PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

SECTORAL REPORT

DECEMBER 2024

|  |  |  |
| --- | --- | --- |
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**Appendix 1:**

**Sectoral Report**

**for**

**Cities and Municipalities**

# 1.0 Background Information

The Public Finance Management Act 2012 requires, among other things, that at the end of each financial year, the Accounting Officer of the City/Municipality established by Urban Areas and Cities Act No. 13 of 2011 prepares financial statements by the standards and formats prescribed by the Public Sector Accounting Standards Board.

The Public Sector Accounting Standards Board (PSASB) reviews public sector financial statements annually to strengthen accountability, transparency, integrity in financial reporting, and compliance with the reporting templates.

This sectoral report relates to annual reports for 30 June 2023 on compliance and non-compliance regarding matters raised by OAG, compliance with the appropriate financial reporting framework, disclosures on governance, social and environmental reporting, and management discussions.

# 2.0 Overview of The Sector

Cities and municipalities derive their authority and accountability from the Urban Areas and Cities Act No. 13 of 2011(amended 2019) and the respective Cities and Municipal Charter.

Kenya has 175 local authorities, classified as county councils (67), municipal councils (43), town councils (62), and city councils (3).

However, only the following 20 entities had their annual reports and financial statements subjected to financial reporting evaluation.

| **City/Municipal** | **Opinion** |
| --- | --- |
| Municipality of Rongo | Unqualified with emphasis |
| Municipality of Homabay | Unqualified with emphasis |
| Special Municipality of Mwatete Fund Board | Unqualified with emphasis |
| Municipality of Kakamega | Qualified |
| Municipality of Muranga | Qualified |
| Municipality of Diani | Qualified |
| Municipality of Malindi | Qualified |
| Municipality of Kericho | Qualified |
| Municipality of Kilifi | Qualified |
| Municipality of Olkalau | Qualified |
| Municipality of Lamu | Qualified |
| Municipality of kwale | Qualified |
| Municipality of Litein | Qualified |
| Municipality of Kericho | Adverse |
| Municipality of Limuru | Adverse |
| Municipality of Kwale | Adverse |
| Municipality of Hola | Adverse |
| Municipality of Bomet | Adverse |
| Municipality of Ruiru | Adverse |
| Municipality of Thika | Adverse |
| Municipality of Naivasha | Adverse |

Of the 20 evaluated entities, 3 had unqualified audit reports, 10 had qualified, and 7 had adverse audit reports.

|  |  |  |
| --- | --- | --- |
| Opinion | No. of entities | % |
| Unqualified with emphasis | 3 | 15% |
| Qualified | 10 | 50% |
| Adverse | 7 | 35% |

# 3.0 Key Findings

## Audit Report

The OAG reported his findings on three main areas:

1. Report on financial statements
2. Report on lawfulness and effectiveness in the use of public resources
3. Report on the effectiveness of internal controls, Risk management, and Governance
4. **Report on Financial Statements**

A report on the financial statements considers whether they are fairly presented by the applicable financial reporting framework accounting standards and the relevant laws and regulations that directly affect them.

The following deficiencies were reported in the financial statements.

| **S/No.** | **Issue** | **No of entities** | **%** |
| --- | --- | --- | --- |
|  | Unresolved prior year audit matters | 18 | 90 |
|  | Omissions in presentation and disclosure of the financial statements | 17 | 85 |
|  | Inaccuracies in the financial Statements | 16 | 80 |
|  | Inconsistency in the financial statements | 9 | 45 |
|  | Unreconciled cash and cash Equivalents | 8 | 40 |
|  | Misstatements of property plant and equipment  | 5 | 25 |
|  | Inaccuracy of other revenue amount | 5 | 25 |
|  | Long outstanding receivables | 5 | 25 |
|  | Long outstanding payables | 1 | 5 |
|  | Inaccurate expenses | 1 | 5 |
|  | Inaccurate figures | 1 | 5 |

1. **Report on Lawfulness and Effectiveness in the Use of Public Resources**

Complying with applicable laws, regulations, gazette notices, policies, circulars, guidelines, and manuals and whether public resources are applied prudently, efficiently, economically, transparently, and accountable to ensure value for money and that funds are used for the intended purposes are considered.

Several issues highlighted by the auditor and that apply to a significant part of the sector as follows:

| **S/No.** | **Issue** | **No of entities** | **%** |
| --- | --- | --- | --- |
|  | Failure to provide approved Budget and annual Revenue Estimates | 16 | 80 |
|  | Irregular Composition/Lack of Board/no meetings for Board members | 13 | 65 |
|  | Irregular procurements | 12 | 60 |
|  | Incomplete/delayed completion of projects | 9 | 45 |
|  | Lack of Board Charter | 9 | 45 |
|  | Staff under establishment  | 6 | 30 |
|  | Unapproved expenditure | 5 | 25 |
|  | Failure to conduct Annual performance review of integrated Development plan | 3 | 15 |
|  | Weakness in governance and operational environment  | 2 | 10 |
|  | Irregular disposal of assets  | 2 | 10 |
|  | Non remittance of deductions | 2 | 10 |

1. **Report on the effectiveness of internal controls, Risk management, and Governance**

The consideration was how the entities instituted checks and balances to guide internal operations in response to the effectiveness of the governance structure, risk management environment, and internal control.

Several issues raised by the auditor that apply to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue | No of entities | % |
|  | Budget and budgetary control  | 20 | 100 |
|  | Weakness in governance, operational and lack of ICT policy  | 20 | 100 |
|  | Lack of risk management policy, internal controls, and disaster recovery plan. | 19 | 95 |
|  | Lack of ownership documents | 18 | 90 |
|  | Lack of finance and accounting policy manual. | 18 | 90 |
|  | Lack of Risk management policy and disaster recovery plan | 17 | 85 |
|  | Lack of audit committee and internal audit dept  | 17 | 85 |
|  | Incomplete Asset Register, lack of ownership documents | 16 | 80 |
|  | Lack of deposit and retention bank account | 9 | 45 |
|  | Inadequate composition of municipal Board | 9 | 45 |
|  | Failure to hold meetings by municipality Board members | 8 | 40 |
|  | Failure to appoint Municipal Administrator | 5 | 25 |
|  | Failure to review the municipality integrated development plan  | 5 | 25 |
|  | Understaffing | 4 | 20 |

## 3.2 **Financial Statements**

A review of the financial statements for the 2022/23 financial year identified non-compliances in economic performance, financial position, cash flow, and budget statement.

While preparing the statements, 14 entities (70%) failed to delete the blank lines and notes /policies that did not apply to them. Three entities (15%) did not cross-reference the notes to the accounts.

1. **Financial performance**

**Income:**

Failure to disclose the donations by all the 20 entities (100%)

**Expenditure:**

Classification of expenses: Except for three entities (15%), all other entities classified their costs by nature.

Disclosure of expenses: 17 entities (85%) failed to disclose the amount of inventory that was expensed during the year.

1. **Financial position**

**Assets**

Ageing analysis. Eighteen entities (90%) failed to present the aging analysis of the payables and receivables.

In 2023, 20 entities (100%) failed to present the fixed asset register annex.

**Liabilities**

Reserves: 19 entities (95%) failed to describe the nature and Purpose of each reserve within the equity

1. **Cashflow statement**

**Cashflow method:**

Cashflow statements were presented as follows.

|  |  |  |
| --- | --- | --- |
|  Cashflow statement | Number of entities | % |
| Direct method | 17 | 60% |
| Indirect method | 0 | 0 |
| Mixed both methods | 3 | 40% |

**Reconciliation:**

Fourteen entities (70%) failed to provide a reconciliatory note, while two entities (10%) had cash and cash equivalents not reconciled with the financial position.

1. **Notes**

Standards: All 20 entities failed to disclose the impact of adopting new standards that were effective

Accounting policies: 14 entities (70%) failed to disclose accounting policies that are relevant to the entity.

Annexures: 19 entities (95%) failed to include all annexures to the financial statement as prescribed by PSASB or made an express statement that the specific annexure does not apply to the entity

1. **Budget Statement**

**Budget presentation**

All the evaluated entities presented their budget in a format that complies with the template.

**Budget notes**

Sixteen entities (80%) failed to explain differences between actual and budgeted amounts (any overutilization and underutilization below 90%). In comparison, 15 entities (75%) were unable to explain changes between the original and final budget, indicating whether the difference was due to reallocations or other causes.

**Budget reconciliation**

8 entities (40%) failed to provide a reconciliation where the total of actual on a comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis, statement of financial performance is accrual)

### 3.3 Corporate Governance

1. **Board appointment/removal**

The analysis revealed that 18 entities (90%) failed to disclose each Board Member’s age, key academic and professional qualifications, and work experience and indicate whether the Board Member is independent or an executive director and which committee of the Board the Member chairs where applicable.

Nineteen entities (90%) failed to disclose the number of board meetings held by the municipality board and the attendance to those meetings by members.

1. **Role and meetings and performance of the city/municipality Board members**

Seven entities (35%) failed to disclose the role and functions of the municipality Board members. Additionally, the number of board meetings held by the municipality board and the attendance to those meetings by members were not disclosed.

Lack of disclosure of board induction and training and Board performance/evaluation results by 19 entities (95%).

The reviewed statements indicated no committee in charge of risk or a risk management function that monitors risk every quarter. Additionally, there was no disclosure that at least one member of the Audit Committee has relevant qualifications and expertise in audit, financial management, or accounting, experience, and knowledge in risk management, and is a member of a professional body in good standing.

1. **Succession plan and conflict of interest.**

All 20 entities failed to disclose the existence of a succession plan, board charter, and how they manage the conflict of register.

The entities failed to disclose how they manage gift registers, conflicts of interest, and whistleblowing.

# Board Remuneration

There was no disclosure of board remuneration by all the 20 entities.

1. **Governance Audit:**

All the 20 entities didn’t disclose the existence of ethics and conduct or the governance audit undertaken.

## **3.4** **Environmental and Sustainability**

1. **Sustainability Strategy and Profile**

Although all the annual reports and financial statements evaluated had a dedicated section on sustainability in the annual report, either a stand-alone statement or a distinct paragraph on sustainability, none of the chairman/ Chief Executive Officer's remarks referred to sustainable efforts affecting sustainability priorities, challenges, and key achievements. Out of the 20 entities that were reviewed, 19 entities (95%) failed to disclose the existence and implementation of a detailed environmental policy guiding the entities.

The evaluated reports further revealed that only one entity highlighted its sustainability priorities. In contrast, 19 entities (95%) failed to indicate the direct economic value created (community social investments, schools, hospitals, dams, roads, etc.).

1. **Environmental Performance**

All the 20 entities (100%) failed to disclose efforts in place aimed at reducing the environmental impact of their products/services (paperless offices, packaging that is biodegradable, employee transport services well maintained to reduce CO2 emissions) and they also failed provide a discussion or initiatives around climate change (e.g. climate innovative technologies- drought resistant crop varieties, eco-toilets, eco *jikos*, green buildings- designed with automated lightings, open areas with natural lights, solar lighting and heating system)

1. **Employee Welfare**

During the review, the 20 entities demonstrated the existence of a conscious effort and policy directed towards improving employee skills—evidenced by the number of employees trained and an effort to assist in managing or ending careers; however, none of them disclosed the distribution of employees by gender, age group, or any special group, e.g., PWD.

1. **Marketplace Practices or Service Delivery Practices**

No entity disclosed how to ensure responsible competition practices, Responsible supply chain and supplier relations, or Product Stewardship, i.e., how to safeguard consumer rights and interests.

1. **Community Engagement**

The evaluated report for this sector showed that 18 entities (90%) disclosed community engagements in charitable activities and public participation, especially in budget matters.

1. **Principles for Reporting Environmental and Social Impacts**

All the evaluated 20 entities (100%) failed to include a different section for environmental and social impacts created

## **3.5 Management Discussions and Analysis**

The following were the identified issues in the cities/Municipal’s audited financial statements:

1. **Overview of the entity and sectorial context**

Upon review of the annual report, 20 entities (100%) had a section discussing the entity's and sectorial context's overview.

1. **Operational and Financial highlights**

During the year under review, 19 entities (95%) failed to present operational and financial performance for the last three to five years through the details of the information, nor was there use of tables, graphs, and pie charts. However, all the entities highlighted achievements, key projects achieved, and ongoing, as evidenced by photos.

1. **Risk management and internal controls**

Although all the 20 evaluated entities disclosed the identification of significant risks facing them, only 1municaplity (5%) disclosed that they have put in place effective processes and systems of risk management and internal controls. Lack of disclosure by the entities to mitigate risks was noted by 19 entities (95%)

1. **Forward-looking information**

Most of the evaluated municipalities did not disclose quantified data on outlook. No municipality had issues with the going concern.

1. **Governance and accountability**

All the entities failed to disclose Governance and accountability.

## **3.6** **Other matters**

**The following other issues were applicable to most of the entities.**

* + - * 1. An Internal Audit function designs implements, and monitors the effectiveness of an internal control system; however, this critical role of internal Auditor was not disclosed by 17 entities (85%)
				2. The report identified that 11 entities (55%) didn’t indicate their ICPAK membership number during the year.
				3. Three entities (15%) didn’t adhere to the reporting template.
				4. 9 entities (45%) cited late/delayed submission of funds from the county as a significant challenge for the municipalities
				5. Late/delayed submission of funds from the County Treasury was reported as a key challenge by 11 entities (55%)
				6. Nine entities identified Insufficient development partners as a challenge (45%).

# 4.0 Recommendations

**i) Autonomy:**

The counties should grant the Cities/Municipalities full autonomy.

**ii) Delegation of functions:**

Its recommended that the delegation of functions to the City/Municipality should be finalized e.g. land use and planning to be delegated to the municipalities

**iii) Internal controls:**

There is a need to enhance and review existing internal controls to ensure compliance with relevant legislation to prevent future audit issues.

 **iv) Capacity building**

Introduce capacity-building initiatives for accounting staff and financial statement preparers, the Board chairperson, the Municipality manager, and any other key personnel focusing on the following areas: accounts receivable, financial reporting, record management, and adherence to policies and procedures.

1. **Budgetary control/ Approval of expenditure:**

The county government should ensure that adequate budget allocation is allocated to the cities/municipalities.

1. **Disbursement of funds:**

The county government should ensure there is timely disbursements of allocated grant.

1. **Quality review of annual report and financial statements:**

There should be an established mechanism for review of quarterly reports internally by a team and externally by National Treasury reporting unit to minimize errors and ensure compliance to reporting templates.

1. **Review of reporting template:**

The PSASB should consider including the signing of cities/municipalities annual report and financial statements by the Board chairperson

**Appendix 2**

**Sectoral Report**

**For**

**Commissions Reporting Under Accrual Framework**

**Background information**

This Sectoral report is for Commissions reporting under accrual basis in Kenya. These Commissions are state corporations that prepare their annual report and financial statements on IPSAS Accrual reporting framework. An Annual- IPSAS-Accrual-template-for-SC-SAGAs has been developed for state corporations by the PSASB for standardization of reporting and compliance to this template is required.

**Overview**

This sector report provides an analysis and evaluation of performance based on audited accounts. The report relates to 5 commissions whose audited Annual reports and financial statements for the financial year ended 30th June 2023 have been reviewed.

The Number of audit opinions is as follows:

 ***Opinion No of Entities Percentage***

* Unqualified 4 80%
* Qualified 1 20%

**Areas covered on the report are:**

The report covers the following areas that highlights competitive advantages and structural weaknesses

1. Audit
2. Financial Statements

**Findings**

1. **Audit**

The Audit reports highlight three areas of finding Reviewed as follows:

* 1. ***Report on the Financial Statements.***

The consideration of whether the financial statements were presented fairly is given by several issues raised by the auditor, and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities  |
| 1 | Outstanding payables | 3 | 60% |
| 2 | Outstanding receivables | 1 | 20% |
| 3 | Unresolved Prior year Matters | 1 | 20% |
|  4 | Unsupported expenses | 1 | 20% |
| 5 | Unsupported transactions | 1 | 20% |
| 6 | Poor financial performance | 1 | 20% |
| 7 | Lack of ownership documents for assets | 1 | 20% |
|  |  |  |  |

Other matters regarding the fair presentation of financial statements were in individual entities but may apply to others in the sector.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No. of entities | Percentage |
| 1 |  |  |  |
| 2 | Inaccurate inventory balances | 1 | 20% |
| 3 | Irregular procurement | 1 | 20% |
| 4 | Inadequate funding | 4 | 80% |
| 5 | Outstanding court awards | 2 | 40% |

* 1. ***Report on Lawfulness and Effectiveness in the use of public resources.***

The consideration of compliance with applicable laws, regulations, circulars, etc, and whether public resources are applied in a prudent, efficient, economic, transparent, and accountable manner to ensure the achievement of value for money is given by several issues highlighted by the auditor and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities  |
| 1 | Delay in completion of projects | 1 | 20% |
| 2 | Under staffing | 1 | 20% |
| 3 | Weakness in the grading structure | 1 | 20% |
| 4 | Failure to develop and align policies  | 1 | 20% |
| 5 | Long outstanding legal dues | 1 | 20% |
| 6 | Irregular procurement | 1 | 20% |
| 7 | Outstanding court awards | 2 | 40% |
| 8 | Unsupported employee costs | 1 | 20% |
| 9 | Failure to promote qualified staff | 1 | 20% |

Other matters of compliance with applicable laws, regulations, and circulars were in individual entities but may be replicated in others in the sector. They include:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No. of entities | Percentage % |
| 1 | Anomalies in asset registers | 1 | 20% |
| 2 | Failure to revalue assets | 1 | 20% |
| 3 | Failure to dispose obsolete assets |  | 20% |
| 4 | Failure to disclose fully depreciated assets | 1 | 20% |

***1.3 Report on Effectiveness of Internal Controls, Risk Management, and Governance.***

The consideration of how the entities institute checks and balances to guide internal operations is a response to the effectiveness of the Governance structure, risk management environment, and internal control. Given the issues raised by the auditor, and they apply as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No of Entities  | Percentage of entities  |
| 1 | Good internal controls | 4 | 80% |
| 2 | Weak control systems | 1 | 20% |

 Other matters related to the Effectiveness of Internal controls, Risk Management, and Governance that were in individual entities but may be replicated to others in the sector.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No. of entities | Percentage % |
| 1 | Lack of a comprehensive asset register | 1 | 20% |
| 2 | Irregular payment of acting allowance | 1 | 20% |
| 3 | Lack of segregation of duties | 1 | 20% |
| 4 | Deficiency in the government systems | 1 | 20% |

1. **Financial Statements**

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is as follows:

* 1. ***Statement of Financial Performance***

The statement on financial performance was well presented by 5 entities. 2 entities reported surplus for the year while 3 entities reported deficit.

|  |  |  |  |
| --- | --- | --- | --- |
| S/N o. | Financial Performance Issue | No of Entities  | Percentage of entities  |
| 1 |  Financial Performance well presented | 5 | 100% |
| 2 | Reported Surplus | 2 | 40% |
| 3 | Reported Deficit | 3 | 60% |

* 1. ***Statement of Financial Position***

There is a good presentation on the statement of financial position in the sector.

* 1. ***Statement of Changes in net assets/equity***

All the entities complied with IPSAS 1 and presented the statement of changes in net assets.

* 1. ***Cash flow Statement***

A review of the cash flow statement revealed that only 3 entities presented the cashflow report using the direct method, while 2 entities presented using the indirect method.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Cash flow method | Number of Entities | Percentage of entities  |
| 1 | Direct method | 3 | 60% |
| 2 | Indirect method | 2 | 40% |

* 1. ***Budget:***
		1. *Budget presentation*: All the entities complied with IPSAS 24 and had the presentation of budget information in the financial statements. Presentation of a comparison of the budget amounts was by additional budget columns in the financial statements.
		2. *Budget notes*: 100% of the entities had budget variances, and 1 entity (20%) did not have budget notes explaining the reasons for the variances between the final budgeted amount and the actual budget amounts.
		3. *Budget reconciliation*: The review of the budget information showed that only 4 entities (80%) presented a reconciliation of the statement of budget and actual amounts with the statement of financial performance, while 1 entity (20%) did not present.
	2. ***Property Plant and Equipment (PPE)***
		1. *Property Plant and Equipment schedule*

The review of the financial statements for the sector showed that all the entities had a PPE schedule.

1 entity also had fully depreciated assets and idle assets as part of PPE items and failed to have a comprehensive asset register.

* + 1. *Depreciation method*

All the entities disclosed the depreciation method applied as part of the accounting principles.

**Recommendations**

**On the review of financial statements**

* Work closely with the exchequer to review budget allocations and ensure that critical expenses are prioritized. Advocate for supplementary budgets or reallocations where possible.
* Implement enhanced cash flow forecasting to anticipate and plan for shortfalls. Engage in regular reporting and dialogue with the exchequer to advocate for timely disbursements based on projected needs.
* Improve collection policies, assign dedicated staff to manage receivables, and implement reminder systems to follow up on outstanding amounts.
* Regularly review and, where necessary, make provisions for uncollectible receivables. Write off receivables that have been deemed irrecoverable to present a realistic financial position.
* Conduct regular inventory audits to verify the accuracy of recorded stock levels. This will ensure accountability and reveal discrepancies that need resolution.
* Establish a task force or assign a team to locate, retrieve, and organize all necessary ownership documentation. This may involve liaising with land registries, banks, and legal departments.
* Create a schedule for regular asset revaluation, ensuring that assets are revalued every 3-5 years or according to relevant standards, and engage valuers!
* Set up a dedicated team to address outstanding audit issues from previous years. This team should prioritize issues based on their financial or operational impact.

**On the lawfulness and effectiveness in the use of public resources**

* Perform a comprehensive review of current operational policies to identify gaps in legal compliance. This audit should help pinpoint areas where policies are missing or not aligned with legal standards.
* Establish a clear policy development framework with timelines and designate responsibility for creating or updating policies as required by law. Each policy should be reviewed by legal and compliance teams to ensure alignment with statutory requirements.
* Assess and prioritize outstanding legal dues based on risk and impact. Where possible, negotiate settlement agreements or payment plans with creditors to reduce the burden of lump-sum payments.
* Allocate budget provisions for legal dues in the financial planning process, helping to ensure funds are available to settle outstanding legal obligations.
* Create a detailed procurement policy aligned with national procurement laws and standards. The policy should include clear guidelines on competitive bidding, vendor selection, and procurement thresholds.
* Form an oversight committee or assign an independent auditor to review procurement processes regularly. Implement controls such as purchase orders, approvals, and documentation checks to prevent irregularities.

**On the effectiveness of internal controls, risk management and governance**

* Collaborate with finance teams to allocate funding for additional hires in future budgets, providing a clear case for the value of a fully staffed team.
* Perform a thorough physical audit of assets to ensure the accuracy of the initial data entered into the register. Reconcile findings with existing records and investigate discrepancies.
* Update the asset register regularly to account for acquisitions, disposals, and changes in asset conditions, ensuring it remains an accurate reflection of the organization’s assets.

 **Entities Reviewed.**

|  |  |  |
| --- | --- | --- |
| **S/No.** | **Commission** | **Opinion** |
| 1 | Salaries and Renumeration Commission | Unqualified |
| 2 | Commission on Revenue Allocation | Unqualified |
| 3 | Ethics and Anti-corruption Commission | Unqualified |
| 4 | Witness Protection Agency | Unqualified |
| 5 | Independent Electoral and Boundaries Commission | Qualified |

**Appendix 3**

**Sectoral Report**

**For**

**County Executives and Assemblies**

# Background information

This Sectoral report is for County Executives and Assemblies in Kenya. These entities prepared their annual reports and financial statements using the IPSAS Cash reporting framework in accordance with the template issued by the Public Sector Accounting Standards Board (PSASB).

# Overview

This sector report offers an evaluation of performance based on audited accounts. It pertains to 91 Entities Composed of County Governments and County Assemblies, whose audited Annual reports and financial statements for the financial year ending on June 30, 2023, have been examined.

The Number of audit opinions is as follows:

 **Opinion No of Entities Percentage**

* Unqualified 3 3%
* Qualified 79 87%
* Adverse 9 10%

# Areas covered:

The report encompasses the following areas that demonstrate competitive strengths and structural weaknesses.

