kshs.789,677,258.10 and Kshs.41,169,928.10 against the same Accounts respectively. No reasons have been provided for the discrepancies.

857. The Statement also shows numerous debit and credit balances against various Accounts which have not been supported with analyses. No explanation has been given for failure to analyse the balances. In the absence of the

necessary analyses it has not been possible to ascertain their correctness or to establish what they represent.

858. The Statement also shows credit balances totalling Kshs.956,237,253.35 against various revenue accounts. It has not however, been explained why these balances have not been remitted to the exchequer.

859. The Statement further shows a Paymaster General credit balance of Kshs.78,309,856,909.75 while both the ledger and the cashbook as at 30 June 2003 reflect balances of Kshs.73,939,980,645.35 Cr and Kshs.577,768,369.75 Cr respectively. The differences between the three sets of records have not been reconciled or explained. In the absence of reconciliations and explanations for the differences it has not been possible to confirm the correctness of the PMG balance of Kshs.78,309,856,909.75 in the Statement.

STATEMENT OF ASSETS AND LIABILITIES CONSOLIDATED FUND SERVICES, PENSIONS AND GRATUITIES

Overdrawing of P.M.G.

860. In the Reports for the previous years, reference was made to the continued overdrawing of the Paymaster General Account for C.F.S. – Pensions and Gratuities with such overdrafts standing at Kshs.1,838,172,822.50 as at 30 June, 2002. During the year under review the position persisted although the overdraft reduced by an amount of Kshs.218,267,470.95 from Kshs.1,838,172,822.50 as at 30 June 2002 to Kshs.1,619,905,351.55 as at 30 June 2003. As was the case in the previous years, the reason given for the overdraft is that there has been a sustained rise in the number of voluntary and normal retirees, with no corresponding and sufficient Exchequer Issues to accommodate the situation. It has however not been explained why sufficient Exchequer Issues were not requisitioned to meet the expected expenditure.

861. Further, while the Statement reflects a PMG balance of Kshs.1,619,905,351.55 Cr, the bank and the cash book show balances of Kshs.1,532,058,331.55 Dr and Kshs.258,270,142.80 Dr respectively as at 30 June 2003. No reconciliations or explanations have been provided for the differences between the three sets of records.

STATEMENT OF ASSETS AND LIABILITIES – C.F.S. PENSIONS AND GRATUITIES – FUNDS AND DEPOSITS

862. In the reports for the previous years reference was also made to various unsatisfactory matters pertaining to the Statement of Assets and Liabilities for Pensions and Gratuities, Funds and Deposits including balances whose accuracy could not be confirmed and others which were not supported with analyses and relevant documentation.

863. Examination of the Statement of Assets and Liabilities as at 30 June 2003 revealed that the Statement reflects a debit balance of Kshs.17,537,226.20 under Items Awaiting Clearance relating to 2001/2002 and earlier years which is not analysed. Apart from lack of an analysis for the balance which has made it impossible to ascertain its correctness and authenticity, it has not been explained why this long outstanding balance has not been cleared from the books of Account.

864. The Statement further reflects a debit balance of Kshs.130,660,080.05 under Suspense General Agency Account, which has been brought forward from the years 2000/2001 and 2001/2002. As in the previous years no analysis has been provided to support the balance and consequently it has not been possible to confirm its correctness or to establish what it represents. Further, it has not been explained why this balance has not been cleared.

865. The Statement shows a credit balance of Kshs.13,550,341.65 under Revenue Suspense Account. Although it has been indicated that the balance represents recoveries from pensioners which are periodically remitted to the Exchequer, no documentary evidence has been availed to support the explanation.

866. As was reported in the previous years, an investment of Kshs.16,900,000.00 with the Cereals and Sugar Finance remained excluded from the Statement under review with no explanation being provided for the anomaly.

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

867. In the report for the previous year, mention was made of re-credited cheques totalling Kshs.68,846,544.50 which were drawn between 1978 and 1992 but were still unclaimed as at 30 June 2002. A review of the position during the year 2002/2003 showed that the position has not changed in that the re-credited cheques amounting to Kshs.68,846,544.50 most of which were drawn in favour of Exchequer and Government Departments continued to feature uncleared in the Statement of Assets and Liabilities for Consolidated Fund Services – Public Debt, Salaries, Allowances, Miscellaneous Services and Subscriptions to International Organisations as at 30 June 2003.

868. The Statement also reflects a credit balance of Kshs.578,552,307.80 in respect of Agency Suspense Account. It has not been explained why the balance of Kshs.578,552,307.50 has not been cleared despite the fact that it has been outstanding for a considerably long period of time.

869. The Statement further reflects a credit balance of Kshs.81,865,289,688.75 against the Paymaster General Account while the certificate of balances from Central Bank of Kenya as at 30 June 2003 shows a credit balance of Kshs.4,004,495,613.95 against the Account. The difference of Kshs.77,860,794,074.80 between the two sets of records has not been reconciled or explained.

870. In addition, the credit balance of Kshs.81,865,289,688.75 reflected in the Statement differs by an amount of Kshs.81,379,412,074.15 from the Cash book balance of Kshs.485,877,614.60 as at 30 June 2003. As in the previous years, no reconciliation or explanation has been provided for the difference.

871. The Statement also shows a credit balance of Kshs.2,500,000.00 brought forward from 2001/2002 and representing Imprest owed to the Ministry by the National Social Security Fund (N.S.S.F.). Although during the Public Accounts Committee meeting on the Accounts and Statements for 1998/99 the Financial Secretary had indicated that the balance of Kshs.2,500,000.00 would be recalled as the NSSF Treasury Imprest Account was no longer operational, no action appears to have been taken and the amount of Kshs.2,500,000.00 was still outstanding as at 30 June 2003.

872. As a result of the amendments made to various balances in the Statement, total Assets of Kshs.89,904,405,604.30 have exceeded total liabilities of Kshs.82,514,781,978.55 by an amount of Kshs.7,389,632,625.75. The excess has not been explained.

OFFICE OF THE PRESIDENT

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.01 AS AT 30 JUNE 2003

873. The Statement of Assets and Liabilities for Vote R.01 as at 30 June 2003 reflects a debit balance of Kshs.155,539,521.00 in respect of advances made up of personal advances for the Ministry's Headquarters amounting to Kshs.5,972,268.30, Police Department advances amounting to Kshs.149,496,856.70 and an unidentified amount of Kshs.70,407.50 which has not been explained. Analyses of these balances were not provided and it has not therefore, been possible to confirm their correctness. No explanation has been provided for the Ministry's failure to provide the analyses or to recover the advances most of which relate to 2001/2002 and earlier years.

874. The statement also reflects an amount of Kshs.198,775,568.65 in respect of outstanding imprests. On the other hand schedules attached to the statement show outstanding imprests totalling Kshs.199,358,937.75. The difference of Kshs.583,369.10 between the two balances has not been explained and no explanation has been given for non recovery of long outstanding imprests some of which were issued in 1999.

875. The statement further shows a balance of Kshs.191,824,943.00 under agency account out of which Kshs.176,812,821.50 relates to 2001/2002 and earlier years. No explanation has been provided for the Ministry's failure to seek reimbursement of this amount from the Ministries involved.

876. The statement shows an Exchequer Account balance of Kshs.1,263,166,152.80 out of which Kshs.1,191,199,792.80 relates to 2001/2002 and earlier years and Kshs.71,966,360.00 to the year under review. However, the balance of Kshs.71,966,360.00 for the year 2002/2003 does not tally with the Exchequer balance of Kshs.19,966,360.00 reflected in the Treasury records for 2002/2003. The difference of Kshs.52,000,000.00 between the two sets of records has not been reconciled and no explanation has been provided for failure to clear the balance of Kshs.1,191,199,792.80 relating to 2001/2002 and earlier years.

877. The statement further reflects a debit balance of Kshs.616,587,469.70 against District Suspense Account, out of which Kshs.278,774,703.50 relates to 2001/2002 and earlier years. No analysis has however, been provided to explain what the balance represents. As a result, it has not been possible to ascertain the accuracy of the balance.

878. The statement also reflects a Clearance Account debit balance of Kshs.153,978,495.45. Details of the Clearance Accounts in the schedules supporting the statement however reflect net Clearance Accounts total of Kshs.153,960,842.65. The difference of Kshs.17,652.80 between the two records has not been explained. Further, it has not been explained why clearance Accounts ended up with a net debit balance of Kshs.153,960,842.65 instead of a nil or a credit balance as should be the case.

879. The statement reflects General Suspense credit balance of Kshs.81,416,619.40 out of which Kshs.19,265,249.30 relates to 2001/2002 and earlier years. Details provided on the composition of this amount, however reflect net General Suspense Accounts credit of Kshs.80,727,690.60. The difference of Kshs.688,928.80 between the two records has not been explained. Further, detailed analyses of the General Suspense Accounts has not been provided for audit and for this reason the accuracy of these balances cannot be confirmed.

880. The Statement shows a General Account of Vote balance of Kshs.2,919,707,091.45, out of which Kshs.1,918,217,915.80 relates to 2001/2002 and earlier years. Additionally, the balance includes balances in respect of Excess Appropriations-In-Aid totalling Kshs.233,046,373.30 which should be classified separately, and are also payable separately to the Exchequer. No explanation has been given for failure to clear these long outstanding balance.

881. Further, the amount of Kshs.940,324,289.35 reflected in the statement for 2002/2003 differs with the amount of Kshs.727,113,009.15 reflected in the Appropriation Account for Vote R.01 as the Net Surplus to be surrendered to the Exchequer for 2002/2003. The difference of Kshs.213,211,280.20 between the two accounts has not been explained.

882. The Statement reflects a P.M.G. credit balance of Kshs.129,239,460.10 while the Cash Books reflect a net debit balance of Kshs.34,330,092.10 in respect of OOP Headquarters, Anti-Corruption Police Unit and Police Headquarters. No reconciliation has been provided for the difference of Kshs.163,569,552.20 between the two records.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.01

883. In the report for the year 2001/2002, mention was made of the fact that the Statement of Assets and Liabilities for Vote D.01 as at 30 June 2002 reflected long outstanding balances in respect of the Exchequer Account and the General Account of Vote (G.A.V.). A review of the position as at 30 June 2003 revealed that the Statement of Assets and Liabilities as at 30 June 2003 reflects similar unsatisfactory matters. The Statement reflects an Exchequer Account balance of Kshs.5,450,529,725.20 which includes debit balances totalling Kshs.4,622,949,129.95 and a credit balance of Kshs.34.75 relating to 2001/2002 and earlier years. Similarly the statement reflects a General Account of Vote balance of Kshs.2,650,250,707.80 which includes debit balances totalling Kshs.573,007,450.95 and credit balances totalling Kshs.1,835,395,202.05, which relate to 2001/2002 and earlier years. No explanation has been given for the non-clearance of these balances from the Ministry's books of account.

884 The Statement further reflects General Suspense account balance of Kshs.139,357,797.30 as at 30 June 2003 which includes long outstanding balances relating to 1997/98 and earlier years. The Statement reflects an amount of Kshs.10,202,356.70 relating to overdrawn retention money account for the Aerodromes Department during the time when the Department was under the Office of the President. Apart from the non-clearance of the Account, no explanation has been given for the overdrawing of the Retention Money account which should not normally be overdrawn.

885. The Statement also reflects an amount of Kshs.137,000,020.00 incurred by Office of the President on behalf of the Department of Defence in 1994/95 and which has not been reimbursed. Expenditure of Kshs.9,740,211.15 incurred by the Office of the President on the El-Nino Emergency Project during 1997/98 and which has not been reimbursed by the World Bank is also shown.

886. The statement in addition reflects an amount of Kshs.5,813,884.90 being an overpayment of retention money by the National Youth Service to Transnational Bank and an expenditure of Kshs.3,402,046.60 incurred by the Office of the President on behalf of the Department of Applied Technology for which reimbursement was not received. No action appears to have been taken to investigate and clear these balances and no explanation has been given for this state of affairs.

887. Included in the General Suspense Account balance of Kshs.146,973,362.65 for 2001/2002 and earlier years are Police Retention Money Accounts balance of Kshs.18,366,775.40 (A/C No.1-114-320-552) and Headquarters Retention money balance of Kshs.29,842,309.20 (A/C No.1-114-320-563). The correctness of these balances could not be confirmed due to non-availability of payment vouchers, analyses and other supporting documentation.

888. The Statement also reflects Exchequer Account balance of Kshs.106,300,511.00 in respect of Arid Land Project which includes an amount of Kshs.36,300,511.00 relating to 2001/2002 and earlier years and which has not been cleared from the books of Accounts. The Statement also reflects District Imprests balances of Kshs.790,490.85 relating to Arid Lands Project which has not been analysed and for which no explanation has been given for failure to surrender the imprests as at 30 June 2003.

889. The Statement further reflects a District Suspense Account balance of Kshs.243,709,433.55 which has remained uncleared and for which no analysis has been provided for audit review.

890. The General Account of Vote balance of Kshs.867,173,723.40 for 2002/2003 appearing in the statement differs from the amount of Kshs.874,428,939.35 reflected in the Appropriation Account for Vote D.01 for the year 2002/2003 as the surplus to be surrendered to the Exchequer. The difference of Kshs.7,255,215.95 has not been explained.

891. The Paymaster General Account balance of Kshs.29,500,297.80 differs by Kshs.307,878.00 with the cashbook balance of Kshs.29,192,419.80. The difference of Kshs.307,878.00 between the two balances has not been reconciled.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS AS AT 30 JUNE 2003

892. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects debit balances totalling Kshs.517,001,928.70 under eight (8) deposit accounts. Under normal circumstances Deposit accounts should reflect credit or nil balances. No explanation has been provided for the above debit balances in deposit accounts.

893. The Statement also reflects Credit balances totalling Kshs.12,687,671.35 under five (5) accounts, namely Administration Police, Provident Fund, Revenue, National Disaster Fund and Directorate of Applied Technology which have been brought forward from previous years and which have been outstanding for a long period of time. No explanation has been given for failure to clear the above balances.

894. The Statement reflects an MTB Maintenance Fund deposit balance of Kshs.30,201,270.05 and MTB Renewals Fund deposit balance of Kshs.17,765,790.75 both of which relate to the National Youth Service (NYS). The NYS was transferred to the Ministry of Home Affairs during the financial year 2002/2003. No explanation has been provided as to why the two Fund deposits were not transferred to the Ministry of Home Affairs.

895. The Statement further reflects a PMG account balance of Kshs.629,967,782.20 whereas the cashbook reflects a balance of Kshs.224,337,109.30 as at 30 June 2003. The difference of Kshs.405,630,672.90 between the two (2) sets of records has not been reconciled.

STATE HOUSE

STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2003 FOR VOTE R.02- STATE HOUSE

Outstanding Imprests

896. The Statement of Assets and Liabilities for vote R.02 as at 30 June 2003 reflects imprests totalling Kshs.2,127,085.80 which should have been accounted for on or before 30 June 2003. No explanation has been provided for non-recovery of these imprests some of which date back to 1994/95 financial year.

Advance Accounts

897 The Statement reflects an advance Accounts debit balance of Kshs.4,948,032.65, out of which Kshs.2,491,405.30 is in respect of advance net salary. Normally advance net salaries are recovered at the end of the month during which they are issued but no explanation has been given for failure to recover this latter amount.

898. The debit balance also includes Kshs.18,689.45 which was advanced to the Ministry of Public Works some 21 years ago. No explanation has been provided for failure to account for this long outstanding advance or to otherwise clear the amount from the account.

PMG – Account Balance of Kshs.279,308.40

899. The Statement further reflects PMG account balance of Kshs.279,308.40 for the current year which agrees with the Cashbook balance. However, the ledger reflects a PMG account balance of Kshs.293,584,114.00 as at 30 June 2003. The difference of Kshs.293,304,805.60 has not been reconciled or explained.

Clearance Accounts Balance of Kshs.1,457,178.55

900. Clearance Accounts should normally reflect Credit or Nil balances. However the Statement reflects a net debit balance of Kshs.1,457,178.55 under clearance Account which includes debit balances totalling Kshs.2,244,941.75 under eleven clearance accounts. No explanation has been provided for these debit balances.

901. Further, the ledger reflects a debit balance of Kshs.27,381.10 under Other Insurance Account whereas the statement reflects a debit balance of Kshs.26,619.85. The difference of Kshs.761.25 has not been explained.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.02

902. In the previous year it was reported that the Statement of Assets and Liabilities for Vote D.02 as at 30 June 2002 reflected an Advance Account balance of Kshs.9,956.45 relating to advances made to the Ministry of Works in 1980/81 and earlier years which had not been cleared due to lack of originating documents. The Statement as at 30 June 2002 reflects the same Advance Account balance of Kshs.9,956.45 indicating that no action has been taken to clear the advance.

903. The Statement further reflects Exchequer Account balance of Kshs.46,583,255.50 whereas the ledger reflects a balance of Kshs.44,787,230.00 in respect of the same account. The difference of

Kshs.1,796,025.50 between the two figures has not been explained or reconciled.

904. The cashbook shows a balance of Kshs.32,788,861.60 as at 30 June 2003 whereas the ledger reflects PMG Account balance of Kshs.122,409,091.85. The difference of Kshs.89,620,230.35 between the two balances which should be the same has not been reconciled or otherwise explained.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS

905. In the report for the year 2001/2002, reference was made to an unanalysed Suspense Account balance of Kshs.24,423.80 which had been outstanding since 1980/81 and earlier years. The statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects the same Suspense Account balance of Kshs.24,423.80 which is still unanalysed. Although it had been explained in the previous year that advice had been sought from the Treasury on how to clear the balance from the records, the matter has apparently not been resolved.

906. Further, the Statement as at 30 June 2003 reflects expenditure amounting to Kshs.97,414,830.35 which was paid out of a deposit of Kshs.106,655,590.30 being an amount which had irregularly been transferred from the Development Account to the Deposit Account in 2001/2002 to avoid surrendering it to the Exchequer at the close of the financial year.

907. The audit of the statement also revealed that the Cashbook balance as at 30 June 2003 was understated by Kshs.103,761.15 being the difference between the closing balance on 30 June 2002 and opening balance on 2 July 2002. This cashbook difference of Kshs.103,793.15 as at 30 June 2003 has not been explained.

DIRECTORATE OF PERSONNEL MANAGEMENT

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.03 – DIRECTORATE OF PERSONNEL MANAGEMENT AS AT 30 JUNE 2003

908. The Statement of Assets and Liabilities for Vote R.03, the Directorate of Personnel Management, as at 30 June 2003 reflects an Exchequer balance of Kshs.707,743,308.65 out of which Kshs.413,319,858.65 relates to 2001/2002

and earlier years. No explanation has been given for failure to clear the long outstanding balance.

909. The Statement also reflects a General Account of Vote balance of Kshs.588,800,879.85 out of which Kshs.165,349,619.05 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear the long outstanding balance.

910. The Statement further reflects debit balances totalling Kshs.45,187,723.80 made up of outstanding salary advances amounting to Kshs.751,213.25, outstanding standing imprests balance of Kshs.24,179.00, outstanding temporary imprests balance of Kshs.1,139,711.25 and agency Accounts balance of Kshs.43,272,620.30. The debit balances totalling to Kshs.45,187,723.80 include balances totalling Kshs.20,019,512.50 brought forward from the year 2001/2002 for which no explanation has been given for their non clearance.

911. Further, out of the outstanding salary advances figure of Kshs.751,213.25 as at 30 June 2003 only an amount of Kshs.197,406.70 has been analysed leaving a balance of Kshs.553,806.55 unanalysed.

912. In addition the amount of Kshs.1,139,711.25 in respect of outstanding temporary imprests include an amount of Kshs.215,094.40 due from officers who have been transferred from the Directorate of Personnel Management and an amount of Kshs.319,505.90 due from officers who are deceased. It also includes temporary imprests amounting to Kshs.403,665.60 owing from two former Ministers and an Assistant Minister.

913. The debit balance of Kshs.43,272,620.30 reflected in the statement against Agency Account has not been analysed and in the absence of such analysis it is not known what the balance which includes Kshs.18,104,409.00 relating to 2001/2002 represents.

914. In addition, the statement reflects salary clearance account debit balance of Kshs.539,109.60. Salary clearance accounts should normally reflect nil or credit balances but no explanation has been given for this anomaly.

915. The statement also reflects General suspense credit balance of Kshs.13,139,351.15 and District Suspense Account credit balance of Kshs.20,488,143.85 for which no analyses were provided for audit. In the absence of the analyses it has not been possible to ascertain what these balances represent.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.03 AS AT 30 JUNE 2003

916. The audit of the Statement of Assets and Liabilities for Vote D.03, the Directorate of Personnel Management, as at 30 June 2003 has revealed a number of unsatisfactory matters. The statement reflects Exchequer Account balance of Kshs.284,537,439.35 out of which Kshs.249,706,598.35 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear the long outstanding balance.

917. The statement also reflects a General Account of Vote balance of Kshs.203,719,695.55 out of which Kshs.164,236,069.40 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear the long outstanding balance.

918. In addition, the statement reflects the following balances in respect of Agency Account and General Suspense Account for which analyses have not been provided for audit review:-

Item	Balance (Kshs.)
Agency Account	39,100,985.90
General Suspense Account	74,396,840.60

In the absence of analyses, the accuracy of these balances could not be ascertained.

919. The statement further reflects Paymaster General Account balance of Kshs.45,521,889.10 which does not agree with the cash book balance of Kshs.17,606,693.45 as at 30 June 2003. No reconciliation has been provided to explain the difference between the two balances.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS – VOTE 03

920. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects a debit balance of Kshs.881,175.55 under District Suspense Account and a credit balance of Kshs.9,674,710.00 under Deposit Accounts. However, no analyses in respect of the two balances have been provided for audit review. As a result, the correctness of the two balances has not been ascertained.

921. The Statement also reflects a debit balance of kshs.8,793,534.45 in respect of Paymaster General Account while the Trial Balance reflects a debit balance of Kshs.8,048,730.00 as at 30 June 2003. No reconciliation has been provided to explain the difference of Kshs.744,804.45 between the Statement and the Trial Balance.

MINISTRY OF FOREIGN AFFAIRS

BANK RECONCILIATION STATEMENTS

922. Examination of Bank Reconciliation Statements for the Ministry of Foreign Affairs in respect of Recurrent and Deposits Cash Books as at 30 June 2003 revealed a number of unsatisfactory matters.

Recurrent Cash Book

923. The Bank Reconciliation Statement for the Recurrent Cash Book as at 30 June 2003 reflects payments in Cash Book not in Bank Statement (Unpresented cheques) totalling Kshs.88,476,960.35 out of which cheques totalling Kshs.3,192,307.65 were stale and ought to have been debited back into the Cash book. Further, cheques totalling Kshs.2,256,108.80 which had actually been cleared and paid by the bank were erroneously reflected as outstanding.

924. The Statement further reflects receipts in Bank Statement not in Cash Book amounting to Kshs.4,088,841.10 which ought to have been investigated and cleared by debiting the Cash Book.

925. Also the Statement reflects payments in Bank Statement not in Cash Book totalling Kshs.7,230,837.80 out of which direct debits amounting to Kshs.5,256,108.80 had no details indicating who the beneficiaries were.

926. In addition, the Statement reflects receipts in Cash Book not in Bank Statement amounting to Kshs.4,827,937.65 made up of cheques for banking but which do not appear to have been banked. No explanation has been given for the unsatisfactory situation.

Deposits Cash Book

927. The Bank Reconciliation Statement for the Deposits Cash Book as at 30 June 2003 reflects payments in Cash Book not in Bank Statement (Unpresented cheques) totalling Kshs.49,939,053.85 out of which Kshs.12,057,340.85 were stale cheques dating back to March, 2001 and which ought to have been investigated and cleared by recrediting the bank account and debiting the Cash Book.

928. The Statement also reflects receipts in Bank Statement not in Cash Book amounting to Kshs.4,451,651.95 some of which date back to 2000/2001 financial year and which ought to have been recorded in the Cash Book.

929. Also, the Statement reflects payments in Bank Statement not in Cash Book totalling Kshs.23,643,488.65 out of which Kshs.13,194,494.25 relate to the period prior to 1 July 2002. The payments in the Bank Statement not in the cash

Book include cheques totalling Kshs.19,294,150.50 already paid by the bank but the payees are unknown.

