



Republic of Kenya

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 2007/2008

KENYA NATIONAL AUDIT OFFICE (KENAO)

VISION

To be a lead agency in promoting good governance and effective accountability in the management of public resources

MISSION

KENAO is a statutory agency which seeks to build professional excellence in the provision of audit services through objective, reliable and timely audit reports as a contribution to enhanced accountability and transparency in the use of public resources

CORE VALUES

- ❖ Integrity
- ❖ Professional Excellence
- ❖ Cooperation
- ❖ Creativity
- ❖ Confidentiality
- ❖ Objectivity and Independence

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Preface

The Office of the Controller and Auditor General was established under Section 105(1) of the Constitution of Kenya as an Office in the public service.

Section 105(2) spells out the duties of the Controller and Auditor General as:-

- (a) to satisfy himself that any proposed withdrawal from the Consolidated Fund is authorized by law, and, if so satisfied, to approve the withdrawal;*
- (b) to satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it; and*
- (c) at least once in every year to audit and report on the public accounts of the Government of Kenya, the accounts of all officers and authorities of that Government, the accounts of all courts in Kenya (other than courts no part of the expenses of which are defrayed directly out of moneys provided by Parliament), the accounts of every Commission established by this Constitution and the accounts of the Clerk of the National Assembly.*

These duties are amplified in the Public Audit Act, 2003 which also renamed the Office, ***Kenya National Audit Office***.

In making this Report therefore, I am fulfilling my duties as set out under Section 105(2)(b) and (c) of the Constitution of Kenya and Sections 8 and 9 of the Public Audit Act, 2003.

This Report covers the year 2007/2008 and it relates to the results of the audit of the Central Government including; Ministries, Departments, Commissions and the National Assembly. The Report provides an overview of observations made in the main Report.

A.S.M. Gatumbu
CONTROLLER AND AUDITOR GENERAL

INTRODUCTORY AND GENERAL

This Report covers the financial year 2007/2008 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.

GOVERNMENT FINANCIAL POSITION AS AT 30 JUNE 2008

1. The Government financial position as at 30 June 2008 recorded an overall net surplus of Kshs.56,205,599,678.06 compared to a net surplus of Kshs.41,251,166,427.90 in the previous year.

2. The total issues from the Consolidated Fund for both Recurrent and Development Services during the year 2007/2008 amounted to Kshs.619,544,842,701.00, against total receipts of Kshs.619,772,629,216.10, resulting in a surplus of Kshs.227,786,515.10. However, after taking into account the surplus of Kshs.836,421,471.75 brought forward from 2006/2007, a Tax Reserve Certificate of Kshs.17,774,920.00, a Tax Reserve Certificate balance of Kshs.51,702,360.00 in Bank, a deficit of Kshs.897,797,000.00 relating to the Cereals and Sugar Finance Corporation

and the Paymaster General Accounts balance of Kshs.55,969,711,411.21, the result is a net overall Government cash position of Kshs.56,205,599,678.06, representing an increase of Kshs.14,954,433,250.16 or approximately 36% over the previous year's cash position of Kshs.41,251,166,427.90.

3. As indicated above, the overall Government cash position of Kshs.56,205,599,678.06 has been arrived at after taking into consideration the short-term borrowing in form of Tax Reserve Certificates of Kshs.69,477,280.00 and a deficit of Kshs.897,797,000.00 relating to a loan owing from the yet to be wound up Cereals and Sugar Finance Corporation. However, and as previously observed, records in support of these two particular balances have not been made available for audit review, with the result that it has not been possible to ascertain their validity and accuracy. The balances have also been outstanding in the Treasury's books of account for considerably long period of time.

OUT-TURN OF EXPENDITURE FOR 2007/2008

4. The year 2007/2008 ended with a net under-expenditure of Kshs.20,311,965,325.49, compared to a net under-expenditure of Kshs.49,523,218,371.00 recorded in 2006/2007. The net under-expenditure of Kshs.20,311,965,325.49 was arrived at as follows:-

RECURRENT

	GROSS	AIA	NET	UNDER (OVER)
	Kshs.	Kshs.	Kshs.	Kshs.
Estimated	357,438,169,386.00	42,961,518,616.00	314,476,650,770.00	
Actual	<u>339,697,263,933.92</u>	<u>35,066,130,467.70</u>	<u>304,631,133,466.22</u>	
Under (Over)	<u>17,740,905,452.08</u>	<u>7,895,388,148.30</u>	<u>9,845,517,303.78</u>	<u>9,845,517,303.78</u>