1. Audit.
2. Financial Statements.
3. Governance.
4. CSR/Environment.
5. Management Discussions and Analysis.
6. General compliance with the reporting template.
7. Other key findings.
8. Recommendations

#  Audit Issues

## **Findings**

The audit report identifies three areas of findings as outlined below:

## **Report on the Financial Statement.**

The consideration of whether the financial statements were presented fairly is given by several issues raised by the auditor and that applies to a major part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Budget control and performance | 73 | 80% |
| 2 | Unresolved Prior year Matters | 74 | 81% |
| 3 | Pending bills | 60 | 66% |
| 4 | Variances between financial statements and IFMIS Vote book | 30 | 33% |

There are other matters on fair presentation of financial statements that were in individual entities but may replicate to others in the sector

1 Unsupported payments

2 Inaccurate expenses

3 Expenditure charged under wrong accounts

4 Unsupported expenditure

5 Unsupported balances

6 Unsupported domestic travel and subsistence allowance

7 Inaccurate cash and cash equivalents balances

## **Report on Lawfulness and Effectiveness in use of public resources**

The consideration of compliance with applicable laws, regulations, circulars etc. and whether public resources are applied in a prudent, efficient, economic, transparent, and accountable manner is given by several issues outlined below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Unsupported expenditure | 61 | 67% |
| 2 | Irregular expenditure | 73 | 80% |
| 3 | Incomplete projects | 60 | 66% |
| 4 | Irregular procurement process | 38 | 42% |
| 5 | Non-compliance with statutory requirements | 82 | 90% |

There are other matters of compliance with applicable laws, regulations, and circulars that

1 Irregular subscription to council governors

2 Failure to comply with public sector accounting standards.

3 Payment of salaries outside integrated personnel and payroll database

4 Non-compliance with fiscal responsibility principles

## **Report on Effectiveness of Internal controls, Risk Management and Governance.**

 The consideration of how the entities institute checks and balances to guide internal operations is a response to the effectiveness of the governance structure, risk management environment, and internal control. Given below are issues raised by the auditor that apply to a major part of the sector; they are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Issue/Matters | No of Entities  | Percentage of entities  |
|  | Weak risk management policies, internal controls and lack of audit and risk committee | 67 | 74% |
|  | Lack of ICT policies, plans and procedures | 87 | 96% |
|  | Non-functional internal audit function | 80 | 88% |

Other matters on the Effectiveness of Internal controls, Risk Management, and Governance that were in individual entities but may replicated to others in the sector.

1. Lack of an approved staff establishment
2. Lack of human resource policies and plans
3. Failure to tag assets.
4. Lack of updated asset registers
5. Lack of ownership documents

# Financial Statements

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is as follows:

## **Statement of Receipts and Payments**

Most of the entities presented the statement of receipts and payments well. Issues identified in the report include:

|  |  |  |  |
| --- | --- | --- | --- |
| **S/No.** | Issue/Matters | No of Entities  | % of entities  |
|  | Failure to delete blank lines | 70 | 38% |
|  | Are the notes presented cross-referenced to statement of receipts and payments | 8 | 9% |
|  | Failure to classify bank charges as a separate line item | 6 | 7% |

## **Statement of Assets and Liabilities**

Most of the entities presented their statements of assets and liabilities well. However, the following issues were identified.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No of Entities  | % of entities  |
| 1 | Failure to delete blank lines | 60 | 66% |
| 2 | Are the notes presented cross-referenced to statement of Assets and Liabilities | 8 | 9% |
| 3 | Is cash and cash equivalent in the statement of cash flow equal to that in the statement of assets and liabilities | 5 | 5% |

## **Cash flow Statement**

Most entities effectively presented their statement of cash flow and adhered to the template requirements by utilizing the direct method. Nevertheless, five entities failed to reconcile the cash and cash equivalents between the statement of cash flow and the statement of assets and liabilities.

## **Budget:**

Budget presentation: While all entities followed the template and included budget information in their financial statements, the majority did not explain whether changes between the original and final budget resulted from reallocation within the budget or other factors, nor did they explain significant variances between the budgeted and actual amounts.

## **Asset Register**

 Most of the entities complied with the template's requirements by including the asset register as an annexure to the financial statement.

# **Governance**

This section of the report focuses on entities sharing information regarding their governance. The reviewed entities provided information and the following issues were identified as detailed below:

| S/No | Issue/Matters | No of Entities | % of entities |
| --- | --- | --- | --- |
| 1 | Failure by the entities to disclose whether there is an independent party responsible for receiving and investigating whistleblowing reports received | 84 | 92% |
| 2 | Non-disclosure on a policy on the management of conflict of interest | 83 | 91% |
| 3 | Failure by the entities to disclose whether they have a strategy on corporate reputation and image | 78 | 86% |
| 4 | Failure by the entities to disclose whether the head of internal audit is professionally qualified and is a member in good standing of ICPAK | 77 | 85% |
| 5 | Failure by the external auditor to complete and submit the financial statements within the timelines stipulated by law and government policies | 74 | 81% |
| 6 | Failure by the entities to disclose whether the chairman of the audit committee is independent | 74 | 81% |
| 7 | Failure by the entities to disclose whether at least one member of the audit committee has relevant qualifications and expertise in audit, financial management or accounting and is a member of professional body in good standing | 74 | 84% |
| 8 | Failure by the entities to disclose whether they have in place code of conduct and ethics. | 63 | 69% |
| 9 | Non-disclosure of policies on risk management which consider sustainability, ethics, and compliance risks | 60 | 66% |
| 10 | Failure by the entities to disclose whether they have procurement policies that promote sustainability, high ethical standards, and best practice. | 57 | 63% |
| 11 | Failure to disclose whether the entities have a functional internal audit that designs and monitors the effectiveness of the internal control system | 56 | 62% |
| 12 | Failure by the entities to disclose whether they have in place effective processes and systems of risk management and internal controls | 53 | 58% |
| 13 | Non-disclosure of a committee in charge of risk and risk management. | 36 | 40% |
| 14 | Failure by the entities to timely prepare accurate financial statements. | 10 | 11% |

# Environmental and Sustainability Reporting/CSR

This report section focuses on entities sharing information regarding their environmental impact and sustainability practices. The reviewed entities provided information, and the following issues were identified as highlighted below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | % of entities |
| 1 | Failure to disclose initiative around climate change | 76 | 84% |
| 2 | Non-disclosure of distribution of employees by gender, age group and special group e.g. pwd | 73 | 80% |
| 3 | Failure to disclose a clearly detailed environmental policy guiding the entity | 66 | 73% |
| 4 | Failure to provide evidence of the implementation of the environmental policy | 64 | 70% |
| 5 | Failure to disclose the direct economic value created e.g. community social investments, schools, hospitals etc. | 61 | 67% |
| 6 | Failure to disclose how to ensure improved service delivery practices e.g. service charter information,anti-corruption-reporting and public sensitization etc. | 56 | 62% |
| 7 | Non-disclosure on policies guiding inclusion in the process of hiring, the gender ratio e.g. male, female, youth and PWD. | 54 | 59% |
| 8 | Failure to demonstrate efforts to reduce the environmental impact of the entities’ products/service e.g. paperless offices, packaging that is biodegradable etc. | 48 | 53% |
| 9 | Failure to disclose how the entities safeguarded consumer rights and interests e.g. issues include protection of health and safety, providing adequate product information etc. | 46 | 50% |
| 10 | Failure to highlight the sustainability priorities of the entities | 45 | 49% |
| 11 | Failure by the entities to outline how they ensured responsible completion practices | 43 | 47% |
| 12 | Failure by the entities to include different sections for environmental and social impacts | 35 | 38% |
| 13 | Non-disclosure statement on how the entities treats its own suppliers e.g. honoring contracts, respecting payment schedules etc. | 34 | 37% |
| 14 | Failure to demonstrate a conscious effort and policy directed towards improving employee skills | 28 | 305 |
| 15 | Failure by the entity to provide evidence of community engagement including charitable giving | 19 | 20% |
| 16 | Failure by the entity to provide evidence of public participation, sensitization, and civic education | 17 | 18% |
| 17 | Failure by the entities to have a dedicated section on sustainability/ESG in the annual report | 12 | 13% |

# Management Discussions and Analysis

This report section focuses on entities sharing information regarding their management discussion and analysis. The reviewed entities provided information, and the following issues were identified as detailed below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities  | %of entities  |
| 1 | Non-disclosure on how the current economic and sectorial environment impacts its operations | 84 | 92% |
| 2 | Failure by the entities to disclose on alignment with sustainable development goals | 80 | 88% |
| 3 | Failure to disclose on how effective the entities internal control systems are | 71 | 78% |
| 4 | Failure by the entities to disclose on key risks faced by the entity | 67 | 74% |
| 5 | Failure to disclose on outlook for the next period, strategic priorities, anticipated risks, and opportunities | 62 | 68% |
| 6 | Failure by the entities to disclose on trend analysis and use of charts, graphs, variance analysis, and financial ratios over several periods | 49 | 54% |
| 7 | Failure by the entities to disclose on strategies in place to mitigate risks | 48 | 52% |
| 8 | Failure to disclose measures to minimize environmental footprint | 30 | 33% |
| 9 | Failure by the entities to disclose on community and social contribution – CSR activities | 20 | 22% |
| 10 | Failure by the entities to disclose challenges faced and possible solutions | 19 | 20% |
| 11 | Failure by the entities to disclose on leadership, ethical standards, and compliance as well as stakeholder engagement | 18 | 19% |
| 12 | Failure by the entities to disclose on the background mission, vision, and strategic goals | 2 | 2% |
| 13 | Failure to disclose on major achievements/milestones during the period | 2 | 2% |

#  General compliance with the reporting template

Most entities did not face significant non-compliance issues with the template, as the auditor did not raise any concerns. However, certain sections, such as environmental and sustainability, were left unaddressed.

# Other key findings

1. The management discussion and analysis section is absent from both templates. For the County Executive, this section is on the CRF.
2. The auditor general is focusing more on the financial information and leaving out the non-financial information.
3. Most reports are not signed by the auditor within the stipulated time frame.
4. Fine-tune the checklist against the templates, i.e., executive vs. assembly.

#  Recommendations

1. The Board (PSASB) should introduce a section in the template on reporting initiatives related to climate change, such as climate-smart technologies, green buildings, eco toilets, etc.
2. The Board (PSASB) should introduce a section in the template on how to report on MDA.
3. The Board (PSASB) should include a vision, mission, and strategic goals section in the county template.
4. The National Treasury, in conjunction with PSASB, should sensitize county governments to resolve the prior year’s issues to ensure a smooth transition to accrual.
5. County governments should prepare realistic budgets to resolve issues around budget control, performance, and pending bills.
6. Counties should strictly adhere to statutory requirements such as remitting P.A.Y.E, pension, etc.
7. County governments should ensure that they have an active internal audit function to monitor risks and internal control systems.
8. The Board (PSASB) should review the Governance statement for entities transiting from cash to accrual and, if possible, develop a separate checklist for evaluating this section.

**Annex 1: Entities Reviewed**

| S/No. | County Executives and Assemblies | Opinion |
| --- | --- | --- |
| 1 | County Assembly of Kisii | Qualified |
| 2 | County Executive of Nandi | Qualified |
| 3 | County Assembly of Wajir | Qualified |
| 4 | County Assembly of Mombasa | Qualified |
| 5 | County Assembly of Narok | Qualified |
| 6 | County Executive of Mombasa | Qualified |
| 7 | County Assembly of Kakamenga | Qualified |
| 8 | County Executive of Wajir | Qualified |
| 9 | County Executive of Kirinyaga | Qualified |
| 10 | County Assembly of Kirinyaga | Qualified |
| 11 | County Executive of Muranga | Qualified |
| 12 | County Assembly of Isiolo | Qualified |
| 13 | County Assembly of Tana River | Qualified |
| 14 | County Assembly of Kwale | Qualified |
| 15 | County Assembly of Nandi | Qualified |
| 16 | County Assembly of Nyamira | Qualified |
| 17 | County Assembly of Baringo | Qualified |
| 18 | County Assembly of Kericho | Qualified |
| 19 | County Assembly of Machakos | Qualified |
| 20 | County Executive of Kisumu | Qualified |
| 21 | County Assembly of Tharaka Nithi | Qualified |
| 22 | County Assembly of Garissa | Qualified |
| 23 | County Assembly of Kitui | Qualified |
| 24 | County Assembly of Samburu | Qualified |
| 25 | County Assembly of Turkana | Qualified |
| 26 | County Assembly of Migori | Adverse |
| 27 | County Executive of Nairobi City | Adverse |
| 28 | County Executive of Trans Nzoia | Unqualified |
| 29 | County Assembly of Uashi Gishu | Qualified |
| 30 | County Executive of Baringo | Adverse |
| 31 | County Assembly of Taita Taveta | Qualified |
| 32 | County Assembly of Meru | Qualified |
| 33 | County Assembly of Bungoma | Unqualified |
| 34 | County Assembly of Marsabit | Unqualified |
| 35 | County Executive of Kisii | Qualified |
| 36 | County Assembly of Kisumu | Qualified |
| 37 | County Executive of Laikipia | Qualified |
| 38 | County Assembly of Bomet | Qualified |
| 39 | County Executive of Bomet | Qualified |
| 40 | County Assembly of Busia | Qualified |
| 41 | County Executive of Kiambu | Adverse |
| 42 | County Assembly of Makueni | Qualified |
| 43 | County Assembly of Nyandarua | Qualified |
| 44 | County Executive of Embu | Qualified |
| 45 | County Executive of Makueni | Qualified |
| 46 | County Executive of Elgeyo Marakwet | Qualified |
| 47 | County Assembly of Mandera | Qualified |
| 48 | County Executive of Kakamega | Qualified |
| 49 | County Executive of Tharaka Nithi | Qualified |
| 50 | County Assembly of Nyeri | Qualified |
| 51 | County Executive of Kisii | Qualified |
| 52 | County Assembly of Kajiado | Qualified |
| 53 | County Assembly of Embu | Qualified |
| 54 | County Executive of Trans Nzoia | Qualified |
| 55 | County Executive of Kajiado | Qualified |
| 56 | County Executive of Busia | Qualified |
| 57 | County Executive of Isiolo | Qualified |
| 58 | County Assembly of Murangá | Qualified |
| 59 | County Assembly of Laikipia | Qualified |
| 60 | County Assembly of Kilifi | Qualified |
| 61 | County Assembly of Lamu | Qualified |
| 62 | County Executive of Marsabit | Qualified |
| 63 | County Executive of Taita Taveta | Qualified |
| 64 | County Executive of Kericho | Qualified |
| 65 | County Executive of Mandera | Qualified |
| 66 | County Executive of Machakos | Qualified |
| 67 | County Executive of Bungoma | Qualified |
| 68 | County Executive of Lamu | Qualified |
| 69 | County Executive of Meru | Qualified |
| 70 | County Assembly of Nakuru | Qualified |
| 71 | County Assembly of Homabay | Qualified |
| 72 | County Assembly of Elgeyo Marakwet | Qualified |
| 73 | County Assembly of West Pokot | Qualified |
| 74 | County Executive of Migori | Qualified |
| 75 | County Executive of Homabay | Qualified |
| 76 | County assembly of Vihiga | Adverse |
| 77 | County assembly of Nairobi | Adverse |
| 78 | County Executive of Narok | Adverse |
| 79 | County Executive of Samburu | Qualified |
| 80 | County Executive of Garissa | Qualified |
| 81  | County Executive of Siaya | Qualified |
| 82 | County Executive of Turkana | Qualified |
| 83 | County Executive of Uasin Gishu | Qualified |
| 84 | County Executive of Tana River | Adverse |
| 85 | County Executive of Nyeri | Qualified |
| 86 | County Executive of Nyandarua | Qualified |
| 87 | County Executive of Nyamira | Adverse |
| 88 | County Executive of Nakuru | Qualified |
| 89 | County Executive of West Pokot | Qualified |
| 90 | County Executive of Vihiga | Qualified |
| 91 | County Assembly of Siaya | Qualified |

**Appendix 4**

**Sectoral Report**

**For**

**Ministries, Departments and Agencies (MDAs)**

**Background information**

This is the FiRe award Sectoral Review Report on the Ministries Departments and Agencies -MDAs category. The key aspects reviewed include compliance with the applicable financial reporting framework (IPSAS), reporting obligations, quality of management discussion and analysis, environmental, social, and governance reporting, and performance presentation.

**Overview**

This sector report analyzes and evaluates performance based on audited accounts. The report relates to 52 MDAs whose audited Annual report and financial statements for the financial year ended June 30, 2023, have been reviewed.

The Number of audit opinions is as follows:

 ***Opinion No of Entities Percentage***

* Unqualified 27 52%
* Qualified 25 48%

**Areas covered in the report are:**

The report covers the following areas that highlight competitive advantages and structural weaknesses

1. Audit
2. Financial Statements
3. Governance
4. Environmental and sustainability reporting
5. Management Discussions and Analysis
6. Other key findings

**Findings**

1. **Audit**

The auditor's report highlights three main cross-cutting issues significantly affecting Ministries, Departments, and Agencies (MDAs).

The first issue is budget control and performance, which indicates challenges in ensuring that budget allocations align with actual spending. This leads to inefficiencies and performance gaps in the execution of various programs.

The second concern revolves around unresolved prior-year matters, where previous financial discrepancies and audit findings remain unaddressed. This impacts the MDAs' ability to move forward with corrective measures and improve governance.

The third issue is long outstanding payables, which refer to the delayed settlement of financial obligations, creating a backlog of unpaid debts that strain the fiscal health of these institutions. Collectively, these issues hinder the smooth operation and accountability of the MDAs, preventing them from achieving optimal financial management and service delivery. The Audit reports highlight areas of finding reviewed as follows:

| S/No. | Issue/Matters | No of Entities | Percentage of entities |
| --- | --- | --- | --- |
| 1 | Budget control and performance issues | 38 | 73% |
| 2 | Unresolved prior year audit matters | 32 | 62% |
| 3 | Long outstanding payables | 30 | 58% |
| 4 | Non-disclosure of risk management policy and internal controls | 29 | 56% |
| 5 | Stalled Projects | 18 | 35% |
| 6 | Unsupported expenditures | 16 | 31% |
| 7 | Non-disclosure of going concern Status of the entity. | 14 | 27% |
| 8 | Irregular expenditures | 14 | 27% |
| 9 | Lack of ownership documents for assets | 13 | 25% |
| 10 | Unsupported cash and bank balances | 9 | 17% |
| 11 | Irregular procurement processes | 9 | 17% |

1. **Financial Statements**

Several cross-cutting issues frequently impact the preparation of financial statements by Ministries, Departments, and Agencies (MDAs), hindering the accuracy and transparency of the reporting process.

One key challenge is the non-disclosure of aging analysis for payables and receivables. This prevents stakeholders from understanding the outstanding obligations and the timeline for payment collections, potentially leading to liquidity and credit risks.

Another critical issue is the non-disclosure of the going concern status, which is essential for assessing an organization's long-term viability. Without this disclosure, it becomes difficult for users of financial statements to evaluate the sustainability and financial health of the MDAs.

Additionally, unsupported material differences between the original and final budgets are a significant concern, as they create discrepancies between planned and actual expenditures, which could undermine accountability and effective financial planning. These issues not only impair the quality of financial reporting but also limit the ability of government entities to make informed decisions and demonstrate transparency to the public.

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issues | No of Entities | % of entities |
| 1 | Non-disclosure of aging analysis for payables and receivables | 15 | 29% |
| 2 | Non-disclosure of going concern status | 14 | 27% |
| 3 | Unsupported material differences between original budget and final budget  | 13 | 25% |
| 4 | Incomplete fixed asset registers | 8 | 15% |
| 5 |  Non-disclosure on related parties  | 6 | 12% |
| 6 | Notes lack additional information to guide users in understanding financial statements | 6 | 12% |
| 7 | Unsupported material differences between the budget and actual amounts | 4 | 8% |
| 8 | Cash and cash equivalents in statement of cash flow not equal to statement of financial position | 3 | 6% |

1. **Governance**

The audit reports have consistently highlighted several critical governance issues that adversely affect the operations of Ministries, Departments, and Agencies (MDAs).

One of the primary concerns is the lack of an independent party responsible for receiving and investigating whistleblowing reports. This absence undermines the integrity of reporting mechanisms, leaving potential fraud, corruption, or mismanagement unaddressed and eroding trust in the system.

Another significant issue is the lack of an evident corporate reputation and image strategy. Without a formal approach, MDAs may struggle to maintain public confidence, particularly in times of crisis, leading to reputational damage that can impact their credibility and effectiveness in delivering public services. Furthermore, a significant governance challenge is a lack of a comprehensive policy on managing conflicts of interest.

The absence of such a policy increases the risk of unethical behavior, as individuals in MDAs may prioritize personal interests over organizational or public welfare, compromising decision-making processes.

These governance gaps hinder transparency, accountability, and the overall effectiveness of MDAs, impacting their ability to serve the public and uphold the principles of good governance.

The review of governance in the sector revealed the following:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issues | No of Entities | % of entities |
| 1 | Lack of independent party responsible for receiving and investigating whistleblowing reports | 48 | 92% |
| 2 | Lack of strategy on corporate reputation and image  | 47 | 90% |
| 3 | Lack of policy on management of conflict of interest | 39 | 75% |
| 4 | Ineffective processes and systems of risk management and internal controls in place | 38 | 73% |
| 5 | Lack of code of conduct, ethics, and a corporate gifts policy | 37 | 71% |
| 6 | Lack of ICT policy | 36 | 69% |
| 7 | Non-monitoring of risks on a quarterly policy | 31 | 60% |
| 8 | Lack of a risk management policy | 29 | 56% |

1. **Environmental and Sustainability Reporting**

The Annual Financial Statements of Ministries, Departments, and Agencies (MDAs) have consistently revealed several pressing environmental and sustainability reporting issues that need urgent attention.

One significant issue is the non-disclosure of product stewardship, which refers to the practices and strategies employed to safeguard customer rights and interests. Without this disclosure, there is limited transparency regarding how MDAs ensure the safety, quality, and ethical considerations of the products or services they provide to the public, potentially undermining consumer trust and satisfaction.

Another critical gap is the non-disclosure of mechanisms to improve service delivery practices. Without this information, stakeholders lack a clear understanding of the strategies and initiatives implemented to enhance efficiency, effectiveness, and customer experience, which are essential for achieving sustainable public service goals.

Additionally, there is a lack of transparency regarding community and social contributions, particularly Corporate Social Responsibility (CSR) activities. This omission hinders the public’s ability to assess the social and environmental impact of MDAs and their commitment to community development. Collectively, these deficiencies in environmental and sustainability reporting limit the ability of MDAs to demonstrate their responsibility and accountability in addressing environmental and societal challenges, diminishing public confidence in their long-term sustainability efforts.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issues | No of Entities | % of entities |
| 1 | Non-disclosure of product stewardship i.e. how to safeguard customer rights and interests  | 32 | 62% |
| 2 | Non-disclosure of mechanisms to improve service delivery practices | 26 | 50% |
| 3 | Non-disclosure on community and social contributions -CSR activities  | 21 | 40% |
| 4 | Lack of a clearly detailed environmental policy guiding the entity | 19 | 37% |
| 5 | Non-reference by the Principal Secretary/CEO on sustainability efforts | 17 | 33% |
| 6 | Non-disclosure of sustainability priorities of the entity | 17 | 33% |
| 7 | Non-disclosure of distribution of employees by gender, age group and any special group (inclusivity) | 16 | 31% |
| 8 | Non-disclosure of efforts to reduce environmental impacts of the entity’s product or services | 16 | 31% |
| 9 | Non-disclosure of public participation, sensitization, and civic education | 15 | 29% |
| 10 | Non-disclosure of policies guiding inclusion in the process of hiring and the gender ratio | 10 | 19% |

1. **Management Discussions and Analysis**

The Annual Financial Statements of Ministries, Departments, and Agencies (MDAs) often fail to address several critical aspects of management discussions and analysis, leading to a lack of comprehensive transparency.

One significant issue is the lack of disclosure of the outlook for the next period. This omission deprives stakeholders of important insights into the entity's future direction and financial health, making it difficult for investors, policymakers, and the public to assess long-term sustainability and performance expectations. Another key issue is the failure to disclose the entity's key risks.

Without this information, users of the financial statements cannot fully understand the challenges that may impact the MDA’s operations, such as financial instability, regulatory changes, or external economic factors, thus hindering effective decision-making.

Additionally, the non-disclosure of strategies in place to mitigate these risks exacerbates the situation. Without outlining risk management strategies, MDAs leave stakeholders uncertain about addressing potential challenges through contingency planning, process improvements, or resource allocation.

 These gaps in management discussions and analysis not only diminish the usefulness of financial statements but also hinder stakeholders' ability to gauge the MDAs' preparedness for future uncertainties and their ability to navigate potential risks. This section of the report gives an overview of operation conditions and results.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issues | No of Entities | % of entities |
| 1 | Non-disclosure of outlook for the next period | 33 | 63% |
| 2 | Non-disclosure of key risks faced by the entity | 27 | 52% |
| 3 | Non-disclosure of strategies in place to mitigate risks  | 26 | 50% |
| 4 | Non-disclosure of trend analysis, charts, graphs, variance analysis and financial ratios over the last three to five years  | 26 | 50% |
| 5 | Non-disclosure on alignment with sustainable development goals | 17 | 33% |
| 6 | Non-disclosure on impacts of the current economic and sectoral environment on the entity’s operations | 14 | 27% |
| 7 | Non-disclosure on challenges faced by the entity and possible solutions | 4 | 8% |

1. **Other key findings**

Other issues that affect reporting were observed during the review of the financial statements.

