

# THE KENYA NATIONAL EXAMINATIONS COUNCIL

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**REPORT OF THE AUDITOR-GENERAL (CORPORATIONS)  
ON THE ACCOUNTS OF THE KENYA NATIONAL EXAMINATIONS COUNCIL  
FOR THE YEAR ENDED 30TH JUNE 1989**

# THE KENYA NATIONAL EXAMINATIONS COUNCIL

## REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF THE KENYA NATIONAL EXAMINATIONS COUNCIL FOR THE YEAR ENDED 30TH JUNE 1989

Kenya National Examinations Council  
P O Box 73598  
NAIROBI, Kenya.

## TABLE OF CONTENTS

<u>ITEM NO</u>	<u>CONTENTS</u>	<u>PAGE</u>
1.	Report of the Auditor-General (Corporations)	1
2.	Balance sheet as at 30th June, 1989	3
3.	Income and Expenditure Account for the Year ended 30th June, 1989	4
4.	Notes on the Accounts	5
5.	Comments on the Accounts for the Year ended 30th June, 1989	12

**REPORT OF THE AUDITOR-GENERAL (CORPORATIONS) ON THE ACCOUNTS OF  
THE KENYA NATIONAL EXAMINATIONS COUNCIL FOR THE YEAR ENDED  
30 JUNE 1989**

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I have examined the accounts of the Kenya National Examinations Council for the year ended 30 June 1989 in accordance with Section 13 (3) of the Kenya National Examinations Council Act, 1980 as amended by the Exchequer and Audit Act, (Cap 412). I have obtained all the information and explanations that I have required for the purpose of my audit. Proper books of account have been kept by the Council and the accounts are in agreement therewith. Except for the matters referred to herebelow, in my opinion, the accounts which have been prepared under the historical cost convention, when read together with the supporting notes, give a true and fair view of the state of affairs of the Council for the year ended 30 June 1989 and of its surplus for the year ended on that date.

**1. FIXED ASSETS**

The council's fixed assets of Kshs.14,949,116.90 as at 30 June 1989 include Kshs.2,557,574.50 being the value of five residential houses owned by the Council but for which no title deeds have been seen. I am, therefore, and as was the case in the previous year, still unable to confirm the ownership of the five properties. The accounts of the Council for the year 1988/89, like those for the previous years, do not still incorporate the value of assets passed on the Council by the former East African Examinations Council at its incorporation after the break-up of the now defunct African Community. Accordingly, the Council's fixed assets of Kshs.14,949,116.90 as at 30 June 1989 are understated to the extent of the value of the excluded assets. Moreover, the Council did not maintain an up-to-date Register and, I was again unable to confirm the physical existence and ownership of some of the assets and to relate the same to the fixed assets net book value of Kshs.14,949,116.90 reflected on the Balance Sheet as at 30 June 1989.

**2. HONORARIA PAYMENT**

In my previous years' reports for the years 1986/87 and 1987/88, I expressed concern over the irregular manner in which the Council made payment of honoraria allowance to its senior officers purportedly for working outside their normal working hours. Despite my concern over this irregular practice, the trend continued during the year 1988/89 in that a total of Kshs.1,703,110 was paid as honoraria to Council's Senior Officers. As previously indicated, the payments were made in lumpsum without any analysis as to how the lumpsum had been calculated.

**3. PROCUREMENT**

The Council has still not followed the laid down procurement procedures when purchasing goods for its use. During the year ended 30 June 1989, the Council purchased materials worth Kshs.1,207,675.00 without calling for tenders or quotations.

Similarly four firms supplied stationery worth Kshs.90,137.20 without competitive bids. As a result of these irregularities, I was unable to confirm whether or not the Council obtained value for money spent in the goods.

4. BANK/CASH BALANCES

The examination of Bank Reconciliation Statement for the year ended 30 June 1989 revealed the following discrepancies:

- (a) There was an amount of Kshs.4,400,296.75 not recorded in the cash book but which was denoted as "cheques for amount under Kshs.20,000.00". These cheques were neither produced for audit verification nor were their numbers recorded.
- (b) The Council has not been able to identify another amount of Kshs.573,000.00 which was drawn from the Bank but was apparently not recorded in the cash book and has not been accounted for in any manner.
- (c) Cheques totalling Kshs 3,191.15 cashed in the Bank between June 1985 and December 1985 have not been accounted for in the cash book and the Council has not been able to identify them.