930. The Statement further reflects receipts in Cash Book not in Bank Statement amounting to Kshs.978,473.95 which ought to have been cleared by being banked promptly.

STATEMENT OF ASSETS AND LIABILITIES – VOTE R.04 AS AT 30 JUNE 2003

931. The Statement of Assets and Liabilities as at 30 June, 2003 reflects Advances Account Debit balance of Kshs.9,819,579.50 which relates to 2001/2002 and earlier years. No reason has been provided for failure to recover and clear these long outstanding balances.

932. The Statement further reflects Temporary Imprest Account debit balance of Kshs.744,652.10 which relates to 2001/2002 and earlier years. No explanation has been provided for failure to clear these long outstanding imprests. Further, no details have been provided to show what debit balances and credit balances totalling Kshs.983,637.40 and Kshs.22,513,831.90 respectively included under Temporary Imprest Account under a number of missions represent. No explanation has been given for failure to provide the necessary details as required by financial regulations.

933. In addition, Temporary Imprest Account for Kenya High Commission, Kampala (A/c No. 0-079-220-571-8) showed a reconciliation credit balance brought forward of Kshs.80,638.85, whereas the previous year's audited Statement showed a debit balance of Kshs.611,060.90 as at 30 June 2002. The difference of Kshs.691,699.75 between the two figures has not been explained. This casts doubt over the validity of reconciling debits and credits totalling Kshs.2,650,141.00 and Kshs.2,576,409.00 respectively now shown in the reconciliation.

934. The Statement also reflects Suspense Account debit balance of Kshs.196,676,471.30 relating to 2001/2002 and earlier years out of which Kshs.49,909,536.90 was cleared during 2002/2003 leaving a debit balance of Kshs.146,766,934.40 as at 30 June 2003. However, correct reconciliations for debits totalling Kshs.465,983.60 and credits totalling Kshs.1,958,986.00 were not availed for audit. Also, no reason was given for failure to adequately deal with all the suspense items with a view to clearing them from the Statement.

935. The Statement reflects Imprest Clearance Account debit balance of Kshs.341,759,372.90 as at 30 June 2003 after taking into account a credit balance of Kshs.45,581,987.25 relating to 2001/2002 and earlier years. The balance of Kshs.341,759,372.90 includes debits and credits totalling Kshs.107,105,785.65 and Kshs.61,792,216.90 respectively which have not been

analysed. No reason was provided for failure to clear the long outstanding balance of Kshs.341,759,372.90 or to provide correct reconciliations.

936. The Statement also reflects Salary Clearance Account credit balance of Kshs.16,207,848.35 as at 30 June 2003 relating to 2001/2002 and earlier years. Included in the outstanding balance are debit balances totalling Kshs.26,199.10 and credits balances totalling Kshs.357,202.05 for which no details were provided. No reasons have been given for failure to provide the necessary details, correct reconciliations or to clear the long outstanding balances as required by regulations in force.

937. The Statement further reflects PMG credit balance of Kshs.1,552,144,226.50 out of which Kshs.1,544,394,618.50 relates to 2001/2002 and earlier years. This figure represents accumulated overdrafts in the Ministry's PMG Account as at 30 June 2003 apparently incurred without Treasury authority.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.04

938. The Statement of Assets and Liabilities for D.04 as at 30 June 2003 reflects a debit balance of Kshs.22,938,097.75 under a suspense account made up of a credit balance of Kshs.11,487,832.25 relating to 2001/2002 and earlier years and a debit balance of kshs.34,425,930.00 for 2002/2003 financial year. No analysis has been provided for the credit balance of Kshs.11,487,832.25. Further, out of the debit balance of Kshs.34,425,930.00 for the 2002/2003, Kshs.23,745,777.95 was not analysed. As a result, the correctness of the balance of Kshs.22,938,097.75 could not be ascertained.

939. The Statement further reflects a P.M.G. account credit balance of Kshs.24,799,567.45 while the cash book reflected a debit balance of Kshs.32,224,070.00. No reconciliation has been provided to explain the difference between the two balances. In addition, the Bank Reconciliation Statement for the Development cashbook as at 30 June 2003 has not been prepared and no reason has been provided for the omission. Under the circumstances, it has not been possible to ascertain the correctness of the PMG balance reflected in the statement.

940. The Statement also reflects Imprest Suspense Account balance of Kshs.58,244,121.80 made up of Kshs.28,666,853.45 for 2001/2002 and earlier years and Kshs.29,577,268.35 for 2002/2003 financial year. No explanation has been given for non-clearance of imprest balances relating to 2001/2002 and earlier years.

STATEMENT OF ASSETS AND LIABILITIES – DEPOSITS – 04

941. The Statement of Assets and Liabilities for Deposits as at 30 June, 2003 reflects Agency Account debit balance of Kshs.100,469,509.65, a decrease of Kshs.177,123,396.95 from the balance of Kshs.277,592,906.60 reflected as at 30 June 2002. The balance represents money paid by the Ministry on behalf of other Ministries through the Missions abroad. It is not clear why the Ministry has failed to claim reimbursement of Kshs.100,469,509.95 from the Ministries on whose behalf the payments were made.

942. Further, no analyses have been provided for credit balance of Kshs.33,370,785.25 against A/c No.4-064-100-000 and a debit balance of Kshs.2,824,384.00 shown against A/c No.4-064-190-000. It has, therefore not been possible to ascertain what the two balances represent.

943. The statement also reflects an Agency Suspense Account debit balance of Kshs.793,111.00 which includes a credit balance of Kshs.49,353.10 relating to 2001/2002 and earlier years. The debit balance of Kshs.793,111.00 represents amounts which cannot be immediately classified and posted to the appropriate accounts. It has not been indicated how the error is to be rectified.

944. The Deposits Clearance Account reflects debit balance of Kshs.206,909,115.25 as at 30 June, 2003. The balance includes three debit balances totalling Kshs.70,296,491.15 which are not analysed. In the absence of analyses for above balances the accuracy of the balance of Kshs.206,909,115.25 could not be ascertained. In addition twelve (12) debit balances totalling Kshs.94,486,209.40 and twenty six (26) credit balances totalling Kshs.162,575,763.45 falling under Clearance Accounts were not given any description to clarify what they represent.

945. The statement reflects a debit balances totalling Kshs.176,404,852.60 as at 30 June 2003 in the Gains and Losses Account compared to a debit balance of Kshs.179,783,009.55 as at 30 June, 2002 hence a reduction of Kshs.3,378,156.95 during the year. These gains or losses arise as a result of foreign exchange differences when funds are remitted to or received from Missions abroad. However, it has not been explained how it is intended to clear these long outstanding balances.

946. Further, the Below-The-Line Reconciliation figure of Kshs.176,404,852.60 differs from the ledger figure of Kshs.183,380,953.55 by Kshs.6,976,100.95. No explanation has been provided for this difference. In addition, no analysis of this account was provided and consequently, it was not possible to ascertain the make up of the outstanding balance.

947. The statement reflects a PMG debit balance of Kshs.126,304,144.15 as at 30 June 2003 which has not been reconciled with deposits cash book balance of

Kshs.16,635,974.60 and Small Arms Cash Book balance of Kshs.13,609,920.45. Consequently it has not been possible to ascertain the accuracy of the PMG balance reflected in the statement.

948. The statement further reflects a credit balance of Kshs.3,173,402.80 in the Stale Cheque Account up from a balance of Kshs.300,395.85 brought forward from 2001/2002 and earlier years. The balance is made up of Kshs.2,692,159.45 in respect of stale cheques to be reversed and Kshs.481,243.35 in respect of cancelled students bursary cheques. It is not clear why these have not been cleared.

949. Miscellaneous Deposits Account reflects a balance of Kshs.522,807,329.85 as at 30 June 2003 up from Kshs.26,210,151.55 outstanding at the beginning of the financial year, an increase of Kshs.496,597,178.30. No explanation has been provided as to why this amount has not been disbursed to the various beneficiaries.

950. Further, two debit balances totalling Kshs.429,917.40 and a credit balance of Kshs.127,187,883.35 shown under Miscellaneous Deposit Accounts had not been analysed in the Below-The-Line Reconciliations although the balances appear in the ledger. In the absence of analyses, it is not possible to confirm what these balances represent.

951. In addition, account codes with nineteen (19) debit balances and sixteen (16) credit balances totalling Kshs.6,239,809.10 and Kshs.7,191,594.30, respectively had no descriptions of the items. In the absence of appropriate description it has not been possible to ascertain what these balances represent.

OFFICE OF THE VICE PRESIDENT & MINISTRY OF HOME AFFAIRS

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.05

952. The audit of the Statement of Assets and Liabilities for Vote R05 as at 30 June, 2003 has revealed a number of unsatisfactory matters. The Statement shows against Exchequer Account a balance of Kshs.31,333,426.50 while records held at the Treasury show under the same Account an amount of Kshs.438,597,973.00 resulting in an unreconciled and unexplained difference of Kshs.407,264,546.50.

953. The Statement also reflects against Advances Account a balance of Kshs.5,431,496.10 while the Trial Balance shows a figure of Kshs.5,366,914.10. The difference of Kshs.64,582.00 between the two sets of records has not been reconciled or explained. Further, no analysis has been provided to show who the amounts were advanced to and the purposes of the advances. The balance of Kshs.5,431,496.10 also includes an amount of Kshs.5,232,599.60 relating to 2001/2002 and earlier years the non-clearance of which has not been explained.

954. The Statement further reflects Imprest Agency and District Suspense Accounts balances totalling Kshs.221,159,620.50 Dr and General Suspense and Clearance Account balances totalling Kshs.236,193,127.80 Cr which have not been analysed. No explanation has been given why these balances have not been analysed.

955. Further, other debit and credit balances totalling Kshs.146,026,911.25 and Kshs.78,328,682.15 respectively and relating to 2001/2002 and earlier years have not been cleared and no explanation has been provided for their non-clearance.

956. The Statement further shows balances under Imprests, Agency, District Suspense and Clearance Accounts which differ from those reflected in the Trial Balance. No reconciliations or explanations have been given for the discrepancies.

957. The Statement also shows against General Account of Vote (GAV) a debit balance of Kshs.42,447,864.70 while the Appropriation Account for Vote R05 for the year ended 30 June 2003 reflects a net surplus to be surrendered to the Exchequer of Kshs.290,138,082.80. The difference of Kshs.332,585,947.50 between the two sets of records has not been reconciled or explained.

958. The Statement further shows a balance of Kshs.466,925,217.35 Cr in respect of the Paymaster General Account (PMG) while the Trial Balance shows an amount of Kshs.652,030,257.05 Cr resulting in an unreconciled and unexplained difference of Kshs.185,105,039.70. The Cashbook as at 30 June, 2003 on the other hand shows a balance of Kshs.339,003.85 Dr, again resulting in yet another unreconciled and unexplained difference of Kshs.467,264,221.20 between the Statement's PMG Account balance and the cashbook. No reasons have been provided for these differences.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.05

959. The audit of the Statement of Assets and Liabilities for Vote D.05 as at 30 June 2003 has revealed a number of unsatisfactory matters. The Statement shows various balances under Excess AIA, Agency Suspense, District Suspense and General Suspense Accounts in respect of which no analyses have been provided. Apart from lack of analyses, no explanation has been given for failure

to clear the balances which have been outstanding for a considerably long period of time.

960. The Statement also reflects a balance of Kshs.5,917,228.85 against Imprest Account which has not been analysed to show who the holders of the imprests were and the dates such Imprests were issued. Consequently and in the absence of an analysis, it has not been possible to confirm the correctness of the balance.

961. The Statement further reflects a Paymaster General's Account (PMG) credit balance of Kshs.280,576,549.10 while the Cashbook as at 30 June 2003 shows a debit balance of Kshs.19,637,111.90 resulting in an unreconciled and unexplained difference of Kshs.300,213,660.90 between the two sets of records. The ledger on the other hand reflects a credit balance of Kshs.21,089,372.75 against the Account similarly resulting in a difference of Kshs.259,487,176.35 between the Statement and the Ledger. No reconciliation or explanation has been provided for the difference.

STATEMENT OF ASSETS AND LIABILITIES FOR FUNDS AND DEPOSITS

962. The Statement of Assets and Liabilities for Funds and Deposits as at 30 June, 2003 reflects a Paymaster General Account balance of Kshs.113,724,538.45 while the Cashbook as at the same date shows a balance of Kshs.49,699,286.45. The difference of Kshs.64,025,252.40 between the two sets of records has not been reconciled or explained.

963 The Statement also reflects a debit balance of Kshs.480,592.25 against Imprest Account while the analysis provided in respect of the Account shows a figure of Kshs.94,437.00. Again, the difference of Kshs.386,155.25 between the two sets of records has not been reconciled or explained. In addition, no explanation has been provided for the non-clearance of the balance of Kshs.480,592.25 appearing under the same Account and which relates to 2001/2002 and earlier years.

964. The Statement further reflects a debit balance of Kshs.86,702,719.65 under District Suspense Account which has not been analysed. The balance of Kshs.86,702,719.65 includes an amount of Kshs.62,206,637.95 relating to 2001/2002 and earlier years, the non-clearance of which has not been explained.

965. The Statement shows an amount of Kshs.83,557,748.65 in respect of Prisons Deposits, which agrees with the Trial Balance but which has not been analysed. Deposits accounts should normally reflect credit or nil balances. However, the balance of Kshs.83,557,748.65 includes some thirty six (36) Accounts with debit balances all totalling Kshs.14,451,114.80 and which have not been identified or explained.

966. In the absence of analyses or explanation in respect of the balances indicated above, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Funds and Deposits.

MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

STATEMENT OF ASSETS AND LIABILITIES – VOTE R.06

967. The Statement of Assets and Liabilities for Vote R.06 as at 30 June 2003 reflects credit and debit balances of Kshs.16,986.75 and Kshs.45,009.35 respectively relating to Finance Transfers, Clearance and Recovery which are not supported with any verifiable documents or analyses. It has therefore not been possible to ascertain what the balances represent.

968. The Statement also reflects Temporary and Standing Imprest balances of Kshs.649,538.15 and Kshs.17,506.00, respectively, which ought to have been accounted for on or before 30 June 2003. No explanation has been provided for failure to account for the Imprests by 30 June 2003.

969. The Salary Advance Account, shows a debit balance of Kshs.1,050,475.20 which agrees with the Trial Balance. The analysis provided in support of the balance as well as the Advances Register however do not indicate the dates on which the advances were given or their period of recovery. In the circumstances therefore, it has not been possible to determine how long the advances have been outstanding. Further, it has also not been explained why a net salary balance of Kshs.83,948.35 have not been recovered from the respective officers at the end of the month in which it was given.

970. The Statement further reflects a Paymaster General (PMG) debit balance of Kshs.103,830,665.50 while the Recurrent Cashbook on the other hand shows an year end debit balance of Kshs.60,399,122.90. No meaningful reconciliation for the difference of Kshs.43,431,542.60 between the two sets of records has however been provided and as a result the correctness of PMG balance of Kshs.103,830,665.50 appearing in the Statement could not be confirmed.

971. In the absence of explanations or analyses in respect of the debit and credit balances under Finance Transfers as well as lack of acceptable reconciliation of the PMG balance, the accuracy of the Statement of Assets and Liabilities for Vote R.06 could not be ascertained.

STATEMENT OF ASSETS AND LIABILITIES – VOTE D.06

972. The Statement of Assets and Liabilities as at 30 June 2003 for Vote D.06 reflects a credit balance of Kshs.329,493,849.05 against Paymaster General Account (PMG) while the Development Cash book as at the same date shows a debit balance of Kshs.3,286,405.70 resulting in unreconciled and unexplained difference of Kshs.332,780,254.95 between the two sets of records.

973. The Statement also reflects a Temporary Imprest Account credit balance of Kshs.269,552.20. Imprests Account should under normal circumstances show a debit or nil balance. No explanation has been given for the credit balance. Further, the Temporary Imprest Register maintained at the Ministry Headquarters does not show any balances as outstanding as at 30 June 2003. Consequently, in the absence of a reconciliation it has not been possible to ascertain the accuracy of the figure of Kshs.269,552.20 reflected against the Imprest Account in the Statement.

DEPARTMENT OF DEFENCE

STATEMENT OF ASSETS AND LIABILITIES – VOTE R.08

The audit of the Statement of Assets and Liabilities for Vote R.08, Department of Defence as at 30 June, 2003 has revealed the following unsatisfactory matters:-

Uncleared Debit and Credit Balances

974. The Statement reflects debit balances in respect of General Account of Vote, Exchequer Account and Agency Account totalling Kshs.638,048,497.50, out of which Kshs.561,484,261.80 relates to the year 2001/2002 and earlier years. The Statement also reflects credit balances in respect of Excess Appropriation-In-Aid (A.I.A) and General Account of Vote (G.A.V) totalling Kshs.1,352,730,402.85, out of which Kshs.1,272,219,027.90 relates to the 2001/2002 and earlier years.

975. No explanation has been given for failure to clear the above balances in accordance with the laid down Government Financial Regulations and Procedures.

Unanalysed Balances

976. The Statement also reflects debit balances amounting to Kshs.718,176,861.80 in eighteen (18) accounts in respect of Advances, Standing and Special Imprests and Temporary Imprests which have not been analysed. In the absence of the necessary analyses or supporting details it has not been possible to confirm the accuracy of these balances to ascertain what they represent and why they have not been recovered/accounted for.

Suspense Account – Kshs.77,101,657.45

977. The Statement reflects a net debit balance of Kshs.77,101,657.45 in respect of Suspense Account, which includes unsettled claims/loss of cash of Kshs.10,654,989.50 for 2000/2001. The correctness of this balance cannot, however, be ascertained because of lack of analyses.

Non-Existing Accounts

978. The Statement further reflects net debit and credit balances of Kshs.2,008,665.65 and Kshs.429,219,461.10 respectively under eleven (11) Non-Existing Accounts. The correct accounts for these balances have not been identified and it is not therefore, known what they represent.

Clearance Account – Kshs.78,575,008.15 CR

979. The Statement shows a credit balance of Kshs.78,575,008.15 under Clearance Account while the Ledger shows Kshs.357,419,137.65 resulting in a difference of Kshs.278,844,129.50. According to explanation given, the difference of Kshs.278,844,129.50 represents Excess Appropriation-In-Aid (A.I.A) brought forward from 2001/2002 and earlier years. However, the amount ought to have been surrendered to the Exchequer but was instead reflected in a non-existing account. It is not clear why the amount of Kshs.278,844,129.50 was accounted for in a non-existing account when it was known to represent Excess Appropriations-in-Aid.

980. The Clearance Account further includes unusual debit balances totalling Kshs.269,831,830.75 reflected against eleven (11) sub-items of account. These Clearance Accounts should normally reflect credit balances representing deductions made from staff salaries and when the deductions are remitted to respective schemes and funds, the accounts should then reflect nil balances. No explanation has been given for the debit balances reflected in these Clearance Accounts which should reflect credit or nil balances.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.08

981. In the report for 2001/2002, reference was made to unexplained and uncleared debit and credit balances reflected in the Statement of Assets and Liabilities for Vote D.08 for that year. A review of the Statement of Assets and Liabilities as at 30 June, 2003 revealed a similar state of affairs. Among the uncleared debit balances brought forward from 2001/2002 and earlier years is Kshs.102,955,514.35 reflected in the Statement against General Account of Vote. This is made up of Kshs.101,581,952.40 and Kshs.1,373,561.95 being excess votes for 1990/91 and 1997/98 respectively. Although the Public Accounts Committee in its report for 1990/91 recommended the approval of these excess votes by Parliament and the Committee's report was subsequently adopted by Parliament, no action appears to have been taken to implement the Committee's recommendation.

982. The Statement also reflects Exchequer Account debit balances totalling Kshs.1,002,451,534.45 relating to 1995/96, 1996/97, 1998/99 and 1999/2000 being Exchequer under issues for those years. The Statement similarly reflects credit balances totalling Kshs.1,000,600,570.60 in respect of General Account of Vote for 1994/95, 1995/96, 1996/97, 1998/99 and 1999/2000 being surpluses to be surrendered to the Exchequer for those years. No explanation has been given for the Ministry's failure to clear these under issues and surpluses as provided for in the Government Financial Regulations.

983. The Statement further reflects Stale and Cancelled Cheques credit balances totalling Kshs.8,418,851.75 relating to 1987/88, 1988/89, 1989/90, 1990/91, 1991/92, 1993/94, 1994/95, 1995/96 and 1996/97. No reasons have been provided for the Ministry's failure to investigate these cheques and to clear them.

984. The Statement includes P.M.G. Account credit balance of Kshs.96,387,626.45 which is made up of a credit balance of Kshs.98,027,764.55 for 1998/99 and a debit balance of Kshs.1,640,138.10 for 1999/2000. No satisfactory explanation has been provided for non-clearance of these balances from the books of account.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS

985. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects a debit balance of Kshs.27,583.70 and four (4) credit balances totalling Kshs.13,816,256.15 which have not been analysed and/or cleared from the books of account. No explanation has been given as to why these balances have not been analysed or why they have not been cleared.

986. During the year 2001/2002, the Department rendered borehole drilling services to four (4) organisations and two (2) individuals and received a total of

Kshs.1,682,485.70 in respect of borehole drilling services. Since the cost of drilling the boreholes were met from voted provision, the amount of Kshs.1,682,485.70 should have been accounted for as Appropriations In Aid. A review of the position in the year 2002/2003 indicates that the statement reflects a balance of Kshs.3,455,323.70 in respect of borehole drilling deposits which includes the amount of Kshs.1,682,485.70 which should have been transferred and credited to Appropriations In Aid in 2001/2002 instead of being held in the deposits account. No explanations has been given for failure to account for these receipts as Appropriations in Aid.

987. The Statement also reflects a credit balance of Kshs.934,083.70 in respect of foreign students. The balance represents training charges for courses undertaken by foreign students at the Department of Defence's National Defence College (NDC), Defence Staff College (DSC), Armed Forces Training College (AFTC) and Kenya Armed Forces Technical College (KAFTEC). The amount of Kshs.934,083.70 is made up of Kshs.184,083.70 relating to 2001/2002 and earlier year and Kshs.750,000 received in 2002/2003 from a Zambian student being part of payment of training charges for a course undertaken at NDC. It is not clear why the amount of Kshs.934,083.70 is being held in deposit instead of being accounted for under the Recurrent Vote as Appropriations-In-Aid.

988. Records held by the Department of Defence indicate that foreign students who have taken courses at NDC, DSC, AFTC and KAFTEC owe the Department an amount of Kshs.174,189,873.35 (US Dollars 2,193,618.65) in form of cost sharing for the courses. No explanation has been given as to why the outstanding fees from foreign students have not been cleared.

989. In the previous year's Report it was stated that deposits registers had not been maintained in respect of Tender Deposits, Contractor's Deposits, Boreholes, and Miscellaneous Deposits which accounted for a total receipt of Kshs.54,399,809.15 reflected in the statement for the year 2001/2002 so as to facilitate the monitoring of the receipts of such amounts and their subsequent disposal. A review of the position in 2002/2003 indicated that the unsatisfactory state of affairs reported in the previous years continued to persist.

MINISTRY OF REGIONAL DEVELOPMENT AUTHORITIES

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R09 – FORMER OFFICE OF THE VICE PRESIDENT AND MINISTRY OF NATIONAL RECONSTRUCTION FOR THE YEAR ENDED 30 JUNE 2003

990. The Statement of Assets and Liabilities for Vote R09 as at 30 June 2003 reflects a Paymaster General Account balance of Kshs.34,004,165.90 while the Cash Book shows balances of Kshs.2,043,077.15 and Kshs.57,042,312.75 for cash on hand and Bank balance respectively. No reconciliation has been provided for the difference of Kshs.25,081,224.20 between the Paymaster General Account balance and the total cashbook balance of Kshs.59,085,390.10.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D09 - FORMER OFFICE OF THE VICE PRESIDENT AND MINISTRY OF NATIONAL RECONSTRUCTION

991. The Statement of Assets and Liabilities for Vote D09 as at 30 June 2003 reflects a PMG Account overdrawn balance of Kshs.14,000,000.00. The Ministry did not maintain a development cashbook due to the fact that the development expenditure was paid by the Ministry of Agriculture before the Ministry was created in January 2003. However, no verifiable documents have been made available for audit review in support of the overdraft of Kshs.14,000,000.

