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

THE NATIONAL ASSEMBLY

TWELFTH PARLIAMENT- THIRD SESSION

.....

SEVENTH REPORT OF THE SPECIAL FUNDS ACCOUNTS COMMITTEE  
ON

AUDITED FINANCIAL STATEMENTS OF THE UWEZO FUND FOR FINANCIAL  
YEAR 2016/17 AND THE WOMEN ENTERPRISE FUND FOR FINANCIAL YEAR  
2017/18

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 05 NOV 2019	DAY: TUESDAY
TABLED BY:	HON. KATHURI MURUNGI CHAIR - SPECIAL FUNDS ACCOUNTS COMMITTEE
CLERK-AT THE TABLE:	

Directorate of Committee Services  
The National Assembly  
Parliament of Kenya  
NAIROBI

OCTOBER, 2019





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## **LIST OF ABBREVIATIONS AND ACRONYMS**

C RB	Credit Reference Bureau
COK	Constitution of Kenya, 2010
CWE	Constituency Women Enterprise Scheme
DCI	Director of Criminal Investigation
EACC	Ethics and Anti-Corruption Commission
FIs	Financial Intermediaries
FY	Financial Year
GoK	Government of Kenya
IPSAS	International Public Sector Accounting Standards
LPO	Local Purchase Order
MP	Member of Parliament
MP	Member of Parliament
OAG	Office of Auditor- General
PFM	Public Finance Management Act
WEF	Women Enterprise Development Fund

## ANNEXURES

**Annexure 1**

Committee Minutes

## CHAIRPERSON'S FOREWORD

Article 95 (4) (c) of the Constitution of Kenya gives the National Assembly power to oversight over national revenue and its expenditure. In fulfillment of these constitutional provisions, the National Assembly Standing Orders has established Committees whose mandate is to examine reports of the Auditor-General to ascertain whether public funds have been utilized in a lawful, authorized, effective, efficient, economical and transparent manner.

This report contains the Committee's proceedings of its consideration of the reports of the Auditor General on financial statements for the Uwezo Fund for financial year 2016/17 and the Women Enterprise Fund for financial year 2017/18 pursuant to provisions of Standing Order No. 205A (e) of the National Assembly Standing Orders.

The Uwezo Fund was established vide a legal notice no. 21 of the Public Finance Management Act, 2012 on 8th September 2013 with the mandate to provide affordable loans to women, youth and persons living with disability. The Fund also provides mentorship opportunities to enable the beneficiaries take advantage of the 30% government procurement preference through its Capacity Building Programme.

The Women Enterprise Fund on the other hand was established through Legal Notice No. 147 Government Financial Management (Women Enterprise Fund) Regulations, 2007 as a Semi-Autonomous Government Agency in the Ministry of Public Service, Youth & Gender Affairs. It is mandated to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation.

Based on the important role that these Funds play towards national development, there is need for proper utilization and accountability of public resources invested towards realization of mandates of these institutions. It is on this basis that the Committee invited the Accounting Officer, of these Funds, the Principle Secretary for Gender Affairs, Hon. Safina Kwekwe Tsungu to respond to the audit queries raised in the report of the Auditor General. Arising from the evidence adduced, the Committee came up with various recommendations as contained in the report for consideration by the House.

The Committee held eight meetings where it received submissions from the Accounting Officer of these Funds on various audit issues raised in the reports



The Committee is grateful to the Offices of the Speaker and the Clerk of the National Assembly for the logistical and technical support accorded to it during its consideration of the audited financial reports of the aforementioned Funds.

Finally, I wish to express my appreciation to the Honorable Members of the Committee who made useful contributions towards the preparation and production of this report.

On behalf of the Special Funds Accounts Committee and pursuant to provisions of Standing Orders 199 (6), it is my pleasant privilege and honour to present to the House the report of the Committee on its consideration of reports of the Auditor General on financial statements for the Uwezo Fund and the Women Enterprise Fund.

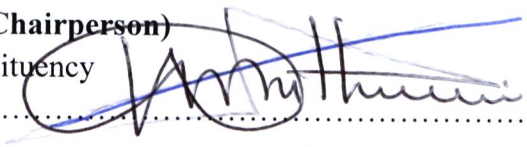
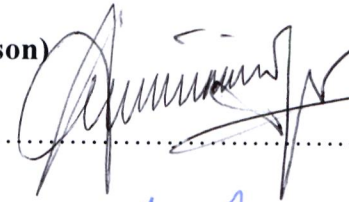
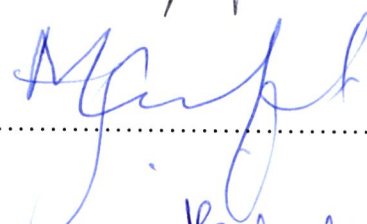
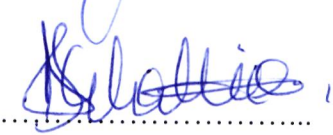


**HON. KATHURI MURUNGI, M.P.**

**CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE**

## ADOPTION LIST

Pursuant to Standing Order 199, we the undersigned Members of the Special Funds Accounts Committee of the National Assembly do hereby append our signatures to adopt this report.

Signature

1. Hon. Kathuri Murungi, M.P. **(Chairperson)**  
Member of Parliament for South Imenti Constituency  
Independent Member ..... 
2. Hon. William Kamuren Chepkut, M.P. **(Vice-Chairperson)**  
Member of Parliament for Ainabkoi Constituency  
Independent Member ..... 
3. Hon. Alfred Agoi Masadia, M.P.  
Member of Parliament for Sabatia Constituency  
Amani National Congress Party ..... 
4. Hon. Denittah Ghati, HSC, M.P.  
Nominated Member (representing Persons With Disabilities)  
Orange Democratic Movement Party ..... 
5. Hon. Mark Lomunokol, M.P.  
Member of Parliament for Kacheliba Constituency  
Party of Development and Reforms.....
6. Hon. Shakeel Shabbir, M.P.  
Member of Parliament for Kisumu Town East Constituency  
Independent Member.....
7. Hon. Erastus Kivasu Nzioka, M.P.  
Member of Parliament for Mbooni Constituency  
New Democrats Party ..... 
8. Hon. Esther M. Passaris, M.P.  
Member of Parliament for Nairobi City County  
Orange Democratic Movement Party.....
9. Hon. Geoffrey Omuse, M.P.  
Member of Parliament for Teso South Constituency  
Orange Democratic Movement Party ..... 



10. Hon. Irene M. Kasalu, M.P  
 Member of Parliament for Kitui County  
 Wiper Democratic Party..... *Irene*
11. Hon. James Kamau Wamacukuru, M.P  
 Member of Parliament for Kabete Constituency  
 Jubilee Party .....
12. Hon. Jared Okelo, M.P  
 Member of Parliament for Nyando Constituency *Jared*  
 Orange Democratic Movement Party .....
13. Hon. Justus Gisito Mugali, M.P.  
 Member of Parliament for Shinyal Constituency  
 Orange Democratic Movement Party .....
14. Hon. Marwa Maisori Kitayama, M.P  
 Member of Parliament for Kuria East *M. Kitayama*  
 Jubilee Party.....
15. Hon. Mohamed M. Ali, M.P.  
 Member of Parliament of Nyali Constituency  
 Orange Democratic Movement Party.....
16. Hon. Mwambu M. Mabongah, M.P.  
 Member of Parliament for Bumula Constituency *Mwambu*  
 Independent Member.....
17. Hon. Rehema Dida Jaldesa, M.P  
 Member of Parliament for Isiolo County *Rehema*  
 Jubilee Party .....
18. Hon. Mohamed Ali Lokiru, M.P  
 Member of Parliament for Turkana East Constituency  
 Orange Democratic Movement Party .....
19. Hon. Abdi Koropu Tepo, M.P  
 Member of Parliament for Isiolo South Constituency  
 Kenya Patriots Party .....

## CHAPTER ONE

### 1.0 PREFACE

#### 1.1. Establishment of the Committee

1. The Special Funds Accounts Committee is amongst the three watchdog Committees of the Twelfth Parliament that examine reports of the Auditor-General to ascertain whether public funds have been utilized in a lawful, authorized, effective, efficient, economical and transparent manner. The Committee was established in the fifth session of the Eleventh Parliament following the review of the National Assembly's Standing Orders to enhance the examination of reports of the Auditor-General laid before the House.

#### 1.2. Mandate of the Committee

2. The Committee's mandate is contained in the National Assembly's Standing Order 205A to examine the audited accounts laid before the House of:

- (i) the Equalization Fund;
- (ii) the Political Parties Fund;
- (iii) the Judiciary Fund;
- (iv) the National Government Constituencies Development Fund; and
- (v) Any other Fund established by law as the Speaker may direct.

#### 1.3. Guiding Principles

3. In execution of its mandate, the Committee was guided by core constitutional and statutory principles on public finance management, as well as established customs, traditions and practices. These principles include:

##### 1.3.1. Constitutional Principles on Public Finance

4. Article 201 of the Constitution of Kenya 2010 (CoK, 2010) provides for the fundamental principles that guide all aspects of public finance. These principles are, *inter alia*:-

- (i) Article 201(a) states that there shall be openness and accountability, including public participation in financial matters;
- (ii) Article 201(d) states that public money shall be used in a prudent and responsible way; and

- (iii) Article 201(e) requires that financial management shall be responsible, and fiscal reporting shall be clear.

### **1.3.2. Direct Personal Liability**

5. Article 226(5) of the Constitution of Kenya, 2010 is emphatic that, *“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”*.

### **1.3.3. Obligations of Accounting Officers**

6. Section 68 (1) of the Public Finance Management Act, 2012 provides, *inter alia*, that, *“An accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly for ensuring that the resources of the respective entity for which he or she is the accounting officer are used in a way that is lawful and authorized, and effective, efficient, economical and transparent.”*

7. The Committee relied on these constitutional and legal provisions as the basis for inviting accounting officers for each of the Funds to respond to queries raised in the report of the Auditor General. This is in addition to holding them directly and personally liable for any loss of public funds under their trust.

8. The Committee has and will continue to invoke these provisions in its recommendations to ensure that public resources channeled to these public bodies in furtherance of their mandates is utilized for the benefits of Kenyans.



## 1.4. Committee Membership

### Chairperson

Hon. Kathuri Murungi, M.P.

Member for South Imenti Constituency

### Independent Member

### Vice-chairperson

Hon. William Kamuren Chepkut, M.P.

Member for Ainabkoi Constituency

### Independent Member

### Members

Hon. Alfred Agoi Masadia, M.P.

Member for Sabatia Constituency

### Amani National Congress Party

Hon. Erastus Kivasu Nzioka, M.P.

Member for Mbooni Constituency

### New Democrats Party

Hon. Dennitah Ghati, M.P.

Nominated Member (representing

Persons with Disabilities)

### Orange Democratic Movement Party

Hon. Esther Muthoni Passaris, M.P.

Member for Nairobi County

### Orange Democratic Movement Party

Hon. Mark Lomunokol, M.P.

Member for Kacheliba Constituency

### Party of Development and Reforms

Hon. Geoffrey Omuse, M.P.

Member for Teso South Constituency

### Orange Democratic Movement Party

Hon. Shakeel Shabbir, M.P.

Member for Kisumu Town East

Constituency

### Independent Member

Hon. Irene Mthoni Kasalu, M.P.

Member for Kitui County

### Wiper Democratic Party

Hon. James Kamau Wamacukuru, M.P.