DEVELOPMENT

Estimated	199,941,216,655.00	44,476,296,135.00	155,464,920,520.00	
Actual	<u>159,941,036,337.05</u>	<u>26,074,645,519.56</u>	<u>133,866,390,817.49</u>	
Under(Over)	<u>40,000,180,317.95</u>	<u>18,401,650,615.44</u>	<u>21,598,529,702.51</u>	<u>21,598,529,702.51</u>

CONSOLIDATED FUND SERVICES

Estimated	154,606,027,741.00	154,606,027,741.00	
Actual	<u>165,738,109,421.80</u>	<u>165,738,109,421.80</u>	
Under(Over)	<u>(11,132,081,680.80)</u>	<u>(11,132,081,680.80)</u>	<u>(11,132,081,680.80)</u>
Net overall position			<u>20,311,965,325.49</u>

5. The under-expenditure of Kshs.20,311,965,325.49 was mainly caused by slow implementation of projects, inadequate exchequer releases and failure to submit expenditure returns by various Development Partners. Detailed reasons for the under-expenditure are provided in the respective Appropriation Accounts.

EXPENDITURE CONTROL

6. The Excess Vote incurred during the year under review without approval of Parliament amounted to Kshs.2,484,258,548.70, compared to Kshs.118,072,874.31 recorded in 2006/2007, under Ministry of Water and Irrigation.

7. The Excess Vote of Kshs.2,484,258,548.70 was incurred under eight (8) Ministries and a Department as shown below:-

Vote	Ministry/Department	Recurrent Kshs.	Development Kshs.	Total Kshs.
11	Medical Services	66,323,145.48	-	66,323,145.48
20	Water and Irrigation	103,103,479.43	-	103,103,479.43
23	Cabinet Office	-	166,531,911.62	166,531,911.62
30	Energy	2,796,240.25	-	2,796,240.25
35	State for Special Programmes	2,090,234,983.15	-	2,090,234,983.15
41	State for National Heritage & Culture	-	8,840,833.15	8,840,833.15
49	Public Health & Sanitation	44,194,656.40	-	44,194,656.40
60	Industrialization	<u>2,233,299.22</u>	<u>-</u>	<u>2,233,299.22</u>
	Total	<u>2,308,885,803.93</u>	<u>175,372,744.77</u>	<u>2,484,258,548.70</u>

8. The Excess Vote of Kshs.2,484,258,548.70 does not however include pending bills totalling Kshs.9,928,597,272.82 which, though relating to 2007/2008, were not settled during the period but were instead carried forward to 2008/2009 as indicated in paragraph 9 below.

PENDING BILLS

9. During the year 2007/2008, a number of Ministries and Departments did not settle bills totalling Kshs.9,928,597,272.82, made up of Kshs.7,810,992,514.41 and Kshs.2,117,604,758.41 for Recurrent and Development Votes respectively, but instead carried forward such bills to 2008/2009 as indicated below:-

Vote	Ministry/Department	Recurrent Kshs	Development Kshs	Total Kshs
01	State for Provincial Administration and Internal Security	-	243,081,107.00	243,081,107.00
04	Foreign Affairs	2,222,335.05	-	2,222,335.05
05	Office of the Vice President & Home Affairs	755,827,646.21	2,377,200.00	758,204,846.21
06	State for Planning, National Dev. & Vision 2030	17,478,679.06	-	17,478,679.06
07	Finance	8,968,552.55	-	8,968,552.55
08	State for Defence	1,767,640,094.60	-	1,767,640,094.60
09	Regional Development	392,521,794.30	-	392,521,794.30
10	Agriculture	7,259,892.55	9,377,969.75	16,637,862.30
11	Medical Services	1,631,531,229.95	462,656,784.05	2,094,188,014.00
12	Office of the DPM and Ministry of Local Government	1,969,150,891.25	108,964,413.50	2,078,115,304.75
13	Roads	84,309,249.72	406,690,168.70	490,999,418.42
14	Transport	13,157,750.00	-	13,157,750.00
15	Labour	39,078,666.30	40,164,011.80	79,242,678.10
16	Office of the DPM and Ministry of Trade	7,832,045.10	-	7,832,045.10
17	Justice, National Cohesion & Constitutional Affairs	14,626,665.70	3,492,813.00	18,119,478.70
18	Gender, Children & Social Development	15,143,244.38	9,697,826.40	24,841,070.78
20	Water and Irrigation	55,793,972.70	40,607,399.45	96,401,372.15