MINISTRY OF AGRICULTURE

STATEMENT OF ASSETS AND LIABILITIES VOTE R.10

992. In the previous years' Reports, reference was made to lack of explanations, analyses and reconciliations for the balances appearing in the Ministry's Statements of Assets and Liabilities for Vote R10 as a result of which the correctness of the statement could not be confirmed or the likely effect of such unanalysed balances on the Appropriations Accounts for all those years ascertained. A review of the Statement of Assets and Liabilities for the year ending 30 June 2003 indicates that there was no improvement on the position reported previously.

993. The Statement of Assets and Liabilities for Vote R10 as at 30 June 2003 reflects a net debit balance of Kshs.827,532,419.00 against Exchequer Account for 2001/2002 and earlier years which includes unanalysed balances for Vote R.10 and former Votes R.22 and R.34. The statement also shows a credit balance of Kshs.1,745,309,566.80 against General Account of Vote (GAV) which is similarly made up of unreconciled and unanalysed balances in the Statement of Assets and Liabilities for Vote R.10 and former Votes R.22 and R.34 for 2001/2002 and earlier years. The Exchequer and GAV account balances have not been analysed by the years to which they relate thus making it impossible to confirm their authenticity and accuracy. No explanation has been provided for failure to analyse and clear these balances.

994. The statement also shows a total debit balance of Kshs.1,169,260,638.45 and a total credit balance of Kshs.251,271,110.65 in respect of eight (8) accounts for 2001/2002 and earlier years which have not been cleared from the books of account. No explanation has been given for failure to clear these long outstanding balances.

995. The statement further shows credit balances of Kshs.25,198,630.70 against Clearance Account and Kshs.227,651,954.30 under Suspense Account which have not been analysed or reconciled. No explanation has been given for failure to analyse these balances.

996. The statement, in addition shows Appropriation-In-Aid (Co-op 1998/99) of Kshs.212,380.00 which should have been surrendered to the Exchequer by June 1999. No explanation has been given for failure to surrender this balance.

997. In the absence of explanations, analyses and reconciliations as stated above, it has not been possible to confirm the correctness of the Statement of Assets and Liabilities for Vote R.10 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES D.10

998. In the previous years' Reports, reference was made to lack of explanations, analyses and reconciliations for the balances appearing in the Ministry's Statements of Assets and Liabilities as a result of which the statements could not be confirmed as correct. The likely effect of such unanalysed balances on the Appropriations Account for Vote D.10 for 2001/2002 and earlier years could also not be ascertained. A review of the Statement of Assets and Liabilities as at 30 June, 2003 indicates that there was no improvement on the position reported in the previous years.

Exchequer Account

999. The statement reflects a debit balance of Kshs.360,690,835.80 in respect of the Exchequer Account while records maintained at the Treasury reflect a debit balance of Kshs.330,386,412.00. The difference of Kshs.30,304,423.00 has not been explained. The Statement also reflects a debit balance of Kshs.5,160,079,180.00 against Exchequer Account for 2001/2002 and earlier years which has not been analysed by the years to which they relate and which cannot therefore be confirmed as correct.

Imprests

1000. The statement further reflects an amount of Kshs.126,802,384.35 against temporary imprests account and Kshs.1,325,355.00 against standing imprests account. Analyses of the imprests have not been provided for audit review and consequently the identity of the imprest holders, their purpose and correctness of the amounts could not be ascertained.

Clearance Account

1001. The statement further reflects a credit balance of Kshs.2,979,792.80 against clearance account for years prior to 2002/2003. The balance has not however been analysed or explanation given for failure to clear it.

Suspense Account

1002. In addition the statement reflects a credit balance of Kshs.120,230,043.45 against Suspense Account. This balance which relates to 2001/2002 and earlier years has not however been analysed or reconciled and consequently its nature and accuracy has not been ascertained.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSIT 10 AS AT 30 JUNE 2003

1003. In the Reports for the previous years reference was made to various unexplained discrepancies, unanalyzed and unreconciled balances and mispostings which affected the Ministry's Statement of Assets and Liabilities for the Deposits Cash Book as at 30 June 2002. As a result, it was not possible to confirm the correctness of such balances or to ascertain the effect the discrepancies may have had on the Ministry's Appropriation Accounts for those years. The Statement of Assets and Liabilities for the Deposits Cash Book as at 30 June 2003 contains similar unsatisfactory matters as indicated in the ensuing paragraphs.

1004. The Statement shows a debit balance of Kshs.584,822,410.85 in respect of Paymaster General Account which differs from the cash book balance of Kshs.232,324,318.80 by unexplained difference of Kshs.352,498,092.05.

1005. The Statement also reflects a net credit balance of Kshs.585,013,708.45 against Sundry Deposit Accounts whereas the ledger reflects a net credit of Kshs.569,982,118.10. It has therefore not been possible to confirm the correctness of the balance of Kshs.585,013,708.45 appearing under Sundry Deposit Accounts in the Statement.

1006. The Statement further reflects a debit balance of Kshs.191,297.55 against loan interest receipts which has been outstanding since 1994. Although the Ministry in the previous financial year explained that documents relating to this account were misplaced during the merger of the former Ministries of Agriculture and Livestock Development, no indication has so far been given as to when or how the amount will be cleared.

1007. The Trial Balance as at 30 June 2003 on which the statement is based reflects credit balances totalling Kshs.172,080.00 under two (2) Standing and Special Imprests Accounts. Imprest accounts should under normal circumstances reflect debit or nil balances. No explanation has however been provided for these unusual credit balances in imprest accounts.

1008. Similarly, eighteen (18) temporary imprest accounts reflect credit balance totalling Kshs.9,090,419.65 while they should reflect nil or debit balances. Further, no details have been given as to the identity of these imprest accounts. No explanation has been provided for the unusual credit balances in imprest accounts or for failure to identify them.

1009. The Trial Balance reflects six (6) Clearance Accounts with debit balances totalling Kshs.93,201.85. Under normal circumstance Clearance Accounts should reflect credit or nil balances but no explanation has been given for these unusual debit balances.

1010. In the absence of explanation for the unusual credit and debit balances and differences and lack of analysis as indicated in the foregoing paragraphs it has not been possible to ascertain the correctness of the Statement or the effect such balances may have on the Ministry's Appropriation Accounts for the year 2002/2003.

MINISTRY OF HEALTH

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.11

1011. The Statements of Assets and Liabilities for Vote R.11 as at 30 June, 2003 reflects under General Account of Vote Excess Votes balances of Kshs.74,641,787.45, Kshs.62,558,384.40 and Kshs.155,811,909.20 for 1981/82, 1982/83 and 2000/2001 respectively. No action appears to have been taken to clear these long outstanding balances and no explanation has been given for the delay.

1012. The Statement also reflects General Account of Vote credit balances totalling Kshs.1,585,327,121.85 representing net surpluses realised in the previous five (5) financial years. No reason has been given by the Ministry for failure to surrender these surpluses to Treasury as required under Government Financial Regulations and Procedures.

1013. The Statement further reflects a balance of Kshs.121,014,563.60 in respect of Surplus to be surrendered to the Exchequer for the year 2001/2002 which amount differs by Kshs.16,596,967.00 from the net surplus of Kshs.104,417,596.60 shown in the audited Appropriation Account for Vote R.11 for the same year. The difference between the two figures has not been reconciled or explained.

1014. The Statement in addition reflects Exchequer Account debit balances totalling Kshs.939,336,213.00 representing Exchequer under-issues relating to six (6) previous years. Although the Ministry had previously indicated that Treasury had been requested to initiate the process of clearing these under-issues, no action appears to have been taken in this regard and the balances remain outstanding.

1015 The Statement also reflects the various balances under Standing Imprests, Advances, Clearance, Agency and Suspense Accounts which have not been analysed. In the absence of analyses, it has not been possible to ascertain their accuracy or what they represent.

1016. The Statement shows an unusual debit balance of Kshs.148,265,726.90 against Clearance Accounts which under normal circumstances should reflect a credit or nil balance. No explanation has been given for this unusual balance.

1017. The Statement also shows a Paymaster General Account (PMG) debit balance of Kshs.570,661,310.45, while the Cash Book as at 30 June 2003 reflects a debit balance of Kshs.143,228,848.70 resulting in an unreconciled and unexplained difference of Kshs.427,432,461.75 between the two sets of records.

1018. In the absence of analyses and explanations as indicated above, it has not been possible to confirm as correct the Statement of Assets and Liabilities for Vote R.11 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.11

1019. The Statement of Assets and Liabilities for Vote D.11 as at 30 June 2003 reflects a Suspense Account debit balance of Kshs.75,570,491.60 which has not been analysed. The Balance includes an amount of Kshs.75,437,711.00 relating to 2001/2002 and earlier years which has not been cleared. No explanation has been provided for failure to analyse this balance or to clear the balances relating to 2001/2002 and earlier years.

1020. The Statement also reflects a Temporary Imprest debit balance of Kshs.10,530,701.55 while the Trial Balance shows a credit balance of Kshs.15,979,588.75. The difference of Kshs.26,510,290.30 between the two figures has not been explained. Further, the Statement reflects a Standing Imprest debit balance of Kshs.45,741,712.15 for which proper analysis has not been provided. In the absence of the analysis it has not been possible to ascertain the correctness of the balance of Kshs.45,741,712.15.

1021. The Statement in addition reflects a District Suspense Account credit balance of Kshs.62,395,769.20. The analysis submitted for the Account does not include analysis for two unidentified items with debit and credit balances of Kshs.18,860,573.50 and Kshs.35,986,196.45 respectively. In the absence of a complete analysis, it has not been possible to ascertain the correctness of the balance of Kshs.62,395,769.20.

1022. The Statement shows Exchequer Account debit balances totalling Kshs.3,598,994,550.00 representing under-issues in respect of some eight (8) previous financial years. No explanation has been given for the non-clearance of these long outstanding balances.

1023. Further, the Exchequer Account balance of Kshs.621,450,572.00 for the year 2002/2003 differs by an amount of Kshs.60,135,275.00 from the balance of Kshs.561,315,197.00 reflected in the records held by the Treasury as at 30 June, 2003. No explanation has been given for the difference of Kshs.60,135,375.00 between the two sets of records.

1024. The Statement also shows under General Account of Vote (GAV) balances totalling Kshs.3,172,197,966.30 in respect of Surpluses to be surrendered to the Exchequer for the past eight years. No explanation has been given for failure to surrender these balances to the Exchequer.

1025. In addition and as indicated above, the Statement reflects General Account of Vote balance for 1998/99 of Kshs.250,345,398.00 which however,

differs by an amount of Kshs.513,811.00 from the balance of Kshs.249,831,587.00 shown in the audited Appropriation Account for Vote D.11 for that year. The difference of Kshs.513,811.00 between the two balances has not been explained.

1026. Further, the Statement reflects Excess Votes of Kshs.196,111,683.30 and Kshs.46,462,885.10 for 1991/92 and 1993/94 respectively. No action however appears to have been taken to facilitate clearance of these long outstanding excess votes.

1027. The Statement further shows a balance of Kshs.268,074,054.15 in respect of the Surplus to be surrendered to the Exchequer for the year 2000/2001 as indicated above. The Net Surplus to be surrendered to the Exchequer reflected in the audited Appropriation Account for 2000/2001 is however Kshs.268,075,338.05, resulting in an unreconciled and unexplained difference of Kshs.1,283.90 between the two sets of records.

1028. The Statement also reflects a Paymaster General overdraft balance of Kshs.813,817,151.15 while the Development Cash Book as at 30 June, 2003 reflects an amount of Kshs.29,790,160.70. The difference of Kshs.784,026,990.45 between the two figures has not been reconciled or explained.

1029. In the absence of analyses and explanations mentioned in the foregoing paragraphs, it has not been possible to confirm the correctness of Statement of Assets and Liabilities for Vote D.11 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR FUNDS SCHEMES AND DEPOSITS

1030. The Statement of Assets and Liabilities for Funds Schemes and Deposits as at 30 June, 2003 reflects balances of Kshs.91,247,568.45 Dr. Kshs.5,463,302.90 Cr. and Kshs.7,735,610.10 Cr. under District Suspense, Miscellaneous Deposit and GTZ Accounts respectively which have not been analysed. In the absence of the analyses, it has not been possible to ascertain the correctness of the three balances or determine what they represent.

1031. The Statement also reflects Health Care Services Fund District Imprest debit balance of Kshs.5,045,517.40 which has not been analysed with the result that it has not been possible to ascertain its correctness or identify the holders of the Imprest. The balance also includes an amount of Kshs.4,938,417.40 relating to 2001/2002 and earlier years the non-clearance of which has not been explained.

1032. As in the previous year, the Statement continues to reflect Headquarters Imprests debit balance of Kshs.692,395.30 which has not been analysed. Apart

from lack of an analysis, it has not been explained why this long outstanding balance has not been cleared from the books of account.

1033. The Deposits Register reflects entries described as Imprest Issues made in the Register during the period 1/2/1994 to 26/6/1996 and totalling Kshs.1,135,125.00. No documentary evidence has, however, been made available for audit review in support of these entries and in the circumstance, it has not been possible to confirm if the entries represent Imprests issued from Deposits or whether such Imprests if indeed issued were for official purposes.

1034. The Statement further reflects a debit balance of Kshs.2,557,606.35 under the MSCU Fund which has remained uncleared for a long period of time. Although the Accounting Officer had in January 2001 requested for authority from Treasury to write-off the balance, no such authority has been granted consequent upon which the balance has continued to be reflected in the Ministry's records and in particular in the Statements of Assets and Liabilities for Funds, Schemes and Deposits.

1035. The Statement also shows credit balances of Kshs.1,399,552.00 and Kshs.74,754.80 for Mrs. E. M. Ward Endowment Fund and Foreign Payment Revaluation Accounts respectively. No analyses or other information have however, been provided to facilitate the ascertainment of what the two balances represent and their correctness.

1036. The Statement further shows a credit balance of Kshs.187,091,993.95 in respect of District Suspense Account which, however, differs by an amount of Kshs.312,841.50 from the credit balance of Kshs.186,779,152.45 reflected in the Trial Balance as at 30 June 2003. No reconciliation or explanation has been provided for the difference of Kshs.312,841.50 between the two sets of records. In addition, the Statement reflects credit balances totalling Kshs.188,092,193.95 in respect of Health Care Services Fund made up of District Suspense Account of Kshs.187,091,993.95 and Health Care Services – Capital Fund of Kshs.1,000,200.00. The Health Care Services Fund Balance Sheet as at 30 June, 2003, however, shows balances totalling Kshs.197,712,729.25 in respect of the two items resulting in a difference of Kshs.9,620,535.30 between the Statement and the Fund Balance Sheet. No reconciliation or explanation has been provided for the difference.

1037. The Statement does not include credit balances totalling Kshs.216,243,304.05 in respect of Medical Supplies Fund representing Fund Capital of Kshs.180,743,304.05 and Fund Surplus shown as Kshs.36,500,000.00 in the Medical Supplies Fund's Statement of Assets and Liabilities as at 30 June, 2003. No reason has been given for failure to include these balances in the Statement.

1038. In the absence of the analyses in support of the balances referred to above and lack of reconciliations for the differences between various balances shown in the Statement and those in other relevant records, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June 2003.

MINISTRY OF LOCAL GOVERNMENT

BANK RECONCILIATION STATEMENT FOR THE DEPOSIT BANK ACCOUNT AS AT 30 JUNE, 2003

1039. Examination of the Bank Reconciliation Statement for the Deposit Bank Account as at 30 June 2003 revealed stale cheques amounting to Kshs.140,618.25 relating to the period prior to 3 October, 2001 included among the list of unpresented cheques as at 30 June 2003. No explanation has been provided as to why the stale cheques have not been receipted back to the cash book.

1040. Receipts totalling Kshs.755,514.30 are reflected in the Bank Statement but not in the Cash Book including sums of Kshs.32,325.00 and Kshs.423,158.90 indicated only as "reversal" and "direct credits" respectively with no further details being given.

1041. Payments amounting to Kshs.145,699.55 out of which Kshs.95,000.00 is shown in the Bank Statement as direct debits were made during the year. In the absence of an explanation on or analysis of these direct debits, it has not been possible to ascertain the propriety of the payments.

1042. The Bank Reconciliation also shows receipts in the Cashbook totalling Kshs.743,480.00 which appear to have been banked but are not reflected in the Bank Statement. It has not been explained why these outstanding items have not been cleared.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.12 AS AT 30 JUNE 2003

1043. The audit of the Statement of Assets and Liabilities for Vote R.12 as at 30 June 2003 has revealed a number of unsatisfactory matters. The Statement reflects a balance of Kshs.104,242,609.80 in respect of Exchequer Account for the year 2001/2002 and earlier years which differs from the audited previous

year's figure of Kshs.104,292,609.80 by Kshs.50,000.00; a difference which has not been explained or reconciled.

1044. The Statement also reflects a Standing Imprest balance of Kshs.37,350.00 which does not agree with the Ministry's standing imprest analysis balance of Kshs.30,121.00. The difference of Kshs.7,229.00 has not been explained or reconciled.

1045. The Statement further reflects a Temporary Imprest balance of Kshs.149,397.10 as brought forward from 2001/2002 and earlier years which differs from the audited previous year's closing figure of Kshs.134,306.10 occasioning an unreconciled difference of Kshs.15,091.00. Further an outstanding temporary imprest balance of Kshs.381,640.30 is reflected as at 30 June 2003 which does not agree with the ledger balance of Kshs.151,236.90. The difference of Kshs.230,403.40 has not been explained or reconciled.

1046. A District Suspense Account balance of Kshs.1,327,674.15 is shown as brought forward from 2001/2002 and earlier years. This figure differs from the previous year's audited figure of Kshs.1,189,541.45 and the difference of Kshs.138,132.70 has not been explained. In addition no analysis has been provided for the Suspense Account balance of Kshs.849,283.65 reflected in the Statement.

1047. The Statement reflects a G.A.V. balance of Kshs.175,369,964.65 as brought forward from 2001/2002 and earlier years which differs from the previous year's audited figure of Kshs.174,798,351.65. The resultant difference of Kshs.571,613.00 has not been explained or reconciled.

1048. The Statement also shows an Advance Account balance of Kshs.81,169.50 which differs with the Ledger Balance figure of Kshs.75,169.50 by Kshs.6,000.00. Further, the analysis given for the Outstanding Salary in Advance as at 30 June, 2003 shows a balance of Kshs.220,083.50 while the Ledger reflects a nil balance. These differences have not been reconciled or explained.

1049. The Statement in addition reflects a Suspense Account balance of Kshs.30,259,460.65 for which no analysis has been provided.

1050. The Statement also reflects a Clearance Account balance of Kshs.78,157.90 as brought forward figure from 2001/2002 and earlier years which differs from the previous year's audited figure of Kshs.76,492.20. The resultant difference of Kshs.1,665.70 has not been explained or reconciled. The Statement further reflects a Clearance Account balance of Kshs.251,874.55 which differs from the ledger figure of Kshs.225,143.80. The difference of Kshs.26,730.75 has also not been explained or reconciled.

1051. Overall, the Statement is out of balance by an unexplained difference of Kshs.301,808.10 between the total assets figure of Kshs.228,032,854.25 and the total liabilities figure of Kshs.227,731,046.15.

1052. In view of the unexplained and or unreconciled differences and lack of analyses, the Statement, as was the case in the previous year, does not show a true and fair view of the Assets and Liabilities of Vote R.12.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.12 AS AT 30 JUNE 2003

General Suspense Account

1053. Examination of the Statement of Assets and Liabilities for Vote D.12 as at 30 June, 2003 revealed a number of unsatisfactory matters. The Statement reflects unexplained and unanalysed General Suspense Account balance of Kshs.31,643,480.70 which mainly relates to 2001/2002. No explanation has been given for failure to clear this long outstanding suspense balance.

Long Outstanding Balances

1054. The Statement further reflects Exchequer Account balances totalling Kshs.1,357,533,766.05 representing under issues from the Exchequer, G.A.V Account balances totalling to Kshs.826,748,049.50 representing surpluses to be surrendered to Exchequer, and P.M.G. overdraft of Kshs.582,670,723.05. These balances dating back to 1994/95 have not been reconciled and no explanation has been given for failure to clear them over the years.

Analysis of GAV and PMG Accounts

1055. An analysis of the GAV and PMG Accounts for the period 1994/95 to 2001/2002 indicates that correct balances in respect of GAV and PMG Accounts as at 30 June, 2002 were Kshs.826,748,049.50 and Kshs.582,670,723.05 respectively.

1056. However the opening balances shown in the Statement for 2002/2003 as brought forward from the year 2001/2002 differ from the above balances. A GAV balance of Kshs.820,650,786.95 is shown as brought forward from 2001/2002 which differs from that year's audited Statement figure of Kshs.826,748,049.50. The resultant difference of Kshs.6,097,262.55 has not been explained.

1057. The Statement further reflects a PMG balance of Kshs.581,846,703.15 as brought forward from 2001/2002 which differs from the audited balance of Kshs.582,670,723.05 for the year 2001/2002. The resultant difference of Kshs.824,019.90 has not been explained.

1058. The Statement also reflects Temporary Imprest balance of Kshs.43,862.00 as the figure brought forward from 2001/2002 which differs from the audited figure of Kshs.41,862.00 for 2001/2002. The resultant difference of Kshs.2,000.00 has not been explained.

1059. Taking into account the above differences the Statement does not balance as it reflects an imbalance of Kshs.6,923,282.70 between the Assets and Liabilities as shown below:

Liabilities	1,537,529,764.45
Assets	<u>1,530,606,481.75</u>
Difference	<u>6,923,282.70</u>

In view of the imbalance and lack of analyses, the Statement does not fairly represent the Assets and Liabilities of Vote D.12 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS AS AT 30 JUNE, 2003

Imprests

1060. Examination of the Statement of Assets and Liabilities for Deposits as at 30 June, 2003 revealed a number of unsatisfactory matters. The Statement reflects net debit deposits imprests balance of Kshs.1,330,711.25 as at 30 June, 2003 which is made up of debit balance of Kshs.1,350,627.25 relating to 2001/2002 and prior years and credit balance of Kshs.19,916.00 relating to 2002/2003. No explanation has been provided for non-clearance of this long outstanding imprest balance.

Paymaster General Account

1061. The Statement shows Paymaster General Account total balance of Kshs.11,629,183.35 as at 30 June, 2003. However, this balance differs with the Cashbook balance of Kshs.6,668,447.95 which in turn differs with the Ledger balance of Kshs.6,630,727.75. No explanation has been given for the differences between the three figures which should be the same.

Imbalance

1062. Further, the Statement does not balance as it reflects a difference of Kshs.1,978,329.95 between the total Assets figure of Kshs.12,959,894.60 and total Liabilities figure of Kshs.10,981,564.65 as at 30 June 2003. In view of the unexplained and unreconciled differences cited above, the accuracy of the Statement of Assets and Liabilities for Deposits as at 30 June, 2003 cannot be confirmed.

MINISTRY OF ROADS & PUBLIC WORKS

STATEMENT OF ASSETS AND LIABILITIES FOR RECURRENT VOTE R.13 AS AT 30 JUNE 2003

Exchequer Account

1063. Audit of the statement of Assets and Liabilities for Recurrent Vote R.13 as at 30 June 2003 has revealed a number of unsatisfactory matters. The statement reflects Exchequer Account under-issues for 2001/2002 and earlier years amounting to Kshs.163,265,812.35. These balances have been outstanding for a long period of time and no explanation has been given for their non-clearance.

General Account of Vote

1064. The statement also reflects General Account of Vote debit balances of Kshs.272,299,856.05 for 1997/98 and earlier years and credit balances of Kshs.1,084,712,235.75 for 2001/2002 and earlier years. Some of the balances have been outstanding since 1982/83 and no proper explanation has been given for the long delay in clearing them.