Member for Kabete Constituency

### Jubilee Party

Hon. Jared Okelo, M.P  
Member for Nyando Constituency  
**Orange Democratic Movement Party**

Hon. Mwambu M. Mabongah, M.P.  
Member for Bumula Constituency  
**Independent Member**

Hon. Justus Gisito Mugali, M.P.  
Member for Shinyalu Constituency  
**Orange Democratic Movement Party**

Hon. Rehema Dida Jaldesa, M.P  
Member for Isiolo County  
**Jubilee Party**

Hon. Marwa Maisori Kitayama, M.P  
Member of Parliament for Kuria East  
**Jubilee Party**

Hon. Mohamed Ali Lokiru, M.P  
Member for Turkana East Constituency  
Orange Democratic Movement Party

Hon. Mohamed M. Ali, M.P.  
Member for Nyali Constituency  
**Orange Democratic Movement Party**

Hon. Abdi Koropu Tepo, M.P  
Member for Isiolo South Constituency  
**Kenya Patriots Party**

## 1.5. Committee Secretariat

Ms. Lucy Kimathi  
Principal Clerk Assistant II

Ms. Hellen Ekadeli  
Clerk Assistant II

Ms. Clarah Kimeli  
Senior Legal Counsel

Mr. Josphat Bundotich  
Senior Serjeant- at- Arms

Ms. Clare Jerotich Kidombo  
Research Officer I

Ms. Catherine Burure  
Fiscal Analyst III

Ms. Deborah Mupusi  
Media Relations Officer II

Ms. NaserianKaare  
Serjeant-at- Arms III

Ms. Fatuma Abdi  
Audio Officer II



## CHAPTER TWO

### 2.0 BACKGROUND

9. Article 95 (4) (c) of the Constitution of Kenya, 2010 provides that the National Assembly shall exercise oversight over national revenue and its expenditure. In addition, Article 229(8) also provides that, *“within three months after receiving an audit report, Parliament ... shall debate and consider the report and take appropriate action”*.
10. Further, Section 68(1) of the Public Finance Management Act, 2012 provides that, *“an accounting officer for a national government entity, Parliamentary Service Commission and the Judiciary shall be accountable to the National Assembly”*.
11. The Special Funds Accounts Committee is amongst the three Watchdog Committees of the 12<sup>th</sup> Parliament established to assist the National Assembly undertake its constitutional oversight mandate geared towards enhanced accountability in application of public funds.
12. This report covers the Committee’s consideration of the reports of the Auditor General on audited financial statements of the Uwezo Fund and the Women Enterprise Fund.

### 2.1. UWEZO FUND

13. The Fund was established vide a legal notice no. 21 of the Public Finance management Act, 2012 on 8<sup>th</sup> September 2013. The main mandate of the Fund is to provide affordable loans to women, youth and persons living with disability.
14. The Fund also provides mentorship opportunities to enable the beneficiaries take advantage of the 30% government procurement preference through its Capacity Building Programme. This fund is an avenue for incubating enterprises, catalyzing innovation, promoting industry, creating employment and growing the economy. The Fund is managed by the Uwezo Fund Oversight Board. There also exist Constituency

Uwezo Fund Management Committees that manage the Fund at the Constituency level.

## **2.2. WOMEN ENTERPRISE DEVELOPMENT FUND**

15. The Women Enterprise Fund was established through Legal Notice No. 147 Government Financial Management (Women Enterprise Fund) Regulations, 2007 and began its operations in December 2007.
16. It is a semi-autonomous Government Agency in the Ministry of Public Service, Youth and Gender Affairs established to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation, with the Principal Secretary, State Department for Gender Affairs as the Accounting Officer.
17. The Women Enterprise Fund is governed by an Advisory Board whose core responsibility is to set the strategic direction of the Fund and to oversee the implementation of those strategic initiatives in accordance with relevant statutory and regulatory regimes. The Women Enterprise Fund is headed by a Chief Executive Officer who is charged with the responsibility of operationalizing the policies and strategies formulated by the Advisory Board.
18. Regulation 4 of the Legal Notice No. 147 Government Financial Management (Women Enterprise Fund) Regulations, 2007 sets out the object and purpose of the Fund as follows-
  - (a) To provide loans to credible micro-finance institutions (MFIs), registered non-governmental organisations (NGOs) involved in micro financing, and savings and credit co-operative organisations (SACCOs) for on-lending to women enterprises;
  - (b) To attract and facilitate investment in micro, small and medium enterprises oriented infrastructure such as business, markets or business incubators that will be beneficial to women enterprises;

- (c) To support women oriented micro, small and medium enterprises to develop linkages with large enterprises;
- (d) To facilitate marketing of products and services of women enterprises in both domestic and international markets; and
- (e) To support capacity building of the beneficiaries of the Fund and their institutions through Divisional Women Enterprise Fund Committees.

19. In the Financial year that ended June 2017, the total budgetary allocation to the fund was Kshs 682 million. Out of this amount, Kshs 500 million was meant for capital loans whereas Kshs 182 million was meant for recurrent expenses. In the year, there was a balance brought forward of reserves that amount to Kshs 476 million. This totaled the budget for the fund to Kshs 1,159 million out which Kshs 813 million was available for capital loans to the targeted groups as per its mandate.



## CHAPTER THREE

### CONSIDERATION OF REPORT OF THE AUDITOR GENERAL ON AUDITED FINANCIAL STATEMENTS FOR UWEZO FUND FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2017

20. The Hon. Safina Kwekwe Tsungu, the Principal Secretary, State Department of Gender Affairs appeared before the Committee on 1<sup>st</sup> August, 2019 to respond to the audit queries raised in the report of the Auditor-General for Uwezo Fund and Women Enterprise Fund for the year ended 30<sup>th</sup> June 2017 and 30<sup>th</sup> June, 2018 respectively. She was accompanied by:

1. Mr. Peter Lengapiani- Head of Secretariat, Uwezo Fund;
2. Ms. Naumy J. Kemboi - Head of Accounts, Uwezo Fund;
3. Ms. Polline Githinji- Chief Accountant, Uwezo Fund;
4. Ms. Annie Njau - Chief Youth Officer, Uwezo Fund;
5. Mr. Caliph Ombati- Deputy Chief Finance Officer, Uwezo Fund;
6. Mr. Gad Etyang -Human Resource Officer, Uwezo Fund;
7. Eng. Charles Mwingi- Chief Executive Officer, Women Enterprise Fund;
8. CPA Paul Wangai- Finance & Administration Manager, Women Enterprise Fund;
9. Mr. Raphael Kinolo-Credit Manager Women Enterprise Fund;
10. Ms. Mary Anne Ngoima- Asst. Manager, Legal Affairs, Women Enterprise Fund; and
11. Mr. Isaac Ngige- Parliamentary Liaison Officer, Ministry of Public Service, Youth and Gender Affairs.

### 2.3. REPORT FOR YEAR ENDED 30<sup>TH</sup> JUNE 2017

#### 2.3.1. AUDIT QUERY NO. 1-ACCURACY OF THE FINANCIAL STATEMENTS

21. The first and final sets of financial statements for the year ended 30 June 2017 submitted for audit exhibited unexplained account balances movement as detailed in the table:

Account Name	Balance as per final Set of financial statements(Ksh.)	Balance as per the initial Set of financial statements (Ksh.)	Unexplained Movement/adjustments (Ksh)
Note 7: Constituency Administration costs			
Balance Brought Forward	46,121,430	145,211,430	99,094,832
Unutilized Funds (Bank Balances)	52,785,432	52,348,640	436,783
Note 9: Loans to groups			
CBK balance	500,000,000	657,390,839	157,390,839
Balance in the Main Account	295,738,028	285,099,061	10,636,967
Balance in Repayment Account	1,126,785,244	1,114,572,531	12,212,713
Bank and Cash Balances	2,412,412,986	2,389,124,523	23,288,463
Current Liabilities	58,295,837	0	58,295,837

### Management Response

22. The accounting officer submitted that the Fund operates on manual platform and generates all reports manually. The initial financial statements had posting errors that necessitated preparation of amended set of accounts. The movement and adjustments are the resultant corrections which were agreed upon and explanations are as indicated in the following table:

Account Name	Balance as per final Set of financial statements	Balance as per the initial Set of financial statements	Unexplained Movement	Explanation
Note 7: Constituency Administration costs Balance Brought Forward	46,121,430	145,216,262	99,094,832	Constituency Administrative costs of Kshs. 145,211,430 ought to read Kshs. 145,216,262 for the financial year 2015/2016. This amount was inadvertently picked and posted as unutilized closing bank balance in the initial set of financial statements as opposed to the correct amount of Kshs. 46,121,430 posted in the Amended financial statements for year 2016/2017 hence the difference of Kshs 99,094,832.
Unutilized Funds (Bank Balance)	52,785,423	52,348,640	436,783	The difference of Kshs. 436,783.00 was caused by wrong figures submitted in the bank certificates of Langata, Tinderet and Kipkelion West Constituencies. The correct certificates of bank balance have been availed for audit review.



Note 9: Loans to groups					In the year under review, the Fund received development funds for capital loans grants totalling kshs. 500 Million for disbursement to constituencies. The first set of financial statements Inadvertently included first half of constituencies' administrative transfers of Kshs. 156.6 million which included casting error of Kshs.790,839 totaling Kshs. 157.39 million. These errors were noted and corrected in the final set of financial statements.
CBK balance	500,000,000	657,390,839	157,390,839		
Balance in the Main Account	295,738,028	285,099,061	10,636,967		The difference of Kshs.10,636,967.00 was caused by wrong figures submitted in the bank certificates of Langata and Tinderet whereas Kipkelion West amounts were inadvertently reported as those of Kipkelion East, whose balances had not been provided (nil balances). Mwatate's figures of Kshs. 89,288 were inadvertently reported as Voi's figures. The corrected certificates of bank balances and the schedules of bank balances have been availed for audit review
Balance in Repayment Account	1,126,785,244	1,114,572,531	12,212,713		The difference of Kshs. 12,212,713.00 caused by wrong figures submitted in the bank certificates of Langata and Tinderet whereas Kipkelion West amounts were inadvertently reported as those of Kipkelion East, whose balances had not been provided (nil balances). The corrected bank certificates and schedule of bank balances have been availed for audit review
Bank and Cash Balances	2,412,412,986	2,389,124,523	23,288,463		This was the total difference of the bank certificates for main, administration and repayment account caused by the changing bank balances. (436,783+10,638,967+12,212,713=23,288,463.00)
Current Liabilities	58,295,837.00	0	58,295,837.00		Ksh. 58,295,837.00 is the difference between the total Assets less Equity and Liabilities. (6,418,201,392 – 6,359,905,555.00 = 58,295,837.00) Refer to page 2 statement of financial position The corrected bank balances received occasioned an increase in the current liabilities

23. Further the current liabilities balance of Kshs. 58,295, 837 as at 30 June, 2017 was not supported by any relevant documents. In view of the above-unexplained movement/adjustments in the account balances, the accuracy of the financial statement cannot under the circumstances be confirmed.

### Management Response

24. The accounting officer submitted that the current liabilities of Kshs. 58,295,837 had been occasioned by an increase in the total assets (6,418,201,392) as compared with equity and liabilities (6,359,905,555).



### **Committee Observation**

25. The Committee observed that the Accounting Officer did not provide satisfactory explanations on the adjustments on the balances contrary to the International Public Sector Accounting Standards (IPSAS) and provisions to section 68 of the Public Finance Management Act, 2012.

### **Committee Recommendation**

26. **The Committee having considered the audit query recommends that the Accounting Officer of the Fund ensures compliance with the International Public Sector Accounting Standards (IPSAS) and section 68 of the Public Finance Management Act, 2012.**

### **2.3.2. AUDIT QUERY NO.2-BANK AND CASH BALANCES**

27. During the year under review, the Fund maintained bank accounts for each sub-county which were distributed over nine commercial banks and had bank balances amounting to Kshs. 1,475,308,695 as at 30<sup>th</sup> June, 2017, and as disclosed in Note 11 to the financial statements. However, the management did not prepare bank reconciliation statements for the sub county treasuries bank accounts.

### **Management Response**

28. The accounting officer submitted that the Fund maintains bank accounts for each sub-county which are distributed over nine commercial banks. Each of the 290 sub-county treasuries maintains 3 bank accounts totaling 870. It is expected for each of the sub county treasuries to prepare bank reconciliation for each of the bank accounts and dully file them.
29. The Fund operates on manual platform both at the headquarters and the sub county treasuries. The Fund depends on the services of the sub county accountants, some of whom serve in more than one sub county treasuries, for instance Nairobi County that is under one accountant serving 17 sub county treasuries.
30. At the time of audit review, the Fund was still receiving and compiling bank reconciliation reports from the 290 constituencies, each operating three bank accounts totaling to 870 bank accounts. The Fund had received 648 bank reconciliations statements and availed for audit review. The exercise is ongoing for the remaining 222 bank accounts.

31. She further submitted that the Fund had undertaken capacity building programmes for the sub county officers to enhance the Fund's operations and has further engaged with the National Treasury for timely submission of returns.