23	Cabinet Office	21,335,864.00	-	21,335,864.00
30	Energy	1,371,000.00	5,828,855.95	7,199,855.95
35	State for Special Programmes	543,378,808.35	-	543,378,808.35
40	State for Immigration & Registration of Persons	345,192,187.75	188,547,473.50	533,739,661.25
41	State for National Heritage & Culture	14,905,756.02	3,019,666.65	17,925,422.67
42	Youth Affairs and Sports	13,663,617.00	-	13,663,617.00
46	Tourism	-	2,500,000.00	2,500,000.00
48	Office of the Prime Minister	1,734,215.05	7,690,904.43	9,425,119.48
49	Public Health and Sanitation	19,292,540.00	4,304,575.05	23,597,115.05
56	Fisheries Development	46,118,067.00	20,000,000.00	66,118,067.00
59	Public Works	19,582,606.12	558,603,589.18	578,186,195.30
60	Industrialization	<u>1,875,143.70</u>	-	<u>1,875,143.70</u>
	Total	<u>7,810,992,514.41</u>	<u>2,117,604,758.41</u>	<u>9,928,597,272.82</u>

10. Had the bills been settled and charged to the accounts for 2007/2008, six (6) additional Ministries would have recorded Excess Votes against Recurrent and/or Development Votes as follows:-

Recurrent Vote

Vote	Ministry	Net Surplus Kshs	Pending Bills Kshs	Excess Vote Kshs
05	Office of the Vice President and Ministry of Home Affairs	383,077.58	755,827,646.21	(755,444,568.63)
09	Regional Development	12,626,469.85	392,521,794.30	(379,895,324.45)
12	Office of the DPM and Ministry of Local Government	42,103,974.75	1,969,150,891.25	(1,927,046,916.50)
15	Labour	36,321,440.58	39,078,666.30	(2,757,225.72)
56	Fisheries Development	<u>31,704,881.65</u>	<u>46,118,067.00</u>	<u>(14,413,185.35)</u>

Sub Total	<u>(123,139,844.41)</u>	<u>3,202,697,065.06</u>	<u>(3,079,557,220.65)</u>
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Development Vote

Vote	Ministry	Net Surplus Kshs	Pending Bills Kshs	Excess Vote Kshs.
59	Public Works	<u>136,673,593.55</u>	<u>558,603,589.18</u>	<u>(421,929,995.63)</u>
	Sub Total	<u>136,673,593.65</u>	<u>558,603,589.18</u>	<u>(421,929,995.63)</u>
	Total	<u>(259,813,437.96)</u>	<u>3,761,300,654.24</u>	<u>(3,501,487,216.28)</u>

OUT-TURN OF REVENUE

11. During the year ended 30 June 2008, revenue recorded as received amounted to Kshs.338,237,361,750.05, comprising Kshs.308,977,111,365.60 under the Recurrent Revenue and Kshs.29,260,250,384.45 under Development Revenue, against estimated total receipts of Kshs.291,756,277,702.00. There was therefore an over-collection of Kshs.46,481,084,048.05, representing approximately 15% of the estimated receipts. The reasons for the over-collection are given in footnotes to the respective Statements of Revenue.

COLLECTION OF APPROPRIATIONS-IN-AID

12. The total Appropriations-in-Aid collected during the year under review amounted to Kshs.61,140,775,987.26, against estimated receipts of Kshs.87,437,814,751.00. There was therefore an under-collection of Kshs.26,297,038,763.74 or approximately 30% of the estimated collections. The deficiency was mainly caused by under-

collection in the Development Votes, where collections of Kshs.26,074,645,519.56 were realized against estimated receipts of Kshs.44,476,296,135.00. The reasons for the under-collection are similarly given under the respective Appropriation Accounts.

APPROPRIATION ACCOUNTS

13. During 2007/2008, a number of Ministries and Departments submitted for audit Recurrent and Development Appropriation Accounts which were inaccurate. Many such Appropriation Accounts reflected balances which did not agree with those shown in the respective ledgers, against which such Accounts had been prepared. In other instances, expenditure incurred under various items in the Accounts were not supported with the relevant documents, with the result that the propriety of such expenditure could not be confirmed.

14. Observations were also made in respect of substantial expenditure incurred against other items during the year, where such expenditure was altogether excluded in the Accounts. The result of such omission was that the expenditure recorded against the respective Appropriation Accounts was understated by equivalent amounts.

These matters have been dealt with in detail in the paragraphs under the respective Ministries and Departments.

STATEMENTS OF ASSETS AND LIABILITIES

15. As similarly mentioned in the previous year, the Statements of Assets and Liabilities as at 30 June 2008 for almost all Ministries and Departments continued to reflect huge balances under various accounts, which have not been analysed to disclose what they represent and/or cleared from the books of account. Such accounts include General Account of Vote, Exchequer, Excess Appropriations-In-Aid, Suspense, Agency and Clearance amongst others.