Advances - Miscoded Balances

1065. The Advances Account net debit balance of Kshs.29,244,543.75 includes miscoded credit and debit balances of Kshs.6,252.00 and Kshs.9,563.40 relating to the previous year and debit and credit balances of Kshs.32,846,809 and Kshs.109,199,00 respectively miscoded in 2002/2003 financial period which have not been analysed.

Salary Net Advance

1066. The Advances Account Net debit balance of Kshs.29,244,543.75 also includes a net debit balance of Kshs.28,117,549.00 in respect of Salary Net Advance. This account should normally reflect nil balance since salaries paid in advance are recoverable at the end of the months in which they are advanced. It has been noted that most of these amounts shown as Salary Net advances were in respect of salary arrears and salaries paid through separate payment vouchers where officers' salaries were not processed through the computer payroll systems. It is not clear why these payments were not properly charged to related salary codes when being processed or regularized before 30 June 2003.

1067. The salary net advance of Kshs.28,117,549.70 includes also an amount of Kshs.19,940.60 indicated as 'undetailed' but no explanation has been given as to whom this amount was advanced.

Salary Advance

1068. The advance Account balance also includes unanalyzed salary advances totaling Kshs.47,743.50. No explanation has been given for failure to analyse these advances.

District and Temporary Imprests

1069. The District and Temporary Imprests balance of Kshs.57,648,025.15 reflected in the statement includes long outstanding debit and credit balances of Kshs.56,342.35 and Kshs.134,079.65 which originated from the former Ministry of Transport and Communications. No explanation has been given for non clearance of these balances.

1070. The balance of Kshs.57,648,025.15 also includes Temporary imprests amounting to Kshs.9,037,985.45 issued under Item 550 at the Headquarters out of which an amount of Kshs.1,560,440.90 has been outstanding from ex-employees of the Ministry. It is not clear how the Ministry intends to recover the amounts owed by ex-employees.

Suspense Account

Unsettled Cases

1071. The Statement reflects a net debit balance of Kshs.119,848,563.70 against Suspense Account which includes unsettled losses debit balance of Kshs.1,337,136.30 dating back to 1986/87 and 1988/99 financial years. No loss reports have been provided for audit verification or explanation given as to how these losses would be recovered.

Unanalysed balances

1072. The Suspense Account similarly includes unanalysed debit balance of Kshs.10,834,337.40 under Miscellaneous Items and a credit balance of Kshs.5,248,956.95 under Agency Suspense Account relating to previous years which has also not been analysed. The suspense Account further includes a credit balance of Kshs.11,739,509.85 in respect of outstanding wages as at 30 June 2003. This balance includes a debit of Kshs.33,052.25 which has not been analysed.

1073. The Suspense Account net debit balance of Kshs.119,848,563.70 also includes debit and credit balances totalling Kshs.29,735,854.15 and Kshs.5,904,010,25 respectively which were transferred from the former Ministry of Transport and Communications. These balances have been outstanding for a long time in the Ministry's books of accounts but no reasons have been given for their non-clearance.

**Provincial/District Reimbursement Suspense Account –
Kshs.608,061,905.45**

1074. Although the net debit balance of Kshs.608,061,905.45 reflected in the statement against Provincial/District reimbursement account agrees with June 2003 Trial Balance figure, the balance could not be verified because print-outs for the amounts analysed as outstanding vouchers and batches were not produced for audit. Some of the analyses were found to be incorrect an indication that some balances were either omitted or wrongly included in the analyses.

1075. The net debit balance of Kshs.608,061,901.45 also includes debits totalling Kshs.902,513,802.65 which have not been analysed and a further debit balance of Kshs.118,821.40 under code 250 with no originating province/district. The balance also includes an unanalyzed credit balance of Kshs.69,399.15 under code 554 – Coast Province. No explanation has been given for failure to analyse these debit and credit balances.

P.M.G. Account

1076. The statement reflects a Paymaster General Account debit balance of Kshs.363,225,990.25 while the Cash book shows a balance of Kshs.144,695,596.85. No reconciliation or explanation has been given for the difference of Kshs.218,530,393.40.

Excess Appropriations-In-Aid

1077. The statement also shows Excess Appropriations-In-Aid balances of Kshs.12,207,411.00 and Kshs.1,634,736.80 in respect of 2000/2001 and 1996/97 financial years. No explanation has been given as to why the Excess Appropriations-In-Aid have not been paid to the Exchequer.

Suspense Clearance Account

1078. The suspense Clearance Account net credit balance of Kshs.841,516.05 reflected in the statement includes balances totalling Kshs.841,516.05 listed under (9) Item codes which have not been analysed. The correctness of these amounts could not therefore be confirmed.

Standing and Special Imprests – Kshs.21,502,751.70

1079. The Standing and Special Imprests Account net credit balance of Kshs.21,502,751.70 shown in the statement comprise mainly balances that were transferred from the former Ministry of Transport and Communications and have

been outstanding in the Ministry's books for a long time. No action appears to have been taken to clear these balances from the Ministry's books.

1080. In view of the lack of analyses and proper explanation for the balances and differences stated above, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Vote R.13 as at 30 June 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.13

District and Temporary Imprests Account

1081. Audit of the Statement of Assets and Liabilities for Vote D.13 as at 30 June 2003 has revealed a number of unsatisfactory matters. In the report for 2001/2002 it was stated that the District and Temporary Imprest Account included unusual credit balances of Kshs.10,147,030.10 in respect of sixteen districts for which no explanation had been given. Further, outstanding imprest returns from the District Treasuries in respect of the sixteen (16) districts were not made available for audit review and it was not therefore possible to establish the identities of persons who held these imprests.

1082. A review of the position during 2002/2003 revealed that the situation has not changed in that District and Temporary Imprests Account balance of Kshs.39,980,089.05 still included unusual credit balances of Kshs.10,147,030.10 against Temporary Imprests Account in respect of the sixteen districts. No explanation has been given so far for these credit balances in accounts which ordinarily should reflect nil or debit balances.

1083. Further, the analysis provided for District and Temporary Imprests Account debit balance of Kshs.39,980,089.05 gives only block figures for each district without giving the details of the imprest holders. Although the issue has been raised in the reports for the previous years, no action appears to have been taken by the Ministry to provide detailed analyses of the Imprests.

Suspense Account

1084. The Suspense Account net debit balance of Kshs.10,109,697.25 includes four (4) net debit balance totalling Kshs.9,759,028.25 for the previous years in respect of which no action has been taken so far to clear them from the books of account. No explanation has been given for failure to take the necessary action.

Provincial/District Suspense Account

1085. The Provincial/District Suspense Account credit balance of Kshs.135,990,469.90 includes a credit balance of Kshs.2,813,506.10 against

Item 503 whose district of origin has not been identified. It has not been explained what the unidentified credit balance represents.

1086. As in the previous year, the Statement continues to show Exchequer Account debit balances totalling Kshs.1,957,927,650.25 being under issues for 1999/2000 and prior financial years. No explanation has been given for the Ministry's failure to clear these long outstanding balances. The Statement also reflects Exchequer Account debit balance of Kshs.466,006,031.00 in respect of 2001/2002 which differs from the balance of Kshs.444,006,031.00 reflected in the audited statement for the year ended 30 June 2002. No explanation has been given for the difference of Kshs.22,000,000.00.

1087. The Statement still continues to reflect Exchequer Account credit balance of Kshs.35,000,000.00 in respect of an advance made to the Ministry from the Civil Contingency Fund in 1997/1998 for the repayment of a HFCK loan. As reported previously, a similar amount is shown as a debit balance in the Statement of Assets and Liabilities for Vote R.13 as at 30 June 2003. It is apparent that the Ministry has failed to make the necessary correction despite the issue having been raised in the past.

1088. The Statement also continues to reflect Exchequer Account credit balance of Kshs.197,361,637.35 for 2000/2001 financial year. As stated in previous reports, this credit balance which is erroneously described as an Exchequer over-issue arose from the netting-off of a refund of Kshs.198,406,113.65 by the World Bank in respect of Nairobi- Mombasa Road Project and the Exchequer under-issue of Kshs.1,044,476 for 2001/2002.

General Account of Vote (GAV)

1089. The Statement continues to reflect General Account of Vote debit balance of Kshs.161,793,291.30 being excess votes incurred in 1997/98, 1994/95 and 1992/93 financial years. The Statement further reflects General Vote of Account (GAV) credit balance of Kshs.1,749,740,854.30 comprising of net surpluses to be surrendered to the Exchequer for 2000/2001 and prior financial years. The Ministry has failed to explain why these long outstanding Excess Votes and Net Surpluses payable to the Exchequer have not been cleared as expected.

Paymaster General (PMG) Account

1090. The Statement further reflects a Paymaster General Account debit balance of Kshs.309,545,213.85 while the Cashbook reflects a balance of Kshs.348,592,629.75. A reconciliation has not however been given for the difference of Kshs.39,047,415.90 between the two records. It is not therefore possible to ascertain the correctness of the PMG Account balance shown in the Statement.

1091. In view of the matters raised above, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Vote D.13 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES – FUNDS, SCHEMES AND DEPOSITS AS AT 30 JUNE, 2003

1092. Audit of the Ministry's Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June, 2003 has revealed a number of unsatisfactory matters. The Agency Account debit balance of Kshs.26,575,029.90 reflected in the statement comprise sums owed by various Ministries and Departments in respect of 2000/2001 and earlier years. It has previously been explained that the Ministry had requested Treasury for authority to write-off these amounts after their recoveries become doubtful but approval for the write-offs has apparently not been given to-date and the balance therefore remains outstanding.

1093. The Ex-MOTC Agency Account and Ex-MOTC Private works, debit balances of Kshs.5,967,358.85 and Kshs.4,997,304.55 respectively, were transferred from the former Ministry of Transport and Communication to the Ministry in the 1987/88 financial year. However no action appears to have been taken to clear them from the Ministry's books of account.

1094. The Statement also shows Deposits Account net debit balance of Kshs.112,948,080.10 which includes a debit of Kshs.191,070,493.55 in respect of the defunct Mechanical Funds, whose winding up has not been completed. No reasons have been given for the delay in winding up the defunct Mechanical Funds.

1095. The balance further includes net credit balance of Kshs.4,561,118.85 in respect of nine (9) accounts whose descriptions have not been indicated in the analysis provided. In the absence of the description and identity of the accounts it is not clear what these deposit balances represent.

1096. The Suspense Account net debit balance of Kshs.44,432,312.50 reflected in the Statement includes dishonoured cheques totalling Kshs.31,186,611.10 out of which Kshs.7,457,220.75 relates to 2001/2002 and earlier years. No action appears to have been taken to have these cheques replaced by the drawers or otherwise cleared from the Suspense Account. Further, no details have been provided of the drawers of these dishonoured cheques amounting to Kshs.7,457,220.75 for 2001/2002 and earlier years.

1097. The Suspense Account net debit balance of Kshs.44,432,312.50 also includes two (2) cash book adjustment debit balances of Kshs.16,447,223.20 and three (3) credit balances of Kshs.4,933,020.05 for which no reconciliation and

analyses have been submitted for audit review. In the absence of analyses and reconciliations it has not been possible to ascertain what the balances represent.

1098. The Statement further reflects Provincial Suspense Account net debit balance of Kshs.18,637,771.65 which includes balances in respect of three accounts amounting to Kshs.2,820,564.10 whose originating districts have been indicated. In the absence of more specific identification of the origin of these balances it has not been possible to ascertain their authenticity.

1099. The Statement also reflects a Paymaster General (PMG) overdraft balance of Kshs.170,714,309.75 while the cash book shows a debit balance of Kshs.75,206,244.95. The resultant difference of Kshs.245,920,554.70 has been explained simply as cash book adjustment without any supporting documentation.

1100. As stated in the Treasury Circular No. 11/97 Ref.AG/16/01(41) of 23June,1997 and subsequent Treasury Circulars on the closure of the financial years, cash book balances were to be transferred to the succeeding years only after a proper reconciliation has been done and agreed with the Treasury. However, no action appears to have been taken by the Ministry to carry out proper reconciliation of end of the year cash balances in order to enable Treasury to authorise the transfer of preceding years cash book balances to the subsequent years. As a result and as stated in the previous years' reports the Ministry has since 1997/98 not been transferring cash book balances from one year to the next.

1101. In view of the unsatisfactory matters raised in the foregoing paragraphs, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June, 2003.

STORES AND SERVICES FUND ACCOUNT

1102. Audit of Stores and Services Fund Account for the year ended 30 June 2003 has revealed the following unsatisfactory matters:-

Statement of Assets and Liabilities

Paymaster General Account

1103. The Statement of Assets and Liabilities and the Trial Balance as at 30 June 2003 show Paymaster General Account overdraft balances of Kshs.863,140,041.35 while the cash book reflects a debit balance of Kshs.(13,220,808.55). A proper reconciliation has not been provided for the difference of Kshs.876,360,849.90 between the two sets of records and it has not therefore been possible to ascertain the accuracy of the balance shown in the Statement.

R.D. Cheques

1104. An amount of Kshs.2,085,198.80 is shown in the Statement as R.D. cheques. The authenticity of these cheques has not been ascertained as no documentary evidence has been provided for audit.

Unsettled Losses

1105. The Statement reflects a debit balance of Kshs.55,665,577.30 against unsettled losses account while the ledger shows a balance of Kshs.4,662,961.90 resulting in an unexplained difference of Kshs.51,002,615.40. Further, no analysis has been made available for the unsettled losses balance of Kshs.55,665,577.30 and it has not therefore been possible to ascertain the correctness of the balance or the nature of the losses.

Deficiencies

1106. The Statement reflects a balance of Kshs.126,222,513.56 as stores deficiencies accumulated from 1992/93 to 2002/2003 financial years. However, this balance has not been analysed and no documentary evidence has been produced to support the existence of such deficiencies. Consequently the validity of the balance has not been ascertained.

Issues not on Record

1107. The Statement shows a balance of Kshs.455,493.70 as issues not on record. It is not clear what this balance represents as no detailed analysis of "Issues not on Record" has been made available for audit review.

Unallocated Stores

Credit Purchases

1108. The account reflects an amount of Kshs.33,393,377.37 which has been described as credit purchases. It has not been possible to confirm this balance from the Purchases Register since the Register does not distinguish clearly between settled and unsettled invoices.

Direct Issue of Stores

1109. The Statement reflects an amount of Kshs.78,958,540.65 in respect of direct issues of stores while the ledger shows a balance of Kshs.86,204,223.85 resulting in a difference of Kshs.7,245,683.20. No explanation has been offered for the difference.

Surplus

1110. An amount of Kshs.119,569,788.95 is reflected in the account as Stores Surplus. No analysis has been made available in support of this figure and consequently, its accuracy has not been ascertained.

Closing Stock

1111. An amount of Kshs.751,378,103.40 is shown in the account as closing stock while the ledger reflects a figure of Kshs.730,431,823.20. No analysis or reconciliation has been provided for the difference of Kshs.20,946,280.20 between the two records.

1112. In the absence of explanation, analyses and reconciliations for the balances and difference stated above, in my opinion, the Stores and Services Fund Account does not reflect a true and fair view of the financial position of the fund for the year ended 30 June 2003.

MINISTRY OF TRANSPORT AND COMMUNICATION

STATEMENT OF ASSETS AND LIABILITIES – VOTE R 14

1113. The Statement of Assets and Liabilities for Vote R.14 as at 30 June, 2003 reflects uncleared debit balances totalling Kshs.633,698,507.75 in respect of General Account of Vote and Exchequer Account all relating to 2001/2002 and earlier years as well as uncleared credit balances amounting to Kshs.1,015,191,419.65 in respect of General Account of Vote and Excess Appropriations-In-Aid all similarly for the same period. No explanation has been provided as to why these long outstanding balances have not been cleared.

1114. The Statement also reflects other debit and credit balances totalling Kshs.44,059,800.05 and Kshs.22,756,742.20 respectively relating to 2001/2002 and earlier years all of which have not been cleared or analysed. Similarly, no explanation has been provided for this unsatisfactory state of affairs.

1115. The Statement further reflects under the Advances Account an unanalysed debit balance of Kshs.11,813,838.35 which differs by an amount of Kshs.89,380.50 from the balance of Kshs.11,724,457.85 shown in the ledger. Further, the balance of Kshs.11,813,838.35 includes an amount of Kshs.11,842,312.55 relating to 2001/2002 and earlier years which has not been

cleared. No explanation has been given for the difference of Kshs.89,380.50, failure to analyse the figure of Kshs.11,813,838.35 or clear the balance of Kshs.11,842,312.55.

1116. The Temporary Imprest Account shows a debit balance of Kshs.15,852,363.70 while the ledger reflects an amount of Kshs.15,918,494.20 against the same Account resulting in an unexplained difference of Kshs.66,130.50. Further the balance of Kshs.15,852,363.70 includes an amount of Kshs.9,294,020.10 relating to 2001/2002 and earlier years and which has not been accounted for and cleared.

1117. Similarly, the Standing Imprest Account shows a balance of Kshs.5,378,148.05 relating to 2001/2002 and earlier years and which had not been surrendered as at 30 June 2003. No explanation has been provided for failure to account for this long outstanding balance.

1118. The Statement also shows a debit balance of Kshs.396,478,747.10 against the Paymaster General Account while the Cashbook as at 30 June 2003 reflects an amount of Kshs.3,537,165.65. The difference of Kshs.392,941,581.45 between the two sets of records has not been reconciled or explained.

1119. In the absence of explanations and analyses for the various balances as outlined above, it has not been possible to ascertain the accuracy of the Statement of Assets and Liabilities for Vote R.14 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES - VOTE D14

1120. The Statement of Assets and Liabilities for Vote D14 as at 30 June 2003 reflects debit and credit balances totalling to Kshs.295,615,536.75 and 304,453,375.50 respectively which have remained outstanding for a long period of time. The debit balances are in respect of Excess Votes, Exchequer under issues, while the credit balances are in respect of surpluses to be surrendered to the Exchequer. No explanation has been provided for the non-clearance of these balances all of which relate to 2001/2002 and earlier years.

1121. The Statement also reflects debit and credit balances in respect of MOPW, Suspense, Advances, District Suspense, Agency and Clearance Accounts for which no analyses have been provided. No explanation has been provided for failure to analyse and clear these balances which relate to 2001/2002 and earlier years.

1122. The Statement shows a debit balance of Kshs.2,101,325.55 under Temporary Imprest Account for the year 2001/2002 and earlier. No supporting documents or analysis have been provided for the balance and for this reason, it has not been possible to ascertain the identities of the imprest holders or the correctness of the balance of Kshs.2,101,325.55. It has also not been explained

why the Imprest balance of Kshs.2,101,325.55 which has been outstanding since 2001/2002 and earlier has not been surrendered or cleared.

1123. The Statement also shows under Paymaster General Account a credit balance of Kshs.3,113,747.65 arrived at after offsetting the balance of Kshs.18,652,317.65 Cr for year 2001/2002 and earlier years against the current year's balance of Kshs.15,528,570 Dr. No evidence has, however, been provided to confirm that Treasury's approval was sought and granted in respect of the net overdraft of Kshs.3,113,747.65.

STATEMENT OF ASSETS AND LIABILITIES - DEPOSITS 14

1124. In the previous years' Reports, reference was made to various unexplained, unanalysed and uncleared debit and credit balances reflected in the Statement of Assets and Liabilities for Funds, Schemes and Deposits. A review of the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June, 2003 revealed similar anomalies, which have been observed over a number of years.

1125. The Statement reflects a debit balance of Kshs.47,596,165.45 in respect of the Paymaster General Account while the Cashbook as at the same date shows an amount of Kshs.38,887,439.20 resulting in a difference of Kshs.8,708,726.25. No reconciliation or explanation has been provided for this difference.

1126. The Statement also reflects debit and credit balances totalling Kshs.27,029,541.45 and Kshs.48,498,668.25 respectively relating to 2001/2002 and earlier years and which have not been cleared. These balances have not only been outstanding for a long period of time but have also not been analysed. In the absence of the necessary analysis, it has not been possible to ascertain what each of the balances represents or how they may affect the accuracy of the Statement.

1127. The Statement further reflects credit balances of Kshs.4,324,763.60 and Kshs.5,238,061.10 relating to Aviation Fee and Air Navigation Charges respectively. Although these balances represent revenue collected by the Ministry during the year 2002/2003 and prior years, it has not been explained why the amounts have not been paid over to the Treasury.

1128. The Statement in addition reflects balances of Kshs.22,512,602.80 and Kshs.40,045,981.35 under Aviation Fee (old balances) and Airport Revenue (old balances) respectively. Although according to the Statement these balances were cleared during the year under review, it has not been clarified how they were cleared and specifically whether the amounts were paid to the Exchequer. Further, records relating thereto were not made available for audit review.

1129. In the absence of any explanations and/or analyses for the above balances, it has not been possible to ascertain the correctness of the Statement of Assets and Liabilities for Deposits as at 30 June, 2003.

MINISTRY OF LABOUR AND HUMAN RESOURCE DEVELOPMENT

BANK RECONCILIATION STATEMENTS - DEPOSITS CASH BOOK

1130. Examination of Bank Reconciliation Statement for the Deposits Cash Book as at 30 June, 2003 has revealed a number of unsatisfactory matters. The Statement reflects unrepresented cheques totalling to Kshs.2,911,654.65 out of which Kshs.1,003,611.75 relates to year 2001/2002 and earlier years dating as far back as 1985. No action appears to have been taken to find out why the cheques were not presented with a view to re-crediting them.

1131. The Statement also reflects receipts in Bank not recorded in Cash Book amounting to Kshs.9,473,290.10 out of which Kshs.9,114,890.10 relates to 2001/2002 and earlier years dating as far back as 1984. Cash received directly at the bank should normally be recorded in the Cash Book immediately after receipt of credit advices and relevant bank statements. It is therefore not clear why it has taken such a long time to account for these receipts and especially the amount of Kshs.9,114,890.10 in respect of the previous years.

1132. The Statement further reflects payments in Bank Statement not in Cash Book amounting to Kshs.8,204,460.55 out of which Kshs.8,055,648.55 were for the year 2001/2002 and earlier years with some dating as far back as 1987. Again it is not clear why these debits in the bank account have not been investigated and necessary action taken to account for them in the cash book and the Ministry's books of accounts.

1133. The Statements further reflects Receipts in Cash Book not reflected in Bank Statement totalling Kshs.3,004,931.65 out of which Kshs.2,740,889.85 relates to 2001/2002 and earlier years with some dating as far back as 1987. No explanation has been provided for not banking the money intact and immediately in compliance with the regulations.

STATEMENT OF ASSETS AND LIABILITIES FOR RECURRENT VOTE R-15

1134. Audit of Statement of Assets and Liabilities for Recurrent Vote R.15 as at 30 June 2003 has revealed a number of unsatisfactory matters. The statement reflects an Exchequer Account debit balance of Kshs.446,730,641.00 which relates to 2001/2002 and earlier years. The balance has not been analysed in terms of respective financial years and balances. It has therefore not been possible to ascertain the correctness of the balance. It has not also been explained why the balance has remained uncleared for a long time.

1135. The statement also reflects a Standing Imprest Account balance of Kshs.1,247,712.65 out of which Kshs.843,574.65 relates to 2001/2002 and earlier years. No explanation has been provided for non-clearance of this Standing Imprest balance for the previous year.

1136. The Statement further reflects a Temporary Imprest Account balance of Kshs.16,638,982.40 which has not been analysed. This balance includes an amount of Kshs.11,203,216.70 for 2001/2002 and earlier years which should have been cleared from the Statement during 2002/2003 financial year. No explanation has however been given for its non-clearance.

1137. The Statement further shows an Agency Account balance of Kshs.4,989,723.70 which has not been analysed. This balance includes an amount of Kshs.4,406,258.70 relating to 2001/2002 and early years which has not been cleared. No explanation has been provided for lack of analyses or failure to clear the long outstanding balances.

1138. The Statement further reflects a Suspense Account Headquarters balance of Kshs.28,102,080.55 which has not been analysed or cleared. As in the previous years, no explanation has been given for the unsatisfactory state of affairs.