#### **Committee Observation**

32. **The Committee observed that –**

- (i) That out of the eight hundred and seventy (870) bank accounts operated by the Fund, reconciliation of two hundred and twenty two (222) had not been finalized and therefore the matter remains unresolved; AND
- (ii) The Accounting Officer of the Fund did not adhere to International Public Sector Accounting Standards (IPSAS) and section 68 of the Public Finance Management Act by failing to prepare accurate financial statements;

#### **Committee Recommendation**

33. **The Committee having considered the audit query recommends –**

- (i) **That, the Accounting Officer of the Fund ensures compliance with the International Public Sector Accounting Standards (IPSAS) and section 68 of the Public Finance Management Act, 2012; and**
- (ii) **That, the Accounting Officer undertakes reconciliation of the remaining 222 bank accounts and forwards to the Auditor General for verification within three (3) months of the adoption of this report by the House.**

34. The auditor had also indicated that anomalies had also been noted with regard to bank and cash balances of Kshs. 1,412,412,986 as at 30 June 2017 as reflected in the statement of financial position and disclosed under Note 11 to the financial statements. The main Co-operative Bank of Kenya account reconciliation statement reflects stale cheques totaling Kshs. 235, 038.00 some dating back as far as June 2014. No explanation has given this anomaly.

#### **Management Response**

35. The accounting officer submitted that the main Co-operative Bank account reconciliation statement reflected stale cheques totaling to Kshs 235,038.00. This was due to release of statutory deductions which remained uncleared due to non-availability of NHIF and NSSF



numbers of interns who were given time to register with the relevant bodies. However, by the time their contract elapsed, they had not finalized the registration process and could not be traced thereafter.

36. She further submitted that the amount also included cheques for Toyota, Africa hope, Beatrice Makandi which had been released to respective payees but had not been presented to the bank for clearance. It figure also include a casting error of Kshs.211. The stale cheques were reversed on 28<sup>th</sup> September 2018 and the cashbook extract and FO 17 was availed for audit review

### **Committee Observation**

**37. The Committee observed that the stale cheques were reversed on 28<sup>th</sup> September, 2018 as confirmed in the Cash Book, by the Auditor-General. The matter therefore stands resolved.**

38. The Auditor General had also indicated that the Fund had three accounts in Chase Bank for Machakos constituency -Main Account, Loan Repayment Account and Administration Account with balances of KShs. 2,834,972, KShs. 6,220,652 and KShs. 4,192 respectively, all totaling KShs. 9,059,816 as of 30 June 2017. The total amount in these accounts as the end of the previous financial year was cash KShs. 3,901,940. It is, therefore, apparent the management continued to transact with chase bank even after the institution was placed under statutory management by the Central Bank of Kenya on 7<sup>th</sup> April 2016 thereby increasing the risk of loss of the funds. Recovery of these amounts is contingent upon the bank reverting to its normal operations.

### **Management Response**

39. The accounting officer submitted that the Fund had three accounts in Chase Bank for Machakos constituency with balances of Kshs. 2,834,972, Kshs. 6,220,652 and Kshs. 4,192 respectively, all totaling Kshs 9,059,816 as 30<sup>th</sup> June, 2017. The amount represents an increase of monies from Kshs 3,901,940 in the previous financial year. The bank was placed under statutory management by the Central Bank of Kenya on 7<sup>th</sup> April, 2016.

40. The Fund opened and operated the three bank accounts at Chase Bank since inception in 2014, vide the National Treasury authority REF: AG: 3/078/1 Vol. 2/4 dated 23<sup>rd</sup>May, 2014.

The Fund thereafter sought direction immediately it learnt of the Chase Bank status and the National Treasury granted authority vide letter no. REF: AG: 3/078/1 Vol. 3/9 dated 25<sup>th</sup> August, 2016 to open three (3) bank accounts, close the existing ones and transfer balances from old to new accounts at Family Bank.

41. She further submitted that the Fund complied with all the instructions as provided vide letter no. MPSYG/SDGA/ADM/1/17 dated 1<sup>st</sup> September, 2016 and a letter dated 25<sup>th</sup> November, 2016 from Family Bank confirming opening of the three bank accounts.
42. However, Chase Bank vide their letter no. Ref: CB/MACHA/JM/AM/120117/002 dated 12<sup>th</sup> January, 2017 could not close account numbers 0342099045003 and 0342099045001 as they were held under moratorium as per instructions from Central Bank of Kenya while it is only account no. 0342099045002 that could have the balances therein transferred.
43. The Fund further consulted with the National Treasury vide letter Ref: UWZ/FIN/5/19/ (46) dated 14<sup>th</sup> August, 2017 and were directed that the law applies uniformly to all depositors when a bank is put under receivership vide letter No. AG. 13/78/ Vol. 1/46 dated 18<sup>th</sup> August, 2017. The chronology of events above clearly shows that, as it may be observed, time was taken in entering in to correspondences in line with the PFM Act Section 28(1).
44. Meanwhile Central Bank of Kenya gave update on 30<sup>th</sup> March, 2017 stating the background of the chase bank receivership and progress so far made and promised to keep the interested stakeholders of various milestone. The resultant increase in the deposits from Kshs. 3,901,940 to the current balance of Kshs. 9,059,816 is attributed to Loan Repayments. This is as a result of the lengthy process of obtaining relevant authorities and communicating the same as guided.
45. The Fund could neither close the accounts at Chase Bank nor advice the loan beneficiaries without having proper authorized alternative bank accounts in place. The tabulated information below gives the breakdown of the net increase of Kshs. 5,157,876. The loan repayment account only had an increase of Kshs. 5,551,359.

RN.	F/Year	2015 - 2016	2016 - 2017	Increment
1	Loan Repayment	669,293	6,220,652	5,551,359
2	Main	3,082,647	2,834,972	(247,675)
3	Administration	150, 000	4,192	(145,808)
	Total	3,901,940	9,059,816	5,157,876



46. The chronology of events above being guided by the PFM Act Section 28(1) and all those correspondences entered into thereafter, clearly shows that the management acted prudently. Correspondences, Bank statements are available for audit review. Chase Bank was taken over by SBM Bank as a going concern assuming 75% of Assets and Liabilities of the Fund's interest while the remaining 25% was taken over by KDIC. The Fund is recognized as client No. 099045 by SBM Bank and provided a plan for accessing the funds.

47. All the three bank accounts at CBL were moved to SBM bank, a total of Kshs.1,612,846 was taken over by KDIC as directed by the CBK, the SBM Bank placed a total of Kshs. 2,419,278 into a Fixed Deposit Account maturing yearly in 3 equal instalments at an interest rate of 6.30%. At SBM Bank the Main bank account was used as a collecting account where funds from Administration and Loan Repayment accounts were transferred into. A consolidated amount of Kshs. 3,714,112.65 was moved into the Main account resulting into a total of Kshs. 5,055,835.65 which was finally transferred to KCB Main account and available for utilization by the constituency.

#### **Committee Observation**

48. The Committee observed that the management allowed borrowers to continue repaying loans through the Chase Bank account even after the institution was placed under statutory management, which increased the risk of loss of funds.

#### **Committee Recommendation**

49. **The Committee having considered the audit query recommends that the Accounting Officer of the Fund exercises due diligence in maintaining bank accounts at the Constituency level as guided by the National Treasury.**

50. The Auditor General had had indicated that the Board of survey certificates as at 30<sup>th</sup> June, 2017 and cash books for the nine sub counties treasuries bank accounts were not provided for audit examination.

#### **Management Response**

51. The Principal Secretary submitted that the Fund had not received Board of Survey certificates and cash books for the period ending 30<sup>th</sup> June, 2017 for the nine sub counties treasuries bank accounts. The Fund operates 3 cash books for each of the 290 constituencies totaling

870, out of this, 426 boards of survey reports and 492 cashbooks have been compiled. The activity is ongoing to ensure all reports are presented for audit review. The Fund has continued carrying out capacity building to the sub county personnel and also requesting for support from the National Treasury.

#### **Committee Observation**

52. **The Committee observed that the Accounting Officer did not provide the Cash Book, Bank Certificates and the Board of Survey reports for audit review contrary to section 62 of the Public Audit Act, 2015.**

#### **Committee Recommendation**

53. **The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

54. The Auditor General further indicated that bank and cash balances of Kshs. 2,412,412,986 as at 30th June, 2017 included a balance of cash Kshs. 52,785,423 claimed to be amounts transferred to constituencies and which remained unutilized and cash in transit balance of Kshs. 175,500,000 as disclosed under note 7 to the financial statements. However, the balances of Kshs. 52,785,423 and Kshs. 175,500,000 were not supported by any relevant and verifiable documents. Consequently, the validity and existence of the amounts as at 30 June 2017 cannot be confirmed.

#### **Management Response**

55. The accounting officer submitted that the bank and cash balances of Kshs. 2,412,412,986 as at 30<sup>th</sup> June, 2017 included a balance of Kshs. 52,785,423 being amounts transferred to constituencies which remained unutilized. This amount had been disbursed to the respective constituencies for use on administrative activities.
56. She further submitted that the Fund is guided by Section 9 of the Public Finance Management (Uwezo Fund) Regulations, 2014 that directs that any amounts remaining in the constituencies' bank accounts at the end of every financial year should be rolled over to the subsequent financial year for the intended purpose. The amounts are supported by the bank certificates of balances for the 290 Constituency administration accounts all totaled to Kshs. 52,785,423 and were availed for audit review.



57. Disbursement of Kshs. 175,500,000 to the 290 constituencies was similarly for administrative purposes. The AIEs had been prepared prior to 30<sup>th</sup> June 2017 and the funds were disbursed in the year 2017/2018. AIEs schedule together with their respective copies totaling Kshs. 175,500,000 and bank certificate were available for review.

### **Committee Observation**

58. The Committee observed that the accounting officer did not provide supporting documents such as cashbook and bank balance certificates for Kshs 32,450,706 transferred to constituencies for audit review. This was in contravention to section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.

### **Committee Recommendation**

**59. The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

60. The Auditor General had also indicated that Bank balances schedules for some constituencies provided for audit had unexplained nil balances while related bank certificates reflected the balances indicated in the following table:

Name of Constituency	Main account (Kshs.)	Administrative Account (Kshs.)	Repayment Account (Kshs.)	Total (Kshs.)
Langata	443,851	242,235	2,706,376.05	3,392,462
Tinderet	659,926	4,570	5,489,665.00	6,153,861
Kipkelion West	57,246	5,595	5,576,787.00	5,639,628
Mwatate			4,419,060.00	4,419,060
Total	1,160,723	252,400	18,191,888.00	19,605,011

### **Management Response**

61. The Principal Secretary submitted that the Fund received certificates of bank balances with nil balances as given by the respective banks. The Fund requested to be given explanations for the unique nil balances for a number of bank accounts. These nil balances were found to be erroneous and the banks provided corrected certificates of bank balances after the financial statements had already been prepared. However, the corrections were captured in the amended financial statements which have been presented for audit review.

### **Committee Observation**

62. The Committee observed that Accounting Officer of the Fund did not provide bank certificates to support the nil balances as reflected in the financial statements in contravention of section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.

### **Committee Recommendation**

63. **The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

64. The Auditor General had further indicated that balances confirmed by the bank for Kipkelion East were different from the amount used in the preparation of the financial statements.

### **Management Response**

65. The Principal Secretary submitted that at the time of filing the initial report, the Fund had received balances for Kipkelion West Constituency and was yet to receive those for Kipkelion East. The balances for Kipkelion West were inadvertently reported as Kipkelion East. The error was corrected in the amended accounts.

<b>Details</b>	<b>Main Kshs.</b>	<b>Admin Kshs.</b>	<b>Repayment Kshs.</b>	<b>Total Kshs.</b>
Balances per financial statements in (Kshs.)	57,246	5,797	5,576,787	5,639,830
Balance as bank certificate in (Kshs.)	3,865,906	181,595	4,029,869	8,077,370
Unexplained difference in Kshs.	(3,808,660)	(175,798)	1,546,918	1,546,918

66. She further submitted that the Fund, vide letter Ref: UWZ/FIN/5/10/1/ (132) dated 29<sup>th</sup> August 2017 for balances of those accounts with nil balances amongst them was Kipkelion East which was received. The amended financial report and corrected Schedule of bank balances were availed for review.

### **Committee Observation**

67. **The error of interchanging Kipkelion East and Kipkelion West constituencies' bank balances has been corrected in the bank balances schedule. The error had no effect on the financial statement balances. The matter stands resolved as confirmed by the Auditor General.**



### **2.3.3. AUDIT QUERY NO. 3- LOANS TO GROUPS**

68. The statement of financial position as at 30 June, 2017 reflects outstanding loans to groups of Kshs. 3,931,876,732. As disclosed in Note 9 to the financial statements, the figure has been derived by taking the initial National Government capital grant amount of Kshs. 5,854,400,004 and netting off the amount of monies presumably held in the CBK and main bank accounts amounting to Kshs. 795,738,028 and loan monies held in the repayment account amounting to Kshs. 1,126,785,244 all of which were not supported.
69. Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of any loan's recovery. There were also no comprehensive loan listings and/or aging analysis in support of outstanding loans.
70. Consequently, the accuracy, validity and recoverability of the group's loans balance of Kshs. 3,931,876,732 cannot be confirmed.