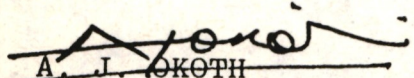
As a result of the foregoing discrepancies, I was unable to confirm the correctness of the bank/cash balance of Kshs.33,818,857.50 appearing on the Balance Sheet as at 30 June 1989.

5. DISHONOURED CHEQUES

The Council's debtors of Kshs.17,026,894.80 as at 30 June 1989 include Kshs.1,155,034.30 being the value of dishonoured cheques drawn between the year 1982 and February 1989. Although these cheques have now become stale and can only be collected through replacements, I am not aware of any good reason why effective action had not been taken to recover the amounts of dishonoured cheques immediately the cheques were dishonoured.

6. SUSPENSE ACCOUNT

The Balance Sheet as at 30 June 1989 reflects a suspense account amounting to Kshs.395,779.10 which according to the Council's explanation relates to cumulative differences in the accounts to the period 1981/82 and 1986/87. The Council has not identified or explained the nature of this difference and in the circumstances, I am unable to confirm the correctness of the Council's Balance Sheet as at 30 June 1989.

  
A. J. OKOTH  
AUDITOR-GENERAL (CORPORATIONS)

THE KENYA NATIONAL EXAMINATIONS COUNCIL  
 BALANCE SHEET AS AT 30TH JUNE, 1989

	<u>NOTES</u>	<u>1989</u>	<u>1988</u>
<u>ASSETS EMPLOYED</u>			
Fixed Assets	1	14,949,116.90	5,237,600.10
Short-term investments	2	154,568,290.30	70,403,868.10
Buildings (work in progress)		52,048,509.25	44,858,479.25
Loan to SEPU		300,000.00	300,000.00
		<u>221,865,916.45</u>	<u>120,799,947.45</u>
<u>CURRENT ASSETS</u>			
Suspense A/cs 1986-1987		395,779.10	1,566,161.60
Sundry debtors	3	17,026,894.80	13,967,436.80
Bank/cash		33,818,857.50	39,989,775.55
		<u>51,241,531.40</u>	<u>55,523,374.35</u>
<u>CURRENT LIABILITIES</u>			
Sundry creditors	4	6,612,980.85	5,947,141.15
		<u>6,612,980.95</u>	<u>5,947,141.15</u>
<u>NET CURRENT ASSETS</u>		<u>44,628,550.55</u>	<u>49,576,233.20</u>
<u>TOTAL ASSETS</u>		<u>266,494,467.00</u>	<u>170,376,180.65</u>
<u>FINANCED BY</u>			
Capital reserve		64,505,610.95	46,621,105.45
Excess of income over expenditure		201,988,856.05	123,755,075.20
		<u>266,494,467.00</u>	<u>170,376,180.65</u>

CHAIRMAN Philip M. Mbatia

SECRETARY [Signature]

DATE : 1/2/90

DATE: 23-1-90

**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 30TH JUNE, 1989**

<u>INCOME</u>	<u>NOTES</u>	<u>1989</u>	<u>1988</u>
Examination fees	6	185,553,494.50	46,750,783.10
Other income	7	9,837,720.85	11,655,956.25
Grants	8	<u>71,254,764.00</u>	<u>59,804,742.00</u>
		<u>266,645,979.35</u>	<u>118,211,481.25</u>
<b>LESS EXPENDITURE</b>			
Personal expenses	9	16,732,920.75	17,279,660.15
Office administration expenses	10	7,351,415.60	9,181,952.30
Examination expenses	11	74,791,473.30	122,533,259.35
Test Development & Research	12	66,107,503.10	28,408,148.45
Housing of staff & Office Accomodation	13	9,333,519.05	7,457,610.10
Depreciation		<u>1,032,571.20</u>	<u>1,207,700.40</u>
		<u>175,349,403.00</u>	<u>186,068,330.75</u>
Excess of income over expenditure c/f		<u>91,296,576.35</u>	<u>(67,856,849.50)</u>