1139. The Statement also reflects a Pay Master General Account debit balance of Kshs.3,772,591.95 while the cash book for 2002/2003 reflects a debit balance of Kshs.3,512,708.35 as at 30 June 2003. The difference of Kshs.259,883.60 between the two sets of records has not been explained or reconciled.

1140. The Statement in addition reflects other long outstanding Pay Master General Account debit and credit balances totalling Kshs.7,633,723.50 and Kshs.7,706,692.85 respectively and described as cash in hand. No explanation has been provided for failure to clear these balances from the books of account.

1141. The Statement in addition reflects General Account of Vote balance of Kshs.465,206,146.50 which includes an amount of Kshs.461,868,010.05 relating to 2001/2002 and earlier years and which has not been analysed. It has

therefore not been possible to ascertain if the balance shown has been correctly stated. No explanation has also been given as to why the balance has not been cleared from the books of account.

1142. The Statement shows Advances Account balance of Kshs.4,792,115.70 which includes a balance brought forward of Kshs.3,497,311.70 relating to 2001/2002 and earlier years. No explanation has been given for failure to clear this long outstanding balance.

1143. The Statement further shows District/Provincial Reimbursement Suspense Account net credit balance of Kshs.25,039,430.15 for 2001/2002 and earlier years which has not been analysed to disclose what it represents. No explanation has been provided for the lack of analyses or for non clearance of the balance.

1144. The Statement also shows Clearance Account net balance of Kshs.4,529,561.90 in respect of 2001/2002 and earlier years. No action appears to have been taken to clear the balance.

STATEMENT OF ASSET AND LIABILITIES FOR VOTE D.15

1145. Audit of Statement of Assets and Liabilities for Vote D.15 as at 30 June 2003 has revealed a number of unsatisfactory matters. The Statement reflects Exchequer Account balance of Kshs.291,468,102.70 which includes under – issues for 2002/2003 financial year of Kshs.5,957,034.45 and a balance of Kshs.285,511,068.25 brought forward from 2001/2002 and earlier years. The records maintained at Treasury, however, show Exchequer Account under issues for 2002/2003 of Kshs.4,503,630.0 and the difference of Kshs.1,453,404.45 between the two records has not been reconciled or explained. In addition, no analysis has been provided for the balance of Kshs.285,511,068.25 brought forward from 2001/2002 and earlier years and its accuracy has not therefore been ascertained.

1146. The Statement also reflects Standing Imprest Account balance of Kshs.148,990.00 for 2001/2002 and earlier years. However, it has not been explained why the balance had not been cleared by 30 June 2003. The Statement further shows a balance of Kshs.7,599,728.10 in respect of Temporary Imprest Account relating to 2001/2002 which also remained uncleared as at 30 June 2003. No analyses have been provided for both Imprest Account balances.

1147. Although the Statement reflects Cash on Hand and Bank balance for 2002/2003 of Kshs.19,284,027.75, the Cash Book on the other hand reflects a balance of Kshs.19,191,323.60 as at 30 June 2003. The difference of Kshs.92,704.15 between the two sets of records has not been reconciled or otherwise explained. Further, Pay Master General Account balances totalling

Kshs.4,386,490.40 described as bank balances and cash on hand and which relate to 2001/2002 and earlier years have not been cleared. No explanation has been given for this inaction.

1148. The statement also shows Pay Master General Account overdraft balances of Kshs.355,335.95 and Kshs.238,551.15 in respect of 1996/97 and 2001/2002 financial years. No explanation has been given for these overdrafts or for failure to clear them.

1149. The statement in addition reflects a balance of Kshs.291,675,066.65 in respect of General Account Vote out of which Kshs.268,043,018.45 relates to 2001/2002 and earlier years. It has not been explained why these long outstanding General Account of Vote balances have not been cleared to date.

1150. The Statement also shows a balance of Kshs.1,060,469.00 in respect of Suspense Account Headquarters for 2001/2002 and earlier years. The balance has not, however, been analysed and no explanation has been given for failure to clear it.

1151. The Statement further shows a balance of Kshs.17,301.65 against District and Provincial Reimbursement Suspense Account in respect of 1999/2000 and earlier financial years. So far, no action appears to have been taken to analyse and clear this outstanding balance.

1152. The Statement in addition shows Development Clearance Account balance of Kshs.1,118,977.00 which dates as far back as 1996/97. No explanation has been provided for failure to analyse and clear this long outstanding balance.

1153. The statement also shows Excess Appropriations-In-Aid balance of Kshs.28,421,636.65 in respect of 2000/2001 financial year. No explanation has been given as to why the amount has not been surrendered to the Exchequer in accordance with the existing financial regulations.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS

1154. The Statements of assets and Liabilities for Deposits as at 30 June, 2003 reflects a balance of Kshs.9,449,142.95 under Provincial/District Reimbursement Accounts which includes a balance of Kshs.11,282,668.85 relating to 2001/2002 and earlier years that has to date not been cleared. The Provincial/District Reimbursement Accounts balance also includes an Account No.4-290-770-00 with a credit balance of Kshs.970,925.15 under unidentified district. The source and identity of this credit therefore remains unknown and casts doubt on the accuracy of the statement.

1155. The Statement also reflects Imprest Account balance of Kshs.4,140,855.20 out of which Kshs.1,742,017.20 relates to 2001/2002 and earlier years. No explanation has been provided for failure to clear these imprests from the books of account. The Account also includes two imprest accounts with credit balances totalling Kshs.458,000.00. No explanation has been provided for these credit balances against Imprest Accounts which should normally reflect nil or debit balances.

1156. The Statement further shows a Suspense Account balance of Kshs.6,988,459.90 which has not been analysed and which includes a balance of Kshs.6,238,261.70 relating to 2001/2002. The Account also includes debit and credit balances totalling Kshs.1,984,432.45 and 1,370,361.55 respectively which have not been identified or explained. No explanation has been given for the non-clearance of these suspense accounts.

1157. In addition, the position of stale cheques balance which is included in the Suspense Account balance deteriorated from Kshs.544,178.90 as at 30 June, 2002 to Kshs.1,680,696.75 as at 30 June 2003. No analysis has however been provided for the stale cheques balance of Kshs.1,680,696.75.

1158. The Statement, in addition, reflects under Deposits Account a credit balance of Kshs.57,599,028.35 which is arrived at after netting the credit balance of Kshs.84,266,768.05 brought forward from 2001/2002 and earlier years with debit balance of Kshs.26,667,739.70 for 2002/2003. The Deposits Account includes debit balances totalling Kshs.3,049,510.55. Deposit Accounts ordinarily should reflect credit or nil balances and it is not clear therefore what these debit balances represent. The Account further includes debit and credit balances of Kshs.1,478,489.00 and Kshs.510,594.40, respectively which are reflected in non existing or unidentified accounts.

MINISTRY OF TRADE AND INDUSTRY

STATEMENT OF ASSETS AND LIABILITIES – VOTE R.16

1159. The Statement of Assets and Liabilities for Vote R.16 as at 30 June, 2003 reflects a balance of kshs.211,145,926.95 against Exchequer Account while the analysis provided in support of the Account shows an amount of Kshs.199,798,491.95. The difference of Kshs.11,347,435.00 between the two sets of records has not been reconciled or explained.

1160. The Statement also reflects Excess Votes totalling Kshs.39,038,066.35 which comprise of Excess Votes amounting to Kshs.13,030,582.10 for 1983/84

and Kshs.26,007,484.25 for 1998/99. Although the report of the Public Accounts Committee for 1983/84 recommended that the Excess Vote for 1983/84 be disallowed by Parliament until the Recurrent Appropriation Account for that year was revised and re-submitted for audit, no action appears to have been taken in this regard as no revised Account has so far been submitted for audit.

1161. The Statement further reflects Standing Imprests totalling Kshs.2,154,231.85 which include an amount of Kshs.1,976,514.85 relating to 2001/2002 and earlier years. No explanation has been given for non-clearance of the latter balance. Similarly, the Temporary Imprest Account shows a balance of Kshs.25,927,209.30 relating to 2001/2002 and earlier years and which has not been cleared. Again, no explanation has been given for non-clearance of this balance.

1162. The Statement also shows an Advances Account balance of Kshs.162,788,747.95 which includes an amount of Kshs.127,461,372.20 relating to 2001/2002 and earlier years. No explanation has been provided for failure to recover the balance of Kshs.127,461,372.20 which has been outstanding for a considerably long period of time.

1163. The Statement further shows under Paymaster General Account a balance of Kshs.214,371,465.75 which, however, differs by Kshs.192,791,559.45 from the Cashbook balance of Kshs.21,579,906.30. The difference of Kshs.192,791,559.45 between the two sets of records has not been reconciled or explained.

1164. The Statement in addition shows under General Suspense Account a balance of Kshs.5,109,261.30 while the Trial Balance reflects an amount of Kshs.6,194,213.90 under the same Account resulting in an unreconciled and unexplained difference of Kshs.1,084,952.60 between the two figures. The balance of Kshs.5,109,261.30 has also not been properly analysed and therefore it has not been possible to ascertain its accuracy or what it represents.

1165. The Statement also reflects an Exchequer Account credit balance of Kshs.11,347,345 which according to the analysis attached is in respect of an Exchequer over-issue for Ministry of Trade and Industry and relates to 2001/2002 and earlier years. No explanation has been given as to why this balance has not been cleared from the books of Account. It is however unlikely that the balance represents an actual Exchequer over-issue in view of the very strict controls exercised over issues from the Exchequer.

1166. The Statement further reflects an amount of Kshs.31,980,925.40 against Annual Agency Account which includes balances totalling Kshs.1,287,482.00 shown as representing two unidentified non-existent accounts. Apart from lack of an explanation as to what the non-existent accounts represent, no reason has

been provided for non-clearance of these accounts although they relate to 2001/2002 and earlier years.

1167. The Statement similarly shows a balance of Kshs.59,260,427.70 against Provincial/District Suspense Account which has not been properly analysed rendering it difficult to ascertain what it represents. In addition, the amount of Kshs.59,260,427.70 includes a sum of Kshs.25,454,615.95 relating to 2001/2002 and earlier, the non-clearance of which has not been explained.

1168. The Statement also reflects balances of Kshs.892,352.60 and Kshs.807,846.20 under Clearance and District Deposit/Suspense Accounts respectively which have not been analysed or cleared although they relate to the year 2001/2002 and earlier and no explanation has been provided for the failure to analyse and clear them. The balance of Kshs.5,427,326.35 in respect of the Clearance Account for the year 2002/2003 has also not been analysed and similarly no explanation has been provided for the omission.

STATEMENT OF ASSETS AND LIABILITIES – VOTE D.16

1169. The Statement of Assets and Liabilities for Vote D.16 as at 30 June 2003 reflects a debit balance of Kshs.678,389,859.00 under the Exchequer Account while the analysis provided in respect of the Account shows an amount of Kshs.659,205,427.30 resulting in an unreconciled difference of Kshs.19,184,431.70. Further, the balance of Kshs.678,389,859.00 includes amounts totalling Kshs.645,843,057.00 relating to 2000/2001 and earlier years and which have not been cleared. No explanation has been provided for the non-clearance of these balances or for the difference of Kshs.19,184,431.70.

1170. The Statement also reflects a balance of Kshs.3,333,005.05 in respect of an Excess Vote for 1983/84. No explanation has been provided as to why this long outstanding balance has not been cleared.

1171. The Statement further reflects under General Account of Vote a debit balance of Kshs.407,609.50 which is shown in the analysis provided as relating to 1998/99. As in the previous instances, no explanation has been given for non-clearance of this long outstanding balance.

1172. The Statement shows a liability of Kshs.491,833,691.60 under GAV Account while the schedules supporting the Account reflect an amount of Kshs.491,334,365.35. The difference of Kshs.499,326.25 between the two sets of records has not been reconciled or explained.

1173. The Statement also shows under Standing Imprest a debit balance of Kshs.488,969.75 which has not been properly analysed. The balance of Kshs.488,969.75 includes an amount of Kshs.250,000.00 due from an officer who has since retired from the Public Service. No explanation has been given as

to why the balance of Kshs.488,969.75 has not been fully analysed or accounted for. Similarly no action appears to have been taken to recover the outstanding imprest of Kshs.250,000.00 from the retired officer.

1174. The Statement further shows under Agency Account a credit balance of Kshs.3,698,457.80 relating to 2001/2002 and earlier years and which has not been analysed. No explanation has also been given for failure to analyse and to clear this long outstanding balance.

1175. Finally, the Statement reflects credit balances of Kshs.4,350,779.55, Kshs.15,990,907.40 and Kshs.3,193,524.30 in respect of General Suspense Account, Exchequer issues and Exchequer over-issues respectively relating to 2001/2002 and earlier years. Again, no explanation has been provided for the non-clearance of these long outstanding balances.

STATEMENT OF ASSETS AND LIABILITIES – DEPOSITS 16

1176. The Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June, 2003 reflects a debit balance of Kshs.28,984.85 against RD Cheques which has not been analysed. In addition, no reasons have been provided to explain why this long outstanding balance has not been cleared.

1177. The Statement also reflects various balances under Miscellaneous Deposits, Contractors Retention Money, Deposits – 1990/91 & earlier, Aids Control and Non-Existing Tourism Accounts brought forward from 2001/2002 which differ from those reflected as closing balances in the audited statement for 2001/2002. No explanation has been given for these discrepancies.

1178. Further, the Statement excludes other balances under Non-Existing Account, COMESA Contribution, Activity Fees – KITI and Revenue Recurrent which were reflected as closing balances in the audited statement for 2001/2002.

As in the previous instance, no explanation has been provided as to why these balances have been omitted from the Statement under review.

1179. The Statement in addition reflects various unanalyzed credit and debit balances and no explanation has been provided. In the absence of the analyses to support the balances, it has not been possible to ascertain their correctness.

1180. The Statement shows under National Youth Development Fund a balance of Kshs.358,063.90. As stated in the reports for the previous years, this balance is indicated as representing contributions from individuals toward a National Youth Harambee which was held in 1997. Apart from lack of analysis for the balance, no explanation has been given why the money has remained in the account without being put to the intended purpose.

1181. The Statement also shows a balance of Kshs.2,559,767.15 in respect of Hotels and Restaurant Licenses Fees which has not been analysed. Apart from failure to provide analysis for this figure, no explanation has been given as to why the amount has not been paid over as revenue to the Exchequer.

MINISTRY OF JUSTICE AND CONSTITUTIONAL AFFAIRS

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.17 AS AT 30 JUNE 2003

1182. The Statement of Assets and Liabilities for Vote R.17 as at 30 June 2003 reflects balances under Temporary and Standing Imprest Account and GAV account which do not tally with June ledger/trial balance. The difference of Kshs.5,100,000.00 between the Imprests balance of Kshs.5,675,034.50 shown in the Statement and the balance of Kshs.575,034.50 reflected in the ledger resulted from erroneous recognition as expenditure of imprests totalling Kshs.5,100,000.00. Although the error has been rectified manually in the statement through a journal voucher passed on 18 March 2004, an adjusted ledger has not been produced to reflect this correction. Further, the Imprest Account debit balance of Kshs.5,675,034.50 reflected in the statement differs with the Imprest Register balance of Kshs.5,416,969.50. No explanation has been given for the difference of Kshs.258,065.00.

1183. The Statement, similarly reflects a GAV credit balance of Kshs.25,379,216.80 which differs with the Ledger balance of Kshs.22,006,036.80 by Kshs.3,373,180.00 which has not been explained.

1184. The Statement also shows a Clearance Account debit balance of Kshs.330,600.00 which is not analysed. No explanation has been provided for failure to analyse the balance.

MINISTRY OF GENDER, SPORTS, CULTURE AND SOCIAL SERVICES

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.18

1185. The Statement of Assets and Liabilities for Vote R.18 as at 30 June, 2003 reflects an Exchequer balance of Kshs.46,790,238.55 while records maintained at the Treasury show a figure of Kshs.62,449,000.00 against the same Account. The difference of Kshs.15,658,761.45 between the two sets of records has not been reconciled or explained.

1186. The Statement also reflects balances of Kshs.2,350,019.90, Kshs.518,577.30 and Kshs.75,313.00 relating to Imprests, District Suspense and Clearance and Suspense Accounts respectively which have not been analysed. Consequently, it has not been possible to ascertain their accuracy or to establish what they represent.

1187. The Statement further reflects a Paymaster General Account balance of Kshs.26,065,746.55 while the Bank Reconciliation Statement as at 30 June 2003 shows an amount of Kshs.30,917,364.60 against the same account. No reconciliation or explanation has however been given for the difference of Kshs.4,851,618.05 between the two records.

1188. The Statement is out of balance and total Assets of Kshs.75,240,943.45 exceed total liabilities of Kshs.73,448,958.35 by an amount of Kshs.1,791,985.10.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.18

1189. The Statement of Assets and Liabilities for Vote D18 as at 30 June 2003 reflects under Exchequer Account a debit balance of Kshs.49,565,251.70 which however differs by Kshs.8,588,761.70 from the amount of Kshs.40,976,490.00 shown in the records held by the Treasury. No explanation or reconciliation has been provided for the difference between the two sets of records.

1190. The Statement also reflects a Paymaster General Account balance of Kshs.1,430,294.85 while both the Cashbook and the Trial Balance show an amount of Kshs.1,387,373.70. Again the difference of Kshs.42,920.15 between the two sets of records has not been reconciled or explained.

1191. The General Account of Vote shows a credit balance of Kshs.50,995,546.55 while the Appropriation Account for Vote D18 for the year ended 30 June 2003 reflects a net surplus to be surrendered to the Exchequer of

Kshs.31,177,483.45. No reconciliation or explanation has been provided for the difference of Kshs.19,818,063.10 between the two figures.

MINISTRY OF WATER RESOURCES

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R20 AS AT 30 JUNE, 2003

1192. The statement of Assets and Liabilities for vote R20 as at 30 June 2003 reflects Paymaster General's Account debit balance of Kshs.6,061,618.80 which differs with the trial balance figure of Kshs.659,439.05 and cash book balance of Kshs.3,931,288.45. No explanation or reconciliation has been provided for these differences.

1193. The statement also shows excess votes for years between 1981/82 and 1993/94 totalling to Kshs.312,215,995.80 which have remained uncleared from the Ministry's books. No explanation has been given for failure to clear these excess votes.

1194. In addition the statement reflects a balance which is referred to as an excess exchequer release of Kshs.938,530.50 relating to 1987/88 for which no explanation has been given. It is unlikely that this balance represents a genuine excess exchequer release in view of the very stringent controls exercised over authorisation of exchequer issues.

1195. The statement further reflects exchequer under-issues for year 1996/97 to 1998/99 totalling Kshs.221,028,661.10 which have remained uncleared for a long time without explanation.

1196. The statement also reflects an exchequer under issue of Kshs.12,984,490.00 for the year 2002/2003, which does not agree with the balance of Kshs.984,490.00 reflected in the records maintained by Treasury. No explanation has been given for the difference of Kshs.12,000,000.00.

1197. No documents have been produced for audit to support a figure of Kshs.304,652,869.75 reflected in the Statement as exchequer adjustment account being expenditure transferred to the Ministry of Water from the Ministry of Environment, Natural Resources and Wildlife. The propriety of the adjustment has not therefore been ascertained.

1198. The statement reflects G.A.V. credit balances totalling Kshs.268,881,308.75 and relating to the period 1995/96 to 1998/99. No explanation has been given for failure to clear these balances.

1199. In addition, an amount of Kshs.135,000,000.00 is reflected in the statement as an advance from the former Ministry of Rural Development but no explanation has been given as to what the advance represents or how the Ministry intends to clear the amount from its books.

1200. The statement reflects two (2) debit and three (3) credit balances totalling Kshs.20,002,462.40 and Kshs.14,501,922.15 respectively which cannot be confirmed correct because of lack of analyses or explanations. No reasons have been given for the Ministry's failure to analyse these balances.

1201. The statement also reflects a credit balance of Kshs.483,730,934.55 described as Ministry of Environment, Natural Resource & Wildlife Inter Vote Adjustment Account. No documents have been provided to support and explain this account and its propriety has not therefore been ascertained.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.20 AS AT 30 JUNE 2003

1202. The statement of Assets & Liabilities for Vote D20 as at 30 June, 2003 reflects a number of unsatisfactory matters. The Paymaster General Account as at 30 June 2003 reflects Kshs.37,453,603.25 while the Cash Book balance as at the same date was Kshs.27,124,084.35. The difference of Kshs.10,329,518.90 between the two records has not been reconciled or explained.

1203. The statement reflects Excess votes totalling Kshs.278,619,045.50 relating to 1990/91 and earlier years. As stated in the Report for 2001/2002, available information shows that Excess votes totalling Kshs.262,577,339.95 realized in 1979/80, 1983/84 and 1986/87, were disallowed by Parliament due to inaccurate accounts then submitted for audit by the Ministry. Although the Ministry was directed by the PAC to revise and submit accurate accounts for these years for audit no action has to date been taken on the PAC recommendation.

1204. The Statement also reflects a General Account of Vote (GAV) credit balances totalling Kshs.1,383,628,222.55 being surpluses to be surrendered to the Exchequer during the years 1995/96 to 1998/99. No explanation has been provided for failure to clear these balances.

1205. The statement further reflects Exchequer Account debit balances totalling Kshs.1,728,049,714.30 being under issues relating to 1998/99 and earlier years. No action appears to have been taken to clear these balances.

1206. It is also noted that for the year 2002/2003 the statement reflects a figure of Kshs.276,277,226.70 described as exchequer adjustment account. However, no documents or explanation has been given to confirm the authenticity of this adjustment.

1207. In addition, the statement reflects debit and credit balances in five (5) accounts which, although agreeing with the figures in the trial balance in respect of the same accounts, have not been analysed or explained and have remained uncleared for a long time.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS – VOTE 20 AS AT 30 JUNE 2003

1208. The Statement of Assets and Liabilities for Deposits as at 30 June 2003, contains a number of unsatisfactory matters. The Statement reflects four miscellaneous debits totalling Kshs.4,343,510.90 and three credit balances totalling Kshs.112,871,728.15 relating to 2001/2002 and earlier years which have not been analysed.

1209. The Statement also reflects a debit balance of Kshs.28,270,386.25 on Miscellaneous Deposit Account against the previous year audited Statement balance of Kshs.28,685,397.50. The difference of Kshs.415,011.25 between the two records has not been explained.

1210. The Statement also reflects debit balance of Kshs.75,975,998.60 under inter-vote adjustment account relating to the year 2001/2002. This balance has not been analysed or explained as to what it represents.

1211. The Statement further reflects a debit balance of Kshs.61,767.90 under miscellaneous deposit Account No.383 against the previous year's audited statement balance of Kshs.62,775.80. The difference of Kshs.1,007.90 has not been explained or reconciled.

MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES

STATEMENT OF ASSETS AND LIABILITIES – VOTE R21

1212. The audit of the statement of Assets and Liabilities for vote R21 as at 30 June 2003 has revealed the following unsatisfactory matters:-

1213. The Statement reflects Paymaster General's Account debit balance of Kshs.266,354,195.70 which differs from the cashbook balance of Kshs.2,172,895.55 by Kshs.264,181,300.15. No explanation or reconciliation has been provided for the difference.

1214. The Statement also shows Excess Vote of Kshs.2,480,597.40 for 1983/84 which has remained uncleared from the Ministry's books. No explanation has been given for non-clearance of this Excess Vote.

1215. The Statement further shows an excess surrender of Kshs.821,874.05 relating to 1994/95. The Ministry has not explained how the excess surrender occurred and why it remains uncleared to date.

1216. The Statement reflects a number of Exchequer under issues relating to the period 1996/97 to 1999/2000 which have remained uncleared for a long time without explanation.

1217. The Statement reflects four (4) debit balances and another four (4) credit balances totalling Kshs.208,010,873.15 and Kshs.397,881,960.00 respectively for which no analyses were provided for audit review. No explanation has been given for failure to analyse these balances. In the absence of the necessary analysis it has not been possible to ascertain what these balances represent or the effect they may have on the Appropriation account for vote R.21 for 2002/2003.

1218. The Statement reflects G.A.V. balances totalling Kshs.256,652,743.45 representing surpluses to be surrendered to the Exchequer for the period 1995/96 to 1999/2000. No explanation has been given for the non-clearance of these surpluses.