#### **Management Response**

71. The accounting officer submitted that outstanding loans to constituencies of Kshs.3,931,876,732 was supported by disbursements of Kshs. 5,854,400,004 that were sent to constituencies through the main account less balance in CBK bank account of Ksh. 500,000,000 and balance in the main account of Kshs. 295,738,028.00 and loan repayment bank balances amounting to Kshs. 1,126,785,244.00 both of them are supported by certificates of bank balances as at 30<sup>th</sup> June, 2017.
72. Given that the loans are managed at the Constituencies, the detailed listing to support the loan balances for each constituency groups had not been received due to the fact that the Fund operates manually both at the headquarters and Sub County Treasuries. The Fund had received debtors' ledgers from constituencies and the balance in the ledger was Kshs. 4,029,153,691.00. The difference between the Kshs. 4,029,153,691.00 and Kshs. 3,931,876,732.00 is as a result of unissued amounts of approved loans that had not been released by the constituencies.
73. She further submitted that Debtor ledgers indicating the respective loan beneficiaries (groups) and the expected dates for full repayment were available for audit review. The challenge of getting debtors' ledger returns from the constituencies is occasioned by delay in submitting

reports. The Fund had requested the National treasury to designate accountants to manage the Fund's operations at the sub county treasuries. To enhance recovery, the Fund had involved the services of the National Government Administrative Officers, training of CUFMCs and conducting intensive loan recovery campaigns.

#### **Committee Observation**

74. The Committee observed that the Accounting Officer of the Fund did not provide documents to support outstanding loans to groups for audit review contrary to section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.

#### **Committee Recommendation**

- 75. The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

#### **2.3.4. AUDIT QUERY NO. 4-WORK – IN – PROGRESS**

76. The statement of financial position reflects under current assets work-in-progress amounting to Kshs. 19,522,765. As disclosed in Note 10 to the financial statements, the amount represents 40% part payment in respect of Enterprise Resource Planning (ERP) software procured and contracted for in the year 2015/2016. The supply, installation and commissioning of the software is yet to be made even though 40% part payment was made over two years ago.
77. Information available for audit indicates that the implementation of the ERP which was contracted at a sum of Kshs. 48,806,912 has been called off even though there is a valid contract between the fund and the supplier. Further the recoverability and utilization of the part Payment of Kshs. 19,522,765 is doubtful given that the fund management appears to have stopped the implementation of the software. The value for money received by the fund in respect of the software cannot under the circumstances be ascertained.
78. Further, contrary to the requirements of International Public Sector Accounting Standard (IPSAS) No. 31- Intangible Assets, the cost of the ERP software has been treated as work-In-



Progress and classified under current assets instead of non-current assets. No justification has been provided for this accounting treatment.

79. The validity, existence and accuracy of work-In-Progress balance of Kshs. 19,522,765 cannot, therefore be confirmed.

### **Management Response**

80. The Principal Secretary submitted that the statement of financial position reflects under current assets work-in-progress amounting to Kshs. 19,522,765 which represents 40% of the contract sum and part payment in respect of Enterprise Resource Planning (ERP) software procured and contracted in the year 2015/2016.

81. This payment was proper in honoring the Fund's contractual obligation vide paragraph 1.6.1 of the contract terms spelt in Tender no. UWZ/RFP/040/2014/2015. Further, it is noted that the contract had not been terminated as it was to run for 24 months. At the end of the financial year, the supplier had done a functional requirement design yet to deliver the software for testing, the works was still ongoing and may not have met the criteria of recognition as intangible asset as per IPSAS 31 Intangible Assets.

82. The guideline provides for recognition of intangible asset as *"if it is probable that the future economic benefits or service potential that are attributable to the asset will flow to the entity and that the costs or fair value of the asset can be measured reliably"*. The Fund is in consultation with the concerned government Ministries/ Departments to have the issue be brought to a logical conclusion.

### **Committee Observation**

83. **The Committee observed-**

- (i) that the Accounting Officer of the Fund paid Kshs. 19,522,765 being 40% of the cost for the Enterprise Resource Planning (ERP) as per the contract;
- (ii) that the implementation of the Enterprise Resource Planning (ERP) project has not been completed and the project period has lapsed; and
- (iii) that there was no value for money on the Kshs. 19,522,765 (40%) paid for project as per the contract.

### **Committee Recommendation**

84. **The Committee recommends that the Accounting Officer of the Fund be investigated by the Director of Criminal Investigation for failure to implement the project.**

#### **2.3.5. AUDIT QUERY NO.5- CONSTITUENCIES ADMINISTRATION COSTS**

85. The statement of financial performance of the year ended 30 June 2017 reflects administration costs – transfers to constituencies' figure of Kshs. 131,036,007 which was not supported by any documentary evidence. As disclosed in Note 7 to the financial statements, the figure has been derived after taking into account unsupported opening balance figure of Kshs. 46,121,430 and transfers during the current year of Kshs. 313,200,000, respectively and reducing the total amount with the unsupported utilized funds – bank balance of Kshs. 52,785,423 and cash in transit balance of Kshs. 175,500,000 respectively.
86. Under the circumstances, it has been not possible to verify and confirm the accuracy of administration costs – transfer to constituencies figure of Kshs. 131,036,007 of the year ended 30 June 2017.

### **Management Response**

87. The Principal Secretary submitted that transfers to constituencies figure of Kshs.131,036,007 had been derived by taking the transfers during the current year of Kshs. 313,200,000 adding to the opening figure of Kshs.46,121,430 and reducing it with the balances of unutilized funds final figure of Kshs.52,785,423 and cash in transit balance of Kshs. 175,500,000(Kshs.  $131,036,007 = 313,200,000 + 46,121,430 - 52,785,423 - 175,500,000$ ).
88. The opening balance of Kshs. 46,121,430 is supported by closing balance of audited financial statements for 2015/2016 financial year which formed opening balance for the year under review. This figure is further supported by bank certificates of balance. The unutilized funds of Kshs.52,785,423 are supported by bank certificates of balance for Administration accounts for all the 290 constituencies as at 30<sup>th</sup> June, 2017.
89. Cash in transit of Kshs. 175,500,000 is supported by certificates of bank balance and bank reconciliation statements of the headquarters' bank account. The funding for AIEs totaling Kshs. 175,500,000 had not left the headquarters' bank account by the closure of the year under review. Transfers to constituencies figure of Kshs. 131,036,007 is further supported by



expenditure returns that are submitted by the sub county treasuries. At the time of audit examination not all had been received due to delay by the constituencies in submission of returns.

90. The Fund has been undertaking capacity building of sub county accountants and youth officers to understand the Fund's operations. Further the Fund has requested the National Treasury to designate accountants to handle the Fund's activities at the sub county treasuries to ensure efficiency in its operations.

#### **Committee Observation**

##### **91. The Committee observed that –**

- (i) the Accounting Officer of the Fund did not submit supporting documents such as expenditure returns from the Constituencies for Administration costs contrary to section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015;
- (ii) the Accounting Officer of the Fund submitted the requisite support documents, including AIEs of Kshs. 175,500,000 for audit review and the amount stands resolved.

#### **Committee Recommendation**

92. **The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

### **2.3.6. AUDIT QUERY NO. 6-OUTSTANDING IMPRESTS**

93. The financial statements of the year ended 30<sup>th</sup> June, 2017 at Note 12 shows outstanding staff imprests balance of Kshs. 5,385,476. However, the imprests register was not provided for audit review and imprests totaling Kshs. 807,760 were issued to persons whose details, personal numbers and job groups were not indicated in the imprests schedule.

94. In addition, a total of Kshs. 1,176,998 was in respect to officers who have already left the service making recovery doubtful. No provision for impairment of the same has been included in these financial statements. Under the circumstances, it has not been possible to verify and confirm whether the balance of Kshs. 5,385,476 as to 30 June 2017 is fairly stated.

### **Management Response**

95. The accounting officer submitted that the financial statements for the year ended 30<sup>th</sup> June, 2017 show outstanding imprest balances of Kshs 5,385,476. The Fund has recovered a total of Kshs. 4,653,284.40 leaving a balance of Kshs. 677,792.00 that is still owing. The fund has confirmed that the officers are still in service. The recovery letters were done to the concerned accounting officers. Copies of the vouchers, F017 and bank statements were availed for audit review.

### **Committee Observation**

96. The Committee observed -

- (i) that whereas the imprests totaling to Kshs. 807,760 was issued to officers, personal numbers and job groups were not provided for verification contrary to Regulation 93(4)(c) of the Public Finance Management (National Government) Regulations, 2015; and
- (ii) that the an outstanding imprest balance of Kshs. 732,191.60 remains unrecovered contrary to Regulation 93(7) of the Public Finance Management (National Government) Regulations, 2015.

### **Committee Recommendation**

97. **The Committee having considered the audit query recommends-**

- (i) That, the officers be compelled to pay back the amount with interest at the prevailing Central Bank rate pursuant Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015;**
- (ii) That, the Accounting Officer of the Fund ensures recovery of the outstanding imprest from the officers within three (3) months of the adoption of this report by the House; and**
- (iii) That, where the outstanding imprest is not recovered as stipulated, the Accounting Officer of the Fund be surcharged in accordance with Regulation 93(7) of the Public Finance Management (National Government) Regulations, 2015;**



### **2.3.7. AUDIT QUERY NO.7-NON – DISCLOSURE OF CONTRIBUTION IN KIND OF STAFF COMPENSATION**

98. The fund has thirty-two officers working on a fulltime basis drawn from various ministries and who continues to draw their salaries from their parent ministries. The financial statements of the fund have however, not taken into account the donation or contribution in kind received from the ministries in form staff salaries of Kshs. 27,180,516 from the financial year ended 30 June 2017.

#### **Management Response**

99. The Principal Secretary submitted that the Fund has 32 staff working full time and drawn from various Ministries. The Fund benefited from their services in form of staff salaries of Kshs. 27,180,516. This was disclosed under note 4 in line with IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) that states *“an entity may, but not required to, recognize services in-kind as revenue and as an asset. An entity shall disclose either on the face of, or in the notes to, the general-purpose financial statements”*

#### **Committee Observation**

100. **The Committee observed that matter has been resolved as confirmed by the Auditor-General.**

### **2.3.8. AUDIT QUERY NO.8-BOARD OF DIRECTORS - COMPOSITION AND MEETINGS**

101. Out of seven directors who served in the Board of the Fund during the year under review, five were independent non-executive and four of the seven ceased being directors on 28<sup>th</sup> February 2017. There has been no replacement or extension of their terms which could easily impact on the strategic decision making of the Fund. Further, the Board held only three full board meetings contrary to the Code of Governance for State Corporations, 2015 which requires the Board of Directors to hold a minimum of four meetings.

#### **Management Response**

102. The accounting officer submitted that the seven directors who served the board during the year under review four ceased being directors on 28<sup>th</sup> February, 2017. The Fund started the process of replacement or/and extension just before the expiry of the board members' respective term, it is noted that by the closure of the financial year it had not been finalized.

103. She further submitted that the Board had only three meetings as opposed to four due lack of quorum. As correctly observed above, the term of most members had expired. However, an additional director was appointed to the Board on 24<sup>th</sup> July, 2017 making a quorum for Board operations.

**Committee Observation**

104. The Committee observed that the Board was not properly constituted which affected the strategic decision-making of the Fund.

**Committee Recommendation**

105. **The Committee recommends that the Cabinet Secretary responsible for the Fund ensures the Board is properly constituted and functional pursuant to Regulation 5 of the Public Finance Management (Uwezo Fund) Regulations, 2014.**

## **2.4. GENERAL OBSERVATIONS AND RECOMMENDATION**

106. The Committee further made the following general observations and recommendations in the management Uwezo Fund-

### **2.4.1. LACK OF COMPLIANCE WITH THE PUBLIC AUDIT ACT, 2015 AND THE PUBLIC FINANCE MANAGEMENT ACT, 2012**

107. The Committee observed that the Accounting Officer of the Fund failed to submit relevant supporting documents for audit review. In addition, documents were not submitted within a reasonable time in contravention to the provisions of section 62 of the Public Audit Act 2015 which compels the accounting officers to provide information to auditors when need arises. In addition, the officers contravened the provisions of Section 68 of the Public Finance Management Act that bestows all the responsibility of proper management of the Fund's books of accounts.