**THE KENYA NATIONAL EXAMINATIONS COUNCIL**  
**FIXED ASSETS SCHEDULE AS AT 30TH JUNE, 1989**

	LEASEHOLD BUILDINGS (KSHS.)	MOTOR VEHICLES (KSHS.)	OFFICE EQUIPMENT (KSHS.)	OFFICE FURNITURE (KSHS.)	HOUSE FURNITURE (KSHS.)	TOTAL (KSHS.)
<b>Balance brought forward 1.7.88</b>	2,557,574.50	2,643,019.00	2,342,578.75	1,596,597.50	590,338.00	9,730,107.75
<b>Additions during the year</b>	-	-	10,694,475.50	49,712.50	-	10,744,188.00
	2,557,574.50	2,643,019.00	13,037,054.25	1,646,310.00	590,338.00	20,474,295.25
<b>Accumulated depreciation as at 1.7.88</b>	438,194.10	2,114,433.75	569,641.55	780,000.25	590,338.00	4,492,607.65
<b>Depreciation for the year</b>	63,939.35	528,585.25	234,257.85	205,788.75	-	1,032,571.20
<b>Accumulated depreciation as at 30.6.89</b>	502,133.45	2,643,019.00	803,899.40	985,789.00	590,338.00	5,525,178.85
<b>Book value 1.7.88</b>	2,119,380.40	528,585.00	1,772,937.20	816,597.75	-	5,237,500.30
<b>Book value 30.6.89</b>	2,055,441.05	NIL	12,233,154.85	660,521.00	-	14,949,116.90
<b>Date of Depreciation</b>	2½%	25%	10%	12½%	12½%	



SHORT - TERM INVESTMENTS

NOTE 2

SHORT-TERM INVESTMENTS

Trans-National Finance Co.	925,200.65
Jimba Credit Corporation	50,577,368.15
Kenya Finance Corporation	976,499.80
City Finance Ltd.	2,089,221.70
National Industrial Credit	20,000,000.00
Kenya Commercial Finance Ltd.	10,000,000.00
Savings & Loan (K) Ltd.	30,000,000.00
Housing Finance Company of Kenya	30,000,000.00
Standard Chartered Acceptances Ltd.	10,000,000.00
	<hr/>
	154,568,290.30
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NOTE 3 DEBTORS

Ministry of Education	1,467,291.10
Temporary imprest	1,550,703.45
Interest receivable	11,775,441.65
Returned cheques RD	1,155,034.00
Interest on SEPU loan accrued from 1.1.81-30.6.89	225,000.00
Staff Motor loan	84,908.00
Kenya Polytechnic	153,460.00
Salary advance	72,237.45
Income tax withholding tax	542,819.75
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	17,026,895.40
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NOTE 4 CREDITORS

Staff Cont. FSSU	1,105.00
Audit Fees	25,000.00
E.A.E.C.	4,000,000.00
Stale cheques	2,469,507.00
Retirement benefits	45,675.25
PAYE	14,465.25
Insurance	3,077.20
Miscellaneous deductions	<u>54,150.60</u>
	<u>6,612,980.85</u>

NOTE 5

Income and expenditure A/c	
Balance b/d 1st July, 1987	123,755,075.20
Prior yr. adjustment	<u>13,062,794.90</u>
	110,692,280.30
Surplus 1988/89	<u>91,296,576.35</u>
Balance carried forward	<u>201,988,856.65</u>

NOTE 6 EXAMINATION FEES

KCPE	29,338,850.50
KCSE	119,946,817.50
KACE	19,892,251.15
PTE	7,874,940.00
Technical	5,353,034.35
Business	<u>3,147,601.00</u>
	<u>185,553,494.50</u>

NOTE 7 OTHER INCOME

Surplus on miscellaneous exams.	555,067.75
Rent	82,800.00
Interest on Fixed Deposits	7,190,451.00
Sale of publications	1,979,402.10
Interest on SEPU loan	<u>30,000.00</u>
	<u>9,837,720.85</u>

## NOTE 8

Recurrent grants from Ministry of Education	71,254,764.00
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NOTE 9 PERSONNEL EXPENSES

Personnel emoluments	10,758,891.30
Extra-clerical assistance	4,614,388.05
Medical expenses	974,708.90
Contributions to F.S.S.U.	384,932.50
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	16,732,920.75
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NOTE 10 OFFICE ADMINISTRATION EXPENSES

Passages & leave expenses	199,268.75
Transport operating expenses	1,031,582.90
Travelling and accomodation	728,371.25
Posts & Telegrams	350,454.50
Telephone expenses	727,771.15
Official entertainment	33,250.75
Electricity and water	102,189.25
Security expenses	248,934.30
Purchase of stationery	720,853.50
Cleaning materials	5,117.00
Bank charges and ledger fees	657,324.95
Audit fees	25,000.00
Maintenance of plant and equipment	882,702.20
Miscellaneous charges & sundry expenses	636,782.40
Staff training	347,033.20
Advertising & publicity	654,779.50
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	7,351,415.60
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NOTE 11 EXAMINATION EXPENSES