1 Variances between figures in IFMIS and figures reported in the Financial Statements

2 Misclassification of expenditure

3 Non-disclosure on profile and relevant qualifications of audit committee members

**Recommendations**

**1. Audit Issues:**

* **Budget Control and Performance**: MDAs should implement robust budget monitoring and performance management frameworks. This includes regular budget reviews, variance analysis, and enhanced accountability measures to ensure performance aligns with planned objectives.
* **Unresolved Prior Year Audit Matters**: Immediate attention should be given to resolving audit issues from previous years. MDAs should set up dedicated teams to address these long-standing issues and ensure they are fully resolved before the next audit cycle.
* **Extended Outstanding Payables:** MDAs must develop better cash flow management and prioritize clearing overdue payables. This could involve improving invoicing and payment processes and setting up clear payment schedules to manage outstanding liabilities.
* **Non-disclosure of Risk Management Policy and Internal Controls:** MDAs should establish and disclose comprehensive risk management policies and internal control frameworks. These policies should be regularly updated and publicly disclosed to enhance transparency and accountability.
* **Stalled Projects**: MDAs should implement project management systems to monitor project progress, identify potential bottlenecks, and take corrective action promptly. Proper resource allocation and tracking mechanisms must be in place to prevent delays.
* **Unsupported Expenditures**: MDAs must ensure that all expenditures are adequately documented with supporting evidence, such as receipts, invoices, and contracts. Financial controls should be strengthened to prevent unauthorized or unsupported spending.
* **Non-disclosure of Going Concern Status**: MDAs should include a clear going concern disclosure in their financial statements, outlining potential risks that may threaten their economic viability.
* **Irregular Expenditures:** Regular audits and checks should be conducted to prevent irregular spending. A clear procurement policy and compliance framework should be enforced to ensure that all expenditures are justified and legitimate.
* **Lack of Ownership Documents for Assets:** MDAs should maintain a comprehensive asset register and ensure all assets have valid ownership documents. This will support accurate asset management and prevent mismanagement.
* **Unsupported Cash and Bank Balances**: MDAs must reconcile their cash and bank balances regularly and ensure that balances reported in financial statements match the actual figures in the bank accounts.
* **Irregular Procurement Processes:** MDAs should adopt and strictly adhere to standardized procurement procedures, ensuring transparency, fairness, and compliance with relevant laws and regulations.

**2. Financial Statement Issues:**

* **Non-disclosure of Aging Analysis for Payables and Receivables**: MDAs should implement a detailed aging analysis for payables and receivables to improve transparency in financial reporting. This will help stakeholders assess the entity's liquidity and debt management.
* **Non-disclosure of Going Concern Status**: The going concern status should be disclosed in financial statements, with clear indications of any challenges that could impact the entity’s ability to continue its operations in the foreseeable future.
* **Unsupported Material Differences Between Original and Final Budgets:** MDAs should ensure consistency in budgeting and explain any material differences between the original and final budgets, justifying any adjustments made during the period.
* **Incomplete Fixed Asset Registers**: MDAs should maintain a complete and accurate fixed asset register, including detailed records for all assets, their values, and locations, and should regularly update it for accuracy.
* **Non-disclosure on Related Parties:** MDAs should disclose transactions with related parties in accordance with accounting standards, ensuring transparency about any potential conflicts of interest or related-party dealings.
* **Lack of Additional Information in Notes to the Financial Statements**: The notes to financial statements should be expanded to provide sufficient information to help users better understand the financial position, accounting policies, and key assumptions underlying the financial statements.

**3. Governance Issues:**

* **Lack of Independent Party for Whistleblowing**: MDAs should establish an independent whistleblowing mechanism that allows employees and the public to report unethical behavior without fear of retaliation. This mechanism should be transparent, easily accessible, and regularly monitored.
* **Lack of Strategy on Corporate Reputation**: MDAs must develop and implement a corporate reputation and image strategy that addresses public perception, stakeholder relations, and crisis management.
* **Lack of Conflict-of-Interest Policy**: An apparent conflict of interest policy should be developed and enforced across all MDAs to ensure that employees and officials act in the best interests of the public and the entity.
* **Ineffective Risk Management and Internal Controls**: MDAs must enhance their risk management frameworks by conducting regular risk assessments and implementing stronger internal controls to safeguard public resources.
* **Lack of Code of Conduct and Ethics Policy**: MDAs should implement and disclose a code of conduct and ethics policy, including guidelines on corporate gifts and acceptable behavior for employees and officials.
* **Lack of ICT Policy**: MDAs should develop and implement ICT policies that address data security, governance, and compliance with relevant laws to support efficient and secure operations.

**4. Environmental and Sustainability Reporting Issues:**

* Non-disclosure of Product Stewardship: MDAs should disclose how they safeguard customer rights and interests and demonstrate how their operations and products contribute to environmental sustainability.
* **Non-disclosure of Service Delivery Mechanisms:** MDAs should disclose mechanisms and strategies they employ to improve service delivery, ensuring continuous improvement in the quality and accessibility of services to the public.
* **Non-disclosure of CSR Activities:** MDAs should report on their community and social responsibility (CSR) activities, providing evidence of their contributions to social well-being and environmental sustainability.
* **Lack of Environmental Policy:** MDAs should develop a clear and comprehensive environmental policy to guide their operations, ensure compliance with sustainability goals, and reduce negative environmental impacts.

**5. Management Discussions and Analysis Issues:**

* **Non-disclosure of Outlook for the Next** Period: MDAs should include an outlook section in their management discussions to provide stakeholders with a forward-looking view of expected challenges, opportunities, and goals.
* **Non-disclosure of Key Risks:** MDAs should disclose the entity's key risks, outlining potential impacts and mitigation strategies to demonstrate proactive risk management.
* **Non-disclosure of Mitigation Strategies**: MDAs should clearly outline the strategies to mitigate identified risks, providing stakeholders with confidence in their risk management capabilities.
1. **Other Key Findings:**
* Variances Between IFMIS and Financial Statements: MDAs should regularly reconcile figures in IFMIS with those in financial statements to ensure consistency and accuracy in reporting.
* Misclassification of Expenditure: MDAs must improve their classification systems and establish clear guidelines to ensure all expenditures are categorized correctly and consistently.
* Non-disclosure of Audit Committee Members’ Profiles: MDAs should disclose the profiles and qualifications of audit committee members to ensure transparency regarding the expertise overseeing the audit processes.

By addressing these issues, MDAs can improve the transparency, accountability, and efficiency of their operations, ultimately strengthening public trust and fostering better governance and management of public resources.

**The National Treasury / Public Sector Accounting Standards Board Interventions**

1. **Technical Support in Financial Reporting:** The Department of Accounting Services will continue to provide technical support to the MDAs in preparing financial statements, mainly to ensure compliance with the standards prescribed by the Public Sector Accounting Standards Board. If the entity has any queries or technical difficulties in accounting and reporting, it should contact its focal person or the Director of Accounting Services National Treasury.
2. The National Treasury shall continue to issue circulars/guidelines on Year-End Closing Procedures to guide entities in preparing accurate and reliable annual financial statements.
3. The Public Sector Accounting Standards Board shall continue to conduct training and capacity-building activities for accountants on financial accounting and reporting.
4. The Public Sector Accounting Standards Board shall continue to mainstream the best practices for good governance, internal controls, and risk management in the Public Sector.

**Annex 1: List of Entities Reviewed**

| **S/No.** |  **Entity** | **Opinion** |
| --- | --- | --- |
| 1 | Parliamentary Service Commission | Unqualified |
| 2 | The National Assembly | Unqualified |
| 3 | State Department for Correctional Services | Unqualified |
| 4 | National Gender and Equality Commission | Unqualified |
| 5 | State Department for Roads | Unqualified |
| 6 | Office of the Prime Cabinet Secretary | Unqualified |
| 7 | State Department for Housing and Urban Development | Unqualified |
| 8 | State Department for Shipping and Maritime | Unqualified |
| 9 | State Department for Wildlife | Unqualified |
| 10 | State Department for Public Service | Unqualified |
| 11 | State Department for Regional and Northern Corridor Development | Unqualified |
| 12 | Judicial Service Commission | Unqualified |
| 13 | State Department for Immigration and Citizen Services | Unqualified |
| 14 | State Department for Broadcasting and Telecommunications | Unqualified |
| 15 | State Department for Tourism  | Unqualified |
| 16 | State Department for Trade and Enterprise Development | Unqualified |
| 17 | Teachers Service Commission | Unqualified |
| 18 | State Department for Information Communication Technology and Innovation | Unqualified |
| 19 | State Department for Youth Affairs  | Unqualified |
| 20 | State Department for Labour and Skills Development | Unqualified |
| 21 | The Office of the Deputy President | Unqualified |
| 22 | Public Service Commission | Unqualified |
| 23 | State Department for Post-Training and Skills Development | Unqualified |
| 24 | State Department for Diaspora Affairs | Unqualified |
| 25 | State Department for Forestry | Unqualified |
| 26 | State Department for East African Community | Unqualified |
| 27 | Office of The Registrar of Political Parties | Unqualified |
| 28 | State Department for Petroleum | Qualified |
| 29 | State Department for Public Works | Qualified |
| 30 | State Department for Public Health and Professional Standards | Qualified |
| 31 | Office of the Director of Public Prosecutions | Qualified |
| 32 | State Department for Foreign Affairs | Qualified |
| 33 | State Department for Sports and the Arts | Qualified |
| 34 | Ministry of Foreign Affairs | Qualified |
| 35 | State Department for Mining | Qualified |
| 36 | State Department for Culture and Heritage | Qualified |
| 37 | State Department for Industry | Qualified |
| 38 | State Department for Technical, Vocational Education and Training | Qualified |
| 39 | Ministry of Health | Qualified |
| 40 | State Department for Implementation of Curriculum Reforms | Qualified |
| 41 | State Department for Transport | Qualified |
| 42 | State Department for Environment and Climate Change | Qualified |
| 43 | The Judiciary | Qualified |
| 44 | State Department for Water and Sanitation | Qualified |
| 45 | State Department for Higher Education and Research | Qualified |
| 46 | State Department for Crop Development and Agricultural Research | Qualified |
| 47 | State Department for Livestock  | Qualified |
| 48 | National Land Commission | Qualified |
| 49 | State Law Office and Department of Justice | Qualified |
| 50 | State Department for Early Learning and Basic Education | Qualified |
| 51 | State Department for Lands and Physical Planning | Qualified |
| 52 | State Department for Social Protection | Qualified |

**Appendix 5**

**Sectoral Report**

**For**

**The National Government Constituencies Development Fund**

# Background Information

This Sectoral report is for Kenya's National Government Constituencies Development Fund (NG-CDF). The NG-CDF prepares its annual reports and financial statements using the IPSAS cash-basis reporting framework and is compliant with the Public Sector Accounting Standards Board reporting templates.

## **Overview**

This sector report analyzes and evaluates performance based on audited accounts. The report focuses on the audited annual reports of the 286 constituency development funds for the financial year ended June 30, 2023.

The number of audit opinions is as follows:

|  |  |  |
| --- | --- | --- |
| Opinion | No. of Entities | Percentage |
| Unqualified | 0 | 0% |
| Qualified | 280 | 98% |
| Adverse | 6 | 2% |

## **Areas covered.**

The report will highlight the crosscutting issues which we identified in the following areas:

1. Audit
2. Financial Statements
3. Governance
4. CSR/Environment
5. Management Discussions and Analysis
6. General compliance with the reporting template
7. Other key findings

#  Findings

# Audit

The Audit reports highlight three areas of finding as follows:

# Report on the Financial Statement.

The following issues were raised by the auditor when determining whether the financial statements were presented relatively:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | % of entities  |
| 1 | Budget control and performance | 261 | 91% |
| 2 | Unresolved Prior year Matters | 250 | 87% |
| 3 | Unsupported expenses | 209 | 73% |
| 4 | Lack of ownership documents for assets | 82 | 29% |



Based on the information, many constituency development funds had unresolved prior-year audit issues. This situation could notably impact the NG-CDF sector’s inability to obtain an unqualified audit opinion.

Other matters on fair presentation of financial statements observed in individual entities include:

* Inaccuracies in cash and bank balances
* Variances between financial statements and supporting schedules

# Report on Lawfulness and Effectiveness in the use of public resources.

The auditor’s report highlighted the following issues across the funds relating to applicable laws, regulations, circulars, etc., and whether public resources are applied prudently, efficiently, economically, transparently, and accountable.

The highlighted issues include the following:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | % of entities  |
| 1 | Stalled projects | 190 | 66% |
| 2 | Irregular payments | 119 | 42% |
| 3 | Irregular procurement process | 84 | 29% |
| 4 | Compliance with statutory requirements | 84 | 29% |
| 5 | Irregular recruitment/appointments process | 9 | 24% |

Numerous projects funded by NG-CDF are experiencing delays primarily because funds are being late disbursed from the NG-CDF board. This delay directly impacts budget performance and often leads to audit queries.

In terms of compliance, it has been noted that many constituency development funds do not seek approvals from the NG-CDF board before implementing their projects. Furthermore, the auditor's report highlighted an issue regarding using emergency funds within the NG-CDF for regular operations without obtaining prior approval from the board for this reallocation.

# Report on Effectiveness of Internal controls, Risk Management and Governance.

The investigation on how the entities instituted checks and balances to guide internal operations is their effectiveness of the Governance structure, risk management, environment, and internal controls. This is given by several issues raised by the auditor that apply to a majority in this sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities  | % of entities  |
| 1 | Lack of ICT policy |  208  | 72% |
| 2 | Lack of risk management policy and internal controls  |  197 | 69% |

During the review of the NG-CDF, it was observed that 69% of the constituencies had failed to disclose their risk management policies. However, in some constituencies where there was a lack of a risk management policy, the auditor’s report mentioned sufficient internal controls. This indicates that the main issue identified was the lack of disclosure of risk management policies.

# Financial Statements

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is under the following:

# Statement of Financial Performance

The constituency development funds did not have significant issues across the statement of financial performance. We highlighted the following:

* Bank charges classified incorrectly (i.e., not captured under the use of goods) (17%) of the entities.
* Failure to delete blank notes (65%) of the entities.

# Statement of Financial Position

The constituency development funds also presented the statement of financial position fairly. As such, we only highlighted a few issues. Namely:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Financial Position Issue | Number of Entities | % of entities |
| 1 | Failure to disclose ageing analysis  | 216 | 76% |
| 2 | Inaccurate Comparative figures | 7 | 2% |

# Cash flow Statement

A review of the cash flow statements revealed the following cross-cutting issues across the NG-CDF:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Cash flow method | Number of Entities | % of entities |
| 1 | Failure to provide a reconciliatory note | 135 | 47% |
| 2 | Difference in the cash and cash equivalents in the statement of financial position and cashflows | 20 | 7% |

# Budget

* *Budget presentation*: The budget was presented fairly across the NG-CDF and aligned with the PSASB financial reporting templates.
* *Budget adjustments:* During our review of the NG-CDF, it became evident that certain funds did not explain the changes between their original and final budgets that were due to budget revisions.
* *Budget notes*: It was also observed that certain constituency funds did not explain the differences between their final budget and the actual amounts on a comparable basis.

# Governance

The review identified the following key issues under governance across the constituency development funds:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Governance Issue | Number of Entities |  %of entities |
| 1 | Non- disclosure on code of conduct and ethics | 186 | 65% |
| 2 | No disclose on corporate image strategy | 284 | 99% |
| 3 | Non- disclosure on whistle blowing strategy | 284 | 99% |
| 4 | Failure to disclose a procurement policy | 176 | 62% |
| 5 | Conflict-of-interest policy non-existence | 149 | 52% |



One prevalent issue identified in the NG-CDF reports is the lack of disclosure regarding the various policies governing them. Most constituency development funds do not have a whistle-blowing policy in place, making it challenging for employees to raise concerns. A whistle-blowing policy would be advantageous as it would protect employees and help prevent mismanagement. The introduction of a whistle-blowing policy could lead to a reduction in certain irregular practices.

# Environmental and Sustainability Reporting

This section of the report is where entities share information about their environmental impact and sustainability practices.

The following issues were highlighted across the constituency development funds:

|  |  |  |
| --- | --- | --- |
| **Description** | **Factor** | **Percentage** |
| Sustainability strategy and profile | Non- disclosure of initiatives surrounding climate change  | **88%**  |
| Environmental performance | Failure to include an environmental policy | **73%** |
| Employee welfare | Failure to highlight efforts to improve employee skills | **57%** |
|  | Failure to highlight adherence to inclusivity policies | **54%** |
| Marketplace practices | Failure to disclose marketplace competition practices | **39%** |
|  | Failure to outline the oversight activities performed when outsourcing suppliers to ensure good business practices | **38%** |
| Community engagement  | Failure to provide evidence of community engagement | **35%** |
|  | Failure to provide evidence of public participation and civic education.  | **22%** |



It was challenging to review the ESR across the NG-CDF since environmental and sustainability reporting keeps evolving. 88% of the constituencies did not disclose the specific measures and initiatives they are undertaking to promote sustainability. It is, therefore, important that the NG-CDF be sensitized to the importance of ESR and exposed to the different ways in which it can be reported.

#  Management Discussions and Analysis

This section of the report gives an overview of the operational performance across the NG-CDF:

|  |  |  |
| --- | --- | --- |
| **Description** | **Factor** | **Percentage** |
| Operational and financial performance | Non-disclosure on trend analysis, variance analysis and financial ratios | **83%**  |
| Failure to disclose key achievements and milestones | **63%**  |
| Failure to disclose the overall financial position of the entity | **7%**  |
| Failure to disclose on challenges faced by entity and possible solutions | **14%**  |
| Forward looking information | Failure to disclose on outlook for the next period, strategic priorities, anticipated risks, and opportunities. | **73%** |
| Risk management and internal controls | Failure to disclose on key risks faced by entity. | **73%** |
|  | Failure to disclose strategies in place to mitigate risks. | **64%** |
| Governance and accountability | Failure to disclose committees and leadership, ethical standards and compliance, stake holder engagement. | **28%** |
| Sustainability and social responsibility | Non- disclosure on environmental impacts-measures to minimize environmental footprints. | **35%** |
| Failure to disclose community and social contributions-CSR activities | **24%** |
| Non- disclosure of alignments with Sustainable development goals. | **43%** |

83% of the NG-CDF did not disclose financial and operational performance information for the past 3-5 years. Due to this lack of disclosure, it was not possible to analyze the sector's trends and financial ratios.

Under governance, unconfirmed Project Management Committee bank balances were a highlighted cross-cutting issue. Failure to support expenditure raises concerns about mismanagement of funds and leads to audit queries.

# 3.0 Other Key Findings

*General compliance with the reporting template*

The National Government Constituency Development Fund (NG-CDF) adhered to the Public Sector Accounting Standards Board (PSASB) financial reporting templates. However, they did not customize their reports, as sections like marketplace practices and sustainability and climate change initiatives were directly adopted from the template.

*Annexes*

 2% of the NG-Constituency Development Funds failed to disclose their fixed asset registers and other annexures pronounced by the IPSAS Board.

*Going concern disclosure*

None of the constituency development funds have disclosed whether they are considered a going concern. According to IPSAS 1, all entities are required to make this disclosure.

# 4.0 Recommendations

1. One primary concern highlighted in multiple NG-CDF reports is the increasing number of students nationwide. As a result, there is a request for an increase in the allocation of funds directed towards supporting bursary beneficiaries.
2. Most constituency development funds were found to be using sections directly from the PSASB financial reporting templates without customization. As a result, capacity building across the constituencies is needed to enhance understanding and utilization of the templates. The Financial Reporting Unit at the National Treasury and the Public Sector Accounting Standards Board can facilitate this capacity-building initiative.
3. Constituency development funds should be guided on how to disclose their various policies, including procurement and ICT policies, within their annual reports. The templates currently lack clarity on where this disclosure should be included.
4. The NG-CDF also requires assistance with Environmental and Sustainability reporting. This is a significant issue across public sector entities, and there is a growing need to develop a framework for Environmental and Sustainability reporting due to its increasing importance.

# Annex1: Constituencies Reviewed

The data in this report is based on a review of the following constituencies:

|  | **National Government Constituencies Development Funds Reviewed.** |
| --- | --- |
| 1 | Ainabkoi Constituency | 106 | Kikuyu Constituency | 211 | Ndia Constituency |
| 2 | Ainamoi Constituency | 107 | Kilgoris Constituency | 212 | Njoro Constituency |
| 3 | Aldai Constituency | 108 | Kilifi North Constituency | 213 | North Horr Constituency |
| 4 | Alego Usonga Constituency | 109 | Kilifi South Constituency | 214 | North Imenti Constituency |
| 5 | Awendo Constituency | 110 | Kilome South Constituency | 215 | North Mugirango constituency |
| 6 | Bahati Constituency | 111 | Kimilili Constituency | 216 | Nyakach Constituency |
| 7 | Balambala Constituency | 112 | Kiminini Constituency | 217 | Nyali Constituency |
| 8 | Banisa Constituency | 113 | Kinango Constituency | 218 | Nyando Constituency |
| 9 | Baringo Central Constituency | 114 | Kinangop Constituency | 219 | Nyaribari Chache Constituency |
| 10 | Baringo North Constituency | 115 | Kipipiri Constituency | 220 | Nyaribari Masaba constituency |
| 11 | Baringo South Constituency | 116 | Kipkelion East Constituency | 221 | Nyatike Constituency |
| 12 | Belgut Constituency | 117 | Kipkelion West Constituency | 222 | Nyeri Town Constituency |
| 13 | Bobasi Constituency | 118 | Kirinyaga Central Constituency | 223 | Ol Joroorok Constituency |
| 14 | Bomachoge Chache Constituency | 119 | Kisauni Constituency | 224 | Ol Kalou Constituency |
| 15 | Bomachoge Borabu Constituency | 120 | Kisumu Central Constituency | 225 | Othaya Constituency |
| 16 | Bomet Central Constituency | 121 | Kisumu East Constituency | 226 | Pokot South Constituency |
| 17 | Bomet East Constituency | 122 | Kisumu West Constituency | 227 | Rabai Constituency |
| 18 | Bonchari East Constituency | 123 | Kitui Central Constituency | 228 | Rangwe Constituency |
| 19 | Bondo Constituency | 124 | Kitui East Constituency | 229 | Rarieda Constituency |
| 20 | Borabu Constituency | 125 | Kitui Rural Constituency | 230 | Rongai Constituency |
| 21 | Budalangi Constituency | 126 | Kitui South Constituency | 231 | Rongo Constituency |
| 22 | Bumula Constituency | 127 | Kitui West Constituency | 232 | Roysambu Constituency |
| 23 | Bura Constituency | 128 | Kitutu Chache Constituency | 233 | Ruaraka Constituency |
| 24 | Bureti Constituency | 129 | Kitutu Chache North constituency | 234 | Ruiru Constituency |
| 25 | Butere Constituency | 130 | Kitutu Masaba Constituency | 235 | Runyenjes Constituency |
| 26 | Butula Constituency | 131 | Konoin Constituency | 236 | Sabatia Constituency |
| 27 | Buuri Constituency | 132 | Kuresoi North Constituency | 237 | Saboti Constituency |
| 28 | Central Imenti Constituency | 133 | Kuresoi South Constituency | 238 | Saku Constituency |
| 29 | Changamwe Constituency | 134 | Kuria East Constituency | 239 | Samburu East Constituency |
| 30 | Chepalungu Constituency | 135 | Kuria West Constituency | 240 | Samburu North Constituency |
| 31 | Cherangany Constituency | 136 | Kwanza Constituency | 241 | Samburu West Constituency |
| 32 | Chesumei Constituency | 137 | Lafey Constituency | 242 | Seme Constituency |
| 33 | Chuka Igamba ng'ombe constituency | 138 | Lagdera Constituency | 243 | Shinyalu Constituency |
| 34 | Daadab Constituency | 139 | Laikipia East Constituency | 244 | Sigor Constituency |
| 35 | Dagoreti North Constituency | 140 | Laikipia North Constituency | 245 | Sigowet-Soin Constituency |
| 36 | Dagoreti South Constituency | 141 | Laikipia West Constituency | 246 | Sirisia Constituency |
| 37 | Eldama Ravine Constituency | 142 | Laisamis Constituency | 247 | Sotik Constituency |
| 38 | Eldas Constituency | 143 | Lamu East Constituency | 248 | South Imenti Constituency |
| 39 | Embakasi Central Constituency | 144 | Lamu West Constituency | 249 | Soy Constituency |
| 40 | Embakasi East Constituency | 145 | Langata Constituency | 250 | Starehe Constituency |
| 41 | Embakasi North Constituency | 146 | Lari Constituency | 251 | Suba North Constituency |
| 42 | Embakasi South Constituency | 147 | Likoni Constituency | 252 | Suba South Constituency |
| 43 | Embakasi West Constituency | 148 | Likuyani Constituency | 253 | Suna East Constituency |
| 44 | Emgwen Constituency | 149 | Limuru Constituency | 254 | Suna West Constituency |
| 45 | Emuhaya Constituency | 150 | Loima Constituency | 255 | Tarbaj Constituency |
| 46 | Emurua Dikirr Constituency | 151 | Luanda Constituency | 256 | Taveta Constituency |
| 47 | Endebess Constituency | 152 | Lugari Constituency | 257 | Teso North Constituency |
| 48 | Fafi Constituency | 153 | Lungalunga Constituency | 258 | Teso South Constituency |
| 49 | Funyula Constituency | 154 | Lurambi Constituency | 259 | Tetu Constituency |
| 50 | Galole Constituency | 155 | Maara Constituency | 260 | Tharaka Constituency |
| 51 | Ganze Constituency | 156 | Machakos Constituency | 261 | Thika Town Constituency |
| 52 | Garissa Township Constituency | 157 | Magarini Constituency | 262 | Tiaty Constituency |
| 53 | Garsen Constituency | 158 | Makadara Constituency | 263 | Tigania East Constituency |
| 54 | Gatanga Constituency | 159 | Makueni Constituency | 264 | Tigania West Constituency |
| 55 | Gatundu North Constituency | 160 | Malava Constituency | 265 | Tinderet Constituency |
| 56 | Gatundu South Constituency | 161 | Malindi Constituency | 266 | Tongaren Constituency |
| 57 | Gem South Constituency | 162 | Mandera East Constituency | 267 | Turbo Constituency |
| 58 | Gichugu Constituency | 163 | Mandera North Constituency | 268 | Turkana Central Constituency |
| 59 | Gilgil Constituency | 164 | Mandera South Constituency | 269 | Turkana East Constituency |
| 60 | Githunguri Constituency | 165 | Mandera West Constituency | 270 | Turkana North Constituency |
| 61 | Hamisi Constituency | 166 | Manyatta Constituency | 271 | Turkana South Constituency |
| 62 | Homa Bay Town Constituency | 167 | Maragua Constituency | 272 | Turkana West Constituency |
| 63 | Igembe Central Constituency | 168 | Marakwet East Constituency | 273 | Ugenya Constituency |
| 64 | Igembe North Constituency | 169 | Marakwet West Constituency | 274 | Ugunja Constituency |
| 65 | Igembe South Constituency | 170 | Masinga Constituency | 275 | Uriri Constituency |
| 66 | Ijara Constituency | 171 | Matayos Constituency | 276 | Vihiga Constituency |
| 67 | Ikolomani Constituency | 172 | Mathare Constituency | 277 | Voi Constituency |
| 68 | Isiolo North Constituency | 173 | Mathioya Constituency | 278 | Wajir East Constituency |
| 69 | Isiolo South Constituency | 174 | Mathira Constituency | 279 | Wajir North Constituency |
| 70 | Jomvu Constituency | 175 | Matuga Constituency | 280 | Wajir South Constituency |
| 71 | Juja Constituency | 176 | Matungu Constituency | 281 | Wajir West Constituency |
| 72 | Kabete Constituency | 177 | Matungulu Constituency | 282 | Webuye East Constituency |
| 73 | Kabondo Kasipul Constituency | 178 | Mavoko Constituency | 283 | Webuye West Constituency |
| 74 | Kabuchai Constituency | 179 | Mbeere North Constituency | 284 | West Mugirango Constituency |
| 75 | Kacheliba Constituency | 180 | Mbeere South Constituency | 285 | Wundanyi Constituency |
| 76 | Kaiti Constituency | 181 | Mbooni Constituency | 286 | Yatta Constituency |
| 77 | Kajiado Central Constituency | 182 | Mogotio Constituency |  |  |
| 78 | Kajiado East Constituency | 183 | Moiben Constituency |  |  |
| 79 | Kajiado North Constituency | 184 | Molo Constituency |  |  |
| 80 | Kajiado South Constituency | 185 | Mosop Constituency |  |  |
| 81 | Kajiado West Constituency | 186 | Moyale Constituency |  |  |
| 82 | Kaloleni Constituency | 187 | Msambweni Constituency |  |  |
| 83 | Kamukunji Constituency | 188 | Mt. Elgon Constituency |  |  |
| 84 | Kandara Constituency | 189 | Muhoroni Constituency |  |  |
| 85 | Kanduyi Constituency | 190 | Mukurwe-ini Constituency |  |  |
| 86 | Kangema Constituency | 191 | Mumias East Constituency |  |  |
| 87 | Kangundo Constituency | 192 | Mumias West Constituency |  |  |
| 88 | Kapenguria Constituency | 193 | Mvita Constituency |  |  |
| 89 | Kapseret Constituency | 194 | Mwala Constituency |  |  |
| 90 | Karachuonyo Constituency | 195 | Mwatate Constituency |  |  |
| 91 | Kasarani Constituency | 196 | Mwea Constituency |  |  |
| 92 | Kasipul Constituency | 197 | Mwingi Central Constituency |  |  |
| 93 | Kathiani Constituency | 198 | Mwingi North Constituency |  |  |
| 94 | Keiyo North Constituency | 199 | Mwingi West Constituency |  |  |
| 95 | Keiyo South Constituency | 200 | Naivasha Constituency |  |  |
| 96 | Kesses Constituency | 201 | Nakuru Town East Constituency |  |  |
| 97 | Khwisero Constituency | 202 | Nakuru Town West Constituency |  |  |
| 98 | Kiambaa Constituency | 203 | Nambale Constituency |  |  |
| 99 | Kiambu Constituency | 204 | Nandi Hills Constituency |  |  |
| 100 | Kibra Constituency | 205 | Narok East Constituency |  |  |
| 101 | Kibwezi East Constituency | 206 | Narok North Constituency |  |  |
| 102 | Kibwezi West Constituency | 207 | Narok South Constituency |  |  |
| 103 | Kieni Constituency | 208 | Narok West Constituency |  |  |
| 104 | Kigumo Constituency | 209 | Navakholo Constituency |  |  |
| 105 | Kiharu Constituency | 210 | Ndaragwa Constituency |  |  |

**Appendix 6**

**Sectoral Report**

**For**

**Political Parties**

# Overview of the Sector

* The Political Parties Act 2011 sets aside **0.3%** of the National Government Revenue to finance political party activities.
* The Auditor General only audits political parties that receive funding from the Political Parties Fund upon meeting certain conditions as outlined in the **Political Parties (Amendment) Act, 2022 (17)**
* Forty-seven (47) (shown in ***Appendix 1****)* Audited Annual Reports and Financial Statements for the FY 2022/2023 of the political parties funded by the Exchequer through the Political Parties Fund were received and reviewed.
* The audit opinions for the political parties ranged from Unqualified to Disclaimer of opinion, as shown below:

|  |  |  |
| --- | --- | --- |
| **Opinion** | **No of entities** | **Percentage of entities** |
| Unqualified- Other Matter | 1 | 2.1% |
| Unqualified-With Emphasis | 7 | 14.9% |
| Qualified  | 29 | 61.7% |
| Adverse | 6 | 12.8% |
| Disclaimer | 4 | 8.5% |
| **Total** | **47** | **100%** |

***Pie Chart Showing the Sector’s Audit opinions during the FY 2022/2023***

# Areas Covered in The Report Are:

The report covers the following areas that highlight competitive advantages and structural weaknesses

1. Audit
2. Financial Statements
3. Governance
4. CSR/Environment
5. Management Discussions and Analysis
6. Other key findings

**Key Findings**

## **Audit**

The Audit reports highlight three areas of finding Reviewed as follows:

### **Report on the Financial Statements.**

The consideration of whether the financial statements were presented relatively is given by several issues raised by the auditor, and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Unresolved Prior Year Issues | 6 | 12.8% |
| 2 | Cash and Cash equivalents and bank balances are inaccurate and unconfirmed | 14 | 29.8% |
| 3 | Unsupported expenses | 26 | 55.3% |
| 4 | Unsupported Revenues | 15 | 31.9% |
| 5 | Lack of ownership documents for assets | 20 | 42.6% |
| 6 | Inconsistency between the Financial Statements and notes | 20 | 42.6% |
| 7 | Noncompliance with statutory requirements | 20 | 42.6% |
| 8 | Unconfirmed PPE balances | 15 | 31.9% |
| 9 | Long Outstanding receivables | 1 | 2.1% |
| 10 | Long Outstanding Payables | 3 | 6.4% |

There are other matters on the fair presentation of financial statements that were in individual entities but may replicate to others in the sector:

### Lack of Non-Financial Reports

### Private Audit of the Financial Statements contrary to article 229(4)(f) of the Constitution

### Failure to establish party offices in the counties as required by law

### **Report on Lawfulness and Effectiveness in Use of Public Resources.**

The consideration of compliance with applicable laws, regulations, circulars, etc., and whether public resources are applied in a prudent, efficient, economically, transparent, and accountable manner to ensure the achievement of value for money is given by several issues highlighted by the auditor and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Poor budget control and performance | 31 | 66% |
| 3 | Irregular procurement process | 18 | 38.3% |

### **Report on Effectiveness of Internal controls, Risk Management and Governance.**

The consideration of how the entities institute checks and balances to guide internal operations is a response to the effectiveness of the governance structure, risk management environment, and internal control. It gives several issues raised by the auditor that apply to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/n | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Poor risk management and internal controls  | 44 | 93.6% |
| 2 | Disclosure of going concern status | 27 | 57.4% |
| 3 | Lack of ICT policy | 46 | 97.9% |

##

## **Financial Statements**

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is as follows:

### **Statement of Financial Performance**

The key issues noted in this statement are outlined below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Financial Performance Issue | No of Entities | Percentage of entities |
| 1 | Misclassification of Bank Charges | 26 | 51.1% |
| 2 | Non classification of expenses by function | 19 | 40.4% |
| 3 | Non classification of expenses by nature | 10 | 21.3% |
| 4 | SFP not agreeing to the notes and not chronologically arranged | 25 | 53.2% |
| 5 | Misclassification of revenue as either exchange or non exchange | 12 | 25.5% |
| 6 | Failure to delete blank line items | 20 | 42.6% |
| 7 | Failure to provide current year and comparative figures | 8 | 17% |
| 8 | Failure to indicate period or year on the statement | 5 | 10.6% |
| 9 | Failure to clearly indicate Key headings  | 5 | 10.6% |
| 5 | Failure to disclose Donations received in kind | 24 | 51.1% |

### **Statement of Financial Position**

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Financial Position Issue | Number of Entities | Percentage of entities |
| 1 | Inaccurate Inventory figures expensed during the year | 42 | 89.4% |
| 2 | Failure to disclose inventories | 41 | 87.2% |
| 3 | Failure to provide a reconciliation between Cash and Cash equivalent in statement of Financial Performance and statement of Cashflows | 28 | 59.6% |
| 4 | Non presentation of assets and liabilities in order of liquidity | 6 | 12.8% |
|  | Non classification of current and noncurrent assets/liabilities separately | 4 | 8.5% |
|  | Failure to delete blank line items | 20 | 42.6% |
|  | Failure to provide current year and comparative figures | 8 | 17% |
|  | Failure to indicate period or year on the statement | 5 | 10.6% |

The key issues noted in this statement are outlined below:

###  **Statement of Changes in net assets/equity**

All the entities complied with IPSAS 1 and presented a statement of changes in net assets. However, a review of this statement shows that 27 entities, representing 57.4 of the total entities, failed to describe the nature and purpose of each reserve with equity.

### **Cash flow Statement**

The key issues noted in this statement are outlined below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Cashflow Issue | Number of Entities | Percentage of entities  |
| 1 | Failure to prepare the Statement of Cashflows and its reconciliatory note | 39 | 83% |
| 2 | Cash & Cash Equivalents in the Statement of Cashflows does not equal that in the Statement of Financial Position | 10 | 21.3% |
| 3 | Failure to delete blank line items | 20 | 42.6% |
| 4 | Failure to provide current year and comparative figures | 8 | 17% |
| 5 | Failure to indicate period or year on the statement | 5 | 10.6% |

### **Budget**

*Budget reconciliation*: The review of the budget information showed that only two entities, representing 4.3% of the total entities, provide a reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements where the financial statements and the budget are not prepared on a similar basis.

The review also shows that 35 entities, representing 74.5%, failed to explain the material difference between the budget and the actual amounts.

The review revealed that only 15 entities, representing 31.9%, explained whether changes between the original and final budget a consequence of reallocation within the budget are or of other factors.

### **Notes**

| S/No. | Notes Issues | Number of Entities | Percentage of entities |
| --- | --- | --- | --- |
| 1 | Nondisclosure of ageing analysis for receivables and Payables | 20 | 42.6% |
| 2 | Failure to include all annextures to the financial statements as prescribed by PSASB  | 41 | 87.2% |
| 3 | Failure to include additional information that would guide the users in understanding the financial statements including and not limited to significant judgements and sources of estimation | 36 | 76.6% |
| 4 | Failure to provide a breakdown in the notes supporting all balances in the face of financial statements.  | 27 | 57.4% |
| 5 | Failure to cross reference items in the notes to the financial statements | 19 | 40.4% |
| 6 | Nondisclosure of the impact of adopting new standards | 14 | 29.8% |
| 7 | Inadequate disclosure of accounting policies | 14 | 29.8% |
| 8 | Failure to disclose new and revised accounting standards | 13 | 27.7% |
| 9 | Irrelevant accounting policies | 11 | 23.4% |
| 10 | Nondisclosure of reporting framework | 6 | 12.8% |
| 11 | Failure to round off figures to the nearest whole number | 5 | 10.6% |
| 12 | Failure to present an annex on asset register | 34 | 72.3% |

## **Governance**

The review of governance in the sector revealed the following:

| S/No. | Governance Issues | Number of Entities | Percentage of entities |
| --- | --- | --- | --- |
| 1 | Failure to have an independent party responsible for receiving and investigating whistle blowing reports received. | 46 | 97.9% |
| 2 | Lack of a procurement policy that promotes sustainability, high ethical standards, and best practice (ESR) | 45 | 95.7% |
| 3 | Lack of a strategy on corporate reputation and image | 45 | 95.7% |
| 4 | Failure to complete and submit external audit of financial statements within timelines stipulated in law  | 45 | 95.7% |
| 5 | Lack of a policy on risk management which considers sustainability ethics and compliance | 43 | 91.5% |
| 6 | Lack of an internal audit function that designs, implements, and monitors the effectiveness of internal control system | 43 | 91.5% |
| 7 | Failure by the HIA to hold a Senior position in the management team and is a member of a professional body | 42 | 89.4% |
| 8 | Lack of a policy on the management of conflict of interest  | 41 | 87.2% |
| 9 | Failure to put in place effective processes and systems of risk management and internal controls | 41 | 87.2% |
| 10 | Lack of a committee in charge of risk and a risk management function which monitors risk on a quarterly basis | 41 | 87.2% |
| 11 | Inexistence of code of conduct & ethics and a corporate gifts policy | 37 | 78.7% |
| 12 | Untimely preparation of accurate financial statements | 36 | 76.6% |
| 13 | Failure of the entity to have at least one member of the audit committee to have relevant qualifications with knowledge in risk management and is a member of a professional body | 29 | 61.7% |
| 14 | Lack of independence of the Chairperson of the Audit Committee | 28 | 59.6% |
| 15 | Non-disclosure in the report of the term of appointment for the BOD and how they are appointed and exit | 46 | 97.9% |
| 16 | Non-disclosure of an existence of the Board Charter and is the BOD evaluated annually | 44 | 93.6% |
| 17 | Failure to include a profile of Board members and positions held in other entities  | 35 | 74.5% |
| 18 | Failure to disclose who is responsible for general policy and strategic direction | 31 | 66% |
| 19 | Failure to disclose if one third of the Board members is composed of independent and non-executive directors and if the Chairperson is Independent  | 25 | 53.2% |
| 20 | Failure of entity to disclose its accounting office | 18 | 38.3% |
| 21 | Failure to disclose if the position of chairperson, CEO and secretary are held by different persons and the secretary a member of ICPS(K) | 14 | 29.8% |
| 22 | Non-disclosure of entity key management personnel who had fiduciary responsibility. | 6 | 12.8% |
| 23 | Non-disclosure of key organs involved in its day-to-day management. | 6 | 12.8% |

## **Environmental and Sustainability Reporting**

This section of the report reporting is where entities share information about their environmental impact and sustainability practices. The reviewed entities showed information as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | ESR issues | Number of Entities | Percentage of entities |
| 1 | Lack of Public Participation, sensitization, and civic education | 47 | 100% |
| 2 | Non-disclosure on policies guiding inclusion in the process of hiring and gender ratio | 46 | 97.9% |
| 3 | Lack of improved service delivery practices such as cashless payment, public sensitizations etc | 46 | 97.9% |
| 4 | Failure to present information in a way that is accessible and understandable by use of graphs | 46 | 97.9% |
| 5 | Failure to include different sections for environment and social impacts | 46 | 97.9% |
| 6 | Lack of a conscious effort and policy directed towards improving employee skills | 45 | 95.7% |
| 7 | Lack of good product stewardship in terms of safeguarding consumer rights and interests. | 45 | 95.7% |
| 8 | Absence of evidence of community engagements including charitable giving | 45 | 95.7% |
| 9 | Lack of evidence of the implementation of the environmental policy | 45 | 95.7% |
| 10 | Failure by the CEO to reference sustainability efforts | 44 | 93.6% |
| 11 | Non-disclosure of the direct economic value created e.g. building of dams | 44 | 93.6% |
| 12 | Non-disclosure of employee distribution by gender, age group and PWD | 43 | 91.5% |
| 13 | Failure to disclose how to ensure responsible competition practices | 43 | 91.5% |
| 14 | Irresponsible supply chain and supplier relations | 43 | 91.5% |
| 15 | Lack of a clearly detailed environmental policy guiding the entity | 42 | 89.4% |
| 16 | Lack of an initiative around climate change | 41 | 87.2% |
| 17 | Failure to disclose highlights of the sustainability priorities such as effective waste management | 40 | 85.1% |
| 18 | No efforts to reduce the environmental impact of their products/services | 40 | 85.1% |
| 19 | Lack of a dedicated section on sustainability/ESG  | 30 | 63.8% |

## **Management Discussions and Analysis**

This section of the report gives an overview of operation conditions and results, as shown below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | MDA issues | Number of Entities | Percentage of entities |
| 1 | Non-disclosure on key risks faced by the entity | 45 | 95.7% |
| 2 | Failure to indicate strategies put in place to mitigate risks | 45 | 95.7% |
| 3 | Non-disclosure on the efficiency of the entity’s internal control systems | 45 | 95.7% |
| 4 | Failure to disclose how the current economic and sectorial environment impact its operations | 44 | 93.6% |
| 4 | Failure to disclose trend analysis over (3-5) years | 43 | 91.5% |
| 5 | Non-disclosure on CSR activities | 42 | 89.4% |
| 6 | Non-disclosure on programs and services delivered | 39 | 83% |
| 7 | Failure to provide information on Board and leadership, ethical standards and compliance, stakeholder engagements | 39 | 83% |
| 8 | Non-disclosure of the overall financial position of the entity | 39 | 83% |
| 9 | Lack of alignment with sustainable development goals | 38 | 80.9% |
| 10 | Non-disclosure on outlook for the next period, strategic priorities, anticipated risks, and priorities | 34 | 72.3% |
| 11 | Failure to disclose on the environmental impact | 34 | 72.3% |
| 12 | Failure to disclose major achievements/milestones during the period | 31 | 66% |
| 13 | Non-disclosure of challenges faced by the entity and possible solutions | 31 | 66% |
| 14 | Non-disclosure on major sources of revenue and main expenditures | 27 | 57.4% |
| 15 | Failure to disclose the entity’s background, mission, and strategic goals | 10 | 21.3% |

## **Other key Findings**

1. Some parties do not give elaborate background information about the party, i.e., when it was established, where it is domiciled, branches, Mission, and Vision.
2. Fiduciary arrangements in place are not disclosed.
3. Key Management member’s profiles, pictures, and qualifications are often missing.
4. All Political parties have the National Executive Committee, whose members are appointed by the party members; hence, independent and non-executive directors do not apply.

# Recommendations

1. The Public Sector Accounting Standards Board should develop a reporting template for the political parties to avoid confusion and ensure that all political parties' reporting is uniform.
2. The Political Parties should employ qualified and competent accountants to ensure the timely preparation of accurate Annual reports and Financial Statements.
3. The entities require capacity building and technical assistance in financial reporting and management.

# Annex 1: Political Parties Reviewed

1. Grand Dream Development Party
2. Kenya Union Party
3. Safina Party
4. Progressive Party of Kenya
5. National Agenda Party of Kenya
6. Maendeleo Democratic Party
7. Mabadiliko Party of Kenya
8. Communist Party of Kenya
9. National Rainbow Coalition
10. Maendeleo Chap Chap Party
11. National Reconstruction Alliance
12. People's Empowerment Party
13. United Democratic Alliance
14. Kenya Social Congress (Ksg)
15. Kenya African National Union
16. United Party of Independent Alliance (Upia)
17. Amani National Congress Party
18. Democratic Party of Kenya
19. Muungano Party
20. People's Trust Party
21. Chama Cha Kazi
22. Democratic Action Party - Kenya
23. Movement For Democracy and Growth Party
24. The Service Party
25. Tujibebe Wakenya Party
26. Justice And Freedom Party of Kenya
27. Federal Party of Kenya
28. Green Thinking Action Party
29. Wiper Democratic Movement
30. Jubilee Party
31. Kenya National Congress
32. Orange Democratic Movement Party
33. Ubuntu Peoples Forum Party
34. Devolution Empowerment Party
35. National Ordinary People Empowerment Union
36. United Democratic Party
37. Shirikisho Party of Kenya
38. United Progressive Alliance
39. Party Of Independent Candidates of Kenya
40. Forum For the Restoration of Democracy - Kenya
41. Narc Kenya
42. Chama Cha Mashinani
43. Pamoja African Alliance Party
44. United Democratic Movement
45. People's Democratic Party
46. Chama Cha Uzalendo
47. Kadu-Asili

**Appendix 7**

**Sectoral Report**

**For Public Hospitals**

**Public Hospital Sector**

This marks the sector's first participation in the Fire Awards. A total of 198 hospitals provided financial statements for evaluation.

**Overview of the Sector**

Out of the 198 financial statements reviewed, the following audit opinions were recorded:

|  |  |  |
| --- | --- | --- |
| **Opinion**  | **No. of Entities** | **Percentage** |
| Qualified  | 179 | 90.40 |
| Adverse | 18 |  9.09 |
| Disclaimer | 1 |  0.51 |

**Key findings**

1. **Auditor’s Report**

The Audit reports highlight three areas of finding reviewed as follows;

1. **Report on Financial Statements**

The following are issues raised by the auditor on the majority of the statements;

1. Misstatement of cash and cash equivalent due to unreconciled cashbook
2. Long outstanding receivables from exchange transactions, e.g., from the counties
3. Understated/non-disclosure of PPE balance
4. Lack of property ownership documents
5. Unsupported expenses, e.g., board expenses and trade & other payables
6. Variance in Trade and other payables, e.g. by KEMSA
7. Variance in receivables from exchange transactions, e.g., by NHIF
8. Unsupported/unconfirmed inventories, i.e., no stock take was undertaken
9. Non-disclosure of employee costs paid by the county government
10. Non-disclosure of donated drugs.
11. **Report on Lawfulness and Effectiveness in the Use of Public Resources**

The notable concerns include;

1. Non-compliance with the reporting framework
2. Long outstanding trade and other payables against PFM Act, 2012 Section 74(4)
3. Failure to meet requirements of Kenya Quality Model for Health Policy Guideline due to medical staff, equipment, and machine deficit
4. Failure to transfer revenue to the county revenue fund account contrary to Regulations 80(1) of the PFM Act, 2012
5. Engagement of Casual workers for more than 3 months
6. Failure to prepare quarterly revenue report
7. Lack of statute guiding the existence of operations of the hospital
8. Lack of approved budget
9. Lack of a procurement plan
10. **Report on the Effectiveness of Internal Control, Risk Management, and Governance**

The key deficiencies highlighted are;

1. Failure to establish an internal audit function and audit committee
2. Lack of a risk management policy
3. Non-disposal of expired drugs due to inefficient internal control
4. Failure to maintain/Incomplete asset register
5. Lack of ICT, Risk management, and internal audit policy
6. Lack of hospital management board/ functional hospital management board
7. Failure to maintain a comprehensive fixed asset register contrary to Regulator 56(1) of the PFM Act, 2012
8. Failure to dispose of unserviceable assets
9. Non-gazettement of board members
10. Failure to maintain imprest register
11. Poor management of inventory
12. **Governance**

The hospitals did not disclose information in the following areas;

**Accountability, Risk Management & Internal Controls**

1. Failure to disclose whether effective processes & systems of risk management and internal controls are in place
2. Failure to disclose the existence of a procurement policy that promotes sustainability, high ethical standards, and best practice
3. Failure to disclose the composition of the audit committee with full details
4. Failure to disclose the existence of an internal audit function

**Ethical Leadership & Corporate Citizenship**

1. Failure to disclose the existence of a code of conduct and ethics and a corporate gifts policy
2. Failure to disclose whether there is a policy on the management of conflict of interests
3. Failure to disclose whether there is a strategy for corporate reputation and image
4. Failure to disclose whether an independent party is responsible for receiving and investigating whistle-blowing reports received.
5. **Environmental and Sustainability Reporting**

The following were the deficiencies;

**Environmental Performance**

68.2% of entities lack detailed environmental policies.