108. **The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

### **2.4.2. LOANS DISBURSED TO GROUPS**

109. The Committee observed that the Fund advanced loans of approximately Kshs 4 Billion since inception in 2014/ 2015 to various groups whose details such as debtors listings were not availed for audit review. Consequently the accuracy, validity and recoverability of loans advanced to groups is doubtful.

110. **The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

### **2.4.3. GAZZETEMENT OF COMMITTEES AT THE CONSTITUENCY LEVEL**

111. The Committee observed that there was a delay in the gazettelement of Constituency Uwezo Fund Management Committees established under Regulation 15 of the Public Finance Management (Uwezo Fund) Regulations, 2014. This had hindered effective operations of the Fund at the Constituency which resulted to delays in loan issuance and recovery.



112. **The Committee recommends that the Cabinet Secretary responsible for the Fund ensures timely gazettelement of the names of the persons constituting the Constituency Uwezo Fund Management Committees pursuant to Regulation 15 (5) of the Public Finance Management (Uwezo Fund) Regulations, 2014.**

**2.4.4. FIFTY PERCENTUM (50%) REPAYMENT THRESHOLD ON LOANS**

113. The Committee observed that Uwezo Fund Board resolution on a threshold of fifty percent (50%) repayment of loans was punitive. The policy implies that Fund can only replenish loans to a constituency whose recovery is at least fifty percent (50%).

114. **The Committee recommends that the Uwezo Fund reviews the policy on the constituency repayment threshold on loans to 25 percent.**

**2.4.5. FACILITATION OF CONSTITUENCY UWEZO FUND MANAGEMENT COMMITTEES**

115. The Committee observed that members of the Constituency Uwezo Fund Management Committees are not adequately facilitated to monitor the activities of the Fund including follow up on loans disbursed. There is need to enhance the budget on monitoring, evaluation and administrative costs for the Committees to ensure they perform their functions efficiently as stipulated under Regulation 16 of the Public Finance Management (Uwezo Fund) Regulations, 2014 .

116. **The Committee recommends-**

- (i) that the Fund to set aside not more than five per centum of the amount disbursed to a constituency for purposes of monitoring, evaluation and administrative costs for the Constituency Uwezo Fund Management Committees; and**
- (ii) that the Cabinet Secretary to issue guidelines on allowances for members of Constituency Uwezo Fund Management Committees within three months of the adoption of this Report by the House.**



#### **2.4.6. PROPER FINANCIAL REPORTING**

117. The Committee observed that the Fund did not comply with the International Public Sector Accounting Standards (IPSAS) in their financial reporting indicating that there was lack of capacity of the staff at the Constituency level. The Committee noted that the Fund relied on District accountants who serve more than one Constituency.

**118. The Committee recommends that the Fund employs its own officers at the Constituency level for proper financial reporting;**

## CHAPTER FOUR

### 3.0 CONSIDERATION OF REPORT OF THE AUDITOR GENERAL ON AUDITED FINANCIAL STATEMENTS OF WOMEN ENTERPRISE FUND FOR YEAR ENDED 30<sup>TH</sup> JUNE, 2018

#### 3.1. REPORT FOR YEAR ENDED 30TH JUNE 2018

##### 3.1.1. AUDIT QUERY NO. 1- RECEIVABLES FROM EXCHANGE TRANSACTIONS

###### 3.1.1.1. Loss of Funds

119. The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position includes an amount of Kshs. 24,625,450 due from nineteen (19) constituencies but claimed to have been misappropriated by the employees. Further, the amount includes Kshs. 21,170,000 due from twenty constituencies misappropriated by employees in previous financial years. No provision had however, been made in the financial statements in respect of the above losses nor any recoveries made as at 30 June 2018.

###### Management Response

120. The accounting officer submitted that the Fund had taken action against the implicated staff by terminating their services, recovering the amounts due from their terminal dues. Further management has engaged the Directorate of Criminal Investigations for investigations to be carried out and recoveries done for the misappropriated funds. Arising from these actions, Kshs. 1,072,116 has been recovered leaving a balance of Kshs. 23,553,334.

121. On the issue of provisioning, section H of the Fund's accounting policy provides for a general provision of 1%. The review of the accounting policy would be considered in the current Financial Year in order to provide for specific losses.

###### Committee Observation

122. **The Committee observed that the matter was under the Directorate of Criminal Investigations.**

### **Committee Recommendation**

123. **The Committee recommends that the Director of Criminal Investigation (DCI) fast tracks the investigation of the cases.**

#### **3.1.1.2. Non-performing Financial Intermediaries Loans**

124. The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position as at 30 June 2018 includes non-performing loans totaling Kshs. 83,248,508 due from financial intermediary partners. Any provision that would have been necessary in relation to this had not been incorporated in the financial statements.

### **Management Response**

125. The accounting officer submitted that the Fund had disbursed Kshs.1,841,830,000 to 163,380 beneficiaries through 110 institutions between 2007 and 2014. It is noted that out of Ksh1.84 Billion disbursed under Financial Intermediaries Channel Kshs.83,284,508 was outstanding with 14 institutions as reported in 2017/2018 financial year.
126. Of the 14 Financial Intermediaries with outstanding balance of Kshs. 83,284,508, Six (6) of them have fully paid their loans amounting to Kshs.11,469,214 as at 30<sup>th</sup> June, 2019, leaving eight(8) Financial Intermediaries with loan balances totaling to Kshs. 71,815,294. The Fund was allowed to institute legal proceedings against the three defaulters which process is underway. Further, the Fund engaged 4 auctioneers to facilitate disposal of the properties secured by the other defaulting Intermediaries .
127. On the issue of provisioning, section h of the Fund's accounting policy provides for a general provision of 1%. The review of the accounting policy will be considered in the current Financial Year in order to provide for specific losses.

### **Committee Observation**

128. The Committee observed that out of the 14 Financial Intermediaries (FIs) with outstanding balance of Kshs. 83,284,508 as at 30 June, 2017, six (6) had fully paid their loans amounting to Kshs. 11,649,916 as at 30 June, 2019. The other eight (8) FIs have outstanding loan balances totaling to Kshs. 71,815,294 which remain unrecovered.



## **Committee Recommendation**

129. **The Committee having considered the audit query recommends –**

- (i) That, the accounting officer makes adequate provision for bad debts in line with the International Public Sector Accounting Standards (IPSAS) standards; and**
- (ii) That, the accounting officer reviews its vetting processes and credit policies on engagement with Financial Intermediaries.**

### **3.1.1.3. Doubtful Recovery of LPO Financing and CWEs Loans**

130. The receivables from exchange transactions balance of Kshs. 2,832,405,516 further includes loans relating to LPO Financing of Kshs. 11,386,677 which were due but not paid as at 30 June 2018. This amount has however increased from Kshs. 7,440,277 reported in 2016/2017 financial year. Also included in the receivables from exchange transaction balance of Kshs. 2,836,891,724 is an amount of Kshs. 855,933,915 due from Constituency Women Enterprise Scheme (CWES) which had been outstanding for more than one year and out of which an amount of Kshs. 61,796,082 had zero repayments amounts during the year under review.

131. Recoverability of these loans is doubtful since they had been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances is clearly doubtful, the provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover any potentially irrecoverable amounts and contrary to the WEF Credit Policy and Guidelines.

## **Management Response**

132. The accounting officer submitted that since the roll out of the LPO Financing product in 2015, the Fund has disbursed a total of Kshs.64,869,050 benefiting 109 women entrepreneurs. Out of these amounts, Kshs.48,490,247 has been repaid promptly. Whereas there was an increase in the amounts due from the LPO/LSO loans from Kshs.7,440,277 to Kshs.11,386,677 as reported in 2017/2018 financial year.

133. All the defaulters had been issued with demand letters as well as listed with Credit Reference Bureau (CRB). The Fund had conducted physical visits to the respective Procuring entity's offices to confirm whether the LPOs had been serviced or not, and make follow up for the payment of defaulted amounts. As a result of these efforts, fourteen (14)

clients in liaison with the respective procuring entities have responded and paid a total of Kshs.5,503,874 in FY 2018/2019 leaving a balance of Kshs.5,882,803. Further, the Fund had instituted legal suits to recover the outstanding amounts and has also engaged auctioneers to repossess and dispose the securities provided.

### **Committee Observation**

134. The Committee observed that-

- (i) there was an increase in the amounts due from the LPO/LSO loans from Kshs. 7,440,277 to Kshs. 11,386,677 in financial year 2017/18;
- (ii) the fourteen (14) clients had paid a total of Kshs. 5,503,874 in financial year 2018/19 leaving a balance of Kshs. 5,882,803 unrecovered; and
- (iii) the matter remains unresolved.

### **Committee Recommendation**

135. **The Committee having considered the audit query recommends –**

- (i) **That, the accounting officer makes adequate provision for bad debts in line with the IPSAS standards; and**
- (ii) **That, the accounting officer reviews its vetting processes and credit policies on engagement with Financial Intermediaries.**

136. The Auditor General had indicated that CWES Zero Repayments Amounts of Kshs.61, 796,082, Women Enterprise Fund had disbursed a total of Kshs.13, 927,891,830 to 1,481,569 beneficiaries since inception. From this cumulative disbursement, a total of Kshs.855, 933,915 had been outstanding for more than one year with Kshs.61, 796,082 having zero repayments.

### **Management Response**

137. The accounting officer of the Fund submitted that the Fund had engaged in aggressive recovery strategies deploying recovery teams strategically in low repayment areas, working closely with key stakeholders like the chiefs and Ward administrators. A dedicated debt recovery unit has also been created within the credit department. These efforts have resulted in the reduction of the Zero repayment amount from Kshs.61,796,082 to Kshs. 50,370,500 as at 30<sup>th</sup> June, 2019.



138. She further submitted that out of 668 zero repayment accounts with amounts of Kshs.50, 370,500 outstanding for more than one year are as a result of the following reasons:

- (i) Disintegration and internal wrangles in groups after officials and a few
- (ii) members share the loan proceeds without knowledge of the entire group. The Fund has been pursuing the implicated groups through various mechanisms e.g. convening meetings through chief sermons, field recoveries among others.
- (iii) Other zero repayment accounts are due to unforeseen calamities e.g. Droughts, Floods, Fires hence prompting the Fund to reschedule the loans after loss of business.
- (iv) Urban to Rural migration as well as insecurity leading to displacement of the borrowers.
- (v) Public perception that the loans given are grants from Government hence lack of commitment in servicing the facilities, however the Fund has been carrying out sensitization campaigns besides pursuing repayment of the loans by the defaulters.

#### **Committee Observation**

139. The Committee observed that-

- (i) There was zero repayment on the outstanding amount , hence their recoverability is doubtful; and
- (ii) The provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover the potentially irrecoverable amounts.

#### **Committee Recommendation**

140. **The Committee having considered the audit query recommends –**

- (i) **That, the accounting officer makes adequate provision for bad debts in line with the IPSAS standards; and**
- (ii) **That, the accounting officer reviews its vetting processes and credit policies on engagement with Financial Intermediaries.**

#### **3.1.1.4. Outstanding Imprest and Advances**

141. The receivables from exchange transactions balance of Kshs. 2,832,405,516 include a balance of outstanding imprests of Kshs. 508,240 and advances of Kshs. 1,244,434. Outstanding imprests of Kshs. 368,700 ought to have been surrendered or otherwise accounted for on or before 30 June 2018 in accordance with Section 93 of the Public Finance



Management ( National Government) Regulations, 2015 and the accounting officer had not recovered the outstanding imprest from the defaulting officers' salaries with an interest, therefore breaching the regulations on imprests.

142. Also, included in the advances balance of Kshs. 1,244,434 includes an amount of Kshs. 98,000 outstanding from officers who had left the Fund making recovery of the outstanding amounts doubtful. No explanation was provided for these anomalies.

143. In view of the foregoing, the accuracy, completeness and full recoverability of the balance of Kshs. 2,832,405,516 under receivable from exchange transactions as at 30 June 2018 could not be confirmed.