KCPE	21,903,182.80
KCE	2,037,973.40
KACE	14,597,461.05
PTE	3,504,249.75
Technical	6,245,334.15
Business	5,143,922.05
Invigilation and supervision	16,527,991.35

Computer charges	4,711,613.35
Hire of halls	139,750.00
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	74,811,477.90
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NOTE 12 TEST DEVELOPMENT

Printing and publishing	57,072,538.05
Setting	1,860,750.10
Moderation	4,089,805.40
Committee expenses	2,762,212.30
Examination panel & awards meetings	322,197.25
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	66,107,503.10
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NOTE 13 STAFF HOUSING AND OFFICE ACCOMODATION

Rents & rates senior staff housing	3,006,847.85
Repair to Council houses	623,653.90
Rents & rates to office accomodation	5,703,017.30
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	9,333,519.05
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SUSPENSE ACCOUNT 30.6.89

	Shs.	Shs.
Balance 1.7.89 Dr.		1,566,161.60
Overstatement of Expenditure in Cash Book 1981/82, 85/86	3,141,074.00	
F Okello's Salary Advance erroneously reflected as out- standing	<u>10,000.00</u>	<u>3,151,074.00</u>
		4,717,235.60

Credits

Understatement of Cash Book Expenditure due to casting errors in:- (i) 83/84	3,095,247.60	
(ii) 84/85	<u>1,226,208.90</u>	<u>4,321,456.50</u>
Debit Balance		395,779.10

**COMMENTS ON THE  
ACCOUNTS FOR THE YEAR ENDED 30TH JUNE 1989**

**1. FIXED ASSETS**

(i) All documents pertaining to purchase of the Council's five residential houses are available in our offices. However, the title deed for the houses have not been received by us because the lawyer who handled the transactions stopped practising while the firm responsible for the development and sale of the houses, namely Nyumba Enterprises wound up after completing transactions on the properties they had developed. We have however completed the necessary official forms in order that the Ministry of Lands can process and issue the title deeds to the KNEC. We have also contacted the successors of M/s Nyumba Enterprises namely M/s Nairobi Homes Ltd about processing of issue of the title deeds and they have agreed to play their part in this regard.

(ii) Value of Assets Inherited from the former East African Examinations Council

The fixed assets of the Kenya National Examinations Council at its inception were valued and their value recorded in the 1980/81 Annual Accounts which were subsequently audited. The fixed assets included those inherited from both the former East African Examinations Council and the former Examinations section of the Ministry of Education. The value of these assets has since then been brought forward in the subsequent financial years after appropriate depreciation.

Records of fixed assets maintained by the East African Examinations Council for its regional office in Nairobi were kept in the (EAEC) Headquarters in Kampala. Since the dissolution of the now defunct examining board, it has been impossible to retrieve these records inspite of determined efforts. A list of the assets inherited from the East African Examinations Council was however drawn up after the inception of the Kenya National Examinations Council with the assistance of Kenya personnel who had served for many years in the East African Examinations Council. The list included all the items whose value was included in the audited accounts for the 1980/81 financial year.

(iii) Fixed Assets Register

The Council now maintains a Fixed Assets Register. An Accountant II has been charged with the responsibility of maintaining the register.

## 2. HONORARIA PAYMENT

The Council pays honoraria to senior staff in accordance with the Council's terms and conditions of service section 8.10.2 which reads:-

"An employee in Job Group 'H' and above will not qualify for overtime allowance since staff members in this category are normally called upon to perform duties of a supervisory nature and this factor is taken to account in their remuneration. However, in exceptional circumstances where an officer is engaged in special duties of which he is required to work for lengthy periods in excess of normal working hours and he cannot be given time off in lieu, consideration will be given by the Council for grant to him of an honorarium which will be determined on the merits of each case'.

Determination of the payments is based on the Council' Finance and General Purposes Committee authority of March 19th 1986. The Authority states:-

"The Council pays honorarium to officers in Job Group 'H' and above when required to put in extra work in processing of examinations. In view of the fact that processing is a demanding task, the Committee approved the rate of 75 cts per script as a basis for working out honorarium for officers on Job Group 'H' and above.