1219. The Statement also reflects Vote Adjustment Account debit balance of Kshs.533,244,656.90 and Vote Adjustment credit balance of Kshs.404,819,861.95 both for prior years. These balances are explained to be expenditure transferred from the Ministry of Environment Vote R.21 to Ministry of Water Vote R.20 on re-organisation of Government Ministries in the year 2002/2003. However, no analysis of the figures has been made available for audit review and in the absence of such analysis it has not been possible to ascertain the propriety of these adjustments and the effect they may have on the Appropriation Accounts for Votes R.20 and R.21 for 2002/2003.

STATEMENT OF ASSETS AND LIABILITIES VOTE D21 AS AT 30 JUNE 2003

1220. The audit of the statement of Assets and Liabilities for Development Vote D21 as at 30 June 2003 has revealed the following unsatisfactory matters:

1221. The Paymaster General's Account credit balance of Kshs.1,776,693,948.80 does not agree with the balance of Kshs.1,748,073,817.70 reflected in the Trial Balance. The difference of Kshs.28,620,131.10 has not been explained or reconciled.

1222. Further the cash book balance of Kshs.1,821,449.05 as at 30 June 2003 differs with the Paymaster General's Account credit balance of Kshs.1,776,693,948.80 as at that date. The difference of Kshs.1,774,872,499.75 has not been explained or reconciled.

1223. The statement further reflects G.A.V. credit balances totalling Kshs.1,246,801,645.10 relating to the years 1993/94 to 2001/2002. No explanation has been given for the non-clearance of these long outstanding balances.

1224. The statement also reflects Exchequer Account debit balances totalling Kshs.1,500,486,970.00 being under issues for the years 1984/85 to 2001/2002. No explanation has been given for the non clearance of these long outstanding balances.

1225. A balance of Kshs.571,745,479.80 is reflected in the statement as Exchequer Adjustment Account for 2002/2003. No explanation or analysis has been given to support this adjustment and consequently it has not been possible to confirm its propriety.

1226. The statement further shows debit and credit balances in six (6) suspense and imprest accounts which have not been analysed. In the absence of analyses it has not been possible to ascertain the correctness of these balances. Also no explanation has been given for their non clearance.

1227. The statement also reflects four debit balances totalling Kshs,371,847.60 and two credit balances totalling Kshs.1,401,660.70 against non-existent accounts. In the absence of description and analyses of these balances, it is not known what they represent.

1228. The statement further reflects a debit balance of Kshs.2,006,670,777.15 as Vote Adjustment (Min of Water) and a credit balance of Kshs.1,383,628,223.00 also as Vote Adjustment (Min of Water) both in respect of prior years. These balances have not been analysed and therefore it is not clear what they represent or what effect they may have on the Appropriation Account for Vote D21 for 2002/2003.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS

1229. The Statement of Assets and Liabilities as at 30 June 2003 for Funds and Deposits reflects a debit balance of Kshs.319,334,786.20 against Paymaster General's Account while the cashbook shows a balance of Kshs.176,578,705.60. The difference of Kshs.142,756,080.60 between the two sets of records has not been explained.

1230. The statement also shows a recurrent revenue balance of Kshs.48,630,927.10 as at 30 June 2003 comprising a balance of Kshs.518,634.05 as at 30 June 2002 and an amount of Kshs.48,112,293.05 received in 2002/2003. This revenue balance should have been surrendered to the exchequer by 30 June 2003 but no explanation has been given for failure to pay the amount to the exchequer.

1231. The statement further reflects a debit balance of Kshs.28,653,000.35 under District Suspense Account for 2001/2002 and earlier. Although the figure agrees with the trial balance, no documents were made available in support of an adjustment of Kshs.32,397.15 made to the figure in 2002/2003.

1232. In addition, the statement reflects Inter-vote Adjustment Account debit balance of Kshs.5,509,983.65 and credit balance of Kshs.229,688,308.25 which have not been analysed. It also reflects two miscellaneous deposit credit balances totalling Kshs.75,178,534.85 which have also not been analysed or explained. In the absence of analysis, the correctness of these balances could not be ascertained.

MINISTRY OF CO-OPERATIVE DEVELOPMENT AND MARKETING

STATEMENT OF ASSETS AND LIABILITIES VOTE R.22

1233. The Statement of Assets and Liabilities for Vote R.22 for 2002/2003 reflects a debit balance of Kshs.104,164,683.90 in respect of Exchequer Account which differs by Kshs.199,683.90 from the figure of Kshs.103,965,000 reflected in the records maintained at the Treasury. No explanation has been provided for the difference.

1234. The statement also reflects total imprest balances of Kshs.364,510.50 made up of Temporary Imprests of Kshs.234,372.00 and Standing Imprests of Kshs.130,138.50 which were not cleared in the year under review and were also not analysed. No explanation has been provided for failure to reconcile, analyse and clear these balances.

1235. The statement further reflects Salary Advance of Kshs.171,375.95 which differs by Kshs.89,814.05 from Salary Advance figure of Kshs.261,190.00 shown in the analysis made available for audit review. No explanation has been provided for failure to reconcile the two records and to clear the balances.

1236. The statement also shows credit balance of Kshs.1,833,775.60 against District Suspense Account and Kshs.34,240,637.65 against District Exchequer Holding Account which have not been analysed or reconciled.

1237. In the absence of explanations, analyses or reconciliations as stated above, it has not been possible to confirm the correctness of the statement of Assets and Liabilities for Vote R.22 as at 30 June 2003.

THE STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS AS AT 30 JUNE, 2003

1238. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects a debit balance of Kshs.248,800.00 against temporary imprests while the ledger reflects a debit balance of Kshs.171,220.00. No explanation has been provided for the difference of Kshs.77,580.00 between the two records.

1239. The Statement further reflects a balance of Kshs.8,341,974.00 being transfer of funds from Ministry of Agriculture to facilitate operations of the Ministry of Co-operative Development created out of the former Ministry of Agriculture, Livestock and Co-operative Development. This figure of Kshs.8,341,974.00 agrees with the ledger balance but does not agree with the Cash Book balance of Kshs.8,190,334.50. No explanation has been provided for the difference of Kshs.151,639.50.

1240. The Statement also reflects a credit balance of Kshs.2,160,868.20 against Audit and Supervision Account while the ledger reflects a credit balance of Kshs.2,181,868.00 resulting into unexplained difference of Kshs.20,999.80.

1241. The Statement further reflects a credit balance of Kshs.1,724,724.70 against Registration Fees and Miscellaneous Deposits Account which tallies with the ledger balance but the analysis provided to support the account reflects Kshs.1,671,224.70 resulting in a difference of Kshs.53,500.00. No explanation has been provided for this difference.

1242. The Statement reflects a credit balance of Kshs.5,861,400.95 in respect of Liquidation Fund Account while the analysis provided to support the account reflects a credit balance of Kshs.5,745,583.15 resulting in an unexplained difference of Kshs.115,817.80. In addition while the statement reflects a net credit balance of Kshs.5,861,400.95 against Liquidation Fund Account the ledger reflects a credit balance of Kshs.5,840,400.00. No explanation has been provided for this difference of Kshs.21,000.95.

1243. The Statement reflected a net credit balance of Kshs.72,180.70 against returned salaries which has not been supported by any documentation.

1244. It is also observed that Kshs.10,000.00 is reflected in the analysis provided in support of the account but is not reflected in the deposits cash book. The analysis also shows Kshs.39,500.00 as received on 6 September, 2003 but the amount is not reflected in the cash book. Also Kshs.21,000.00 is reflected in the deposits cash book but is not reflected in the analysis provided.

1245. In addition, Kshs.110,000.00 received through receipt No.276550 dated 4 June 2003 in the deposits cash book has not been reflected in the analysis provided to support the account.

OFFICE OF THE ATTORNEY GENERAL

BANK RECONCILIATION STATEMENTS

1246. Examination of the Bank Reconciliation Statement for Recurrent Vote R.25 and Deposits 25 Cash Books as at 30 June 2003 and 31 December 2002 respectively revealed the following unsatisfactory matters:-

Recurrent Cash-Book – 30 June 2003

1247. The reconciliation showed payments in Cash Book not in Bank Statement totalling Kshs.59,026,692.55 out of which Kshs.1,148,895.20 represented stale cheques. No explanation has been given for not reversing the stale cheques in the cash book to reflect the correct cash position. The balance also included an amount of Kshs.3,605,702.00 which was irregularly transferred to the Recurrent Account for 2003/2004.

1248. The Statement showed payments in Bank Statement not in Cash Book totalling Kshs.2,434,166.40 out of which a sum of Kshs.149,398.70 was in respect of unpaid cheques. The balance also included a sum of Kshs.302,092.80 described as “debit without credit”. The balance further

includes an amount of Kshs.963,496.65 referred to as” missing batch of cheques”. The unpaid cheques, “debit without credit” and “missing batch of cheques” have not been explained.

1249. The Statement further reflects receipts in Cash Book not in Bank Statement amounting to Kshs.2,811,900.15 out of which an amount of Kshs.522,355.65 is referred to as banking relating to the period between April 2003 and June 2003. No explanation has been given as to why the amount is not reflected in the bank statement. Also included is an amount of Kshs.2,289,544.50 described as cash book adjustment. No explanation has been provided as to what this adjustment relates to.

Deposits Cash Book

1250. Bank Statements and relevant supplementary cheque listings for January, 2003 to June 2003 have not been availed for audit review. It has, therefore, not been possible to examine the Bank Reconciliation Statements for Deposits Cash Book for 30 June 2003.

1251. However, Bank Reconciliation Statement as at 31 December 2002 shows payments in Cash Book not in Bank Statement totalling Kshs.23,646,970.05 which includes stale cheques amounting to Kshs.15,897,992.35 for 2001/2002 and earlier years. No explanation has been given for non clearance of these stale cheques.

1252. The Statement further shows Receipts in Bank Statement not yet recorded in Cash Book totalling Kshs.5,143,584.60 out of which a sum of Kshs.616,519.85 relates to 1998/99 and earlier years. No explanation has been given for non-clearance of these bankings.

1253. It further shows Payments in Bank Statement not yet recorded in Cash Book amounting to Kshs.115,613,971.00 out of which a sum of Kshs.4,204,964.80 and Kshs.975,873.20 relates to unpaid cheques and missing bunch of cheques, respectively. No explanation has been provided regarding these balances or for their non-clearance.

1254. Also in the Statement are Receipts in Cash Book not in Bank Statement totalling Kshs.21,041,268.75 out of which a sum of Kshs.20,261,622.45 relates to 2001/2002 and earlier years. No explanation has been given for non clearance of these entries.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R25

1255. Audit of the Statement of Assets and Liabilities for Vote R. 25 as at 30 June, 2003 has revealed a number of unsatisfactory matters. The Statement reflects Exchequer Account debit balance of Kshs.351,871,478.00 and a credit

balance of Kshs.30,200.00 relating to 2001/2002 and earlier years. No explanation has been provided for failure to clear these long outstanding balances.

1256. The Statement also reflects Advances Account debit balance of Kshs.14,074,568.80 which has not been properly analysed. The amount of Kshs.14,074,568.80 in turn includes unsettled losses totalling Kshs.934,563.25 and R.D. cheques amounting to Kshs.131,163.05 which have been outstanding for several years. No explanation has been given for failure to provide proper analysis and non clearance of the outstanding balances or for failure to replace or otherwise clear the R.D. Cheques.

1257. The Statement further reflects an Imprests Account debit balance of Kshs.2,780,868.00 which has not been analysed and which differs from the balance of Kshs.4,527,670.05 shown in the Imprests Register by Kshs.1,746,802.05. In addition, the imprests balance of Kshs.2,780,868.00 includes unusual credit balances totalling Kshs.158,417.50 under various districts. No explanation has been given for the lack of analyses for the difference of Kshs.1,746,802.05 or for the unusual credit balances of Kshs.158,417.50.

1258. The statement in addition reflects Provincial and District suspense Accounts debit balance of Kshs.18,732,406.60 relating to 2001/2002 and earlier years which has not been analysed. No explanation has been given for the lack of analyses or for failure to clear this balance from the books of account.

1259. The statement shows an Agency Account debit balance of Kshs.229,303.50 relating to 2000/2001 and earlier years which has not been analysed. No explanation has been given for the failure to analyse and clear this balance.

1260. The Statement also shows a General Account of Vote credit balance of Kshs.476,570,890.70 which in turn, includes an amount of Kshs.461,517,175.50 relating to 2001/2002 and earlier years. The statement also shows a General Account of Vote debit balance of Kshs.53,163,130.95 relating to 1997/98 and earlier years. No reason has been given for failure to clear these long outstanding balances.

1261. The Statement further reflects a Suspense Account credit balance of Kshs.16,674,880.70 which has not been analysed and which includes an amount of Kshs.1,795,820.35 relating to 2001/2002 and earlier years. The balance also includes a credit of Kshs.362,240.60 in respect of stale cheques. Apart from the fact that the balance of Kshs.16,674,880.70 has not been cleared, no explanation has been given for lack of its analysis and failure to have the stale cheques replaced or otherwise made good.

1262. The Statement similarly shows Clearance Accounts credit balance of Kshs.10,910,041.50 out of which Kshs.9,238,566.85 relates to 2001/2002 and earlier years. The balance of Kshs.10,910,041.50 also includes unexplained debit balances totaling Kshs.16,386,703.95 in accounts which under normal circumstances should reflect credit or nil balances.

1263. Further, the Statement reflects Excess Appropriations-In-Aid balance of Kshs.73,705,099.30 which relates to 2001/2002 and earlier years. No explanation has been given for failure to remit the amount to the Exchequer.

1264. The Paymaster General Account debit balance of Kshs.117,451,956.35 shown in the statement differs from the cash book balance of Kshs.2,125,498.65 by Kshs.115,326,457.70. No reconciliation has been provided for this difference.

1265. In the absence of proper analysis for the balances referred to above and explanation for the differences, the unusual debits and credits under clearance and imprests account respectively, amongst other issues, it has not been possible to confirm the accuracy of the statement of Assets and Liabilities for Vote R.25 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.25

1266. The Statement of Assets and Liabilities for Vote D.25 as at 30 June, 2003 shows a Paymaster General's Account credit balance of Kshs.29,786,978.70 while the Cash book shows a debit balance of Kshs.637,084.45. The difference of Kshs.30,424,063.15 between these two balances has not been reconciled or explained.

1267. The Statement also shows four accounts which have been outstanding since 1998/99 and earlier years featuring three credits totalling Kshs.3,640,559.65 and one debit of Kshs.1,600,762.70. These balances have not been analysed and in the absence of such analysis it has not been possible to determine what they represent or how they affect the accuracy of the statement.

1268. The statement also shows six outstanding debit and credit balances in respect of Excess AIA, Exchequer Account, General Account of Vote and Clearance Account all relating to 2001/2002 and earlier years which though analysed have not been cleared from the books of account. No explanation has been provided for the non-clearance of these balances.

1269. In view of the PMG Account difference and the lack of analysis referred to above, it has not been possible to ascertain the accuracy of Statement of Assets and Liabilities for Vote D.25 as at 30 June, 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS 25 OFFICE OF THE ATTORNEY GENERAL

1270. The Statement of Assets and Liabilities for Deposits 25 as at 30 June 2003 reflects a District Suspense Account debit balance of Kshs.38,828.60 relating to 1992/93 which has not been analysed and for which no explanation has been given for its non-clearance.

1271. The Statement also reflects a Paymaster General Account debit balance of Kshs.111,140,821.65 while the Cash Book shows a debit balance of Kshs.64,388,038.90. The difference of Kshs.46,752,782.75 between the two balances has not been reconciled or explained.

1272. The Statement further reflects a Sundry Deposit Account credit balance of Kshs.59,786,064.45 which includes a balance of Kshs.2,909,897.75 that has not been analysed. Reasons for failure to analyse this balance have not been given.

1273. The Statement also shows a Deposits Suspense Account credit balance of Kshs.51,194,120.50 which includes a balance of Kshs.49,769,710.00 which has not been analysed. In addition, the figure of Kshs.51,194,120.50 includes a balance of Kshs.45,235,321.95 relating to 2001/2002 and earlier years. No explanation has been provided for failure to analyse the balance of Kshs.49,769,710.00 or for non-clearance of the balance of Kshs.45,235,321.95 relating to 2001/2002.

1274. The Statement further shows a Clearance Account credit balance of Kshs.19,833.00 relating to 1998/99. No explanation has been provided for non-clearance of this balance.

1275. In addition, the Statement shows a Provincial Suspense Account credit balance of Kshs.179,632.30 relating to 1992/93 which has not been analysed. No explanation has been provided for failure to analyse and to clear this balance.

JUDICIARY

BANK RECONCILIATION STATEMENTS

Examination of Bank Reconciliation Statement for the Recurrent and Deposit cash Books revealed the following unsatisfactory matters.

RECURRENT CASH BOOK

1276. The Bank Reconciliation Statement for the Recurrent Cash Book as at 30 June 2003 reflected unpresented cheques amounting to Kshs.83,611,671.89 and receipts in Cash Book not recorded in Bank Statement of Kshs.107,627,902.84. The Statement also shows receipts in Bank Statement not recorded in Cash Book amounting to Kshs.142,964,671.90 and payments in Bank Statement not recorded in Cash Book of Kshs.7,419,063.35. No explanation has been given for the non-clearance of these transactions.

DEPOSIT CASH BOOK

1277. The Bank Reconciliation Statement for the Deposit Cash Book as at 30 June, 2003 reflected receipts in the Cash Book not yet recorded in the Bank Statement totalling Kshs.84,772,107.32 out of which a balance of Kshs.82,737,327.17 relates to 2001/2002 and earlier years. As in the case of the Recurrent Cash Book bank reconciliation it has not been explained why these transactions have remained uncleared for such a long period of time.

THE STATEMENT OF ASSETS AND LIABILITIES – VOTE R26

1278. The Statement of Assets and Liabilities for Vote R.26 as at 30 June, 2003 reflects a Paymaster General Account debit balance of Kshs.420,565,060.30 while the Cash Book shows a debit balance of Kshs.94,959,368.75. The difference of Kshs.325,605,691.55 between the two balances has not been reconciled or explained. In addition the balance of Kshs.420,565,060.30 includes a balance of Kshs.303,505,893.60 which has been brought forward from 2001/2002. No explanation has been provided for non-clearance of this long outstanding balance.

1279. The Statement also reflects an Exchequer Account debit balance of Kshs.22,348,320.00 which includes a balance of Kshs.22,313,520.00 relating to 2001/2002 and earlier years. No explanation has been given for failure to clear the long outstanding balance.

1280. The Statement further reflects a General Account of Vote debit balance of Kshs.95,358,845.85 representing Excess Votes for 1998/99 and earlier years. The Statement also shows a General Account of Vote credit balance of Kshs.330,232,381.90 which includes an amount of Kshs.304,421,374.50 relating to 2001/2002 and earlier years. These credit balances represent surpluses to be surrendered to the Exchequer. No explanation has been given for failure to clear these long outstanding debit and credit balances.

1281. The Statement also shows an Advance Account debit balance of Kshs.104,441,669.95 which has not been analyzed and which includes an amount of Kshs.83,290,703.05 relating to 2001/2002 and earlier years. No

explanation has been provided for failure to analyse or clear the long outstanding balance.

1282. The balance of Kshs.104,441,669.95 further includes unusual credit balances totalling Kshs.4,134,464.30 in some seven (7) Advance Accounts. Advance Accounts should normally reflect nil or debit balances but no explanation has been provided for these unusual credit balances in these advance accounts.

1283. The Statement shows Standing and Temporary Imprest Account debit balances of Kshs.318,984.65 and Kshs.7,959,602.95 respectively and District Imprest Account credit balance of Kshs.209,147.50 all of which are not analysed. No explanation has been given for failure to analyse or clear these balances.

1284. The Statement also shows Agency Account debit balance of Kshs.58,027,654.60 which is not analysed and which includes a balance of Kshs.47,173,269.60 relating to 2001/2002. No analysis was provided or reason given for non clearance of this balance.

1285. The Statement further shows a Retention Money Account credit balance of Kshs.176,317.40 out of which an amount of Kshs.104,573.75 relates to 1996/97 and earlier years. As in previous years no explanation has been provided for non clearance of the long outstanding balance.

1286. The Statement similarly shows a Clearance Account net credit balance of kshs.46,151,255.50 which has not been analysed. This amount in turn includes unexplained debit balances totalling Kshs.47,379,233.45 reflected in twenty seven (27) Clearance Accounts. No explanation has been given for the source of the above debit balances in Clearance Accounts which should normally reflect nil or credit balances.

1287. The Statement also shows an Excess Appropriation-In-Aid balance of Kshs.274,624,430.75 out of which Kshs.220,768,897.40 relates to 2001/2002 and earlier years. No explanation has been given for failure to remit the amount for 2001/2002 and earlier years to the Exchequer.

1288. The Statement further shows a Provincial and District Suspense Account credit balance of Kshs.57,626,605.25 which is not analysed and which includes Kshs.30,934,044.05 relating to 2001/2002 and earlier years. No explanation has been provided for failure to analyse or clear the balance.

1289. In the absence of explanations or analysis in respect of the balances mentioned above, it has not been possible to ascertain the accuracy of the Statement of Assets and Liabilities as at 30 June 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D 26

Audit of the Statement of Assets and Liabilities for Vote D 26 as at 30 June has revealed the following unsatisfactory matters:

1290. The Statement reflects Exchequer Account debit balance of Kshs.66,274,660.00 out of which a balance of Kshs.44,563,622.00 relating to 2001/2002 and earlier years has been outstanding for a long period. No explanation has been provided for non-clearance of the long outstanding balance.

1291. The Statement also reflects General Account of Vote debit balance of Kshs.31,324,227.00 relating to 1997/98 and earlier years. Similarly, the Statement shows under the same account a credit balance of Kshs.85,536,446.40 which includes an amount of Kshs.46,134,195.85 relating to 2001/2002 and earlier years. No explanation has been provided for non-clearance of these long outstanding balances.

1292. The Statement also shows a Paymaster General Account debit balance of Kshs.35,407,277.80 comprising of Kshs.12,747,048.15 for 2001/2002 and earlier years and Kshs.22,660,229.65 for the year under review. The debit balance of Kshs.35,407,277.80 differs with the cash book debit balance of Kshs.22,712,694.65 by Kshs.12,694,583.15. No reconciliation or explanation has been provided for this difference. In addition, no explanation has been provided for non clearance of the balance of Kshs.12,747,048.15 brought forward from the previous year.

1293. The Statement further reflects a District Imprest Account net debit balance of Kshs.10,600.00 which includes a net credit balance of Kshs.6,900.00 brought forward from the previous year in respect of closing balances for District Imprest Accounts and Temporary Imprest (Headquarters) Accounts. No explanation has been given for the non-clearance of these balances.

1294. The Statement also shows a District Suspense Account credit balance of Kshs.15,504,632.20 which is not analysed and which includes Kshs.11,012,999.95 relating to 1998/99 and earlier years. No explanation has been given for failure to analyse and clear this balance.

1295. The Statement further shows Retention Money Account credit balance of Kshs.1,261,380.20 which is not analyzed and which includes a balance of Kshs.1,124,723.10 relating to 2000/2001 and earlier years . No action has been taken to analyse and clear this balance.

1296. The Statement shows Excess Appropriations-In-Aid account credit balance of Kshs.30,714,306.00 relating to 1996/97 and 1997/98. No explanation has been given for non-clearance of this balance.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS, REVENUE AND SUNDRIES AS AT 30 JUNE 2003

The audit of the Statement of Assets and Liabilities for Deposits Revenue and Sundries as at 30 June 2003 – Judicial Department has revealed the following unsatisfactory matters:

1297. The Statement reflects a PMG Account debit balance of Kshs.261,567,279.00 while the Cash Book shows debit balance of Kshs.249,484,022.07. The difference of Kshs.12,083,256.93 between the two balances has not been reconciled or explained.

1298. The Statement also reflects Suspense Account net debit balance of Kshs.12,767,708.85 which is not analysed. The balance includes dishonoured and stale cheques amounting to Kshs.18,284,362.45 and Kshs.17,056,700.15 respectively. No explanation has been provided for the failure to analyse the debit balance of Kshs.12,767,708.85 or to clear these outstanding balances.