### **Management Response**

144. The accounting officer submitted that out of the outstanding imprest of Kshs. 508,240, a total of Kshs. 490,240.00 has been fully accounted for leaving out a balance of Kshs. 18,000 which is owing on an officer who undertook the exercise but resigned before submitting the surrender documents. Follow up on recovery of the balance is on course.

145. Further, out of an amount of Kshs. 98,000 in advances owing from officers who have either left the Fund or have been suspended, a total of Kshs. 52,500 has been accounted for while another Kshs. 45,500 owing from suspended officers was recovered from their final dues once their matters are concluded.

### **Committee Observation**

146. The Committee observed that the outstanding imprests had been recovered except for Kshs. 18,000 from an officer who has since left the country.

### **Committee Recommendation**

**147. The Committee recommends that the officer with the outstanding imprest be reported to the Credit Reference Bureau (CRB) and be compelled to pay back the amount at the prevailing Central Bank.**

### **3.1.2. AUDIT QUERY NO. 2- EMPLOYEE COSTS**

148. The statement of financial performance reflects an amount of Kshs. 182,443,959 in respect of employee costs. This includes an expenditure on acting allowances amounting of Kshs. 424,035 paid to two (2) officers who were appointed on acting capacity on 1 December 2015

for a renewable period of six (6) months. These officers however acted for more than six months contrary to Human Resource Policies and Procedures and Women Enterprise Fund Human Resource Policy.

### **Management Response**

149. The accounting officer submitted that Section 4.2.6 of the Women Enterprise Fund Human Resource Policy, Acting Allowance should be for a maximum period of six months. The error was occasioned in the wording of the letters that renewed the acting appointments after the lapse of the six months for the two officers.

150. However, the letters have been recalled for corrective action and new letters that accurately capture the nature of the appointments and the allowances payable have been issued . With the correction of the letters, we confirm therefore that the monies paid were justifiable.

151. The Fund had planned to formally recruit for the two positions in December 2017 but this was overtaken by the circular from the Head of Public Service directing the Fund not to recruit nor replace any vacant position until the merger process is concluded and this is the reason why they are still acting.

### **Committee Observation**

152. The Committee observed that two officers were paid the allowances in contravention to Women Enterprise Fund Human Resource Policies.

### **Committee Recommendation**

153. **The Committee recommends that the accounting officer ensures compliance with their Human Resource Policies and Procedures.**

### **3.1.3. AUDIT QUERY NO. 3- EMPLOYEE BENEFIT OBLIGATION GRATUITY**

154. The employee benefit obligation/gratuity liability of Kshs. 24,751,873 as reflected in the statement of financial position. However, the opening balance of Kshs. 15,310,323 was not supported. As a consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 24,751,873 as at 30 June 2018 could not be ascertained.



### **Management Response**

155. The Principal Secretary submitted that the relevant schedule for opening balances employee benefit obligation/gratuity of Kshs. 15,310,323 has been provided.

### **Committee Observation**

156. **The relevant schedule for the opening balance of employee gratuity of Kshs. 15,310,323 had been provided and the matter stands resolved.**

## **3.1.4. AUDIT QUERY NO. 4-OTHER MATTERS**

### **3.1.4.1. Financial Performance**

157. The Fund's financial performance continued to deteriorate during the year from a loss of Kshs. 12,043,444 in 2016/2017 to a loss of Kshs. 56,554,343 in 2017/2018. The accumulated surplus for the Fund continued to be depleted having decreased from Kshs. 508,233,689 in 2016/2017 to Kshs. 451,679,346 in 2017/2018. Although the management has indicated that it is engaging with the parent Ministry and the National Treasury for funding of the Fund's operations, this has not yielded any results to date.

### **Management Response**

158. The accounting officer submitted that the Fund reported an increased deficit of Kshs. 56,554,343 compared to the previous FY owing to increased administrative and operational costs attributable to expansion to 8 new regional offices meant to increase efficiency and to reduce the turnaround time for the loan disbursement. The Fund has continuously engaged the parent Ministry and The National Treasury for increased allocation to Fund operations and as a result the recurrent allocation was increased from Kshs. 115,222,500 in 2017/18 FY to Kshs. 206,222,500 in the 2018/2019 Financial Year.

### **Committee Observation**

159. **The Fund's recurrent allocation increased from Kshs. 115,222,500 in FY 2016/2017 to Kshs. 206,222,500 in both the financial years 2017/2018 and 2018/2019.**

### **Committee Recommendation**

160. **The Committee recommends that the performance of the Fund be evaluated in the subsequent financial year by the Auditor General.**



#### **3.1.4.2. Use of invalid documents from suppliers during procurement process**

161. The Fund paid a supplier an amount of Kshs. 311,568 for supply and delivery of goods. Examination of attached documents in support of the payment revealed that the supplier had a certificate of registration dated 30 December 2013 and the same expired on 30 December 2015. It has not been explained how a firm with an expired registration certificate was included in the list of pre-qualified firms and contracted to supply. Consequently, the validity of this expenditure could not be confirmed.

#### **Management Response**

162. The accounting officer submitted that Prequalification for the 2017-2019 FY suppliers was done in April 2017. At the time of prequalification, Rakercy Agencies had a valid certificate under the AGPO category. We also confirmed that the firm had a valid AGPO certificate at the time of the payment of payment of Kshs. 311,568, and certified ourselves that they continued to operate in good standing.

#### **Committee Observation**

**163. The Committee observed that Rackercy Agencies had provided a valid certificate dated 4 July 2017 for a period of two years and therefore the matter has been resolved.**

#### **3.1.4.3. Undisclosed Pending Bill on Insurance**

164. Examination of records held by the Fund showed a payment of Kshs. 214,868 to an insurance service provider, on behalf of the Fund's staff. Review of the invoices in support of the expenditure showed that some staff received medical services in the financial year 2014/2015. This insurance bill was not included in the list of outstanding accounts payables for the previous financial years. This is contrary to the accrual basis of recognition and accounting for prior period adjustments.

#### **Management Response**

165. The accounting officer submitted that payment of Kshs. 214,868 relate to insurance bill for the period 2014/2015 FY that had not previously been brought to our attention and therefore was not included as a pending bill in the previous financial years. The bill was indeed certified as a genuine and regular, owing from the Fund. The bill was accommodated/paid within the budgeted expenditure for the year.

## **Committee Observation**

166. **The Committee observed that the documents in respect to the payments were provided for verification and the matter stands resolved.**

### **3.1.5. AUDIT QUERY NO. 5- PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS FOR THE FINANCIAL YEAR 2016/2017**

167. The following issues raised in the audit report for the financial year 2016/2017 were yet to be resolved.

#### **3.1.5.1. Remuneration of Directors**

168. The Fund had a budgetary provision of Kshs. 6,852,000 on remuneration of directors but spent Kshs. 10,486,000 during the year 2016/2017 on the item resulting in an over expenditure of Kshs. 3,634,401 (53%). However, authority for reallocation of funds from other items to remuneration of directors or in support of the over-expenditure was not provided for audit examination.

169. The remuneration of directors' expenditure of Kshs. 10,486,400 included an amount Kshs.960,000 paid to Board members as sitting allowances for undertaking normal operational activities of approval loans to various groups. The expenditure also included an amount of Kshs. 1,107,200 paid to non-Board members as sitting allowances for being in attendance of various board committee meetings. The propriety of expenditure totaling Kshs. 2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

170. Although the board had an approved annual calendar of meetings with five (5) scheduled full Board meetings and twenty-five (25) scheduled committee meetings for the financial year 2016/2017, eighteen (18) full Board meetings and fifty (50) committee meetings were held during the year. The Board did not therefore adhere to the corporate plan and consequently subjected the Fund to unbudgeted expenditure of Kshs. 3,634,401 on remuneration of directors.

## **Management Response**

171. The Principal Secretary submitted that the actual over expenditure was Kshs. 2,994,000 and not Kshs. 3,634,4001 as per the report. The difference of Kshs. 640,000 relates to the Chair's



honoraria, which was budgeted for and paid for separately. The oversight in seeking reallocation of the Kshs. 2,994,000 to cater for the increases expenditure is noted and is regrettable. I however wish to report that the over expenditure was accommodated within the Fund's recurrent budget for the year.

172. As a strategy to reduce the turnaround time of loan applications, the Advisory Board sitting on 27<sup>th</sup> June, 2013 mandated the Loans committee to sit on a need basis to consider and approve loan requests. Other sittings that were not in the board calendar relates to instances where the board sat to consider recruitment matters which included shortlisting and interview positions are required in the HR terms and conditions of service.

173. She further submitted that a total of Kshs. 580,000 and not Kshs. 1,107,200 was paid to experts who were co-opted by the board through official invitation to offer expert advice on certain specialized areas. The experts were paid at the same rate as the board members. The entire expenditure was incurred for the budgeted purposes.

174. The Human Resource terms and conditions of service gives the responsibility of the recruitment for managerial positions to the advisory Board. As such the additional meetings were necessary in the fulfilment of that requirement.

### **Committee Observations**

175. The Committee observed that-

- (i) The accounting officer did not provide evidence of authority given for reallocation of funds from other expenditure items to remuneration of Directors or in support of the over expenditure in contravention to section 43 (2) of the Public Finance Management Act, 2012;
- (ii) The payment of Kshs. 960,000 was paid to Board Members as sitting allowances for undertaking activities of the Board;
- (iii) There was no clarity on the terms of engagement for non-Board members engaged by the Board; and
- (iv) The Board did not adhere to the corporate plan (approved annual calendar of meetings) and consequently subjected the Fund to unbudgeted expenditure of Kshs. 3,634,401 on remuneration of Directors.



## **Committee Recommendation**

176. The Committee having considered the audit query recommends-

- (i) That, the Accounting Officer of the Fund ensures compliance with section 43(2) of the Public Finance Management Act, 2012;
- (ii) That, in subsequent audits, the Auditor General should scrutinize the terms of engagement of non- Board Members;
- (iii) That, the Board ensures compliance with the approved corporate plan to avoid unbudgeted expenditure; and
- (iv) That, the Ministry responsible reviews the Government Financial Management (Women Enterprise Fund) Regulations, 2007 and aligns it with the Mwongozo Code particularly on the limits on Board sittings.

### **3.1.6. AUDIT QUERY NO.6-RECEIVABLES FROM EXCHANGE TRANSACTIONS**

#### **3.1.6.1. Loss of Funds**

177. The receivables from exchange transactions balance of Kshs. 2,323,541,431 included an amount of Kshs. 21,170,000 due from twenty constituencies but claimed to have been misappropriated by the employees. The amount also included Kshs. 3,100,000 and Kshs. 6,300,000 due from Kwanza Constituency and Kisumu County respectively, which were misappropriated by employee in 2015/16 financial year. No provision had however been made in the financial statements in respect of the above losses.

#### **3.1.6.2. Non-performing Financial Intermediaries Loans**

178. The receivables from exchange transactions balance of Kshs. 2,323,541,431 included non-performing loans totaling Kshs. 106,618,100 due from financial intermediary partners. Any provision that would be necessary in relation to this uncertainty has not been incorporated in the financial statements.

#### **3.1.6.3. Doubtful Recovery of LPO Financing and CWEs Loans**

179. The receivables from exchange transactions balance of Kshs. 2,323,541,431 further included loans relating to LPO financing of Kshs. 7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of Kshs. 65,135,500 with no repayments recorded during the ear under review. Recoverability of these loans is

doubtful since they have been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances was clearly doubtful, no provisions were made against them in the financial statements.

### **Committee Observation**

180. The Committee observed that-

- (i) There was an increase in the amounts due from the LPO/LSO loans from Kshs. 7,440,277 to Kshs. 11,386,677 in financial year 2017/18;
- (ii) The Fourteen (14) clients had paid a total of Kshs. 5,503,874 in financial year 2018/19 leaving a balance of Kshs. 5,882,803 unrecovered; and
- (iii) The matter remains unresolved.

### **Committee Recommendation**

181. The Committee recommends –

- (i) **That, the accounting office ensures that the loans are lend directly to borrowers instead of using Financial Intermediaries;**
- (ii) **That, the accounting officer makes adequate provision for bad debts in line with the IPSAS standards; and**
- (iii) **The Fund reviews its lending policies to improve recoverability of loans.**

#### **3.1.6.4. Unsupported Opening Balances**

182. The opening balances of LPO financing and *pikipiki* loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were not analyzed and therefore it was not possible to verify and confirm those balances as reflected in the financial statements.

### **Management Response**

183. The accounting officer submitted that the relevant schedules for opening balances of LPO financing and *pikipiki* loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively have been provided.