A copy of the authority was made available to the audit team and it is therefore not clear why you state that payment of Shs.1,703,110.00 was made without the authority of the Board or Government.

It should also be noted that according to Chapter 225A of the Laws of Kenya, membership of the Council's Finance and General Purposes Committee is as follows:-

The Permanent Secretary, Ministry of Education;  
 The Chairman, Kenya National Examinations Council;  
 The Director of Education;  
 The Chief Inspector of Schools;  
 Representative of the Senate of University of Nairobi;  
 and  
 The Council Secretary.

The work for which honoraria is paid involves handling of live examination papers and processing of candidate's examination results. For reasons of accountability and security, only a restricted number of senior professional officers of the Council can participate in such sensitive operations. Deadlines for the work are very strict as the Country's expectations for timely conduct of examinations and issue of results have to be met.

### 3. **PROCUREMENTS**

The material procured at a cost of Kshs.10,602,077.40 consisted mainly of locally printed question papers and answer booklets. Although the auditors considered answer booklets for instance, to be non-classified material, the Council considers them as classified and therefore subject to security procurement. Each of the answer booklets bears the specific subject code, name and year of the examination and must be accounted for during and after printing. This precaution is taken as part of the measures for prevention of irregularities in the examinations. It must be appreciated that the security of examinations is of paramount concern to the Council and the Government because the validity and reliability of the results of national examinations depends on it.

It is incorrect to allude that the unit costs for items procured locally through the security procurement procedure were fixed by the printing firm. The prices had been compared with those of other firms with facilities for security printing. Proposed increases from previous unit prices were also rationalised on the basis of extra numbers of pages for each document and prevailing trends of prices of raw materials. For instance, when the maximum number of pages for each KCE answer booklet used to be 12 (in 1986), the unit price was Shs.1.30. However, the unit price was reviewed upward to Shs.1.40 in 1987 when the Council decided that each of the booklets would be 16 pages. In each case of security procurement, a contract is drawn, indicating among other things, the unit price.

Imprests were issued in the course of the year for purchase of items whose quantities were too small to warrant tendering or those which could get spoiled if they were bought and stored. Items such as cleaning detergents and felt pens fell in this category. Competitive bids were however sought from several suppliers before purchase was made. Besides entering details of procurement of these items in the stores ledger, a separate record of the details of the items was kept by the officer charged with responsibility of purchasing them. Both records were and are still available in our offices for your scrutiny.

### 4. **BANK/CASH BALANCES**

The Council has explained to your office repeatedly that a Bank Reconciliation like a Trial Balance must balance/reconcile. If not, the cause(s) must be sought. Once identified, the figures will be reflected in the reconciliation and will remain outstanding until such time that they are cleared by either debiting or crediting the cash book. Therefore, the use of the term 'figures inserted as mere balancing figures' is in our view misleading and unfair. In fact, your office has not specified any of the so called inserted figures.



We wish to disagree with your assertion that the Council has not been able to identify an amount of Kshs.5,746.25 shown as 'cheques not seen'. This statement is misleading. Our June 1989 Bank Reconciliation has no such figure. Please elaborate further and let us know where you got the figure from.

Attempts are being made to analyse the figure of Kshs.4,400,296.70. As regards the amount of Kshs.573,000.00 the Council has made efforts to retrieve the cheques payments journal and other related documents from the Kiambu Resident Magistrate's court where they have been held for an on-going case for the last four years.

#### 5. **DISHONoured CHEQUES**

As at 30th June 1988, the refer to Drawer Cheques figure stood at Kshs.1,278,774.30. During the financial year 1988/89, the Council managed to recover an amount of Kshs.121,410.00 thereby leaving a balance of Kshs.1,147,364.30 relating to the years 1982/83 - 1997/88.

In addition to the above, the Council has in the current financial year recovered Kshs.29,990.00 relating to the year 1988/89. It is therefore clear that the R.D. cheques figure is being reduced. The Council's efforts should be appreciated.

#### 6. **SUSPENSE ACCOUNT**

The Council's accounts for 1989/88 and 1988/89 did not reflect any suspense account. The suspense figure of Kshs.395,779.10 is the cumulative balance b/f from the accounts of 1986/87 backwards to 1981/82. Further adjustments to the remaining balance will be reflected in the accounts of 1989/90.

The Council however feels that if you must include this qualification in the certificate, then you should re-frame your statement so as to give a true and fair picture of the actual situation.