**Employee Welfare**

Inclusivity: The distribution of employees by gender, age group, and special group, e.g., Persons with Disabilities, was not disclosed. 162 (81.8%) entities failed in this disclosure.

**Marketplace Practices or Service Delivery Practices**

1. **Responsible competition:** Failure to outline how they ensured responsible competition practices by 104 (52.5%) entities.
2. Failure to outline how they ensured improvement of service delivery practices by 120 (60.6%) entities.
3. **Responsible supply chain and supplier relations:** Failure to outline efforts on the entity’s oversight over outsourced services, ensuring that suppliers abide by sound business practices, or including a statement on how the entity treats its suppliers responsibly by 81 entities (40.9%)

**Community Engagement**

Community engagement activities, such as public participation, are absent in 43.4% of entities.

1. **Management Discussions and Analysis**

In this section, most hospitals failed in the following areas;

**Overview of the entity and sectorial context**

1. Failure to disclose on the entity’s strategic goals
2. Disclosure on how the current economic and sectorial environment impacts its operations by 120 entities (60.6%).

**Financial highlights**

One hundred forty-eight entities (74.7%) failed to disclose Trend analysis and the use of charts, graphs, variance analysis, and financial ratios over several periods, I.e., 3 to 5 years.

**Operational performance**

1. Failure to disclosure on Major achievements/ milestones during the period
2. Failure to disclose Challenges faced by the entity and possible solutions

**Risk management and internal controls**

1. Non-disclosure on Key risks faced by the entity by 133 entities (67.2%)
2. Non-disclosure on Strategies in place to mitigate risks by 154 entities (77.8%).
3. Non-disclosure on how effective the entity’s internal control systems are by 152 entities (76.8%).

**Recommendations**

1. S**trengthen Financial Reporting and Transparency**
* **Mandatory Disclosures**: To improve transparency, enforce the disclosure of key financial elements like PPE, employee costs, and inventory details.
* **Accounting Controls**: Hospitals should adopt reconciliatory controls and ensure thorough documentation to address unsupported transactions and stocktake issues.
1. **Enhance Compliance with Legal and Regulatory Standards**
* **Implement Compliance Audits**: Regular audits focused on PFM Act compliance will address operational deficiencies in project execution, procurement planning, and budget management.
* **Improve Staff Management**: Align casual employment practices with labor laws.
1. **Establish Effective Internal Controls and Risk Management Framework**
* **Operational Autonomy:** Hospitals also need operational independence to enable them to undertake their operations instead of depending on county governments for procurement, revenue collection, and internal audits.
* **Create Risk and Audit Committees**: Setting up dedicated committees for risk management and internal audits will provide oversight and address governance gaps.
* **Develop Inventory Controls**: Regular stocktake procedures, expiry tracking, and automated inventory systems can mitigate medical supplies and asset management risks.
1. **Enforce Ethical and Governance Standards**
* **Implement Ethics Policies**: To establish an ethical governance framework, hospitals should introduce codes of conduct, conflict-of-interest policies, and guidelines for whistle-blowing.
* **Increase Transparency**: Disclose all internal controls, risk management processes, and audit committee compositions in annual reports to foster accountability.
1. **Promote Environmental and Social Responsibility**
* **Adopt Environmental Guidelines**: Develop policies addressing resource conservation, waste management, and climate impact to align with sustainability goals.
* **Strengthen Community Engagement**: Incorporate public consultation and community education in planning and decision-making to foster stronger local partnerships.
1. **Improve Strategic Reporting and Forward-Looking Analysis**
* **Develop Strategic Reports**: Annual reports should include strategic goals, financial trend analyses, and significant operational achievements for improved sectoral understanding.
* **Increase Risk Awareness**: Disclose anticipated risks and mitigation strategies to prepare for future challenges and align with sector priorities.
1. **Training and Sensitization of Hospital Management**
* The PSASB should sensitize hospital management on financial reporting requirements and standards.
* Accountants should be trained to produce quality financial statements and reports.

**Annex 1: List of Hospitals**

1. Kombewa County Level 4 Hospital
2. Chulaimbo Level 4 Hospital
3. Naivasha Sub-county Level 4 Hospital
4. Moyale Level 4 Hospital
5. Kalawa Level 4 Hospital
6. Mtwapa Sub-county Level 4 Hospital
7. Nyang'ande Sub-county Level 4 Hospital
8. Karatu Sub-county Level 4 Hospital
9. Nyeri Provincial General Hospital
10. Nanyuki Teaching And Referral Hospital
11. Soin Level 4 Hospital
12. Bondeni Sub-county Hospital
13. Wajir County Referral Hospital
14. Sirisia Level 4 Hospital
15. Kalama Level 4 Hospital
16. Nyahera Sub-county Level 4 Hospital
17. Maragua North Sub-county Level 4 Hospital
18. Marindi Sub-county Hospital
19. Kitui County Referral Level 4 Hospital
20. Mariakani Sub-county Level 4 Hospital
21. Kapsabet County Referral Hospital
22. Esani Sub-county Level 4 Hospital
23. Matuu Level 4 Hospital
24. Garissa County Level 5 Referral & Teaching Hospital
25. Fort Ternan Sub-county Level 4 Hospital
26. Kimiti Level 4 Hospital
27. Kangundo Level 4 Hospital
28. Londiani Sub-county Level 4 Hospital
29. Rabuor Sub-county Level 4 Hospital
30. Kyuso Level 4 Hospital
31. Makueni County Referral Level 5 Hospital
32. Nyamira County Referral Hospital
33. Othoro Level 4 Hospital
34. Keringet Level 4 Hospital
35. Jaramogi Oginga Odinga Referral & Teaching Hospital
36. Laisamis Sub-county Referral Hospital
37. Kabartonjo Level 4 Hospital
38. Matiliku Sub-county Level 4 Hospital
39. Homabay County Referral And Teaching Hospital
40. Kapenguria County Referral Level 5 Hospital
41. Kutulo Sub-county Hospital
42. Rabai Sub-county Level 4 Hospital
43. JM Kariuki Memorial County Referral Hospital
44. Kauwi Sub-county Hospital
45. Lunga Lunga Sub-county Level 4 Hospital
46. Nyamaranga Level 4 Hospital
47. Madiany Sub-county Level 4 Hospital
48. Tigoni Level 4 Hospital
49. Takaba Sub-county Referral Hospital
50. Lumumba Sub-county Level 4 Hospital
51. Mandera North Sub-county Level 4 Hospital
52. Othoro Sub-county Hospital
53. Ikutha Level 4 Hospital
54. Banisa Sub-county Level 4 Hospital
55. Manga North Sub-county Level 4 Hospital
56. Ndhiwa Level 4 Hospital
57. Ogongo Level 4 Hospital
58. Mukuyuni Sub-county Level 4 Hospital
59. Muhuru Sub-county Hospital
60. Nyandiwa Level 4 Hospital
61. Zombe Sub-county Level 4 Hospital
62. Kijauri Sub-county Level 4 Hospital
63. Ikanga Sub-county Hospital
64. Lari Level 4 Hospital
65. Rongo Sub-county Hospital
66. Eldama Ravine District Level 4 Hospital
67. Masaba Sub-county Level 4 Hospital
68. Tseikuru Level 4 Hospital
69. Marigat Sub-county Level 4 Hospital
70. Kabazi Sub-county Level 4 Hospital
71. Bondo Level 4 Hospital
72. Sigowet Sub-county Level 4 Hospital
73. Kisegi Level 4 Hospital
74. Nyangena Sub-county Level 4 Hospital
75. Lusingetti Level 4 Hospital
76. Kanyangi Level 4 Hospital
77. Kambu Sub-county Level 4 Hospital
78. Katulani Level 4 Hospital
79. Isebania Sub-county Hospital
80. Rwambwa Sub-county Level 4 Hospital
81. Othaya Sub-county Level 4 Hospital
82. Oyani Sub-county Hospital
83. Uriri Sub-county Hospital
84. Mt. Kenya Sub-county Level 4 Hospital
85. Roret Sub-county Level 4 Hospital
86. Mirugi Kariuki Sub-county Level 4 Hospital
87. Vihiga County Referral Hospital
88. Webuye Hospital
89. Got Agulu Sub-county Level 4 Hospital
90. Nakuru County Teaching And Referral Hospital
91. Kandiege Level 4 Hospital
92. Lopiding Level 4 Hospital
93. Suba Sub County Hospital
94. Ruiru Level 4 Hospital
95. Mwala Level 4 Hospital
96. Igegania Level 4 Hospital
97. Ober Kamoth Sub- County Level 4 Hospital
98. Bumula Sub-county Level 4 Hospital
99. Elburgon Sub-county Level 4 Hospital
100. Ambira Sub-county Level 4 Hospital
101. Embu Level 5 Hospital
102. Kapkatet Sub-county Level 4 Hospital
103. Ndanai Sub-county Level 4 Hospital
104. Wangige Level 4 Hospital
105. Kalacha Level 4 Hospital
106. Machakos Level 5 Hospital
107. Kisau Sub-county Level 4 Hospital
108. Nyangiela Level 4 Hospital
109. Kinango Sub-county Level 4 Hospital
110. Lokitaung Sub-county Level 4 Hospital
111. Baringo County Referral Hospital
112. Kacheliba Sub-county Level 4 Hospital
113. Bamba Sub-county Level 4 Hospital
114. Kathiani Level 4 Hospital
115. Murang'a Level 5 Hospital
116. Uyawi Sub-county Level 4 Hospital
117. Migosi Sub-county Hospital
118. Mandera County Referral Hospital
119. Kegonga Sub-county Hospital
120. Mutitu Sub-county Hospital
121. Mutituni Level 4 Hospital
122. Mwingi Level 4 Hospital
123. Marafa Sub-county Hospital
124. Njoro Level 4 Sub-county Hospital
125. Annex Hospital - Nakuru Level 4 Hospital
126. Muhoroni County Level 4 Hospital
127. Kilungu Sub-county Level 4 Hospital
128. Chepareria Level 4 Hospital
129. Gatundu Level 5 Hospital
130. Masogo Sub-county Level 4 Hospital
131. Awendo Sub-county Hospital
132. Samburu Sub-county Level 4 Hospital
133. Yala Sub-county Level 4 Hospital
134. Rangwe Level 4 Hospital
135. Ntimaru Sub-county Hospital
136. Karatina Sub-county Level 4 Hospital
137. Kilifi County Referral Hospital
138. Gede Sub-county Level 4 Hospital
139. Marsabit Level 5 Hospital
140. Sigor Sub-county Level 4 Hospital
141. Samburu County Teaching & Referral Hospital
142. Tom Mboya Memorial Level 4 Hospital
143. Gilgil Sub-county Hospital
144. Nyang'oma Sub-county Level 4 Hospital
145. Miranga Sub-county Level 4 Hospital
146. Ekerenyo Sub-county Hospital
147. Karungu Sub-county Hospital
148. Engineer County Level 4 Hospital
149. Subukia Sub-county Hospital
150. Kehancha Sub-county Hospital
151. Kisumu County Referral Level 4 Hospital
152. Sigomere Sub-county Level 4 Hospital
153. Longisa County Referral Level 4 Hospital
154. Msambweni County Referral Hospital
155. Ukwala Sub-county Level 4 Hospital
156. Lafey Sub-county Level 4 Hospital
157. Sondu Sub-county Level 4 Hospital
158. Ahero County Level 4 Hospital
159. Nyathuna Level 4 Hospital
160. Kwale Sub-county Level 4 Hospital
161. Bahati Sub-county Level 4 Hospital
162. Bungoma County Referral Hospital
163. Kibwezi Sub-county Level 4 Hospital
164. Ojola Sub-county Level 4 Hospital
165. Mbita Level 4 Hospital
166. Kipkelion Sub-county Level 4 Hospital
167. Ndithini Level 4 Hospital
168. Chemolingot Sub-county Level 4 Hospital
169. Jibana Sub-county Level 4 Hospital
170. Nyamusi Sub-county Level 4 Hospital
171. Kimilili Sub-county Hospital
172. Makindu Level 4 Hospital
173. Sultan Hamud Sub-county Level 4 Hospital
174. Kericho County Referral Level 5 Hospital
175. Thika Level 5 Hospital
176. Mogotio Sub-county Level 4 Hospital
177. Elwak Sub-county Level 4 Hospital
178. Nyahururu County Referral Hospital
179. Lodwar County Referral Hospital
180. Macalder Sub-county Hospital
181. Cheptais Level 4 Hospital
182. Kigumo Level 4 Hospital
183. Migwani Level 4 Hospital
184. Tawa Sub-county Level 4 Hospital
185. Muriranja's Level 4 Hospital
186. Malindi Sub-county Level 4 Hospital
187. Magunga Level 4 Hospital
188. Mukurwe-ini Sub-county Level 4 Hospital
189. Iten County Referral Hospital
190. Kiambu Level 5 Hospital
191. Mbooni Sub-county Level 4 Hospital
192. Olenguruone Sub-county Level 4 Hospital
193. Nuu Level 4 Hospital
194. Athi River Level 4 Hospital
195. Langalanga Sub-county Level 4 Hospital
196. Nyakach County Level 4 Hospital
197. Mutomo Level 4 Hospital
198. Molo Sub-county Level 4 Hospital

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**Appendix 8**

**Sectoral Report**

**For**

**Public Universities**

**Background information**

This Sectoral report is for the Public Universities sector in Kenya. These Universities are state corporations that prepare their annual report and financial statements on the IPSAS Accrual reporting framework. The PSASB has developed an annual IPSAS-Accrual-template-for-SC-SAGAs for universities to standardize reporting, and compliance with this template is required.

**Overview**

This sector report analyzes and evaluates performance based on audited accounts. The report relates to 38 Universities whose audited Annual reports and financial statements for the financial year ended June 30, 2023, have been reviewed.

The Number of audit opinions is as follows:

 ***Opinion No of Entities Percentage***

* Unqualified 7 19%
* Qualified 29 76%
* Adverse 2 5%

The entities with Unqualified opinion are further analyses as below:

|  |  |  |
| --- | --- | --- |
| **Opinion** | **with emphasis of matter** | **without emphasis of matter** |
| Unqualified  | 5 (71 %)  | 2 (29%) |

**Areas covered on the report are:**

The report covers the following areas that highlight competitive advantages and structural weaknesses

1. Audit
2. Financial Statements
3. Governance
4. CSR/Environment
5. Management Discussions and Analysis
6. General compliance with the reporting template
7. Other key findings
8. Recommendations

**Findings**

1. **Audit**

The Audit reports highlight three areas of finding Reviewed as follows:

1. **Report on the Financial Statement.**

The consideration of whether the financial statements were presented relatively is given by several issues raised by the auditor, and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No of Entities | Percentage of entities  |
| **A** | Outstanding payables | 15 | 39% |
| **B** | Outstanding receivables | 27 | 71% |
| **C** | Unresolved Prior year Matters | 35 | 92% |
| **D** | Unsupported expenses | 12 | 32% |
| **E** | Unsupported receivables | 6 | 16% |
| **F** | Unsupported transactions | 4 | 11% |
| **G** | Lack of ownership documents for assets | 11 | 29% |

There are other matters on the fair presentation of financial statements that were in individual entities but may replicate to others in the sector, and they include:

1 Anomalies in fee collection

2 Inaccurate expenses

3 Inaccurate figures

4 Inadequate funding

5 Loss-making Income Generating Unit

6 Unaccounted for revenue

The Entity with an adverse audit opinion was primarily based on inaccuracies in the financial statements. This issue can be avoided easily.

1. **Report on Lawfulness and Effectiveness in the use of public resources.**

The consideration of compliance with applicable laws, regulations, circulars, etc., and whether public resources are applied in a prudent, efficient, economical, transparent, and accountable manner to ensure the achievement of value for money is given by several issues highlighted by the auditor and that applies to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Acting beyond 6 months | 9 | 24% |
| 2 | Irregular payments | 22 | 58% |
| 3 | Irregular procurement process | 13 | 34% |
| 4 | Stalled projects | 26 | 68% |
| 5 | Irregular recruitment/appointments process | 9 | 24% |
| 6 | Non-adherence to one-Third basic salary rule | 7 | 18% |
| 7 | Unapproved budget expenditure | 3 | 8% |
| 8 | Lack of approved staff establishment | 3 | 8% |

There are other matters of compliance with applicable laws, regulations, and circulars that were in individual entities but may replicate to others in the sector, including:

1 Irregular asset disposal

2 Irregular leasing of land

3 Failure to appoint council.

1. **Report on Effectiveness of Internal controls, Risk Management and Governance.**

The consideration of how the entities institute checks and balances to guide internal operations is a response to the effectiveness of the governance structure, risk management environment, and internal control. It gives several issues raised by the auditor that apply to a significant part of the sector as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue/Matters | No of Entities | Percentage of entities |
| 1 | Good internal controls | 20 | 53% |
| 2 | Weak control systems | 13 | 34% |
| 3 | No risk management policy | 30 | 79% |
| 4 | No Approved ICT Policy | 35 | 92% |
| 5 | Have Un-approved ICT policy | 4 | 11% |

Other matters on the Effectiveness of Internal controls, Risk Management, and Governance were in individual entities but may be replicated in others in the sector. Lack of creditors policy

1. Lack of disaster recovery plan
2. Lack of HR instruments/policies
3. Lack of ICT System
4. Lack of payroll controls
5. **Financial Statements**

The financial statements reviewed displayed both general and specific issues. The analysis of the financial statements is as follows:

* 1. **Statement of Financial Performance**

Thirty-four entities presented a well-presented statement of financial performance. Twenty-five entities reported a surplus for the year, while 13 entities reported a deficit. Only eight entities disclosed donations as a line item of revenue from non-exchange transactions, while instances of inaccurate revenue figures were in 4 entities.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Financial Performance Issue | No of Entities | Percentage of entities |
| 1 |  Financial Performance well presented | 34 | 89% |
| 2 | Reported Surplus | 25 | 66% |
| 3 | Reported Deficit | 13 | 34% |
| 4 | Has Donations as a line item | 8 | 21% |
| 5 | Inaccurate revenue figures | 4 | 11% |

* 1. **Statement of Financial Position**

There is a good presentation on the statement of financial position in the sector, while 19 entities have a negative capital for the year under review, which is 50% of the industry. There was one entity with an unbalanced statement of financial position, while a few entities had inaccurate figures for some items of this statement, as shown below:

|  |  |  |
| --- | --- | --- |
| S/No. | Financial Position Issue | Number of Entities |
| 1 | Inaccurate PPE figures | 4 |
| 2 | Inaccurate Comparative figures | 1 |
| 3 | Inaccurate refundable | 2 |

* 1. **Statement of Changes in net assets/equity**

All the entities complied with Ipsas 1 and presented a statement of changes in net assets. The review of this statement shows that 51% of the entities had declining capital at the end of the year under review, while 4 (11%) entities had inaccuracies in the figures presented.

* 1. **Cash flow Statement**

A review of the cash flow statement revealed that only five entities had inaccuracies in

cash flow figures. The cash flow presentation method was applied below.

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Cash flow method | No of Entities | Percentage of entities  |
| 1 | Direct method | 20 | 53% |
| 2 | Indirect method | 12 | 32% |
| 3 | Mixed both methods | 6 | 16% |

* 1. **Budget:**
		1. *Budget presentation*: All the entities complied with Ipsas 24 and presented budget information in the financial statements. A comparison of the budget amounts was presented by additional budget columns in the financial statements.

 Budgetary control and performance were evidenced as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue | No of Entities | Percentage of entities |
| 1 | Over absorption and Under collection | 31 | 82% |
| 2 | Within budget  | 7 | 18% |

* + 1. *Budget adjustments:* The review of the budget statement showed that 31 (82%) out of 38 entities had budget adjustments, while only 7 (18%) entities did not adjust their budget during the year under review.

This data is the same as the data on entities that presented a budget, and it shows that the entities with no budget adjustments are the same entities that did not present a budget.

* + 1. *Budget notes*: The entities presented in the budget notes have been summarized as below:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Issue | No of Entities | Percentage of entities  |
| 1 | With reconciliation statement | 11 | 29% |
| 2 | With no reconciliation statement | 27 | 71% |

* + 1. Budget reconciliation: The entities must provide a reconciliation statement of the actual budget amounts with the statement of financial performance. The review of the budget information showed the data below:
1. **Property Plant and Equipment (PPE)**
	* 1. *Property Plant and Equipment Annex*

The review of the sector's financial statements showed that all the entities had a PPE annex, though 6 entities had inaccurate PPR figures.

There were also three entities which had fully depreciated assets as part of PPE items.

* + 1. *Depreciation method*

There were only two entities, i.e. (5%), that did not disclose the depreciation method applied as part of the accounting principles.

1. **Governance**

The review of governance in the sector revealed the following:

* 1. *Council Appointment*

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Council Appointment status | No of Entities | Percentage of entities  |
| 1 | Has appointed Council in place | 35 | 92% |
| 2 | Has no appointed Council in place | 3 | 8% |
| 3 | Council in place but term expired | 6 | 16% |
| 4 | Delayed in appointing Vice chancellor | 2 | 5% |
| 5 | Has no vice chancellor | 3 | 8% |

 The analysis of council appointments revealed the following information:

* 1. *Number Council members*

 The Universities Act 42 of 2012 provides for nine Council members of a Public University. Upon review of the 38 entities, the council membership is distributed as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Council membership status | No of Entities | Percentage of entities |
| 1 | 14 Council members | 1 | 3% |
| 2 | 10 Council members | 1 | 3% |
| 3 | 8 to 9 council members | 35 | 92% |
| 4 | 4 council members | 1 | 3% |

* 1. *Gender balance*

The gender rule requires 2/3 of members appointed to positions be of the same gender. This applies to the council membership for Universities, and upon review of the entities, the data shows as below:

* 1. *Committees*

The entities reviewed had the number of committees distributed as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No. | Number of Committees | No of Entities | Percentage of entities  |
| 1 | 1 - 2  | 1 | 3% |
| 2 | 3 - 4 | 34 | 89% |
| 3 | 5 - 7 | 3 | 8% |

* 1. *The existence of the Council charter*

A Council charter is a document that outlines the duties, responsibilities, powers, membership, and operations of a council and its sub-committees. Upon review of the 37 entities, the status is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| S/No | Status of Council charter | No of Entities | Percentage of entities |
| 1 | Disclosed existence of a council charter | 15 | 39% |
| 2 | Disclosed that there is not a council charter | 3 | 8% |
| 3 | No disclosure on existence of council charter | 19 | 50% |

* 1. *Council remuneration*

The council members are third parties, and the entities are required to make related parties disclosure. In compliance with IPSAS 20, all the entities disclosed the total council remuneration in the aggregate, but no entity disclosed individual council members’ total or aggregate remuneration.

* 1. *Conflict of interest*

The entities are required to have a policy on the management of conflict of interest. The information reviewed showed that:

* 1. *Whistleblowing*

An entity should have an independent party responsible for receiving and investigating whistleblowing reports that have been revived. The information reviewed shows that:

1. **Environmental and Sustainability Reporting**

This section of the report reporting is where entities share information about their environmental impact and sustainability practices. The reviewed entities showed information as follows:

* 1. *Sustainability strategy and profile*

The reviewed reports of the accounting officers and council chairman showed that 24 entities (63%) managed to refer to sustainable efforts affecting sustainability priorities, challenges, and key achievements. Policies and strategies back up these efforts.

The rest of the entities, 14 in number (37%), did not refer to sustainability efforts or strategies and did not have policies in place.

* 1. *Environmental Performance*

The entities in this sector are not performing well in environmental performance. Most of the entities did not disclose the existence of a waste management policy or evidence of efforts to reduce environmental impact. Only 11 entities (29%) disclosed the existence of policies and efforts to manage biodiversity. The other 28 entities (74%) had no environmental policy guiding them.

* 1. ***Employees welfare***

The reviewed reports showed that 22 entities (58%) have policies on staff welfare, 12 entities (32%) did not disclose the existence of such policies, guidelines, or procedures, and four entities (11%) did not have policies but disclosed their development plans.

* 1. *Community Involvement/engagements*

During the year under review, 29 entities (76%) disclosed their engagements with the community in CSR activities and charitable giving, while nine entities (24%) did not disclose whether there was engagement with the community and provided no evidence of CSR activities.

1. **Management Discussions and Analysis**

This section of the report gives an overview of operation conditions and results.

* 1. *Operation and financial performance*

The reports reviewed for this sector show that 31 entities (82%) presented operational and financial performance for the last three to five years, though the information details differed. Of these 31 entities, 25 (66% of the entire sector) used tables, graphs, and pie charts, while six (16% of the whole industry) presented this information in paragraphs. These entities highlighted achievements, key projects achieved, and ongoing projects, evidenced by photos.

The other seven entities (18%) did not present operational and finance performance for the last three to five years but only for the year under review. The information includes entities’ achievements and key projects that have been done and are ongoing, as evidenced by photos.

* 1. ***Compliance with statutory requirements***

This sector faces a challenge in complying with statutory requirements. Remittance of statutory deductions affects 26 entities (68%) with material arrears in statutory requirements in millions of shillings.