1299. The Statement further shows a Deposit Account net credit balance of Kshs.62,701,031.50 which is not analysed. The balance includes unusual debit balances totalling Kshs.12,717,811.20. Under normal circumstances Deposit Accounts should reflect nil or credit balances but no explanation has been given for these unusual debit balances.

1300. The Statement also reflects a Provincial and District Suspense Account net credit balance of Kshs.94,370,485.00 which is not analysed. No explanation has been provided for failure to analyse this balance. The balance includes an amount of Kshs.37,048,689.85 relating to 2001/2002 and earlier years for which no reasons have been given for its non-clearance.

1301. In the absence of analyses and explanation in respect of various balances in the statement, it has not been possible to ascertain the accuracy of the Statement of Assets and Liabilities for Deposits, Revenue and Sundries as at 30 June 2003.

PUBLIC SERVICE COMMISSION

STATEMENT OF ASSETS AND LIABILITIES VOTE R.27

1302. The Statement of Assets and Liabilities for Vote R.27 as at 30 June, 2003 reflects Agency Account balance of Kshs.601,629.40 out of which

Kshs.392,603.05 relates to 2001/2002 and earlier years. The balances have not been analysed and no explanation has been given for their non-clearance from the books of accounts.

1303. The Statement also reflects Exchequer Under Issues balance of Kshs.3,846,914.00 out of which Kshs.3,643,984.00 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear these balances.

1304. The Statement further reflects Advances Account balance of Kshs.540,230.55 out of which Kshs.442,318.85 relates to 2001/2002 and earlier year. No analyses have been provided for the balance and no explanation has been given for its non-clearance.

1305. In addition, the Statement reflects G.A.V. Account credit balance of Kshs.8,300,628.85 out of which Kshs.8,161,534.25 relates to 2001/2002 and earlier years. No explanation has been given for the non clearance of this balance which represents surpluses which ought to have been surrendered to the Exchequer in accordance with the Government Financial Regulations and Procedures.

1306. The Statement also reflects a clearance account balance of Kshs.467,289.70 which relates to 2001/2002 and earlier years. The balance has not been analysed and no explanation has been given for its non-clearance.

NATIONAL ASSEMBLY

STATEMENT OF ASSETS AND LIABILITIES VOTE R29

1307. The audit of the statement of Assets and Liabilities for Vote R29-National Assembly for the year ended 30 June 2003 has revealed the following unsatisfactory matters:-

1308. The Statement reflects Exchequer Account balance of Kshs.763,394,068.30 out of which Kshs.415,414,786.35 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear the long outstanding balances for 2001/2002 and earlier years.

1309. The Statement also reflects Imprest Account with an outstanding balance of Kshs.12,984,541.05 out of which Kshs.35,413.30 relates to 2001/2002 and earlier years. No indication has been given as to what action is being taken to clear these outstanding Imprest Account balances.

1310. The Statement shows GAV Account balance of Kshs.903,756,125.55 out of which Kshs.497,531,269.20 relates to 2001/2002 and earlier years. The balance represents Surpluses to be surrendered to the Exchequer but no explanation has been given for failure to surrender the amounts to the Exchequer.

1311. The Statement also shows an amount of Kshs.9,679,053.45 in respect of Suspense Account out of which Kshs.6,763,682.30 relates to 2001/2002 and earlier years. No action appears to have been taken to clear the long outstanding Suspense Accounts.

1312. The Statement reflects Kshs.6,918,660.50 in respect of Excess Appropriations in Aid payable separately to the Exchequer which relates to 2001/2002 and earlier years. No explanation has been given as to why the Excess Appropriations in Aid have not been paid to the Exchequer.

CONSTITUTION OF KENYA REVIEW COMMISSION

BANK RECONCILIATION STATEMENT FUND ACCOUNT

1313. The Bank Reconciliation Statement for the Constitution of Kenya Review Commission Fund Account as at 30 June 2003, reflects unpresented cheques totalling Kshs.15,521,448.20 out of which a sum of Kshs.2,159,271.00 represents stale cheques drawn between 12 July 2002 and 11 December 2002. No action appears to have been taken to investigate the causes of delay in presenting these cheques to the bank with a view to having them cleared from the Bank Reconciliation Statement.

1314. The Statement also reflects payment in Bank Statement not in Cash Book totalling Kshs.356,932,397.40 with some relating to the period between August 2001 and May 2002. Further, the Statement shows Receipts in Bank Statement not in Cash Book of Kshs.36,835,047.00 out of which a sum of Kshs.827,149.60 relates to 2001/2002. It is not clear why these Payments and Receipts have not been investigated with a view to bringing them into account in the commissions cash book and other books of account.

FUND ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2003

Cash and Bank Balances

1315. The audit of the constitution of Kenya Review Commission's Fund Account as at 30 June, 2003 has revealed a number of unsatisfactory matters. The Balance Sheet as at 30 June 2003 reflects Cash and Bank balance of Kshs.403,428,703.45 while the Cash Book as at the same date shows a balance of Kshs.398,610,276.90. The difference of Kshs.4,818,426.55 between the two records has not been explained.

Imprest Account

1316. The Balance Sheet also reflects outstanding imprests totalling Kshs.15,328,932.70 which should have been accounted for on or before 30 June 2003 but were still outstanding as at that date. The imprests were owed by various categories of officers as follows:

	<u>Kshs.</u>
Commissioners	3,876,608.00
Secretariat	3,524,236.00
District Coordinators	<u>7,928,088.00</u>
Total	<u>Kshs.15,328,932.00</u>

1317. Out of the total outstanding balance of Kshs.15,328,932.00, an amount of Kshs.3,077,368.00 is due from three former employees who are under investigations by the Criminal Investigation Department for theft by servant. It is understood that the three officers left service upon abolition of Commission's District offices in February 2003.

MINISTRY OF ENERGY

BANK RECONCILIATION STATEMENT FOR DEPOSITS CASH BOOK AS AT 30 JUNE 2003 – MINISTRY OF ENERGY

1318. In the report for the previous year reference was made to payment reflected in Bank Statement which was not reflected in Cash book amounting to Kshs.281,502.00 relating to 1999/2000 financial period. A review of the position as at 30 June, 2003 revealed that the payment was still outstanding as at that date. Although the Ministry has explained that the payment relates to a cheque No.275396 for US\$ 4,000 which was received from Kaplan and Straton Advocates but dishonoured by the Bank on 20 June 2000, no action appears to

have been taken to recover the amount in order to clear it from the Reconciliation Statement.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.30 – AS AT 30 JUNE 2003-MINISTRY OF ENERGY

1319. In the previous years' reports, concern has been raised on various unsatisfactory matters arising from the audit of the past Statements of Assets and Liabilities for vote R30. The same unsatisfactory matters were observed during the audit of the statement for 2002/2003.

1320. The Statement reflects cumulative Excess A.I.A of Kshs.64,123,436.60 which include balances relating to the years 1994/95, 1996/97, 1997/98, 1999/2000 and 2002/2003. The statement also reflects an Exchequer Account debit balance of Kshs.5,272,931.00 representing under issues during the years 1998/99, 2001/2002 and 2002/2003. These balances should be cleared after the finalization of the audit of the Accounts for the respective years and it is therefore not clear why the balances relating to 2001/2002 and earlier years have not been cleared.

1321. The Statement also reflects Excess A.I.A of Kshs.23,980,630.00 for 2001/2002 and earlier years, an amount which should have been surrendered to the Exchequer. However, according to the available information, the Ministry was asked by the Treasury in October, 2002 to surrender the amount to the Exchequer but this was not possible because in accordance with the prevailing Treasury Circular all the PMG account balances are netted at the close of every financial year with the new bank accounts starting with zero balances being opened in the new financial year. The Treasury circular also stipulates that closing cash balances of one year should not be transferred to subsequent year's cash book until such balances are agreed with Treasury after appropriate reconciliation is done. The Paymaster General Account is netted thereby closing the individual Ministry's accounts with the Central Bank of Kenya at the close of each financial year. Under the circumstances it is not clear how the Treasury expected the Ministry to clear the Excess A.I.A of Kshs.23,890,630.00 relating to 2001/2002 and earlier years.

1322. The trial balance reflects a balance of Kshs.118,093,113.65 against the Paymaster General Account as at 30 June, 2003 while the Statement of Assets and Liabilities as at 30 June 2003 reflects Kshs.116,614,201.90 resulting to a difference of Kshs.1,478,911.75 which has not been explained.

1323. The Statement of Assets and Liabilities further reflects cumulative cash and bank balances of Kshs.1,490,830.15 and Kshs.116,614,201.90 respectively. The Ministry has not however prepared analysis for the cumulative balances and the correctness of the two figures has not therefore been ascertained. However, according to the audited Statements of Assets and Liabilities for the years

1996/97 to 2001/2002 and the Statement under review the cumulative cash in hand and cash at bank amounted to Kshs.1,512,262.40 and Kshs.125,539,530.15 respectively as at 30 June 2003.

1324. There are therefore unexplained differences of Kshs.8,925,328.25 and Kshs.21,432.25 between the cumulative balances of Kshs.116,614,201.90 and Kshs.1,490,830.15 reflected in the Statement of Assets and Liabilities as at 30 June, 2003 and the cumulative total balances of Kshs.125,539,530.15 and Kshs.1,512,262.40 obtained from the audited Statements of Assets and Liabilities for the years 1996/97 to 2002/2003. The differences apart, the uncleared balances are indicative of the fact that appropriate reconciliations have not been done and agreed with Treasury contrary to the Treasury circular quoted earlier.

1325. The General Account of Vote in the Statement shows a cumulative balance of Kshs.38,434,713.60 for the year 2001/2002 and earlier years. Although the Ministry has explained that it is awaiting instructions from the Treasury on how to surrender these outstanding balances, it is not clear why appropriate instructions have not been issued.

1326. The statement also shows a Cash Book Adjustment Credit balance of Kshs.11,918.40 for which no analysis or explanation has been given.

1327. The closing balances in respect of four (4) items reflected in the audited Statement of Assets and Liabilities for Vote R.30 as at 30 June, 2002 were not brought forward as opening balances in the Statement of Assets and Liabilities for Vote R.30 for 2002/2003. No satisfactory explanation has been provided for the omission of these balances from the statement.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.30 AS AT 30 JUNE 2003

1328. In the previous years' reports, attention was drawn to long outstanding balances reflected in the Statement of Assets and Liabilities for Vote D.30 which remained uncleared without adequate explanation. A review of the Statement for Assets and Liabilities for Vote D.30 as at 30 June 2003 revealed a similarly unsatisfactory state of affairs.

1329. The Statement reflects Exchequer Account cumulative net debit balance of Kshs.4,867,625,575.00 which includes an amount of Kshs.4,221,881,329.00 relating to 2001/2002 and earlier years. The balance also includes Exchequer Account credit balance of Kshs.6,773,800.00 in respect of 1997/98 which has been netted off against the debit balances instead of being reflected separately in the statement. No explanation has been given for failure to clear these balances.

1330. The statement further reflects General Account on Vote cumulative net credit balance of Kshs.5,002,767.90 which includes balances for 2001/2002 and earlier years totalling Kshs.4,368,356,400.25. No effort appears to have been made by the Ministry to clear these long outstanding balances.

1331. The statement in addition reflects cash on hand balance of Kshs.1,545,655.55 relating to 2001/2002 and earlier years which has remained uncleared and no reason has been provided for its non clearance. The statement also reflects a Cash Book Adjustment Credit balance of Kshs.347,235.70 for which no explanation or analysis has been provided. It has therefore not been possible to ascertain what the balance represents.

1332. The trial balance reflects a Paymaster General Account balance of Kshs.75,539,514.80 while the Cash Book and the Statement reflect a balance of Kshs.74,355,304.85. The difference of Kshs.1,184,209.95 has not been explained and it has not therefore been possible to ascertain what the difference represents.

1333. The Statement further reflects a credit balance of Kshs.1,577,964.95 against Imprest Account which should normally reflect debit or nil balance. The anomaly has not been explained. The statement also reflects an Imprest Account debit balance of Kshs.4,257.75 as brought forward from the previous years but which has remained uncleared for unexplained reason.

1334. The Statement in addition reflects General Suspense Account debit balance of Kshs.63,136,810.90. Although it has been explained by the Ministry that the balance represents an amount held by National Bank of Kenya in respect of Energy Sector Reform Project, earlier confirmation during the audit of the Project Accounts indicated a balance of Kshs.64,030,245.30. The difference of Kshs.893,334.40 between the balances has not been explained.

1335. The closing balances in respect of General Suspense Account amounting to Kshs.93,345,469.60 (DR) and Suspense Account (Adjustment) of Kshs.152,255.70 (CR) reflected in the audited statement of Assets and Liabilities for Vote D.30 as at 30 June 2002 were not brought forward as opening balances in the Statement of Assets and Liabilities as at 30 June 2003. No satisfactory explanation has been given for the omission of these balances from the Statement which casts doubts on the accuracy of the Statement.

STATEMENT OF ASSETS AND LIABILITIES FOR FUNDS, SCHEMES AND DEPOSITS AS AT 30 JUNE 2003 – MINISTRY OF ENERGY

1336. The statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June 2003 shows Cash at Bank balance of Kshs.17,030,606.50 for the year 1996/97 comprising of receipts from the Kenya Pipeline Company Ltd. for

the Kipevu Oil Facility, National Youth Development Fund Contributions and Energy Development Fund. Available information indicates that the Ministry has been waiting for clearance instructions from the Treasury for over six (6) years now but no explanation has been given for the long delay in the issuance of such instructions.

1337. Similarly, the statement reflects an amount of Kshs.2,103,664.00 being residue balance of the Energy Development Fund and which should have been credited to the exchequer in accordance with Legal Notice No. 6 of 30 December, 1999 under which the fund was wound up. The statement further reflects an amount of Kshs.15,000,000.00 which was received from the Kenya Pipeline Company in 1996/97 and 1997/98 in respect of fees collected from the Kipevu Oil Storage. No explanation has been given for the non-clearance of these balances.

1338. In addition, the following closing balances reflected in the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June 2002 were not brought forward to 2002/2003 financial year and are therefore not reflected as opening balances in the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June 2003.

	<u>Kshs.</u>
• Cash at Bank	215,403,786.50
• Cash in Hand	12,371.00
• Fund, Schemes and Deposit	230,343,099.50

No explanation has been provided for the omission of these balances in the statement under review. The accuracy of the Statement of Assets and Liabilities for Funds, Schemes and Deposits as at 30 June 2003 is therefore in doubts under these circumstances.

MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.31

1339. The audit of the Statement of Assets and Liabilities for Vote R.31 as at 30 June, 2003 has revealed the following unsatisfactory matters:-

ASSETS

1340. The Statement reflects long outstanding General Account of Vote debit balances (Excess Vote) totalling Kshs40,166,826.55 in respect of the years

1992/93, 1996/97, 1997/98 and 1998/99. No explanation has been provided for the non-clearance of these balances although they have consistently featured in the previous years' reports. The Ministry has, however indicated that the matter has been referred to the Treasury.

1341. The Statement also reflects various long outstanding Exchequer Account debit balances totalling Kshs.4,404,473,783.85 and representing Exchequer Account under issues.

No explanation has been given for their non-clearance although the Ministry has indicated that the matter has been referred to the Treasury.

1342. The Statement further reflects a balance of Kshs.122,063,252.00 in respect of the Exchequer Account for 2002/2003 which however differs by an amount of Kshs.77,350,490.00 from the balance of Kshs.44,712,762.00 shown in the Exchequer Account records held by Treasury. No reconciliation has been provided to explain the difference, consequent upon which it has not been possible to confirm the accuracy of the balance of Kshs.122,063,252.00.

1343. The Advances Account shows a debit balance of Kshs.7,346,057.15 relating to the year 2001/2002 and earlier and which has not been cleared. This balance includes an amount of Kshs.526,748.35 indicated as representing Non-Existing Items. It has, however, not been clarified what these Non-Existing Items represent or how they arose.

1344. The Statement also shows a Standing Imprest Account balance of Kshs.89,764,483.90 while the ledger reflects an amount of Kshs.89,782,473.90 under the same Account. The difference of Kshs.17,990.00 between the two sets of records has not been reconciled or explained. Further, the analysis and Imprest Register show balances of Kshs.89,674,543.90 and Kshs.89,940.00 respectively both of which differ from the balance of Kshs.89,764,483.90 reflected in the Statement. No reconciliation or explanation has been provided for the discrepancies.

1345. The Statement similarly shows under Temporary Imprest Account a balance of Kshs.32,418,038.70 which differs by an amount of Kshs.232,162.00 from the balance of Kshs.32,185,876.70 reflected in the Ledger. Further, while the schedule of analysis attached to the Account show a balance of Kshs.13,740,089.70, the Imprest register reflects a balance of Kshs.10,745,374.90. No explanation has been given for these anomalies.

1346. The balance of Kshs.32,418,038.70 includes Imprests totalling Kshs.8,424,907.15 relating to the year 2001/2002 and earlier and which have not been cleared. No explanation has been provided for non-clearance of the latter balance.

1347. The Statement further shows under Suspense General Account a balance of Kshs.577,210,657.25 while the ledger reflects an amount of Kshs.573,273,537.25. The difference of Kshs.3,937,120.00 between the two sets of records has not been reconciled or explained. The balance of Kshs.577,210,657.25 has also not been properly analysed and again no explanation has been provided for the omission.

1348. The Statement in addition shows a balance of Kshs.124,206.45 under Miscellaneous Account against which no analysis has been provided. In the absence of an analysis, it has not been possible to establish what the balance represents.

1349. The Statement also reflects under Paymaster General Account a balance of Kshs.59,830,008.40 which however differs from the balance of Kshs.3,010,000.00 shown in the Cashbook as at 30 June 2003. No reconciliation or explanation has been given for the difference of Kshs.56,820,008.40 between the two balances.

LIABILITIES

1350. The Statement reflects various long outstanding General Account of Vote credit balances amounting to Kshs.4,377,360,422.35 representing surpluses to be surrendered to the Exchequer.

No explanation has been provided for the long delay in the clearance of these balances.

1351. The Statement also reflects various balances totalling Kshs.9,885,603.45 against Excess Appropriations-In-Aid which should have been surrendered to the Exchequer.

No explanation has been provided for failure to surrender the balances.

1352. The Statement further reflects under Agency Account a balance of Kshs.264,033,620.25 while the Ledger shows a balance of Kshs.15,379,224.50 resulting in a difference of Kshs.248,654,395.75 between the two sets of records. No reconciliation or explanation for the difference has been provided. In addition, the balance of kshs.264,033,620.25 has not been analysed and therefore its accuracy could not be ascertained.

1353. The Statement similarly reflects under District/Province Suspense Account a balance of Kshs.19,309,368.50 which however differs by an amount of Kshs.244,724,221.75 from the Ledger balance of Kshs.264,033,620.25. The balance of Kshs.19,309,368.50 has not been properly analysed with the result that it has not been possible to ascertain its accuracy. Further, the balance of Kshs.19,309,368.50 ought to have been cleared from the books as it relates to

2001/2002 and earlier years. As in the previous instances, no explanation has been given for non-clearance of this balance.

1354. The Statement further shows a Clearance Account credit balance of Kshs.8,181,333.40 which includes an amount of Kshs.1,954,389.90 indicated as relating to non-existing Items. It has however not been explained what exactly the Items represent. Further, the balance of Kshs.8,063,278.35 under the same Account and relating to 2001/2002 and earlier years has not been cleared and no explanation has been provided for its non-clearance.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D31

1355. The Statement of Assets and Liabilities for Vote D31 as at 30 June, 2003 has revealed the following unsatisfactory matters:-

1356. The Statement reflects various long outstanding Exchequer Account balances relating to the years 1994/95 to 2001/2002 and totalling Kshs.4,126,286,958 whose non-clearance has not been explained.

1357. Further and as stated in the previous years' Reports, the Exchequer Account balances for the year 1994/95, 1998/99 and 1999/2000 differ from the Exchequer Account balances in the records held at the Treasury. No explanation has been given for these differences.

1358. The Statement also reflects various long outstanding General Account of Vote balances totalling Kshs.3,936,965,189.50 and representing surpluses to be surrendered to the Exchequer. Non-clearance of these balances has not been explained.

1359. The Statement further reflects under Paymaster General Account a credit balance of Kshs.115,792,350.30 while the cashbook as at 30 June 2003 reflects a debit balance of Kshs.166,822.70 resulting in an unexplained and unreconciled difference of Kshs.115,959,173.00 between the two sets of records. Further, Treasury authority for the overdraft of Kshs.115,792,350.30 has also not been seen.

1360. The Statement shows under Extra Exchequer Receipts Account a credit balance of Kshs.72,140,582.20 brought forward from 1998/1999 financial year. As pointed out in the previous year's report, the amount represents cash reimbursements, made by a lender to the Ministry under the University Investment Project Credit Agreement which were however irregularly spent on various expenditure items instead of being paid to the Exchequer. As was also observed in the previous year's report, the Ministry is yet to explain how it intends to resolve the matter.

1361. The Statement also shows Temporary Imprests Account balance of Kshs.3,642,681.10 while the analysis provided for the Account shows a balance of Kshs.3,478,987.10 resulting in a difference of Kshs.163,694.00 between the two sets of records. The Imprest Register on the other hand reflects a balance of Kshs.3,514,614.00 against the same Account similarly resulting in a difference of Kshs.128,067.00 between the Statement and the Register. In both instances however, no reconciliations or explanations for the differences have been provided.

1362. The Statement in addition reflects a debit balance of Kshs.32,019.00 in respect of Standing Imprest Account which however differs by an amount of Kshs.6,995.00 from the balance of Kshs.25,014.00 shown in the analysis attached to the Account. In the absence of a reconciliation or an explanation for the difference, it has not been possible to confirm the correctness of the Standing Imprests Account balance of Kshs.32,019.00.

1363. The Statement further shows under Agency Account a debit balance of Kshs.42,915,083.40 brought forward from the previous year and which has not been analysed. Apart from lack of an analysis, no explanation has been given for failure to clear this long outstanding balance.

1364. The Statement also reflects a District Suspense Account credit balance of Kshs.33,343,402.10 while the analysis attached to the Account shows an amount of Kshs.29,149,230.00, hence resulting in an unreconciled and unexplained difference of Kshs.4,194,172.00.

1365. The Statement similarly reflects a credit balance of Kshs.33,114,404.80 under the General Suspense Account which differs by an amount of Kshs.18,848,044.80 from the balance of Kshs.14,266,360.00 shown in the analysis provided for the Account. As in the previous instance, no reconciliation or explanation has been provided for the difference of Kshs.18,848,044.80.

1366. The Statement shows under Miscellaneous Items Account a credit balance of Kshs.65,943.50 brought forward from previous years, and which has not been analysed. Apart from lack of an analysis which has not been explained, reasons for failure to clear this long outstanding balance have also not been provided.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS

1367. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects the following unsatisfactory matters.

1368. The Statement reflects various long outstanding balances under Agency, Agency-Suspense loss of Cash and Mombasa Non-existing Accounts whose non-clearance has not been explained.

1369. The Statement also reflects debit and credit balances of Kshs31,939,792.45 and Kshs155,691,118.40 respectively under the Deposit Account and which have not been analysed. Consequently, it has not been possible to confirm their accuracy or determine what they represent.

1370. The Statement further reflects two balances totalling Kshs4,849,604.65 which should have been transferred to the Ministry of Trade and Industry following the reorganization of Government Ministries and Departments in 1999.

1371. Available information indicate that the total of Kshs4,849,604.65 was formerly held by the defunct Ministry of Research, Technical Training and Technology. Although this matter had been mentioned in previous years' reports as a result of which the Ministry has indicated that the failure to transfer these balances had been occasioned by lack of liquidity, no explanation has been given as to how funds were utilized in the first place.

1372. The Statement shows a Temporary Imprest balance of Kshs.2,384,906.65 which however differs by an amount of Kshs.1,007,176.65 from the balance of Kshs.1,377,730.00 recorded in the Temporary Imprest Register. The analysis provided in respect of the Account does not however clearly identify the Imprest holders. In addition, no explanation has been given for the non-clearance of the Imprests making up the balance of Kshs.2,384,906.65 which has been outstanding since 2001/2002 and earlier years.