### **Committee Observation**

184. **The Committee observed that the relevant schedules for opening balances of Local Purchase Order (LPO) financing and *Pikipiki* loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were submitted and verified and therefore the matter resolved.**



### 3.1.6.5. Outstanding Imprests

185. The receivables from exchange transactions balances of Kshs. 2,323,541,431.00 includes outstanding imprest of Kshs. 1,321,459.00 which ought to have been surrendered or otherwise accounted for on or before 30 June 2017 in accordance with section 93 of Public Finance Management Regulations (PFM) 2015. In addition, during the year, various officers were issued with multiple imprests amounting to Kshs. 4,975, 780.00 all before the previous issued to them surrendered. This contravenes the regulations.

186. The accounting officer had not recovered the outstanding imprest from the defaulting officers salary with an interest, therefore, the accounting officer is in breach of the regulations on imprest. No explanation has been provided for this breach.

#### Management Response

187. The accounting officer submitted that Imprest, of Kshs. 1,339,159.00 outstanding as at 30th June 2017 had been fully surrendered or recovered through the payroll. On Multiple Imprest Issued, management had noted the concern, corrective action had been taken subsequently, and no officer is being issued with imprest before clearing outstanding ones.

#### Committee Observation

188. **The Committee observed that the imprest surrender documents were submitted and verified by the Auditor General and the matter stands resolved.**

### 3.1.6.6. Payables and Accruals

189. Payables and accruals balance of Kshs. 29,895,361.00 included an amount of Kshs. 26,762,000 in respect of loans approved to various groups that has not been disbursed for various reasons. However, the non-disbursement after the approval does not constitute a liability since the funds are still with the fund neither has the asset in form of the loan been created for the fund.

#### Management Response

190. The Principal Secretary submitted that an asset in form of loan for the said Kshs. 26,762,000 had already been created. The same was a component of the disbursements for the year and therefore qualified as a liability to the Fund since the cheques had not reached the beneficiaries as at the end of the financial year. The cheques were later dispatched to the



various beneficiaries and cleared in the normal manner. The liability was therefore discharged from our books.

### **Committee Observation**

191. **The Committee observed that cheques were later dispatched to the various beneficiaries and the liability therefore has been discharged from the Fund's books of accounts as confirmed by the Auditor General. The matter stands resolved.**

#### **3.1.6.7. Gratuity**

192. The gratuity fund was previously operated outside the funds financial records and as 30 June 2016, the amount of cash held in the gratuity account was disclosed as Kshs. 25,251,035.00 and no corresponding liability was shown in the financial statement. In the year under review, both the cash and the liability for gratuity account have been introduced in the financial records of the fund but no detailed composition of the opening balance liability has been provided for audit examination.

193. The financial statements for the financial year 2015/2016 have not been restated to cater for the introduction of gratuity liability in the accounting records. As consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 15,310,323.00 could not be ascertained.

194. Further, the total gratuity expenditure for the year as reflected on Note 8 to the financial statements amounts to Kshs. 10,640,300.00 while the detailed schedule provided in support of the expenditure amounts to Kshs. 21,870,545.00 resulting in unexplained difference of Kshs.11,230,245.

### **Management Response**

195. The accounting officer submitted that a breakdown for the amount of Kshs. 10,640,350.00 in respect of gratuity expenditure for the year and another for Kshs. 21,870,545 representing the actual payments to staff during the year has been. Hence, therefore submit that there is no difference between the reported expenditure and the schedule provided.

### **Committee Observation**

196. The Committee observed that the gratuity comparative balances for year 2015/2016 were not captured in the financial year under review contrary to the provisions of International Public Sector Accounting Standards (IPSAS).

### **Committee Recommendation**

197. **The Committee recommends that Accounting Officer of the Fund complies with the International Public Sector Accounting Standards (IPSAS) in preparation of financial statements.**

### **3.1.7. AUDIT QUERY NO.7-COMMUNICATION SUPPLIES AND SERVICES**

198. The communication supplies and services expense as disclosed in Note 7 to the financial statements of Kshs. 5,684,446.00 including staff airtime amounting to approximately Kshs. 3,675,682.00 comprising of monies paid to staff on monthly basis. This amount is not subject to tax in line with the income tax regulations. No explanation has been provided for non-compliance.

### **Management Response**

199. The Principal Secretary submitted that as a measure of cost management, the Fund does not have fixed lines where calls would be made, but as a policy, senior officers are reimbursed their telephone costs on a monthly basis to enable them undertake their responsibilities. This is well captured in the staff's appointment letters. The resultant cost is less than what would be spent if fixed lines would be installed. It's important to note that the amounts reimbursed are in line with the provisions of the relevant circulars for the various grades.

### **Committee Observation**

200. The Committee observed that the staff airtime allowances of Kshs. 3,675,682 was not subjected to taxation in line with the Income Tax Act (Cap 470).

### **Committee Recommendation**

201. **The Committee having considered the query recommends –**

- (i) That, the Accounting Officer of the Fund ensures compliance with section 3 of the Income Tax Act (Cap 470); and**

- (ii) That, the accounting officer ensures that all benefits accruable to staff should be paid through the payroll.



### 3.2. GENERAL OBSERVATIONS AND RECOMMENDATIONS

202. The Committee also made the following general observations and recommendations arising from submission made on the audit queries-

#### 3.2.1. LOSS OF FUNDS

203. The Committee observed that there was embezzlement of funds by employees of the Fund amounting to Kshs.24,625,450 due from 19 constituencies during the period under review and that the matter had been handed over to the Director of Criminal Investigations. The Committee noted that this is a recurring problem from previous financial years. It was noted that this was linked to the involvement of employees in disbursement of loans.

204. Article 226 (5) of the Constitution of Kenya, 2010 provides that, *“If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not”*.

**205. The Committee therefore recommends that Director of Criminal Investigation fast tracks the investigation into the cases of misappropriation of funds.**

#### 3.2.2. UNRECOVERABLE LOANS

206. The Committee observed that unrecoverable loans was a recurring audit query which could be attributed to groups seemingly incorporated with the intent to defraud the Fund. The Committee observed that these groups disintegrated after receipt of funds. This implied that the Fund did not adhere to existing lending policies while vetting some of the beneficiaries.. The Committee observed that there are funds which are still outstanding that were lend through the Financial Intermediaries whose recoverability is doubtful.

207. **The Committee therefore recommends-**

- (i) That, there is need for the Fund to enhance their lending policies to improve recoverability of loans; and**
- (ii) That, the Fund should lend directly to borrowers instead of using Financial Intermediaries.**

**3.2.3. LATE SUBMISSION OF DOCUMENTS**

208. The Committee observed that the Accounting Officer of the Fund failed to submit documents for audit within the time stipulated under the Public Audit Act, 2015. In addition, the officers contravened the provisions of Section 68 of the Public Finance Management Act that bestows all the responsibility of proper management of the Fund's books of accounts.

209. **The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

Signed:  .....

Date..... 29/10/2019.

**HON. KATHURI MURUNGI, M.P.**

**CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE**

**MINUTES OF THE SITTING OF THE SPECIAL FUNDS ACCOUNTS  
COMMITTEE ON REPORT WRITING RETREAT IN MOMBASA COUNTY  
FROM 10<sup>TH</sup> TO 14<sup>TH</sup> OCTOBER, 2019 SATURDAY, 12<sup>TH</sup> OCTOBER, 2019  
AT 9.00 A.M. IN WHITESANDS HOTEL.**

**PRESENT**

1. Hon. Kathuri Murungi, M.P. - **Chairperson**
2. Hon. William Kamuren Chepkut, M.P. - **Vice Chairperson**
3. Hon. Marwa Kitayama Maisori, M.P.
4. Hon. Erastus Kivasu Nzioka, M.P.
5. Hon. James Kamau Wamacukuru, M.P.
6. Hon. Dennitah Ghati, HSC, M.P
7. Hon. Irene Muthoni Kasalu, MP
8. Hon. Alfred Agoi Masadia, M.P
9. Hon. Mwambu Mabongah, M.P.
10. Hon. Jared Okelo, M.P.
11. Hon. Geoffrey Omuse, M.P.
12. Hon. Esther Muthoni Passaris, OGW, M.P.
13. Hon. Dr. Irene Kasalu, M.P
14. Hon. Mohamed Ali Mohamed M.P
15. Hon. Justus Kizito Mugali, M.P.

**APOLOGIES**

1. Hon. Shakeel Shabbir Ahmed, CBS, M.P
2. Hon. Mohamed Ali Lokiru, M.P.
3. Hon. Mark Lomunokol, M.P
4. Hon. Rehema Jaldesa, M.P.
5. Hon. Abdi Koropu Tepo, M.P.

**COMMITTEE SECRETARIAT**

1. Ms. Lucy Kimathi - Principal Clerk Assistant II
2. Ms. Hellen Ekadeli - Second Clerk Assistant
3. Ms. Clare Kidombo - Researcher
4. Ms. Clarah Kimeli - Senior Legal Counsel
5. Ms. Catherine Burure - Fiscal Analyst
6. Ms. Kaare Naserian - Serjeant-at-Arms
7. Ms. Fatuma Abdi - Audio-Recording Officer
8. Mr. Meshack Mutali - Office Attendant



## **IN-ATTENDANCE**

### **OFFICE OF THE AUDITOR GENERAL**

1. Mr. Francis Kabui - Manager – Audit
2. Mr. Samuel M. Mburu - Manager - Auditor
3. Mr. Joseph Mwangi - Supervisor - Auditor

### **NATIONAL TREASURY**

1. Mr. Geoffrey Mwitari - Liaison/Manager – Accountant

### **MIN.NO./NA./SFAC/2019/009 - PRELIMINARIES**

The meeting was called to order at 9.30 a.m. with a word of prayer from the Chairperson. The agenda of the meeting was as circulated:

1. Prayers
2. Preliminaries
3. Confirmation of Minutes
4. Matters Arising
- 5. Consideration of draft report of Uwezo Fund.**
6. Any Other Business
8. Adjournment.

### **MIN.NO./NA./SFAC/2019/010 - CONFIRMATION OF MINUTES**

The confirmation of minutes was deferred to the next session and therefore no matters arising.

### **MIN.NO./NA./SFAC/2019/011 - UWEZO FUND REPORT FOR YEAR ENDED 30<sup>TH</sup> JUNE 2017**

#### **AUDIT QUERY 1- ACCURACY OF THE FINANCIAL STATEMENTS**

The first and final sets of financial statements for the year ended 30 June 2017 submitted for audit exhibited unexplained account balances movement as detailed below:

Account Name	Balance as per final Set of financial statements(Ksh.)	Balance as per the initial Set of financial statements (Ksh.)	Unexplained Movement/adjustments (Ksh)
Note 7: Constituency Administration costs			
Balance Brought	46,121,430	145,211,430	99,094,832

Forward			
Unutilized Funds (Bank Balances)	52,785,432	52,348,640	436,783
Note 9: Loans to groups			
	500,000,000	657,390,839	157,390,839
CBK balance			
	295,738,028	285,099,061	10,636,967
Balance in the Main Account			
	1,126,785,244	1,114,572,531	12,212,713
Balance in Repayment Account			
Bank and Cash Balances	2,412,412,986	2,389,124,523	23,288,463
Current Liabilities	58,295,837	0	58,295,837

**The Committee recommends that the Accounting Officer of the Fund ensures compliance with the International Public Sector Accounting Standards (IPSAS) and section 68 of the Public Finance Management Act, 2012.**

#### **AUDIT QUERY NO.2 - BANK AND CASH BALANCES**

2.1 During the year under review, the Fund maintained bank accounts for each sub-county which were distributed over nine commercial banks and had bank balances amounting to Kshs. 1,475,308,695 as at 30<sup>th</sup> June, 2017, and as disclosed in Note 11 to the financial statements. However, the management did not prepare bank reconciliation statements for the sub county treasuries bank accounts.

**The Committee recommends –**

- (i) that the Accounting Officer of the Fund ensures compliance with the International Public Sector Accounting Standards (IPSAS) and section 68 of the Public Finance Management Act, 2012; and**
- (ii) that the Accounting Officer undertakes reconciliation of the remaining 222 bank accounts and forwards to the Auditor General for verification within three (3) months of the adoption of this report by the House.**

2.2 Anomalies have also been noted with regard to bank and cash balances of Kshs. 1,412,412,986 as at 30 June 2017 as reflected in the statement of

financial position and disclosed under Note 11 to the financial statements. The main Co-operative Bank of Kenya account reconciliation statement reflects stale cheques totaling Kshs. 235, 038.00 some dating back as far as June 2014. No explanation has given this anomaly.