There are 12 entities (32%) that have complied with statutory requirements.

* 1. ***Review of the sector and economy***

Individual entities are to present an assessment of the sector's economic and financial conditions and prospects. In view of this, the reviewed reports showed that 22 entities (58%) have evidence of an economic review highlighting the challenges and strategies to align them with economic changes.

Sixteen entities (42%) did not disclose information on assessing the sector's economic and financial conditions.

* 1. ***Discussion on major risks***

Twenty-nine entities (76%) disclosed significant risks they face, 11 of which shared measures to mitigate risks, and 18 did not have measures to minimize them. It is also evident that the entities have duplicate/related risks.

Of the other entities, 9 (24%) did not disclose significant risks.

1. **General Compliance with the Reporting Template**

Only one entity had significant non-compliance issues with the template that the auditor raised as a query.

1. **Other Key Findings**

Several issues affect the sector as a whole.

* 1. *Audit Committee*

Some audit and risk committees lack a professional in a related field from council members.

* 1. *Statutory obligation*

Non-remittance of statutory obligations that have been outstanding for a long time and run in millions continues to subject the entities to more risks. The arrears continue to attract more interest and penalties, which may also attract litigation and contingent liabilities.

This may affect the performance of staff since part of the statutory deductions are staff benefits.

* 1. *Working capital trend*

Many entities have reported deficits for the year under review, and the effect is reduced working capital. The continuous reduction of capital will render the entities un-operational.

* 1. *Wage bill*

Most institutions operate with huge wage bills that are unsustainable in the long run. These bills are linked to a lack of staff establishment and hiring policies.

* 1. *Fiscal responsibility*

Many entities are non-compliant with the Fiscal Responsibility Policy, which allows for mismanagement of funds and the possibility of misappropriation.

* 1. *Going concern*

The going concern of many entities in this sector is wanting since many cannot justify their solvency.

* 1. *Ethnic balance*

The majority of the entities have not complied with the ethnic balance requirement.

* 1. *Stalled Projects*

Many entities in the sector have stalled and incomplete projects running from one financial year to another. These projects are essential for the entity’s operations and execution of core mandate; hence, service delivery is likely to be compromised.

* 1. *Inadequate human resource*

Many entities have inadequate staff as required to execute their core mandate. This has resulted in the hiring of part-time trainers whose maintenance is costly. Inadequacy of human resources has also led to retaining staff even after attaining retirement age.

Inadequate human resources has also led to staff being in acting capacity for so long.

* 1. *Procurement Policy and Procedures*

 Some entities have irregularity in the Procurement function.

* 1. *Mentorship*

The entities mentoring other entities are engaged in managing the mentored entities even after the council's appointment to the new entity.

* 1. *. Fiduciary oversight arrangements*

The entities in this sector have a varied number of committees, ranging from 3 to 7. This implies that there may be different oversight approaches and costs.

**Recommendations**

1. **Council members**

Some councils do not have professionals in accounting or finance, while there is a finance and audit committee. I recommend that the appointing authority ensure that the requirement of a professional in either accounting or finance is met to ensure that the audit and risk and finance committees are properly constituted.

1. **Capacity building**

Issues were noted in the preparation and presentation of financial statements. Several entities prepared cash flow statements using both direct and indirect methods, while others used the prescribed direct method.

Preparation of non-financial reports is also desirable as some reports miss key areas of disclosure.

Therefore, I recommend adequate capacity building to the preparers of annual financial statements and reports.

1. **Internal reviews of financial statements and reports**

There are issues of inaccuracy of reported information/data that could be addressed through internal reviews of financial statements.

It is recommended that an established internal review system be established within the entity to help resolve issues of error and inaccuracies in the financial statements.

1. **Asset registers**

I recommend that the management of the entities ensure that assets are valued and asset registers are updated.

1. **Procurement**

Several entities have irregularities in the Procurement process that can be avoided through compliance with set laws, regulations, and procedures.

It recommends that the entities' management follow the procurement process and procedures.

1. **Timely release of funds – Revenue from non-exchange transactions**

The delay in releasing grants from the government has become the source of operational challenges. The flow of funds to an entity is a significant factor in budget execution, whereas budget execution gives efficiency gains.

Therefore, I recommend that government grants be released to entities in time.

1. **Stalled projects**

Regarding stalled and incomplete projects, I recommend that a guiding policy on the implementation of capital projects for universities be established and that a monitoring tool be set up to monitor its implementation.

1. **Inadequate human resources**

The government should help address the need for staff in universities. This issue can also be addressed by developing a human resource policy that would allow the sharing of academic staff employed by the government between universities without extra cost.

1. **Budgetary control/ Approval of expenditure**

Ensure budgetary control mechanisms are present and that all expenditures are approved.

1. ***Mentorship***

The Ministry of Education should develop a standard policy document on mentorship of upcoming Universities to standardize the mentorship role and responsibilities.

1. ***Fiduciary oversight arrangements***

The entities should adhere to Mwogozo regarding setting up committees.

**Annex I: Entities Reviewed.**

| **S/No.** |  **University** | **Opinion** |
| --- | --- | --- |
| 1 | Kirinyaga University | Unqualified  |
| 2 | Rongo University | Unqualified  |
| 3 | Tom Mboya University College | Unqualified  |
| 4 | Kibabii University | Unqualified |
| 5 | Taita Taveta University | Unqualified |
| 6 | Tharaka University College | Unqualified |
| 7 | Turkana University College | Unqualified |
| 8 | Garissa University | Qualified |
| 9 | Koitaleel Samoei University College | Adverse |
| 10 | Laikipia University | Qualified |
| 11 | Jaramogi Oginga Odinga University of Science And Technology | Qualified |
| 12 | Kaimosi Friends University | Qualified |
| 13 | Karatina University | Qualified |
| 14 | Kenyatta University | Qualified |
| 15 | Kisii University | Qualified |
| 16 | Maseno University | Qualified |
| 17 | Multimedia University of Kenya | Qualified |
| 18 | Murang'a University of Technology | Qualified |
| 19 | South Eastern Kenya University | Qualified |
| 20 | The Technical University of Kenya | Qualified |
| 21 | UNIVERSITY OF KABIANGA | Qualified |
| 22 | University of Nairobi | Qualified |
| 23 | Alupe University | Qualified |
| 24 | Chuka University | Qualified |
| 25 | Dedan Kimathi University Of Technology | Qualified |
| 26 | Egerton Egerton | Qualified |
| 27 | Jomo Kenyatta University of Science and Technology | Qualified |
| 28 | Maasai Mara University | Qualified |
| 29 | Machakos University | Qualified |
| 30 | Mama Ngina University College | Qualified |
| 31 | Masinde Muliro University of Science and Technology | Qualified |
| 32 | Meru University of Science and Technology | Qualified |
| 33 | Moi University | Qualified |
| 34 | National Defence University | Qualified |
| 35 | Pwani University | Qualified |
| 36 | The Co-Operative University of Kenya | Qualified |
| 37 | Technical University of Mombasa | Qualified |
| 38 | Bomet University College | Adverse |

**Appendix 9**

**Sectoral Report**

**For**

**State Corporations & Regulatory Entities**

**Reporting Under IPSAS Accrual**

**Introduction**

The Public Sector Accounting Standards Board (PSASB), in collaboration with other promoters, conducts an annual review of the financial statements to promote integrated reporting by enhancing accountability, transparency, and integrity.

This is done to enhance compliance with the appropriate financial reporting framework and other disclosures on governance and social and environmental reporting by both private and public entities.

# Overview of the Sector

The number of financial statements subjected to the FiRe award reviewed under this category was 158.

A summary of Audit opinions is as follows:

|  |  |
| --- | --- |
| **Audit Opinion** | **Number of entities** |
| Unqualified | 55 |
| Qualified | 97 |
| Adverse | 10 |
| Disclaimer | 1 |

Chart 1

# Key findings under these sections

The key findings that cut across most entities that were evaluated are outlined below;

1. **Report of The Auditor General**

Issues highlighted by the Auditor General under three categories were as follows;

**Report on the financial statements**

1. Budgetary control and performance
2. Unresolved prior-year matters
3. Lack of ownership documents
4. Unconfirmed property plant and equipment
5. Unconfirmed Receivables

**Report on lawfulness and effectiveness in the use of public resources**

1. Irregular procurement
2. Existence of Stalled projects
3. Unauthorized expenditures
4. Long outstanding Receivables and payables

**Report on the effectiveness of internal controls, risk management, and governance.**

1. Lack of internal audit function

2. Improperly constituted board of directors

3. Lack of policy documents, e.g., ICT policy & Risk management policy

4. Lack of Audit Committee

1. **Governance**

The issues noted under governance in most of the reports and financial statements were as follows;

1. Boards were not fully constituted.
2. Non-disclosure on the existence of a board charter
3. Failure to disclose the existence of an Audit Committee, members of the audit committee, chairperson’s independence, and member’s qualifications.
4. Failure to disclose if the Head of internal audit is part of key management and the overall function of internal audit in the entity.
5. Failure to disclose the strategy on corporate reputation and image.
6. Failure by the Auditor General to issue Audit opinions within the 6 months’ legal requirement after the closure of the financial year.
7. Failure to disclose if there is a whistle-blowing policy and if an independent party is responsible for receiving and investing the reports received.

Table 1

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Parameters** | **failed** | **passed** | **non-compliance** | **compliance** |
| **Accountability, Risk Management & Internal Controls** | **80.8** | **77.2** | **51** | **49** |
| Is there timely preparation of accurate financial statements? | 25 | 133 | 16 | 84 |
| Are effective processes and systems of risk management and internal controls are in place? | 75 | 83 | 47 | 53 |
| Is the external audit of the financial statements is completed and submitted within timelines stipulated in any law and Government policies? | 122 | 36 | 77 | 23 |
| Does there exists a policy on risk management, which takes into account sustainability, ethics, and compliance risks? | 93 | 65 | 59 | 41 |
| Is there a Committee in charge of Risk, and a Risk management function, which monitors Risk on a quarterly basis? | 55 | 103 | 35 | 65 |
| Is there is an Internal Audit function that designs, implements, and monitors the effectiveness of internal control system? | 64 | 94 | 41 | 59 |
| Is the Chairperson of the Audit Committee independent? | 70 | 88 | 44 | 56 |
| At least one member of the Audit Committee has relevant qualifcations and expertise in audit, financial management or accounting, with experience and knowledge in risk management and is a member of a professional body in good standing. | 99 | 59 | 63 | 37 |
| Does the head of Internal Audit hold a Senior position in the management team, is professionally qualified and is a member in good standing, of the professional body responsible for regulating Auditors; reporting to the Audit Committee? | 68 | 90 | 43 | 57 |
| Is there a procurement policy that promotes sustainability, high ethical standards, and best practice? | 137 | 21 | 87 | 13 |
| **Ethical Leadership & Corporate Citizenship** | **120** | **39** | **76** | **24** |
| There exists a code of conduct and ethics and a corporate gifts policy. | 98 | 60 | 62 | 38 |
| Is there a policy on the management of conflict of interests? | 91 | 67 | 58 | 42 |
| Is there a strategy on corporate reputation and image? | 137 | 21 | 87 | 13 |
| Is there an independent party responsible for receiving and investigating whistleblowing reports received? | 152 | 6 | 96 | 4 |

Graph 1

1. **Environmental and sustainability reporting**

The issues noted under ESR were as follows;

1. Failure to disclose a detailed environmental and sustainability reporting description, especially for established funds.
2. Failure to disclose the linkages between sustainable development goals and the entities’ activities.
3. Failure to disclose Principles for reporting Environmental and social impacts.
4. Inadequate disclosure on CSR activities, employee welfare & marketplace practices.

Table 2

| **Parameters** | **Passed** | **Failed** | **compliance** | **Non-compliance** |
| --- | --- | --- | --- | --- |
| **Sustainability Strategy & Profile** |  |  |  |  |
| Is there a dedicated section on sustainability/ESG in the annual report, either stand-alone statement or distinct paragraph on sustainability? Or | 135 | 23 | 85 | 15 |
| Is there a reference by Chief Executive/Chairman on sustainability efforts? | 52 | 106 | 33 | 67 |
| Are there highlights of the sustainability priorities of the entity (Effective waste management-reduce, recycle, reuse, improvement in employee relations, friendly workplace infrastructure for PWD, Nursing mothers –crèche etc.)? | 73 | 85 | 46 | 54 |
| Has the entity indicated the direct economic value created (community social investments, schools, hospitals, dams, roads, etc.)? | 75 | 83 | 47 | 53 |
| **Environmental Performance** |  |  |  |  |
| Is there a clearly detailed environmental policy guiding the entity? | 45 | 113 | 28 | 72 |
| Is there evidence of the implementation of the environmental policy? | 62 | 96 | 39 | 61 |
| Is there an effort to reduce the environmental impact of their products / services (paperless offices, packaging that is biodegradable, employee transport services well maintained to reduce CO2 emissions)? | 83 | 75 | 53 | 47 |
| Is there a discussion or initiatives around climate change (e.g. climate smart technologies- drought resistant crop varieties, eco-toilets, eco jikos, green buildings- designed with automated lightings, open areas with natural lights, solar lighting, and heating system)? | 67 | 91 | 42 | 58 |
| **Employee Welfare** |  |  |  |  |
| Inclusivity: Is there a disclosure of distribution of employees by; gender, age group and any special group e.g. PWD? | 35 | 123 | 22 | 78 |
| Is there a disclosure on policies guiding inclusion in the process of hiring, the gender ratio (Male, female, Youth) and PWD? | 63 | 95 | 40 | 60 |
| Is there a conscious effort and policy directed towards improving employee skills- evidence on the number of employees trained, an effort to assist in managing or ending careers? | 82 | 76 | 52 | 48 |
| **Marketplace Practices or Service Delivery Practices** |  |  |  |  |
| Responsible competition: Has the entity outlined how to ensure responsible competition practices (issues include Anti-corruption, responsible political involvement, fair competition, respect for competitors and their products)? or | 89 | 69 | 56 | 44 |
| Has the entity outlined how to ensure improved service delivery practices (Service charter information, Service automation-self-service, Anti-corruption-reporting and protection mechanism, cashless payment, public sensitization/outreach)? | 61 | 97 | 39 | 61 |
| Responsible supply chain and supplier relations: Are there efforts outlined on the entity’s oversight over outsourced services ensuring that suppliers abide to good business practices? Is there a statement on how the entity treats its own suppliers responsibly (honouring contracts, respecting payment schedules etc.)? | 90 | 68 | 57 | 43 |
| Product Stewardship? Has the entity outlined how to safeguard consumer rights and interests (issues include protection of health and safety, providing adequate product information, dispute resolution and redress, consumer data and privacy protection)? | 71 | 87 | 45 | 55 |
| **Community Engagement** |  |  |  |  |
| Is there evidence of community engagement including charitable giving (cash & material), Community Social Investment and any other forms of community engagement [cause related marketing etc.]? | 101 | 57 | 64 | 36 |
| Is there evidence of public participation, sensitization and civic education(e.g. in Law and by-laws formulation, budget making processes, community consultation on proposed development projects in their areas)? | 51 | 107 | 32 | 68 |
| **Principles for Reporting Environmental and Social Impacts** |  |  |  |  |
| Completeness: Has the entity included different section for environmental and social impacts created? | 68 | 90 | 43 | 57 |

Graph 2

1. **Management Discussions and Analysis**

The issues noted under Management discussion and analysis in the reports and financial statements were as follows;

1. Failure to disclose the Trend analysis and use of charts, graphs, variance analysis, and financial ratios over several periods
2. Failure to disclose how the current economic and sectorial environment impacted the operations of the entities
3. Failure to disclose challenges faced by the entity and possible solutions.

Table 3

| **Parameters** | **Passed** | **Failed** | **Total** | **Compliance** | **Non-Compliance** |
| --- | --- | --- | --- | --- | --- |
| **Overview of the entity and sectorial context** |   |   |   |   |   |
| Is there disclosure on the entity’s background, mission, and strategic goals? | 155 | 3 | 158 | 98 | 33 |
| Is there disclosure on how the current economic and sectorial environment impact its operations? | 58 | 100 | 158 | 37 | 2 |
| **Financial highlights** |  |  |  |  |  |
| Is there disclosure on the overall financial position of the entity? | 135 | 23 | 158 | 85 | 15 |
| Is there disclosure on major sources of revenue and main expenditures? | 132 | 26 | 158 | 84 | 16 |
| Is there disclosure on Trend analysis and use of charts, graphs, variance analysis, and financial ratios over several periods e.g. (3-5) years? | 49 | 109 | 158 | 31 | 69 |
| **Operational performance** |   |  |  |  |  |
| Is there disclosure on Major achievements/ milestones during the period? | 129 | 29 | 158 | 82 | 18 |
| Is there disclosure on Challenges faced by the entity and possible solutions? | 91 | 67 | 158 | 58 | 42 |
| Is there disclosure on the programs and services delivered? | 127 | 31 | 158 | 80 | 20 |
| **Risk management and internal controls** |   |  |  |  |  |
| Is there disclosure on how effective the entity’s internal control systems are? | 51 | 107 | 158 | 32 | 68 |
| **Forward-looking information** |   |  |  |  |  |
| Is there disclosure on Outlook for the next period, strategic priorities, anticipated risks, and opportunities? | 63 | 95 | 158 | 40 | 60 |
| **Governance and accountability** |   |  |  |  |  |
| Is there disclosure on Board and leadership, ethical standards and compliance, stakeholder engagement? | 103 | 55 | 158 | 65 | 35 |
| **Sustainability and social responsibility** |   |  |  |  |  |
| Is there disclosure on Environmental impact – measures to minimize environmental footprint? | 67 | 91 | 158 | 42 | 58 |
| Is there disclosure on Community and social contribution-CSR Activities? | 97 | 61 | 158 | 61 | 39 |
| Is there disclosure on Alignment with sustainable development goals? | 49 | 109 | 158 | 31 | 69 |

Graph 3

1. **Other key findings**
2. Failure to disclose new and revised accounting standards and the impact they have on the entity
3. Failure to disclose aging analysis for Accounts receivables and Accounts payables
4. Failure to disclose the nature and purpose of each reserve.
5. Failure to disclose fully depreciated and amortized assets that are still in use.
6. Failure to include all annexures to the financial statements as prescribed by PSASB or a statement that the specific annexure does not apply to the entity.

# Recommendations/ Interventions

1. The National Treasury and the PSASB will offer capacity building to the Financial Statement preparers and the respective Accounting officers.
2. Encourage entities to engage all relevant sections in preparing non-financial information for the report.
3. Entities should engage regulatory bodies to help them fast-track issues of ownership documents.
4. Entities are to ensure prompt closure of prior years’ audit issues.

**Appendix 10**

# Sectoral Report

# For

# State Corporations Reporting Under IFRS

# Overview of the Sector

A state corporation in Kenya is a body controlled by the government, either through majority or full ownership of its shares. State corporations are established under the State Corporations Act, Cap 446, or an act of Parliament in the relevant sector. State corporations in Kenya prepare financial statements by the Public Sector Accounting Standards Board (PSASB) standards. The following legislation prepares these statements:

**Public Finance Management (PFM) Act 2012**

Section 81 requires that state organs and public entities prepare and submit annual financial statements to the Auditor General by September 30.

**State Corporations Act Cap 446**

Section 14 requires state corporations to keep books that record all business-related activities, property, funds, contracts, transactions, and undertakings.

Kenya has 248 state corporations, including commercial and non-commercial entities:

**Commercial enterprises**

These are concentrated in the energy and transport sectors and perform strategic functions.

**Non-commercial entities**

These include universities, vocational training colleges, water development agencies, and national hospitals.

# Entities Reviewed

Sectorial review for the year 2024 involved fifty (50) state corporations, as shown in Appendix 1, reporting by the Accrual Basis of Accounting Method under the IFRS Accounting Standards.72% of the entities had qualified audit opinions and below, and only 28% of the reviewed entities managed to have an unqualified opinion.

A summary of Audit opinions is as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Type of audit opinion** | **Number of entities** |  **Percentage** |
| 1 | Unqualified | 2 | 4% |
| 2 | Unqualified with Emphasis | 8 | 16% |
| 3 | Unqualified Other Matters | 4 | 8% |
| 4 | Qualified | 32 | 64% |
| 5 | Adverse | 4 | 8% |
| 6 | Disclaimer | 0 | 0% |
|   | **Total** | **50** | **100%** |

# Areas Covered Under Key Findings and Recommendations

The report covers the following areas:

1. **Management discussion and analysis**

Under this section, the management is required to report on the operational and financial performance of the organization for the last three to five-year period, the entity’s key projects or investment decisions implemented or ongoing, the entity’s compliance with statutory requirements, significant risks facing the organization, material arrears in statutory and other financial obligations, review of the economy, review of the sector, future developments and any other information considered relevant to the users of the financial statements.) The management should use tables, graphs, pie charts, and other descriptive tools to make the information understandable.

1. **Governance**

Under this section, management is required to include the process of appointment and removal of directors, the roles and functions of the Board, the existence of a board charter, the number of Board meetings held and the attendance of members at those meetings, the succession plan, induction and training, board and member performance, conflict of interest, board remuneration, ethics and conduct, and governance audit.

1. **Environmental, social, and sustainability reporting**

Management is required to highlight its strategy on sustainability, which is the ability to maintain or continue offering services to the country's citizens over the long term.

1. **Report of Auditor-General**

This covers the audit opinion received by an organization following an audit of the financial statements for the financial year ended 30 June 2023.

1. **General Compliance with Reporting Template**

The entities are required to report papers issued by the Public Sector Accounting Standards Board-Kenya.

1. **Other key findings**

# Key Findings

# Management discussion and analysis

1. **Overview of the entity and sectorial context:**
* A total of 50 entities were reviewed, and the majority disclosed their background, mission, and strategic goals in the annual report. Few entities disclosed how the current economic and sectorial environment impacts operations.
1. **Financial highlights**
* All entities disclosed their overall financial position, significant sources of revenue, and main expenditures. However, a few entities, mostly in the health sector, failed to project their performance using graphs and bar charts.
1. **Operational performance**
* A substantial number of entities reviewed averagely disclosed achievements, challenges, programs, and service delivery, which were not backed by bar charts, graphs, or data support.
1. **Risk management and internal controls**
* The majority of the entities reviewed failed to demonstrate full compliance in reporting key risks faced and the internal control systems in place to mitigate against such risks.
1. **Forward-looking information**
* Most State corporations did not disclose quantified data on their outlook for future periods, which shows that users of financial statements are denied a view of the company's future outlook.
* The Auditor-General highlighted issues with the ongoing concerns of Several entities. These entities failed to assess ongoing concerns in their financial statements.
1. **Governance and accountability**
* Entities complied with disclosure on Board and leadership, ethical standards and compliance, and stakeholder engagement; some failed to disclose Governance and accountability.
* The majority of the entities could meet the requirements of governance structures.
* Scanty information was given on ethical standards and stakeholder engagement.
1. **Sustainability and social responsibility**
* Almost all entities made disclosures on environmental impact, sustainability, community, social responsibility/contribution, and CSR activities.
* The majority failed to disclose how UN Sustainable Development Goals (SDGs) aligned with the sustainability disclosures.