1373. The Statement also shows a Paymaster General Account balance of Kshs.125,170,860.40 while the Deposits Cashbook reflects an amount of Kshs.21,175,929.50 as at 30 June 2003. The difference of Kshs.103,994,930.90 between the two records has not been reconciled or explained.

1374. The Statement further shows deposits balances amounting to Kshs.33,974.05 relating to Educational Bursary Schemes, managed by the Ministry on behalf of various contributors.

1375. As indicated in the previous years' reports, these bursary schemes have remained inactive for many years but no action appears to have been taken to either reactivate or liquidate them.

1376. The Statement similarly shows other debit and credit balances of Kshs33,950,339.15 and Kshs880,988.70 respectively which are unanalyzed and which have remained inactive since 1999.

1377. Although these accounts have remained inactive for such a long time, no action appears to have been taken to revive, liquidate or clear them from the books. Further, in the absence of the necessary analyses, it has not been possible to ascertain their accuracy or establish what they represent.

1378. A balance of Kshs.2,752,123.85 in respect of Co-curricular Activity Account under the Headquarter Deposits differs by an amount of Kshs.1,650,088.00 from the amount of Kshs.1,102,035.85 reflected in the register maintained by the Ministry in respect of the Account.

1379. In view of the various unanalysed and unreconciled balances cited above, it has not been possible to confirm the correctness of the Statement of Assets and Liabilities for Deposits as at 30 June, 2003.

ELECTORAL COMMISSION OF KENYA

STATEMENT OF ASSETS AND LIABILITIES VOTE R. 33

1380. The Statement of Assets and Liabilities for Vote R 33, as at 30 June 2003 reflects Exchequer Under Issues of Kshs.1,138,674,053.00 out of which Kshs.493,266,053.00 relates to 2001/2002 and earlier years. The balance has not been analysed by years to which it relates and no reasons have been given for non clearance of the balance relating to 2001/2002 and earlier years. The Statement also shows a credit balance of Kshs.1,614,096,948.60 against General Account of Vote which has not been analysed by the years to which it relates. However, Kshs.782,161,572.60 of this balance relates to 2001/2002 and earlier years but no reasons have been given for not clearing this balance.

1381. The Statement further reflects Excess A.I.A credit balance of Kshs.21,840,562.30 out of which Kshs.13,553,019.00 relates to 2001/2002 and earlier years. No explanation has been given for failure to clear the balance relating to 2001/2002.

1382. The Imprest Account reflects a debit balance of Kshs.1,137,994.00 of which Kshs.562,930.60 relates to 2001/2002 and earlier years. The Agency Account reflects a debit balance of Kshs.36,000.00 which relates to 2001/2002 and which is in respect of recoverable erroneous payment to a Commissioner. No reasons have been given for failure to clear long outstanding imprest balances or to recover the amount of Kshs.36,000.00 from the Commissioner.

1383. The General Suspense Account reflects a debit balance of Kshs.2,645,840.75 out of which Kshs.1,979,947.20 relates to 2001/2002 and earlier years. The balance of Kshs.2,645,840.75 includes R. D. cheques of Kshs.250,776.60, retention money of Kshs.384,249.90 and Kshs.2,010,814.25 in

respect of items awaiting clearance. No explanation has been given for failure to analyse and clear these balances.

1384. In addition the Statement of Assets and Liabilities reflects Provincial/District Suspense account with net debit balance of Kshs.129,710,587.70 out of which Kshs.73,892,190.70 relates to 2001/2002 and earlier years. Schedules provided in support of this Suspense Account show a debit balance of Kshs.288,265,692.50 against item code 0-592-400-400-0 as at 30 June 2002 which has not been analysed.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS 33

1385. In the Report for 2001/2002 it was stated that the Statement of Assets and Liabilities for Deposits as at 30 June 2002 reflected a Suspense Account with a credit balance of Kshs.9,163,490.55 out of which Kshs.2,874,483.55 was in respect of stale cheques for 2000/2001 and earlier years.

1386. A review of the position in 2002/2003 has revealed that the Statement of Assets and Liabilities for Deposits as at 30 June, 2003 reflects a Suspense Account with a credit balance of Kshs.9,068,330.55 relating to 2001/2002 and earlier years out of which Kshs.2,925,843.90 is in respect of stale cheques. No action appears to have been taken to clear the stale cheques and other outstanding credit balances.

MINISTRY OF LANDS AND HOUSING

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.36

1387. Audit of Statement of Assets and Liabilities for Vote R.36 as at 30 June,2003 revealed that the statement reflects a debit balance of Kshs.965,859.00 in respect of Exchequer Under Issues for 1999/2000 and 2000/2001 financial years. No reason has been given for failure to clear this balance.

1388. The Statement also shows a General Account of Vote debit balance of Kshs.45,746,937.90 in respect of Excess Votes incurred in 1998/1999 and 1999/2000 financial years. This balance has therefore been outstanding for several years and no action appears to have been taken to clear it from the books of account.

1389. The statement shows Advances Account debit balance of Kshs.8,164,310.60 which includes a balance of Kshs.6,952,409.80 for 2001/2002

and earlier years. No explanation has been given for non clearance of the balance for the previous year.

1390. The Statement also shows a Paymaster General Account balance of Kshs.45,411,084.90 while the Cash Book reflects a balance of Kshs.43,754,069.15 as at 30 June 2003. The resultant difference of Kshs.1,657,015.75 between the two records has not been explained. In addition, Paymaster General Account closing balance of Kshs.28,492,599.15 as at 30 June 2002 has not been brought forward to 2002/2003 as an opening balance and no reason has been given for this omission.

1391. The Statement further shows a balance of Kshs.2,285,830.50 against Suspense General Account while the Ledger reflects a balance of Kshs.660,183.45. No explanation has been given for the difference of Kshs.1,625,647.05 between the two records.

1392. The Statement also reflects General Account of Vote credit balance of Kshs.99,409,672.60 for 2000/2001, 2001/2002 and 2002/2003 financial years. However, this balance does not include the whole of General Account of Vote credit balance of Kshs.34,780,471 for 2001/2002 financial year which should have been brought forward to 2002/2003 as an opening balance. Instead only a balance of Kshs.6,287,571.85 is brought forward as the GAV balance for 2001/2002. It is not clear how the difference of Kshs.28,492,899.15 has been accounted for or why it was not brought forward into the 2002/2003 statement.

1393. The statement also shows a District Suspense Account balance of Kshs.103,384,511.35 which includes a balance of Kshs.46,194,614.55 for 2001/2002 and earlier financial years. It has not been explained why the balance for the previous years has not been cleared.

1394. In the absence of reconciliations and explanations for the balances indicated above, it has not been possible to ascertain the accuracy of the Statement of Assets and Liabilities for Vote R.36 as at 30 June 2003.

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE D.36

1395. In the Report for 2001/2002 it was indicated that the Statement of Assets and Liabilities for Vote D.36 as at 30 June 2002 reflected various debit and credit balances which were brought forward incorrectly or were not brought forward from the previous years' Statement. This unsatisfactory situation affected mainly Paymaster General Account and District Merging Account balances.

1396. A similar situation has been noted in the 2002/2003 financial year in that the Statement as at 30 June 2003 reflects debit and credit balances which were brought forward incorrectly while other balances were not brought forward. The position noted is detailed in the ensuing paragraphs.

1397. The PMG Account closing balance for 2000/2001 was Kshs.1,899,939.10 made up of the balance of Kshs.702,874.00 and Kshs.1,197,065.10 for 1999/2000 and earlier years and 2000/2001 respectively. However, in the Statement for 2001/2002 the balance for 1999/2000 was brought forward as Kshs.1,088,299.60 instead of Kshs.702,874.00. The difference of Kshs.385,425.60 was not explained and the same error therefore affects the Statement for 2002/2003. In addition the PMG Account balance (Old Account) of Kshs.33,319,554.75 for 2000/2001 financial year was omitted from the Statement for 2001/2002 and 2002/2003. No explanation has been given for the omission.

1398. The PMG closing balance in the Statement as at 30 June 2003 is shown as Kshs.2,574,657.90 comprising bank balance of Kshs.2,571,376.10 and cash in hand of Kshs.3,281.80. However, the ledger shows a balance of Kshs.7,583,285.60 and the difference of Kshs.5,008,627.70 between the two records has not been explained or reconciled.

1399. The Statement does not show credit balances for Suspense General Account of Kshs.23,378,575.75 and District Merging Account balance of Kshs.5,427,038.65 for 2000/2001 financial year. No explanation has been given as to how these balances were cleared or the reason for their omission.

1400. The Statement shows GAV credit balances totalling Kshs.8,842,540.00 for previous three financial years 1999/2000, 2000/2001 and 2001/2002. No explanation has been given as to why these balances have not been surrendered to the Treasury as required under the financial regulations.

1401. The Statement further reflects a credit balance of Kshs.15,267,921.90 for District Merging Account in respect of 2002/2003. However, the ledger shows a balance of Kshs.3,587,031.80 and the difference of Kshs.11,680,890.10 has not been explained or analysed.

STATEMENT OF ASSETS AND LIABILITIES FOR DEPOSITS 36

1402 The Statements of Assets and Liabilities for Deposits were not, in the past several years, certified as correct due to lack of analyses for various accounts, unreconciled and uncleared balances and erroneous balances brought forward. The audit of the Statement of Assets and Liabilities for Deposits as at 30 June 2003 has revealed similar anomalies. The Statement reflects a bank (P.M.G) balance of Kshs.129,352,694.10 while the Cash Book as at that date shows a balance of Kshs.153,469,637. The difference of Kshs.24,116,942.90 between the two sets of records has not been reconciled or explained.

1403. The statement also reflects a credit balance of Kshs.156,293.35 relating to items for 2001/2002 and earlier years awaiting clearance. No analysis has been

provided to confirm the validity of this balance and no reasons have been given for the failure to clear it.

1404. Further, no action has been taken to clear or analyse a debit balance of Kshs.345,786,559.65 against Roads and Drains Account and five (5) credit balances totalling Kshs.133,406,523.40 which were brought forward from 2001/2002 and earlier years.

1405. In the absence of action, reconciliation, explanations and analysis for the balances mentioned above, it has not been possible to confirm the correctness of the Statement of Assets and Liabilities for Deposits as at 30 June 2003.

NATIONAL SECURITY INTELLIGENCE SERVICE

STATEMENT OF ASSETS AND LIABILITIES FOR VOTE R.45

1406. The audit of the Statement of Assets and Liabilities for Vote R.45 – National Security intelligence service as at 30 June 2003 has revealed a number of unsatisfactory matters as detailed in the ensuing paragraphs.

1407. The Statement reflects advances amounting to Kshs.29,679,769.40 out of which Kshs.26,864,850.50 relate to 2001/2002 and earlier years. No explanation has been provided for non-recovery of these long outstanding advances.

1408. The Statement also reflects advances to the Ministry of Foreign Affairs amounting to Kshs.44,362,951.45 including Kshs.36,251,784.65 relating to 2001/2002 and earlier years. No action appears to have been taken to obtain expenditure returns from the Ministry of Foreign Affairs to facilitate clearance of these advances.

1409. The Statement further reflects temporary imprests amounting to Kshs.3,691,138.80 out of which Kshs.2,640,322.05 relate to 2001/2002 and earlier years. No explanation has been provided for non-recovery of these imprests and for failure to provide analysis of the imprests totalling Kshs.2,640,322.05 relating to 2001/2002 and earlier years.

1410. The Statement further reflects two debit balances totalling Kshs.2,432,112.05 and two credit balances totalling Kshs.2,560,476.25 under Suspense Accounts. These Suspense Accounts are not however reflected in the

Trial Balance as at 30 June 2003 and their origin is therefore not known. The figures have also not been analysed and their make up is unknown.

1411. The Trial Balance reflects District Suspense Accounts credit balances of Kshs.1,755,421.45 and Kshs.473,144.25. The credit balance of Kshs.473,144.25 was subsequently manually adjusted to a debit balance of Kshs.580,702.90. These amounts differ from the debit balance of Kshs.333,861.00 and credit balance of Kshs.1,002,156.90 reflected in the Statement of Assets and Liabilities under the same accounts and no explanation has been provided for the variance.

1412. The Statement also reflects an Exchequer Under Issue of Kshs.63,000,000.00, GAV of Kshs.121,459,206.80 and an Excess AIA of Kshs.5,357,304.20 all relating to 2001/2002 and earlier years. No explanation has been provided for non-clearance of these amounts from the Department's books of accounts.

STATEMENT OF ASSETS AND LIABILITIES – DEPOSITS

1413. In the report for 2001/2002 reference was made to an amount of Kshs.165,513.40 in respect of retention money held in the Recurrent Cash Book Bank Account for Vote R.45 contrary to Government Financial Regulations and Procedures which requires that separate cash book bank account be maintained in respect of Recurrent vote, Development vote, Funds and Deposits. A review of the position in the year 2002/2003 revealed that an amount of Kshs.1,075,000.00 in respect of tender deposits was held in cash as at 30 June 2003 because the Service still did not operate a separate bank account for deposits. No explanation has been given for failure to operate a separate bank account for deposits.

MINISTRY OF TOURISM AND INFORMATION

STATEMENT OF ASSETS AND LIABILITIES – VOTE R.46

1414. The Statement of Assets and Liabilities for Vote R.46 as at 30 June, 2003 reflects the following unsatisfactory matters:-

1415. The Statement reflects under Paymaster General Account a debit balance of Kshs.51,457,081.51 while the Cashbook as at 30 June 2003 shows a balance of Kshs.17,460,761.90. The difference of Kshs.33,996,319.61 between the two sets of records has not been reconciled or explained. Further, the Trial Balance shows a balance of Kshs.61,065,528.36 under the same Account, similarly resulting in an unreconciled and unexplained difference of Kshs.9,608,446.85

between the balance reflected in the Statement and that shown in the Trial Balance.

1416. The Statement also reflects an Exchequer Account debit balance of Kshs.5,022,340.00 while the Trial Balance shows an amount of Kshs.5,019,340.00. Again, the difference of Kshs.3000.00 between the two sets of records has not been reconciled or explained.

1417. The Statement further reflects under Advances Account a debit balance of Kshs.4,180,010.00 made up of various amounts including debit balances of Kshs.2,846,516.85 and Kshs.1,880,384.60 shown under Salary Advances and Miscellaneous Advances respectively and which have not been analysed. This apart, no explanation has also been provided as to what is represented by the balance of Kshs.820,370.05 shown against Non-Existent Account, similarly under Advances Account or why the balance has not been cleared from the books of Account.

1418. The Statement in addition reflects a debit balance of Kshs.13,691,126.40 under Temporary Imprest Account which does not agree with the amount of Kshs.13,769,052.55 shown in the Trial Balance. The difference of Kshs.77,926.15 between the two sets of records has not been reconciled or explained. Out of the above amount of Kshs.13,691,126.40, Imprests totalling Kshs.6,209,201.00 have been analysed leaving a balance of Kshs.7,481,925.40 still unanalysed. No explanations have been provided for the above discrepancies or failure to provide full analyses for the balance.

1419. The Statement further reflects a credit balance of Kshs.326,178.00 under Standing Imprests Account which has not been analysed. Apart from lack of an analysis in respect of the balance, it has not been explained why the Account reflects a credit balance while under normal circumstances it should reflect nil or debit balance.

1420. The Statement shows balances of Kshs.334,417.00 Dr and Kshs.20,752,874.90 Cr under Agency and Suspense Accounts respectively for which no analyses have been provided. Again, no explanation has been given for failure to provide the analyses. Further the Suspense Account balance of Kshs.20,752,874.90 Cr also includes an amount of Kshs.11,570,654.25 relating to 2001/2002 and earlier years the non-clearance of which has not been explained.

1421. The Statement similarly shows a debit balance of Kshs.3,962,267.75 under Clearance Account which has not been properly analysed. This apart, it has not also been explained why the Account reflects a debit balance while under normal circumstances it should reflect nil or a credit balance.

1422. The Statement in addition shows a credit balance of Kshs.14,770,812.80 under District Suspense Account which includes an amount of Kshs.2,215,663.45 relating to 2001/2002 and earlier years. No explanation has however been provided for non-clearance of the latter balance.

1423. In the absence of analyses and explanations in respect of the various balance mentioned above, it has not been possible to ascertain the accuracy of the Statement of Assets and Liabilities for Vote R46 as at 30 June 2003.

STATEMENT OF ASSETS AND LIABILITIES - VOTE D 46

1424. The Statement of Assets and Liabilities for Vote D.46 as at 30 June 2003, reflects the following unsatisfactory matters.

1425. The Statement reflects a Paymaster General Account balance of Kshs.624,970.85 while the Development Cashbook as at 30 June 2003 shows a balance of Kshs.237,969.05. The difference of Kshs.387,001.80 between the two sets of records has not been explained.

1426. The Statement also reflects under Temporary Imprest Account a net debit balance of Kshs.186,655.00. Under normal circumstances, an Imprest Account should reflect nil or debit balance but the net debit balance of Kshs.186,655.00 includes unusual credit balances totalling Kshs.1,167,765.00 under the Account which have not been explained.

STATEMENT OF ASSETS AND LIABILITIES – DEPOSITS 46

1427. The Statement of Assets and Liabilities for Deposits as at 30 June 2003 reflects the following unsatisfactory matters:-

1428. The Statement reflects a debit balance of Kshs.14,157,629.95 under the Paymaster General Account while the Cashbook as at 30 June 2003 shows an amount of Kshs.15,682,564.50 resulting in an unreconciled and unexplained difference of Kshs.1,524,934.55 between the two sets of records.

1429. The Statement also reflects various credit and debit balances under Aids Control Unit, Media Production Centre, Hotel and Restaurant Fees and Student Deposits Accounts, which have not been analysed.

In the absence of the analyses in respect of the above balances, it has not been possible to ascertain their correctness or what they represent.

1430. The Statement further reflects various long outstanding credit and debit balances under RD cheque (KIMC), Temporary Imprest, Project Account (KIMC), Media Production Centre and Aids Control Unit Accounts. No explanation has been provided for the non-clearance of these balances.

1431. Receipts and Payments totalling Kshs.1,133,750.00 and Kshs.6,673,908.00 respectively relating to Facilitation Deposits Account have been excluded in the Statement and no explanation for the anomaly has been provided. In addition, payment vouchers for expenditure totalling Kshs.1,601,698.75 under the same Account incurred in respect of various individuals and institutions were not made available for audit review. Consequently it has not been possible to confirm the propriety of the expenditure.

1432. The Statement shows under KICC Deposits a balance of Kshs.4,011,318.05 which is as a result of the difference between total receipts of Kshs.17,551,655.55 and total expenses of Kshs.13,540,337.50. However, out of the total receipts of Kshs.17,551,655.55, an amount of Kshs.6,172,220.00 was verified against the relevant receipt vouchers leaving a balance of Kshs.11,379,435.55 unverified. In the absence of all the receipt vouchers therefore, it has not been possible to ascertain the correctness of the Deposits balance of Kshs.4,011,318.05.

E. N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi

25 November 2004

CERTIFICATE OF THE CONTROLLER AND AUDITOR GENERAL

I have examined the following Accounts and Statements in accordance with the provision of section 105(2) (c) of the Constitution of Kenya. I have obtained all the information and explanations that I have required and as a result of audit test checks carried out, I certify that in my opinion the Accounts and Statements are in agreement with the books of accounts. This Certificate should, however, be read together with the comments made in my Report of even date in respect of the Financial Year 2002/2003.

E. N. MWAI
CONTROLLER AND AUDITOR GENERAL

Nairobi.

25 November 2004

Exchequer Account

CONSOLIDATED FUND SERVICES:

Statement of Public Debt.

Pensions and Gratuities - Statement of Expenditure.

Subscriptions to International Organizations - Statement of Expenditure.

Statement of Subscriptions by Kenya Government to International Organizations.

SUMMARIES:

Summary of Appropriation Accounts (Recurrent).

Summary of Appropriation Accounts (Development).

Summary of Statements of Revenue (Recurrent).

Summary of Statements of Revenue (Development).

Summary of Statements of Outstanding Loans.

Summary of Payments Made out of Issues from Exchequer

Summary of Statements of Investments by Kenya Government in Local Companies.

Summary of Statements of Participation by Kenya Government in Quasi-Government and Local Companies.

APPROPRIATION ACCOUNTS - RECURRENT:

Votes R.1, R.2, R.3, R.4, R.5, R.6, R.7, R.8, R.10, R.12, R.13, R.15, R.16, R.20, R.21, R.22, R.26, R.27, R.30, R.36, R.45, R.46.

APPROPRIATION ACCOUNTS - DEVELOPMENT:

Votes D.1, D.2, D.3, D.4, D.5, D.6, D.7, D.9, D.10, D.12, D.13, D.14, D.16, D.17, D.18, D.20, D.21, D.22, D.25, D.30, D.31, D.46.

STATEMENTS OF REVENUE - RECURRENT:

100-070, 110-070, 120-070, 140-070, 150-360, 160-210, 170-010, 180-070, 190-070, 200-130, 210-010, 210-070, 220-260, 260-070.

STATEMENTS OF REVENUE - DEVELOPMENT:

230-070, 570-070, 600-070.
Development Revenue - Head DR.1.

STATEMENTS OF OUTSTANDING LOANS:

Ministry of Finance.

STATEMENT OF OBLIGATIONS GUARANTEED BY GOVERNMENT OF KENYA:

Ministry of Energy.

FUNDS ACCOUNTS:

Government Press Fund.
Kenya Missions Float Fund.
Civil Contingencies Fund.
Treasury's Main Clearance Fund.
Provident Fund.
National Assembly Car Loan Fund.
Parliamentary Mortgage Scheme Fund.
Constitution of Kenya Review Commission Fund.
Electoral Commission Car Loan Scheme Fund.
Township Roads and Drains Fund.

The following Accounts have been excluded from the Certificate:-

Paymaster General's Account.

CONSOLIDATED FUND SERVICES:

Salaries, Allowances and Miscellaneous Services - Expenditure.
Public debt - Statement of Expenditure.

SUMMARIES:

Summary of Statements of Obligations Guaranteed by the Government of Kenya.

APPROPRIATION ACCOUNTS - RECURRENT:

Vote R.9, R.11, R.14, R.17, R.18, R.25, R.31, R.33.

APPROPRIATION ACCOUNTS - DEVELOPMENT:

Votes D.11, D.15, D.26, D.36.

STATEMENTS OF REVENUE - RECURRENT:

180-140, 250-070, 300-070.

STATEMENTS OF REVENUE - DEVELOPMENT:

630-070.

STATEMENTS OF OUTSTANDING LOANS:

Ministry of Energy.

STATEMENT OF OBLIGATIONS GUARANTEED BY GOVERNMENT OF KENYA:

The Treasury.
Ministry of Agriculture and Rural Development.
Ministry of Transport and Communications.

FUNDS ACCOUNTS:

Provincial Administration District Cash Fund.
Strategic Grain Reserve Trust Fund (for the years 2001/2002 & 2002/2003).
Prisons Industries Fund.
Prisons Farm Fund.

Mechanical Transport and Plant Maintenance Fund.
Mechanical Transport and Plant Renewals Fund.
Rural Development Fund (for the years 1999/2000, 2000/2001 & 2002/2003).
District Development Fund (for the years 1999/2000, 2000/2001 & 2002/2003).
Exchange Risk Assumption Fund.
Government Clearing Agency Fund.
Petroleum Development Fund.
District Cash Fund.
Kenya Local Loans Support Fund.
Rural Enterprises Fund.
Asiatic Widows and Orphans Pensions Fund.
Asiatic Officers Family Pensions Fund.
European Widow's and Orphans Pension Scheme Fund.
F.T.C. Demonstration Farms Fund.
Hides and Skin Cess Fund.
Agricultural Information Centre Revolving Fund.
Veterinary Services Development Fund.
Management of Supervision and Liquidation Fund.
Health Care Services Fund.
Medical Supplies Fund.
Stores and Services Fund.
Rural Electrification Programme Fund.