16. For instance, the total Suspense Account debit and credit balances for 2007/2008 across all Ministries and Departments stood at Kshs.23,824,443,631.02 and Kshs.9,867,487,309.18 respectively as at 30 June 2008, as summarized below:-

Vote	Suspense Account	
	Debit	Credit
	Kshs	Kshs
Recurrent	15,323,936,369.28	1,115,502,509.87
Development	7,336,929,323.33	8,319,511,914.50
Deposits	<u>1,163,577,938.41</u>	<u>432,472,884.81</u>
Total	<u>23,824,443,631.02</u>	<u>9,867,487,309.18</u>

17. Similarly, the Clearance Account debit and credit balances for the same period totalled Kshs.3,665,996,987.80 and Kshs.1,880,155,017.34 respectively as at 30 June 2008, as shown below:-

Clearance Account		
Vote	Debit	Credit
	Kshs.	Kshs.
Recurrent	2,507,743,800.25	1,556,814,292.17
Development	129,773,735.85	104,141,082.07
Deposits	<u>1,028,479,451.70</u>	<u>219,199,643.10</u>
Total	<u>3,665,996,987.80</u>	<u>1,880,155,017.34</u>

Although this matter has been taken up with the respective Ministries and Departments, I have not been able to establish so far, whether or not these balances are supported with actual cash in bank.

FUND ACCOUNTS

18. In the report for the previous year, concern was expressed over various Funds which had not recorded any activities for several years, despite the fact that such Funds continued to tie up substantial cash balances, which would otherwise be available for other activities or programmes. These Funds include;

- District Development Fund Ministry of Planning and National Development

- Rural Development Fund Ministry of Planning and National Development
- Cereals and Sugar Finance Ministry of Finance
- Provident Fund Ministry of Finance
- Asiatic Widows and Orphans Pension Fund Ministry of Finance
- Exchange Risk Assumption Fund Ministry of Finance
- Rural Enterprises Fund Ministry of Finance
- Hides and Skin Cess Fund Ministry of Livestock and Fisheries Development
- District Cash Fund Ministry of State for Provincial Administration and Internal Security.

19. A review of the status of these Funds in 2007/2008 similarly disclosed that there were minimal or no activities reported against the Funds during the period, with indications that such Funds may no longer be serving the purposes for which they were created. This matter has been discussed in detail in the main Report.

BANK RECONCILIATION STATEMENTS

20. The Bank Reconciliation Statements for Recurrent, Development and Deposits Cashbooks in respect of several Ministries and Departments continue to reflect receipts and payments in the Cashbooks not recorded in the Bank Statements and also receipts and payments in the Bank Statements not recorded in the Cashbooks. According to

information available, some of the receipts and payments have been outstanding in the Reconciliation Statements for an inordinately long period of time.

Detailed observations on the Statements are covered in the paragraphs under the respective Ministries and Departments.

CONTROL OVER IMPRESTS

21. During the year under review, several Ministries and Departments exercised weak controls and inadequate management of imprests and as a result, substantial balances of such imprests, all totalling Kshs.143,187,225.60 were recorded as outstanding as at 30 June 2008, as summarized below:-

Vote	Ministry/Department	Outstanding Imprest as at 30 June 2008 Kshs.
01	State for Provincial administration & Internal Security	1,428,469.00
04	Foreign Affairs	43,212,409.15
05	Office of the VP & Ministry of Home Affairs	7,117,477.25
	State for Planning, National Development & Vision 2030	7,833,125.00
07	Finance	8,137,536.70
08	State for Defence	1,833,662.80
11	Medical Services	16,471,465.55
15	Labour	3,042,590.00
17	Justice, National Cohesion & Constitutional Affairs	4,615,717.65
18	Gender, Children & Social Development	863,939.00

22	Co-operative Development & Marketing	583,086.00
26	Judicial Department	3,399,530.40
30	Energy	439,550.25
31	Education	39,216,537.90
33	Electoral Commission of Kenya	365,405.80
43	Higher Education Science & Technology	3,876,991.15
60	Industrialization	<u>749,732.00</u>
	Total	<u>143,187,225.60</u>

22. Apart from failure to have the outstanding imprests surrendered or otherwise accounted for on or before 30 June 2008, it was also observed that some Ministries had during the year issued additional imprests to various officers, who had not accounted for balances previously issued.

23. Although the regulations and procedures governing issuance and surrender of imprests are clearly spelt out in the Government Financial Regulations and Procedures, as supplemented by various Treasury Guidelines, it is nevertheless evident that there is need to review and reinforce compliance with these Regulations and Procedures, as well as with the Guidelines.

A.S.M. Gatumbu

CONTROLLER AND AUDITOR GENERAL

NAIROBI

28 May, 2009