The table below shows the scoring for the 50 entities in the Management Discussion and Analysis Section

**Table 1.1 Management Discussion and Analysis Section Scoring**

|  | Passed | Failed | Total | Compliance | Non-Compliance |
| --- | --- | --- | --- | --- | --- |
| MANAGEMENT DISCUSSION AND ANALYSIS | Yes | No |  | 66% | 34% |
| Overview of the entity and sectorial context |  |  |  | 80% | 20% |
| Is there disclosure on the entity’s background, mission, and strategic goals? | 44 | 6 | 50 | 88% | 12% |
| Is there disclosure on how the current economic and sectorial environment impact its operations? | 36 | 14 | 50 | 72% | 28% |
| Financial highlights |  |  |  | 81% | 19% |
| Is there disclosure on the overall financial position of the entity? | 49 | 1 | 50 | 98% | 2% |
| Is there disclosure on major sources of revenue and main expenditures? | 47 | 3 | 50 | 94% | 6% |
| Is there disclosure on Trend analysis and use of charts, graphs, variance analysis, and financial ratios over several periods e.g. (3-5) years? | 26 | 24 | 50 | 52% | 48% |
| Operational performance |  |  |  | 75% | 25% |
| Is there disclosure on Major achievements/ milestones during the period? | 38 | 12 | 50 | 76% | 24% |
| Is there disclosure on Challenges faced by the entity and possible solutions? | 35 | 15 | 50 | 70% | 30% |
| Is there disclosure on the programs and services delivered? | 40 | 10 | 50 | 80% | 20% |
| Risk management and internal controls |  |  |  | 53% | 47% |
| Is there disclosure on Key risks faced by the entity? | 34 | 16 | 50 | 68% | 32% |
| Is there disclosure on Strategies in place to mitigate risks? | 23 | 27 | 50 | 46% | 54% |
| Is there disclosure on how effective the entity’s internal control systems are? | 22 | 28 | 50 | 44% | 56% |
| Forward-looking information |  |  |  | 52% | 48% |
| Is there disclosure on Outlook for the next period, strategic priorities, anticipated risks, and opportunities? | 26 | 24 | 50 | 52% | 48% |
| Governance and accountability |   |   |  | 62% | 38% |
| Is there disclosure on Board and leadership, ethical standards and compliance, stakeholder engagement? | 31 | 19 | 50 | 62% | 38% |
| Sustainability and social responsibility |  |  |  | 58% | 42% |
| Is there disclosure on Environmental impact – measures to minimize environmental footprint? | 33 | 17 | 50 | 66% | 34% |
| Is there disclosure on Community and social contribution-CSR Activities? | 33 | 17 | 50 | 66% | 34% |
| Is there disclosure on Alignment with sustainable development goals? | 21 | 29 | 50 | 42% | 58% |

The highest level of compliance was on financial highlights; 81% of the entities disclosed this requirement,ment while 19 % failed to bring out the appropriate disclosures in this section. More focus should be on Risk Management and Internal control disclosures, where 47% of the entities struggled to disclose key risks they face, strategies to mitigate risks, and the effectiveness of internal controls. Other areas that need improvement in compliance are Governance and Sustainability, which scored 38% and 42%, respectively. Below is the graph showing Management Discussion and Analysis Compliance

**Graph 1.1 Management Discussion and Analysis Compliance.**

**Governance**

* + 1. **Legal**
* Most of the entities reviewed had their financial statements signed by the board chair, accounting officer, and head of finance by the PSASB Pronouncement. However, several entities did not disclose ICPAK membership for heads of finance, which impacted compliance.
* There is a need to give OAG guidance for uniformity across the sector.
	+ 1. **Board**
* Most of the reviewed entities reflected significant disclosure on the Profile of Board Members, term of appointment, gender parity, and succession plan.
* Most entities met board composition standards, including gender diversity, term details, and independence.
* However, most entities struggled to disclose a board charter, Board induction, and annual evaluations. Political parties and public health providers have also struggled, and sensitization is needed.

Below is a table showing the scoring of the Governance section. It indicates the number of entities reviewed and the compliance rate in the various aspects of governance.

**Table 1.2 Governance.**

| Description | Passed | Failed | Total | Compliance | Non-Compliance |
| --- | --- | --- | --- | --- | --- |
| GOVERNANCE | Yes | No |  | 67% | 33% |
| LEGAL |  |  |  | 82% | 18% |
| Are the financial statements are signed by the chairman of the board, the accounting officer, and the finance officer? (PSASB Pronouncement)? | 44 | 6 | 50 | 88% | 12% |
| Has the Head of Accounts/Finance indicated his/her ICPAK membership number (PSASB Pronouncement)? | 38 | 12 | 50 | 76% | 24% |
| BOARD COMPOSITION |  |  |  | 68% | 32% |
| Does the Entity have a Profile of Board Members; Name, Age, Photos, Date of appointment, a mix of appropriate skills, knowledge, experience, and similar positions held in other entities? | 37 | 13 | 50 | 74% | 26% |
| Has the entity disclosed in the annual report the term of appointment for the BoD and how they are appointed and exit, if 1/3 of the members are of the opposite gender and succession plan? | 27 | 23 | 50 | 54% | 46% |
| Is one third of the board composed of independent and non-executive directors and if the Chairperson is Independent? | 39 | 11 | 50 | 78% | 22% |
| Is the position of Chairperson, CEO and Secretary held by different persons and is the secretary a member of ICPS(K) - Public entities, and are Members of LSK for Commercial entities? | 33 | 17 | 50 | 66% | 34% |
| Has the entity disclosed the existence of a board charter and is the BoD evaluated annually? | 25 | 25 | 50 | 50% | 50% |
| MDAs - Board Composition |  |  |  | 84% | 17% |
| Has the entity disclosed who is responsible for general policy and strategic direction? | 39 | 11 | 50 | 78% | 22% |
| Has the entity disclosed its Accounting Office (AO) | 46 | 4 | 50 | 92% | 8% |
| Has the entity disclosed the key organs involved in its day-to-day management? | 44 | 6 | 50 | 88% | 12% |
| Has the entity disclosed key management personnel (names and designartion) who had fiduciary responsibility | 38 | 12 | 50 | 76% | 24% |
| Accountability, Risk Management & Internal Controls |  |  |  | 63% | 37% |
| Is there timely preparation of accurate financial statements? | 48 | 2 | 50 | 96% | 4% |
| Are effective processes and systems of risk management and internal controls being in place? | 27 | 23 | 50 | 54% | 46% |
| Is the external audit of the financial statements is completed and submitted within timelines stipulated in any law and Government policies? | 48 | 2 | 50 | 96% | 4% |
| Does there exists a policy on risk management, which considers sustainability, ethics, and compliance risks? | 22 | 28 | 50 | 44% | 56% |
| Is there a committee in charge of Risk, and a Risk management function, which monitors Risk on a quarterly basis? | 32 | 18 | 50 | 64% | 36% |
| Is there is an Internal Audit function that designs, implements, and monitors the effectiveness of internal control system? | 28 | 22 | 50 | 56% | 44% |
| Is the Chairperson of the Audit Committee independent? | 28 | 22 | 50 | 56% | 44% |
| At least one member of the Audit Committee has relevant qualifcations and expertise in audit, financial management or accounting, with experience and knowledge in risk management and is a member of a professional body in good standing. | 27 | 23 | 50 | 54% | 46% |
| Does the head of Internal Audit hold a Senior position in the management team, is professionally qualifed and is a member in good standing, of the professional body responsible for regulating Auditors; reporting to the Audit Committee? | 28 | 22 | 50 | 56% | 44% |
| Is there a procurement policy that promotes sustainability, high ethical standards, and best practice? | 27 | 23 | 50 | 54% | 46% |
| Ethical Leadership & Corporate Citizenship |  |  |  | 40% | 60% |
| There exists a code of conduct and ethics and a corporate gifts policy. | 20 | 30 | 50 | 40% | 60% |
| Is there a policy on the management of confict of interests? | 22 | 28 | 50 | 44% | 56% |
| Is there a strategy on corporate reputation and image? | 19 | 31 | 50 | 38% | 62% |
| Is there an independent party responsible for receiving and investigating whistleblowing reports received? | 19 | 31 | 50 | 38% | 62% |

The graph below shows the competency level of the Governance Section. Legal compliance disclosure was the highest at 82%. The financial statements of most entities were signed by the Chairman of the Board, the Accounting Officer, and the Finance Officer with ICPAK Membership indicated. The Non-Compliance level was the lowest on Ethical Leadership & Corporate Citizenship at 60%. Other areas that need more focus for improvement are Accountability, Risk, Management, & Internal Controls, which scored 37%. Generally, 36% of the entities reviewed failed to adequately include complete disclosures, while 64% disclosed on governance, which informs the need to focus on this area for future improvement.

**Graph 1.2 Governance**

* 1. **Environmental, social, and sustainability reporting**

This involved a review of the following aspects:

1. Sustainability Strategy & Profile
2. Environmental Performance
3. Employee Welfare
4. Marketplace Practices or Service Delivery Practices
5. Community Engagement
6. Principles for Reporting Environmental and Social Impacts
	* 1. **Sustainability Strategy & Profile**
* Most entities had a dedicated section on sustainability/ESG in the annual report, either a stand-alone statement or a distinct paragraph on sustainability.
* Scanty information was provided on sustainability priorities such as effective waste management, recycling, reuse, improvement in employee relations, friendly workplace infrastructure for PWD, and Nursing mothers’ crèche. Several entities failed to provide evidence and measures of success in this area.
	+ 1. **Environmental Performance**
* There were notable gaps in addressing paperless offices, biodegradable packaging, and employee transport services.
* Low compliance in this area was evident. Most entities did not have an environmental policy guiding their environmental activities, disclose climate change initiatives, or clearly define measurable activities.
	+ 1. **Employee Welfare**
* There was a notable failure to disclose inclusivity involving the distribution of employees by gender, age group, and any special group.
* There was also a significant gap in the disclosure of policies guiding inclusion in hiring, gender distribution, and Persons With Disabilities.
	+ 1. **Marketplace Practices or Service Delivery Practices**
* Most entities used the template issued by PSASB without customization in disclosing responsible competition, service automation, Product Stewardship, anti-corruption, and Service Delivery Practices.
* More training is needed in this area.
	+ 1. **Community Engagement**
* Most entities demonstrated compliance with community engagement, including charitable giving (cash and material) and community Social Investment disclosure. Still, they failed to include public participation and civic education.

Below is a table showing the scoring of Environmental, social, and sustainability reporting:-

**Table 1.3 Environmental, social, and sustainability reporting**

| Description | Passed | Failed | Total | Compliance | Non-Compliance |
| --- | --- | --- | --- | --- | --- |
| ENVIRONMENTAL & SUSTAINABILITY REPORTING | **Yes** | **No** |  | **54%** | **46%** |
| Sustainability Strategy & Profile |  |  |  | **63%** | **37%** |
| Is there a dedicated section on sustainability/ESG in the annual report, either stand-alone statement or distinct paragraph on sustainability? Or | 41 | 9 | 50 | 82% | 18% |
| Is there a reference by Chief Executive/Chairman on sustainability efforts? | 30 | 20 | 50 | 60% | 40% |
| Are there highlights of the sustainability priorities of the entity (Effective waste management-reduce, recycle, reuse, improvement in employee relations, friendly workplace infrastructure for PWD, Nursing mothers –crèche etc.)? | 29 | 21 | 50 | 58% | 42% |
| Has the entity indicated the direct economic value created (community social investments, schools, hospitals, dams, roads, etc.)? | 26 | 24 | 50 | 52% | 48% |
| Environmental Performance |  |  |  | **40%** | **61%** |
| Is there a clearly detailed environmental policy guiding the entity? | 21 | 29 | 50 | 42% | 58% |
| Is there evidence of the implementation of the environmental policy? | 18 | 32 | 50 | 36% | 64% |
| Is there an effort to reduce the environmental impact of their products / services (paperless offices, packaging that is biodegradable, employee transport services well maintained to reduce CO2 emissions)? | 21 | 29 | 50 | 42% | 58% |
| Is there a discussion or initiatives around climate change (e.g. climate smart technologies- drought resistant crop varieties, eco-toilets, eco jikos, green buildings- designed with automated lightings, open areas with natural lights, solar lighting, and heating system)? | 19 | 31 | 50 | 38% | 62% |
| Employee Welfare |  |  |  | **49%** | **51%** |
| Inclusivity: Is there a disclosure of distribution of employees by; gender, age group and any special group e.g. PWD? | 22 | 28 | 50 | 44% | 56% |
| Is there a disclosure on policies guiding inclusion in the process of hiring, the gender ratio (Male, female, Youth) and PWD? | 22 | 28 | 50 | 44% | 56% |
| Is there a conscious effort and policy directed towards improving employee skills- evidence on the number of employees trained, an effort to assist in managing or ending careers? | 29 | 21 | 50 | 58% | 42% |
| Marketplace Practices or Service Delivery Practices |  |  |  | **64%** | **36%** |
| Responsible competition: Has the entity outlined how to ensure responsible competition practices (issues include Anti-corruption, responsible political involvement, fair competition, respect for competitors and their products)? or | 32 | 18 | 50 | 64% | 36% |
| Has the entity outlined how to ensure improved service delivery practices (Service charter information, Service automation-self-service, Anti-corruption-reporting and protection mechanism, cashless payment, public sensitization/outreach)? | 21 | 29 | 50 | 42% | 58% |
| Responsible supply chain and supplier relations: Are there efforts outlined on the entity’s oversight over outsourced services ensuring that suppliers abide to good business practices? Is there a statement on how the entity treats its own suppliers responsibly (honouring contracts, respecting payment schedules etc.)? | 30 | 20 | 50 | 60% | 40% |
| Product Stewardship? Has the entity outlined how to safeguard consumer rights and interests (issues include protection of health and safety, providing adequate product information, dispute resolution and redress, consumer data and privacy protection)? | 29 | 21 | 50 | 58% | 42% |
| Community Engagement |  |  |  | **57%** | **43%** |
| Is there evidence of community engagement including charitable giving (cash & material), Community Social Investment and any other forms of community engagement [cause related marketing etc.]? | 35 | 15 | 50 | 70% | 30% |
| Is there evidence of public participation, sensitization, and civic education (e.g. in Law and by-laws formulation, budget making processes, community consultation on proposed development projects in their areas)? | 22 | 28 | 50 | 44% | 56% |
| Principles for Reporting Environmental and Social Impacts |  |  |  | **54%** | **46%** |
| Clarity: Has the entity presented the information in a way that is accessible and understandable (E.g. included explanation for abbreviations used, uses graphs and tables to present its environmental and social information, provided a table of content or context index on location of information in the report)? | 28 | 22 | 50 | 56% | 44% |
| Completeness: Has the entity included different section for environmental and social impacts created? | 26 | 24 | 50 | 52% | 48% |

The graph below shows the compliance level with environmental, social, and sustainability reporting. The average level of compliance for this section was 46%. This indicates that this area needs more sensitization and focus for the sector to improve. Environmental performance disclosure was the highest at 61%. The Non-Compliance level was the lowest on Ethical Leadership & Corporate Citizenship at 60%. Other areas that need more improvement are Accountability, Risk, Management & Internal Controls, and General Performance, which scored 37% and 36%, respectively, in terms of non-compliance.

**Graph 1.3 Environmental, social, and sustainability Reporting**

* 1. **Report of Auditor-General**
		1. **Report on financial statements**
* Most of the entity’s reporting was consistent with PSASB standards, and almost half of the entities reviewed complied with reporting standards.
* Almost half of the entities reviewed need improvements in reconciliations, detailed disclosures, and provision of support documentation on expenditures.
	+ 1. **Report on Lawfulness and effectiveness in the use of public resources**
* The majority complied with Lawfulness and effectiveness in the use of public resources. However, they require improvements in demonstrating efficacy and transparency of resource utilization.
* effective budget control and performance and
* resolution of prior year matters
	+ 1. **Report on Internal controls, risk management, and governance**
* There were Deficiencies in disclosures on risk management and governance structures.
* Some organizations lacked key policies like ICT policy, risk management policy, and disclosures on internal controls.

Below is a table showing the scoring of the Auditor-General Report.

**Table 1.4 Report of the Auditor-General**

| Audit Issue | Passed | Failed | Total | Compliance | Non-Compliance |
| --- | --- | --- | --- | --- | --- |
| Report of the Auditor-General | **Yes** | **No** |  | **51%** | **49%** |
| Report on financial statements |  |  |  | 54% | 46% |
| Are there any unconfirmed PPE balances? | 21 | 29 | 50 | 42% | 58% |
| Are there unsupported expenditures? | 26 | 24 | 50 | 52% | 48% |
| Are there incomplete projects? | 30 | 20 | 50 | 60% | 40% |
| Does the entity have long outstanding receivables? | 19 | 31 | 50 | 38% | 62% |
| Does the entity have long outstanding payables? | 22 | 28 | 50 | 44% | 56% |
| Are there issues with cash and bank balances? | 28 | 22 | 50 | 56% | 44% |
| Are the notes consistent with the FS? | 46 | 4 | 50 | 92% | 8% |
| Does the entity have any unsupported revenue? | 28 | 22 | 50 | 56% | 44% |
| Does the entity have irregular expenditure? | 25 | 25 | 50 | 50% | 50% |
| Lawfulness and effectiveness in use of public resources |  |  |  | **42%** | **58%** |
| Does the entity have an issue with budget control and performance? | 18 | 32 | 50 | 36% | 64% |
| Are there unresolved prior year matters? | 8 | 42 | 50 | 16% | 84% |
| Does the entity have ownership documents? | 26 | 24 | 50 | 52% | 48% |
| Has the entity disclosed the going concern status? | 27 | 23 | 50 | 54% | 46% |
| Does the entity have irregular procurement process? | 26 | 24 | 50 | 52% | 48% |
| Internal controls, risk management and governance |  |  |  | **55%** | **45%** |
| Does the entity have a risk management policy and internal controls? | 34 | 16 | 50 | 68% | 32% |
| Does the entity have an ICT policy? | 34 | 16 | 50 | 68% | 32% |
| Is there non-compliance with statutory requirements? | 15 | 35 | 50 | 30% | 70% |

**Report of the Auditor-General**

The average compliance level for this section for the 50 entities was 49%. The highest compliance level was Lawfulness and effectiveness in using public resources, where the entities achieved 58% Compliance. The areas to focus on in this section are primarily the report on financial statements, which had a 54% non-compliance level, as shown in the graph below:

**Graph 1.4 Report of the Auditor-General**

1. **Financial statements**
	1. **Application of IFRS Accounting Standards.**
	2. **Statement of profit or loss and other comprehensive income**
* Overall, entities adhered to IFRS Accounting Standards in presenting profit or loss and other comprehensive income.
	1. **Statement of Financial Position**
* Most entities complied with asset and liabilities disclosures.
* Consistency in reporting and disclosures is recommended in the following sections:
* PPE, including fully depreciated assets and donations in-kind.
* Intangible assets, including fully amortized assets.
* Inventories are reflected in the statement of financial position and relevant support notes.
* Trade and other receivables
* Cash and cash equivalents
* Trade and other payables
* Description of capital
	1. **Statement of Cash Flows**
* Most entities reported using the indirect method of the statement of cash flows.
* Most entities failed to disclose a reconciliatory note on the statement of cash flows.
* Income and line items relevant to their operations.

Below is a table showing the scoring of the Statement of Cash Flows.

**Table 1.5 Statement of Cash Flows**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Passed | Failed | Total | Compliance | Non-Compliance |
|  | Yes | No |  |   |   |
| Cash flow general performance (Average) |  |  |  | 68% | 33% |
| Direct method of presentation of cash flows | 2 | 48 | 50 | 4% | 96% |
| Indirect method of presentation of cash flows | 48 | 2 | 50 | 96% | 4% |
| Do the financial statements have a reconciliatory note? | 43 | 7 | 50 | 86% | 14% |
| Is the Cash and cash equivalents in the Statement of Cash Flows equal to that in the Statement of Financial Position? | 42 | 8 | 50 | 84% | 16% |

96% reported under the indirect method of presentation of cash flows, and 4% reported under the indirect method of presentation of cash flows.

**Graph 1.5 Statement of Cash Flows**

* 1. **Statement of Budget and actual amounts**
* Most entities failed to explain whether changes between the original and final budget result from reallocations within the budget or from other factors.
* Some did not explain material differences between the budget and actual amounts.
* The majority failed to reconcile actual amounts on a comparable basis and actual amounts in the financial statements, where the financial statements and the budget were not prepared similarly.
* Several entities did not adequately explain budget changes or variances, impacting the quality of budget analysis.

**Table 1.6 Statement of Budget Vs. Actual Amounts**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Description | Passed | Failed | Total | Compliance | Non-Compliance |
| Statement of Budget Vs Actual Amounts | Yes | No |  |   |   |
| Budget Statement performance (Average) |  |  |  | **69%** | **31%** |
| Did the entity provide an explanation of whether changes between the original and final budget a consequence of reallocations within the budget are, or of other factors? | 35 | 15 | 50 | 70% | 30% |
| Did the entity provide an explanation of material differences between the budget and actual amounts? | 37 | 13 | 50 | 74% | 26% |
| Did the entity provide a reconciliation of actual amounts on a comparable basis and actual amounts in the financial statements where the financial statements and the budget are not prepared on a comparable basis? | 31 | 19 | 50 | 62% | 38% |

**Graph 1.6 Statement of Budget Vs. Actual Amounts**

This section's average level of compliance was 69%, with a 31% level of non-compliance. The area of focus is reconciliations of budgets and actuals, where the entities evaluated scored the least in the disclosures.

* 1. **Notes to the financial statements**

The general trend on reviewed entities revealed the following:

* All entities commonly disclosed the reporting framework
* All entities disclosed new and revised accounting standards
* All entities included the accounting policy used to prepare the financial statements
* Most entities did not provide all required annexures to the financial statement as prescribed by PSASB.
* Although all the figures have been rounded off to the nearest whole number, most entities failed to include disclosure to that effect in the notes, financial statements, or basis of preparation.

**Table 1.7 Notes to the financial statements**

| Description | Passed | Failed | Total | Compliance | Non-Compliance |
| --- | --- | --- | --- | --- | --- |
| NOTES | Yes | No |  |   |   |
| Notes to the financial statements General performance (Average) |  |  |  | **88%** | **12%** |
| Has the entity disclosed new and revised accounting standards? | 48 | 2 | 50 | 96% | 4% |
| a) Has the entity disclosed the impact of adopting these new standards? | 44 | 6 | 50 | 88% | 12% |
| a) Are the accounting policies disclosed adequately cover all the items included in the statement of financial performance and statement of financial position. | 38 | 12 | 50 | 76% | 24% |
| c) Are the accounting policies disclosed relevant to the entity? | 48 | 2 | 50 | 96% | 4% |
| Has the entity included additional information that would guide the users in understanding the financial statements including and not limited to significant judgements and sources of estimation; Related party; budgetary information etc. | 32 | 18 | 50 | 64% | 36% |
| Has the entity included all annexures to the financial statement as prescribed by PSASB or made an express statement that the specific annexure is not applicable to the entity? | 25 | 25 | 50 | 50% | 50% |
| Has the entity included in the form of notes a breakdown supporting all the balances in the face of the statement of financial performance and statement of financial position? | 45 | 5 | 50 | 90% | 10% |
| a) Are the notes presented cross referenced in a systematic manner? | 46 | 4 | 50 | 92% | 8% |
| b) Are the items that are in the notes cross referenced to the statement of financial performance and statement of financial position relevant to the entity? | 48 | 2 | 50 | 96% | 4% |
| c) Are the items presented on the face of the statement of financial position and performance having figure either in the current or the previous year? | 49 | 1 | 50 | 98% | 2% |
| d) Have all the figures been rounded off to the nearest whole number? | 48 | 2 | 50 | 96% | 4% |

On notes to the financial statements, 88% of the 50 entities evaluated were compliant, and only 12% Failed to comply with disclosure requirements.

**Graph 1.7 Notes to the financial statements**

1. **Other key findings**
* **Going Concern**
* Most entities failed to explicitly disclose their status as a going concern, an essential element for investor and stakeholder confidence.
* **Auditor-General Report**
* The report does not disclose compliance with the International Standards on Auditing, in addition to the provisions of Article 229, the Public Audit Act 2015, and the International Standards of Supreme Audit Institutions.
* **Ethical Leadership**
* There was no disclosure or documented inventory of policies and legal pronouncements guiding the entities on ethical conduct, conflict of interest, reputation, and whistleblowing policies.
* **Management Discussion and Analysis**
* Most entities lacked a structured and unified presentation of information under management discussion and analysis, which posed a challenge in creating a standardized approach to reviewing these entities in this area.

# Recommendations

1. **Enhance Disclosures in Management Analysis:**
	* Encourage complete disclosures on strategic goals, risk management, and forward-looking plans, providing a more comprehensive operational overview.
	* Introduction of the following sections in the template under Management Discussions and Analysis to standardize reporting
		+ Overview of the entity and sectorial context
		+ Financial highlights
		+ Operational performance
		+ Governance and accountability
		+ Sustainability and social responsibility
		+ Forward-looking information
2. **Strengthen Governance Practices:**
	* Ensure ICPAK membership numbers are consistently disclosed for heads of finance
	* Encourage annual board evaluations and establishments and disclosure of board charters for improved governance.
3. **Environmental and Social Sustainability:**
	* Standardize ESR practices, align them with SDGs, and ensure detailed policies on waste management, climate initiatives, and community engagement.
4. **Accountability, Risk Management & Internal Controls**
	* Encourage entities to adequately disclose processes and systems of risk management and internal controls in place.
5. **Consistency in Financial Reporting:**
	* Reference of notes in the financial statements needs to be systematic. Disclosure of Material Accounting policies should be consistent and sequential.
	* Encourage entities to provide reconciliations, budget analyses, and disclosures of ongoing concern status for transparency and alignment with IFRS.
6. **Implement Regular Training:**
	* Conduct training on IFRS compliance, sustainability practices, and financial statement preparation for accounting teams.
7. **Reporting template:**
	* Change of International Financial Reporting Standards with IFRS Accounting Standards (Immediate).
	* Introducing a stand-alone section under governance on the reporting template will document policies to guide an entity strategically. (Clear Sections guiding information on:
8. Legal Compliance
9. Board of Directors,
10. Accountability, Risk Management & Internal Controls,
11. Ethical Leadership and Corporate Citizenship.
12. **Sectoral Evaluation System:**
	* The cash flow scoring matrix in the evaluation system needs to be improved to incorporate parameters for measuring compliance levels with the direct and indirect approaches to presenting statements of cash flows.
	* The system's Report of the Auditor-General scoring matrix needs to be improved so that a positive score is desirable.

# Annex 1: List of Entities Evaluated

| No | Entities Reviewed |
| --- | --- |
| 1 | Kenya Airports Authority |
| 2 | Nyayo Tea Zones Development Corporation |
| 3 | National Mining Corporation |
| 4 | Sunset Hotel Limited |
| 5 | Dekut Enterprises Company |
| 6 | Numerical Machining Complex Limited |
| 7 | Postal Corporation Of Kenya |
| 8 | Institute Of Certified Investment And Financial Analysts |
| 9 | Kenya Industrial Estates Limited |
| 10 | Agro Chemical And Food Company Limited |
| 11 | Nzoia Sugar Company Limited |
| 12 | Kenya Veterinary Vaccines Production Institute |
| 13 | New Kenya Co-operative Creamers Limited |
| 14 | Kenya National Shipping Line Limited |
| 15 | East African Portland Cement PLC |
| 16 | Jomo Kenyatta University Of Agriculture And Technology Industrial Park Limited |
| 17 | Kenya Petroleum Refineries Limited |
| 18 | Bomas Of Kenya Limited |
| 19 | Small Enterprises Finance Company Limited |
| 20 | Kenya Ports Authority |
| 21 | Makueni County Fruit Development And Marketing Authority |
| 22 | Chemelil Sugar Company Limited |
| 23 | University Of Nairobi Press |
| 24 | Kenya Safari Lodges And Hotels Limited |
| 25 | Kengen |
| 26 | Fort Beverage Industries Company Limited |
| 27 | Jomo Kenyatta University Of Agriculture And Technology Enterprises Limited |
| 28 | National Cereals And Produce Board |
| 29 | Kipchabo Tea Factory |
| 30 | National Housing Corporation |
| 31 | Egerton University Investment Company |
| 32 | National Social Security Fund |
| 33 | New Kenya Planters Co-operative Union (New KPCU) |
| 34 | Central Bank Of Kenya |
| 35 | Kenya Post Office Savings Bank |
| 36 | Jomo Kenyatta Foundation |
| 37 | Kenya Pipeline Company Limited |
| 38 | South Nyanza Sugar Company Limited |
| 39 | Golf Hotel Limited |
| 40 | Pyrethrum Processing Company Of Kenya Limited |
| 41 | Kenya Literature Bureau |
| 42 | Jomo Kenyatta University Of Agriculture And Technology Noodles Limited |
| 43 | Geothermal Development Company Limited |
| 44 | Kitui County Textile Centre |
| 45 | Consolidated Bank Of Kenya Limited |
| 46 | Development Bank Of Kenya Limited |
| 47 | Kenya Shipyards Limited |
| 48 | Kenya Deposit Insurance Corporation |
| 49 | University Of Nairobi Enterprises And Services Limited |
| 50 | Mwea Rice Mills Limited |

**Appendix 11**

**Sectoral Report**

**For**

**Water Companies and Related Entities**

# Background Information

According to the Water Services Regulatory Board (WASREB), there are 100 regulated water service providers (WSPs) and 10 Water Works Development Agencies (WWDAs). Under the Water Act 2016, county governments are responsible for the efficient and economical provision of water services to fulfill water rights. WASREB sets the required standards in water and sanitation services and licenses water utilities to satisfy the requirements. WASREB additionally monitors and reports on the performance of the licensed water utilities.

# Overview of The Sector

* For the purposes of this report, we obtained 49 audited financial statements from the National Treasury and reviewed them to establish how well the entities understand the expectations regarding preparing financial statements as per the prescribed reporting template issued by PSASB.
* From the reviewed reports, below is the distribution of the number of audit opinions obtained:

|  |  |  |
| --- | --- | --- |
| **Audit opinion** | **No. of Entities** | **Percentage** |
| Unqualified | 2 | 4% |
| Qualified | 42 | 86% |
| Adverse | 4 | 8% |
| Disclaimer | 1 | 2% |
| **Total** | **49** | **100%** |

# Key Findings

## **Audit Report**

The Auditor General’s report was in three parts, and the findings were as follows:

1. **Report on Financial Statements**

There is a need to improve reporting on the water companies’ financial statements on inaccuracies and inconsistencies, affecting 71% of the reported entities. Noted in most entities, there was a general non-disclosure of assets by the water companies in 89% of the entities. Also noted was another 85% of the water companies that continued to quote the defunct local authorities as shareholders rather than the counties that are the actual shareholders. Other issues highlighted in the audit report are tabulated below:

|  |  |  |
| --- | --- | --- |
| **S/No.** | **Issues** | **% entities**  |
| 1. | Issues with budgetary control and performance | 51 |
| 2. | Material uncertainty relating to going concern of the entities | 16 |
| 3. | Failure to transfer shareholding of the water companies from the defunct local authorities to the Counties. | 85 |
| 4. | Unsupported expenditure | 41 |
| 5. | Unsupported balances in the Statement of Financial position | 39 |
| 6. | Inaccuracies and Inconsistencies in the financial Statements | 73 |
| 7. | Unreconciled cash and cash Equivalents | 51 |
| 8. | Unresolved prior year audit matters | 45 |
| 9 | Inaccuracy of revenue reported | 43 |
| 10. | Misstatements and undisclosed items of property plant and equipment  | 89 |

1. **Report on Lawfulness and effectiveness in the use of public resources**

Water companies recorded a high rate of ineffective use of public resources characterized by ethnicity, stalled projects, non-revenue water, delayed remittance of salaries, and statutory deductions. The percentage of the affected entities is as follows:

| **S/No.** | **Issues** | **% entities**  |
| --- | --- | --- |
| 1. | Non-compliance with law on ethnic composition  | 95 |
| 2. | Non-revenue water recorded | 100 |
| 3. | Overdrawn bank accounts | 85 |
| 4. | Stalled and delayed projects | 90 |
| 5. | Delayed payment and remittance of salaries, statutory deductions | 92 |
| 6. | Failure to remit regulatory levies governing the water companies | 83 |
| 7. | Lack of Board Charter | Irregular Composition | No meetings for Board members | 79 |
| 8. | Failure to provide approved Budget and annual Revenue Estimates | 54 |
| 9 | Irregular procurements | 87 |
| 10. | Weakness in governance and operational environment  | 100 |
| 11. | Unapproved expenditure | 98 |

1. **Report on the effectiveness of internal controls, Risk management, and Governance**

This section provides an overview of how entities secure their operations through internal controls, governance structure, and risk management. From the review, water companies have weak governance structures lacking key policies such as risk management, finance, and ICT policies. We also noted that the audit committees in most water companies are not constituted, and, in some cases, entities lack a fully-fledged audit function. The head of internal audit position was not included among the critical positions. Other issues are reported in the table below: -

|  |  |  |
| --- | --- | --- |
| **S/No.** | **Issues** | **% entities** |
| 1. | Budget and budgetary control | 78 |
| 2. | Non-revenue water recorded | 100 |
| 3. | Lack of finance and accounting policy manual. | 89 |
| 4. | Lack of Risk management policy and framework | 93 |
| 5. | Incomplete Asset Register, lack of ownership documents | 85 |
| 6. | Lack of committees including the audit committee and internal audit department  | 73 |
| 7. | Weakness in governance, operational and ICT environment  | 100 |

## **Financial Statements**

These were the non-compliance areas identified under the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, and Budget Statement.

1. **Statement of Financial Performance**

The water companies omitted key information in their Statements of Financial Performance about the expenses incurred during the financial year ending 30th June 2023 as tabulated below: -

|  |  |  |
| --- | --- | --- |
| **S/No** | **Issues** | **% entities** |
| 1. | Failure to disclose the total external assistance either in cash, goods or services received or undrawn during the period. | 73 |
| 2. | Correctly classify the bank charges as a line item under use of goods. | 81 |
| 3. | Failure to disclose the tax expense/income. | 98 |
| 4. | Failure to disclose the amount of inventory that was expensed during the year. | 100 |
| 5. | Failing to delete the blank line items. | 63 |

**Statement of Financial Position**

None of the water companies disclosed their tax assets and liabilities in their annual reports. 70% failed to disclose key details on share capital, including some shares issued (fully or partially paid), shareholders, and the par value of the shares. Other non-disclosure issues are detailed below:

|  |  |  |
| --- | --- | --- |
| **S/No.** | **Issues** | **% entities** |
| 1. | Cross reference material items to the notes to accounts | 23 |
| 2. | Failure to disclose the tax assets and liabilities | 100 |
| 3. | Include all annexures to the financial statement as prescribed by the PFM Act Sec 194 or make an express statement that the specific annexure is not applicable to the entity | 52 |
| 4. | Describe the nature and purpose of each reserve within equity | 37 |
| 5. | Disclose for each class of share capital:* The number of shares authorized
* The number of shares issued and fully paid, and issued but not fully paid,
* Par value per share, or that the shares have no par value
* Shares in the entity held by the entity or by its subsidiaries or associates
 | 72 |
| 6. | Disclose the date when the financial statements were authorized for issue, the authorizer | signatures of the accounting officer, head of accounting and the CEO. | 13 |

1. **Cash flow statement**

Other than the deficiencies noted below, the water companies complied with the presentation requirements of the Cash Flow Statement. All the entities had their cash flow statements, balance of cash, and cash equivalents reconciled to the figure in the statement of financial position. However, we noted areas of improvement from the issues highlighted as follows: -

1. **Method of preparation used**

Eleven entities, equivalent to 22.9%, used an indirect financial statement preparation method.

1. **Provide a reconciliatory note for cash generated from operations**

Ten entities, equivalent to 20.8%, failed to disclose a reconciliatory note on the cash flow statement.

1. **Budget Statement**

The water companies and related entities are well versed in preparing the Statement of Budget and Actual Amounts, with more than 50% complying with the presentation and explanations required in their annual reports. However, we noted the following issues in the respective areas as shown below: -

1. **Explain differences between actual and budgeted amounts (any overutilization and of below 90%)]**

Twenty-one entities, equivalent to 48%, did not explain 10% and above variances, as the PFM Act requires.

1. **Explain changes between the original and final budget, indicating whether the difference is due to reallocations or other causes.**

Fourteen entities, equivalent to 29%, failed to explain the causes of the original and final budget changes.

1. **Provide a reconciliation where the total of actual on a comparable basis does not tie to the statement of financial performance totals due to differences in accounting basis (budget is cash basis; statement of economic performance is accrual)**

Fifteen entities, equivalent to 31%, did not provide a reconciliation statement to tie up the differences between the figures in the actual budget and the figures presented in the statement of financial performance.

## **Governance**

 The water companies and related entities failed to disclose:

1. **Board Details**
* The information includes the board member’s age, key academic and professional qualifications, and work experience. It also indicates whether the board member is independent or an executive director and which committee memberships. In most cases, only a section of the information was disclosed, and the quality of the photos was low, hence not clear and visible.
* Different people should hold the positions of the Managing Director, Chairman, and Secretary. In most cases, there was no Company Secretary.
* The corporate governance report failed to disclose critical issues of board management, such as the board charter, board evaluation, training, meetings held, board members' terms, how to handle conflicts of interest, whistleblowing, succession plans, etc.
* The existence of Ethics and conduct,t as well as governance audits undertaken
1. **Board Committees, Including Audit and Risk Committee.**
* Most entities confirmed having board committees, including Audit and Risk Committees, except some 33% didn’t have the Audit and Risk Committee. Since risk management is crucial in managing all entities, we still feel this level is too high.
* Of the 67% who confirmed having the Audit and Risk Committee, many failed to disclose the details of the members. Hence, evaluating whether the committees were constituted correctly with the relevant skills was impossible.
* We further noted cases where there was no designated department heading risk and audit function comprising 60% of the entities, which equally failed to have the head of the audit function as a senior employee of the organization.
* 41% of the entities had non-independent chairpersons of the audit and risk committees. In comparison, 43% failed to have at least one audit and risk committee member possessing the necessary risk management and accounting skills and being members of relevant professional bodies in good standing.
1. **Weak Risk Management environment**

We noted that 68% of the entities reviewed failed to have a risk management policy that considered sustainability, ethics, and compliance. Additionally, 54% of the entities could not have adequate risk management processes, systems, and internal controls.

1. **Board remuneration collectively and individually**

IPSAS 20 requires that an entity disclose the remuneration to individual related parties in total or aggregate for the reported period. While the water companies provided a ballpark amount for remuneration to the board members, they failed to analyze what each member received during the financial year ending 30th June 2023.

1. **Timely preparation and audit of the financial statements**

Most entities prepared their financial statements on time, except 33% that failed to meet the required timelines. We also noted that 47.9% of the entity's external audit completeness was not compliant with government policies.

1. **Other policies not in place**

We noted that several other policies were either not in place or not in compliance with the entities reviewed. 91.7% of the entities failed to have a policy on corporate reputation and image; 68.8% were unable to have a procurement policy that promotes sustainability, high ethical standards, and best practices; and 60.4% lacked a policy on corporate gifts.

## E**nvironment And Sustainability Reporting**

Under this section, the entities are expected to report on information regarding the environmental impact and sustainability practices. The entities were reviewed in the specific areas with the below findings:

1. **Dedicated section on sustainability/ESG in the annual report**

Entities are expected to include a dedicated section to report on ESG matters. Our findings revealed that most entities dedicated a section to sustainability reporting. Minority comprising of 3 entities, equivalent to 6%, failed to include a section, either as a stand-alone statement or a distinct paragraph on sustainability, signifying incompleteness of their reports. Of the 46 entities that dedicated a section to sustainability reporting, 23, equivalent to 48%, failed to present the information transparently. The reports of the Chairman/ Chief Executive Officers of some 14 entities, equivalent to 29%, could not reference sustainability efforts. In contrast, the other 18 entities, equivalent to 37.5%, failed to highlight their sustainability efforts.

1. **Environmental Performance**

 From the reports reviewed, 26 entities, equivalent to 54.2%, did not have environmental policies, and a similar number failed to demonstrate how their ecological policies were implemented. Most entities, comprising 77%, failed to include a section on environmental and social impacts. In contrast, 31 entities, equivalent to 63%, did not disclose efforts to reduce the environmental impact of their products. We further noted that 30 entities, equivalent to 61.2%, did not disclose any discussions around climate change.

1. **Employees welfare**

Under the employee welfare of the sustainability section of the report, the entity is expected to disclose efforts made to improve the employees' skills, give a report on inclusivity, advise on compliance with labor requirements for a conducive and safe working environment, etc.

From our findings, 39 entities, equivalent to 81.3%, failed to disclose the distribution of employees by gender, age group, and unique group distribution of the employee population. We further noted from the audit findings that even the 10 who disclosed the demographics about employee distribution still failed to meet the set threshold. Twenty-seven entities, equivalent to 56%, did not have policies guiding the hiring process that would help them meet the requirement of inclusivity. Twenty-five entities, equivalent to 52%, failed to disclose any efforts and plans in place to improve the skills of their employees.

1. **Marketplace Practices**

Only 10 of the 49 reviewed entities presented evidence of having conducted public participation. The remaining 39 entities, equivalent to 79.5%, provided no evidence or disclosure of public participation having been carried out by the entity. We also noted that 22 entities, equivalent to 45%, failed to disclose their efforts towards improvement of service delivery, whereas 22 other entities failed to disclose their efforts towards responsible supply chain and supplier relations. In contrast, 20 others failed to disclose activities aimed toward responsible competition. Also, 15 entities failed to demonstrate product stewardship and efforts in place to safeguard consumer rights and interests.

1. **Community Involvement/engagements**

Under this section, the entity is expected to disclose the CSR activities it is engaged in and their social impact on the community. From our review findings, we noted that 18 entities failed to provide any evidence of engagement in any CSR activities during the year, whereas out of the 31 entities who reported having engagements, 28 of them, equivalent to 58%, failed to demonstrate the direct economic value the CSR activities were bringing to the community.

## **Management Discussions and Analysis**

While most entities provided a section on Management Discussion and Analysis, the following were our detailed findings from the review:

1. **Operation and financial performance**

Most entities fairly disclosed their financial position, except 11, equivalent to 22%. Most entities fairly disclosed their significant achievements and milestones during the year. On the negative side, 30 entities, equivalent to 63%, failed to disclose their performance in trend analysis and the use of charts, graphs, variance analysis, and financial ratios over several periods of between 3 and 5 years.

1. **Compliance with statutory requirements**

Most entities complied with statutory requirements, except for 10, equivalent to 20%.

1. **Review of the sector and economy**

Most entities made a fair disclosure on how the current economic and sectorial environment impacted their operations. Thirty-five entities disclosed the significant challenges they faced and possible solutions, while 34 entities, equivalent to 69%, disclosed their considerable sources of revenue and central areas of expenditure. On the contrary, only 24 entities, equivalent to 40%, disclosed the future outlook, strategic priorities, anticipated risks, and opportunities. The majority of entities, 30 in number, equivalent to 63%, failed to disclose how their sustainability plans were aligned with the Sustainable Development Goals.

1. **Discussion on major risks**

From our review findings, only 16 entities, equivalent to 44%, disclosed key risks faced by the entities. We noted that 31 entities, equivalent to 64%, did not disclose how adequate their internal controls were, while 35 other entities, comprising 72%, failed to inform strategies in place to mitigate the risks identified.

**Other Key Findings**:

* + - 1. **Excessive Non-Revenue Water**

This was a cross-cutting issue affecting all entities. The accepted level is 25%, which no entity achieved.

* + - 1. **Lack of Gender Balance, Ethnicity, and Regional Distribution**

The audit report disclosed that most entities did not comply in this area.We further noted that most entities in the financial statements did not disclose this area fairly.

* + - 1. **Lack of a Strategic Plan**

A strategic plan helps define an entity's direction and aids in establishing realistic objectives and goals that align with the vision and mission charted. We noted areas where entities were reported as not having a strategic plan.

* + - 1. **Lack of Risk Management Policy**

The purpose of the risk management policy is to guide risk management in supporting the achievement of corporate objectives, protecting staff and business assets, and ensuring financial sustainability. From the sector review, 30 entities, equivalent to 60%, didn’t have risk management policies.

* + - 1. **Finance Officer disclosing ICPAK numbers.**

We noted that nine entities, equivalent to 18%, had finance officers who did not disclose ICPAK member numbers, which indicates the risk of financial statements being prepared and signed by unqualified accountants.

* + - 1. **Missing annexures in the annual reports**

Thirty-two entities, equivalent to 66.7%, failed to disclose all the annexures prescribed by PSASB. The expectation is that an entity should boldly declare an annex not applicable to its situation.

* + - 1. **Presenting items that are not relevant to the entity**

We noted that nine, equivalent to 18% of the total entities reviewed, failed to tailor the draft template issued by PSASB to fit their situation. The entities presented items on the face of the statement of financial performance and statement of financial position, which did not have any figures, making the report look untidy.

* + - 1. **Issues on the notes to the financial statements**

While most of the entities disclosed information related to the notes to the financial statements, we noted a few entities that failed to comply with different areas as follows: 6.3% did not disclose new and revised standards; 16.7% did not disclose the impact of adopting new and revised standards; 6.3% failed to round off the figures to the nearest whole number; and 3% disclosed accounting policies not relevant to the entity amongst others.

* + - 1. **Going Concern Issues**

Most entities struggle to meet their obligations as and when they fall due due to their liquidity challenges. Entities heavy on non-current assets may seek the necessary approvals to restructure their statement of financial position to improve their liquidity position.

# Recommendations

1. **Excessive non-water revenue beyond the allowable threshold of 25%.**

Discuss with stakeholders in the water industry to conclusively agree on action plans that may reduce water loss or review the limits beyond 25% of the current threshold.

1. **Lack of Gender Balance, Ethnicity, and Regional Distribution**

Liaise with stakeholders to identify the pain points hindering compliance with this requirement. Most entities did not comply with this requirement as they employed mainly staff within the region.

1. **Lack of a Strategic Plan**

The PSASB should liaise with the Planning department within the National Treasury to write to entities that have not filed their 5th Generation Strategic plan to create agency on the entities and ensure compliance.

1. **Lack of Risk Management Policy**

Enlighten entities on the importance of having a risk management policy and organize workshops to build the capacity of the relevant staff on how to develop risk management policies.

1. **Organize capacity-building training to build the capacity of the staff.**

Regular training is needed in many areas to speed up the staff's understanding of the expectations regarding preparing financial statements and policies. Entities should work with consultants to ensure all required policies are developed. Water companies need Targeted Technical Assistance to enhance operations, reduce stalled/ abandoned projects, ensure statutory compliance, and improve the current ratio.

1. **Address issues surrounding political interference.**

Water companies should be granted full autonomy to reduce political interference in operations, staff hiring, and service delivery.

1. **Improvement in management of assets and liabilities**.

Stakeholder engagement is needed to support the process and finalize the transfer of assets and liabilities from defunct authorities to water companies.

1. **We need to recruit and capacity-build key staff members other than board members.**

A workload audit and skills assessment must be conducted in the Water Companies to develop a training needs analysis for every staff member and organize training to improve employee skills. More qualified staff are also required to ensure efficient service delivery.

1. **Ensure compliance with operating requirements**:

The board and top management should be aware of the repercussions of noncompliance. Some entities failed to comply with the Operating license requirements. We further advise that the renewal of top Management appointments should be pegged on performance reviews and allowances paid on KPIs such as salary payments, remittance of statutory deductions, and levies payments. This will reduce the ballooning liability on unpaid amounts.

1. **Going Concern Issues**

The majority of the entities are facing ongoing concerns and challenges attributed to liquidity challenges. We encourage those entities heavy on non-current assets to seek the necessary approvals to restructure their statement of financial position to improve their liquidity position.

# Annex 1: Water Companies Reviewed

| **S/No** | **Entity** | **Opinion Issued** |
| --- | --- | --- |
| 1 | Elwak Water and Sanitation Company Limited | Adverse |
| 2 | Garissa Water and Sewerage Company Limited | Adverse |
| 3 | Gatanga Water and Sanitation Company Limited | Qualified |
| 4 | Gatundu Water and Sanitation Company Limited | Qualified |
| 5 | Gusii Water and Sanitation Company Limited | Qualified |
| 6 | Homa Bay County Water and Sanitation Company Limited | Adverse |
| 7 | Kakamega County Water and Sanitation Company | Qualified |
| 8 | Karuri Nandi Water and Sanitation Company Limited | Qualified |
| 9 | Kathiani Water and Sanitation Company Limited | Qualified |
| 10 | Kiambu Water and Sanitation Company Limited | Qualified |
| 11 | Kibwezi- Makindu Water and Sanitation Company Limited | Qualified |
| 12 | Kilifi Mariakani Water and Sanitation Company Limited | Qualified |
| 13 | Kirinyaga Water and Sanitation Company Limited | Qualified |
| 14 | Kitui Water and Sanitation Company Limited | Qualified |
| 15 | Kwale Water and Sanitation Company Limited | Qualified |
| 16 | Lamu Water and Sanitation Company Limited | Qualified |
| 17 | Limuru Water and Sanitation Company Limited | Qualified |
| 18 | Lodwar Water and Sanitation Company Limited | Adverse |
| 19 | Mandera Water and Sanitation Company Limited | Qualified |
| 20 | Marsabit Water and Sewerage Company Limited | Qualified |
| 21 | Matungulu Kangundo Water and Sanitation Company Limited | Qualified |
| 22 | Mavoko Water and Sanitation Company Limited | Qualified |
| 23 | Mbooni Water and Sanitation Company Limited | Qualified |
| 24 | Migori Water and Sanitation Company Limited | Qualified |
| 25 | Mombasa Water Supply and Sanitation Company Limited | Qualified |
| 26 | Municipal Council of Machakos Water and Sanitation Company Limited | Qualified |
| 27 | Murang'a Water and Sanitation Company Limited | Qualified |
| 28 | Murang’a West Water and Sanitation Company Limited | Qualified |
| 29 | Murang'a South Water and Sanitation Company Limited | Qualified |
| 30 | Mwala Water and Sanitation Company Limited | Qualified |
| 31 | Nairobi City Water and Sanitation Company Limited | Adverse |
| 32 | Nakuru Rural Water and Sanitation Company Limited | Qualified |
| 33 | Nakuru Water and Sanitation Company Limited | Qualified |
| 34 | Narok Water and Sanitation Company Limited | Qualified |
| 35 | Naromoru Water and Sanitation Company Limited | Qualified |
| 36 | NAWASSCOAL Company Limited | Qualified |
| 37 | Nolturesh Loitokitok Water and Sanitation Company Limited | Qualified |
| 38 | Nyanas Water and Sanitation Company Limited | Disclaimer |
| 39 | Nyandarua Water and Sanitation Company Limited | Qualified |
| 40 | Nyeri Water and Sanitation Company Limited | Qualified |
| 41 | Ol Kalou Water and Sanitation Company Limited | Qualified |
| 42 | Olkejuado Water and Sewerage Company Limited | Qualified |
| 43 | Oloolaiser Water and Sanitation Company | Qualified |
| 44 | Othaya Mukurweini Water and Sanitation Company Limited | Qualified |
| 45 | Ruiru-Juja Water and Sanitation Company Limited | Qualified |
| 46 | Tana Water and Sanitation Company Limited | Adverse |
| 47 | Tetu Water and Sanitation Company Limited | Qualified |
| 48 | Thika Water and Sewerage Company Limited | Qualified |
| 49 | Wote Water and Sewerage Company Limited | Qualified |