**The Committee observed that the stale cheques were reversed on 28<sup>th</sup> September, 2018 as confirmed in the Cash Book, by the Auditor-General. The matter therefore stands resolved.**

2.3 The Fund had three accounts in Chase Bank for Machakos constituency -Main Account, Loan Repayment Account and Administration Account with balances of KShs. 2,834,972, KShs. 6,220,652 and KShs. 4,192 respectively, all totaling KShs. 9,059,816 as of 30 June 2017. The total amount in these accounts as the end of the previous financial year was cash KShs. 3,901,940. It is, therefore, apparent the management continued to transact with chase bank even after the institution was placed under statutory management by the Central Bank of Kenya on 7<sup>th</sup> April 2016 thereby increasing the risk of loss of the funds. Recovery of these amounts is contingent upon the bank reverting to its normal operations.

**The Committee recommends that the Accounting Officer of the Fund exercises due diligence in maintaining bank accounts at the Constituency level as guided by the National Treasury.**

2.4 Board of survey certificates as at 30<sup>th</sup> June, 2017 and cash books for the nine sub counties treasuries bank accounts were not provided for audit examination.

**The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

2.5 The bank and cash balances of Kshs. 2,412,412,986 as at 30<sup>th</sup> June, 2017 included a balance of cash Kshs. 52,785,423 claimed to be amounts transferred to constituencies and which remained unutilized and cash in transit balance of Kshs. 175,500,000 as disclosed under note 7 to the financial statements. However, the balances of Kshs. 52,785,423 and Kshs. 175,500,000 were not supported by any relevant and verifiable documents.



Consequently, the validity and existence of the amounts as at 30 June 2017 cannot be confirmed.

**The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

2.6 Bank balances schedules for some constituencies provided for audit had unexplained nil balances while related bank certificates reflected the following balances:

Name of Constituency	Main account (Kshs.)	Administrative Account (Kshs.)	Repayment Account (Kshs.)	Total (Kshs.)
Langata	443,851	242,235	2,706,376.05	3,392,462
Tinderet	659,926	4,570	5,489,665.00	6,153,861
Kipkelion West	57,246	5,595	5,576,787.00	5,639,628
Mwatate			4,419,060.00	4,419,060
Total	1,160,723	252,400	18,191,888.00	19,605,011

**The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

2.7 The balances confirmed by the bank for Kipkelion East were different from the amount used in the preparation of the financial statements.

**The error of interchanging Kipkelion East and Kipkelion West constituencies' bank balances has been corrected in the bank balances schedule. The error had no effect on the financial statement balances. The matter stands resolved as confirmed by the Auditor-General.**

### **AUDIT QUERY 3 - LOANS TO GROUPS**

The statement of financial position as at 30 June, 2017 reflects outstanding loans to groups of Kshs. 3,931,876,732. As disclosed in Note 9 to the financial statements, the figure has been derived by taking the initial National Government capital grant amount of Kshs. 5,854,400,004 and netting off the amount of monies presumably held in the CBK and main bank accounts amounting to Kshs. 795,738,028 and loan monies held in the repayment account amounting to Kshs. 1,126,785,244 all of which were not supported.

Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of any loan's recovery. There were also no comprehensive loan listings and/or aging analysis in support of outstanding loans.

Consequently, the accuracy, validity and recoverability of the group's loans balance of Kshs. 3,931,876,732 cannot be confirmed.

**The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

#### **AUDIT QUERY 4- WORK – IN – PROGRESS**

The statement of financial position reflects under current assets work-in-progress amounting to Kshs. 19,522,765. As disclosed in Note 10 to the financial statements, the amount represents 40% part payment in respect of Enterprise Resource Planning (ERP) software procured and contracted for in the year 2015/2016. The supply, installation and commissioning of the software is yet to be made even though 40% part payment was made over two years ago.

Information available for audit indicates that the implementation of the ERP which was contracted at a sum of Kshs. 48,806,912 has been called off even though there is a valid contract between the fund and the supplier. Further the recoverability and utilization of the part Payment of Kshs. 19,522,765 is doubtful given that the fund management appears to have stopped the implementation of the software. The value for money received by the fund in respect of the software cannot under the circumstances be ascertained.

Further, contrary to the requirements of International Public Sector Accounting Standard (IPSAS) No. 31- Intangible Assets, the cost of the ERP software has been treated as work-In-Progress and classified under current assets instead of non-current assets. No justification has been provided for this accounting treatment.

The validity, existence and accuracy of work-In-Progress balance of Kshs. 19,522,765 cannot, therefore be confirmed.



**The Committee recommends that the Accounting Officer of the Fund be investigated by the Director of Criminal Investigation (DCI) for failure to implement the project.**

#### **AUDIT QUERY 5 - CONSTITUENCIES ADMINISTRATION COSTS**

The statement of financial performance of the year ended 30 June 2017 reflects administration costs – transfers to constituencies' figure of Kshs. 131,036,007 which was not supported by any documentary evidence. As disclosed in Note 7 to the financial statements, the figure has been derived after taking into account unsupported opening balance figure of Kshs. 46,121,430 and transfers during the current year of Kshs. 313,200,000, respectively and reducing the total amount with the unsupported utilized funds – bank balance of Kshs. 52,785,423 and cash in transit balance of Kshs. 175,500,000 respectively.

Under the circumstances, it has been not possible to verify and confirm the accuracy of administration costs – transfer to constituencies figure of Kshs. 131,036,007 of the year ended 30 June 2017.

**The Committee recommends that the Accounting Officer complies with Section 62 of the Public Audit Act, 2015 and Regulation 90 of the Public Finance Management (National Government) Regulations, 2015.**

#### **AUDIT QUERY 6- OUTSTANDING IMPRESTS**

The financial statements of the year ended 30<sup>th</sup> June, 2017 at Note 12 shows outstanding staff imprests balance of Kshs. 5,385,476. However, the imprests register was not provided for audit review and imprests totaling Kshs. 807,760 were issued to persons whose details, personal numbers and job groups were not indicated in the imprests schedule.

In addition, a total of Kshs. 1,176,998 was in respect to officers who have already left the service making recovery doubtful. No provision for impairment of the same has been included in these financial statements. Under the circumstances, it has not been possible to verify and confirm whether the balance of Kshs. 5,385,476 as to 30 June 2017 is fairly stated.

**The Committee recommends-**

- (i) that the officers be compelled to pay back the amount with interest at the prevailing Central Bank rate pursuant**



**Regulation 93(6) of the Public Finance Management (National Government) Regulations, 2015;**

- (ii) that the Accounting Officer of the Fund ensures recovery of the outstanding imprest from the officers within three (3) months of the adoption of this report by the House; and**
- (iii) that where the outstanding imprest is not recovered as stipulated, the Accounting Officer of the Fund be surcharged in accordance with Regulation 93(7) of the Public Finance Management (National Government) Regulations, 2015.**

**AUDIT QUERY NO.7- NON - DISCLOSURE OF CONTRIBUTION IN KIND OF STAFF COMPENSATION**

The fund has thirty-two officers working on a fulltime basis drawn from various ministries and who continues to draw their salaries from their parent ministries. The financial statements of the fund have however, not taken into account the donation or contribution in kind received from the ministries in form staff salaries of Kshs. 27,180,516 from the financial year ended 30 June 2017.

**The Committee observed that matter has been resolved as confirmed by the Auditor-General.**

**AUDIT QUERY NO.8 - BOARD OF DIRECTORS - COMPOSITION AND MEETINGS**

Out of seven directors who served in the Board of the Fund during the year under review, five were independent non-executive and four of the seven ceased being directors on 28<sup>th</sup>February 2017. There has been no replacement or extension of their terms which could easily impact on the strategic decision making of the Fund. Further, the Board held only three full board meetings contrary to the Code of Governance for State Corporations, 2015 which requires the Board of Directors to hold a minimum of four meetings.

**The Committee recommends that the Cabinet Secretary responsible for the Fund to ensures the Board is properly constituted and functional pursuant to Regulation 5 of the Public Finance Management (Uwezo Fund) Regulations, 2014.**

## **GENERAL OBSERVATIONS AND RECOMMENDATION**

The following are key observations for consideration by the Committee-

### **(1) LACK OF COMPLIANCE WITH THE PUBLIC AUDIT ACT, 2015 AND THE PUBLIC FINANCE MANAGEMENT ACT, 2012**

The Committee observed that the Accounting Officer of the Fund failed to submit relevant supporting documents for audit review. In addition, documents were not submitted within a reasonable time in contravention to the provisions of section 62 of the Public Audit Act 2015 which compels the accounting officers to provide information to auditors when need arises. In addition, the officers contravened the provisions of Section 68 of the Public Finance Management Act that bestows all the responsibility of proper management of the Fund's books of accounts.

**The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

### **(2) LOANS DISBURSED TO GROUPS**

The Committee observed that the Fund advanced loans of approximately Kshs 4 Billion since inception in 2014/ 2015 to various groups whose details such as debtors listings were not availed for audit review. Consequently the accuracy, validity and recoverability of loans advanced to groups is doubtful.

**The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

### **(3) GAZZETEMENT OF COMMITTEES AT THE CONSTITUENY LEVEL**

The Committee observed that there was a delay in the gazettelement of Constituency Uwezo Fund Management Committees established under Regulation 15 of the Public Finance Management (Uwezo Fund) Regulations, 2014 hindering constituency operations of the Fund. This led to delays in loan issuance and recovery.

**The Committee recommends that the Cabinet Secretary responsible for the Fund ensures timely gazettelement of the names of the persons**

**constituting the Constituency Uwezo Fund Management Committees pursuant to Regulation 15 (5) of the Public Finance Management (Uwezo Fund) Regulations, 2014.**

**(4) 50 PERCENT REPAYMENT THRESHOLD ON LOANS**

The Committee observed that Uwezo Fund Board resolution on a threshold of 50 percent repayment of loans was punitive. The policy implies that Fund can only replenish loans to a constituency whose recovery is at least 50 percent.

**The Committee recommends that the Uwezo Fund reviews the policy on the constituency repayment threshold on loans to 25 percent.**

**(5) FACILITATION OF CONSTITUENCY UWEZO FUND MANAGEMENT COMMITTEES**

The Committee observed that members of the Constituency Uwezo Fund Management Committees are not adequately facilitated to monitor the activities of the Fund including follow up on loans disbursed. There is need to enhance the budget on monitoring, evaluation and administrative costs for the Committees to ensure they perform their functions efficiently as stipulated under Regulation 16 of the Public Finance Management (Uwezo Fund) Regulations, 2014 .

**The Committee recommends-**

- (i) that the Fund to set aside not more than five per centum of the amount disbursed to a constituency for purposes of monitoring, evaluation and administrative costs for the Constituency Uwezo Fund Management Committees; and**
- (ii) that the Cabinet Secretary to issue guidelines on allowances for members of Constituency Uwezo Fund Management Committees within three months of the adoption of this Report by the House.**

**(6) PROPER FINANCIAL REPORTING**

The Committee observed that the Fund did not comply with the International Public Sector Accounting Standards (IPSAS) in their financial reporting indicating that there was lack of capacity of the staff at the



Constituency level. The Committee noted that the Fund relied on District accountants who serve more than one Constituency.

**The Committee recommends that the Fund employs its own officers at the Constituency level for proper financial reporting;**

**MIN.NO./NA./SFAC/2019/012 - ADJOURNMENT/DATE OF NEXT MEETING**

There being no other business the meeting was adjourned at 2.30 p.m.

**SIGNED**.....



**HON. KATHURI MURUNGI, M.P**

(Chairperson)

**DATE**.....

29/10/2019.

**MINUTES OF THE SITTING OF THE SPECIAL FUNDS ACCOUNTS  
COMMITTEE ON REPORT WRITING RETREAT IN MOMBASA COUNTY  
FROM 10<sup>TH</sup> TO 14<sup>TH</sup> OCTOBER, 2019 FRIDAY, 11<sup>TH</sup> OCTOBER, 2019 AT  
3.30 P.M. IN WHITESANDS HOTEL.**

**PRESENT**

1. Hon. Kathuri Murungi, M.P. - **Chairperson**
2. Hon. William Kamuren Chepkut, M.P. - **Vice Chairperson**
3. Hon. Marwa Kitayama Maisori, M.P.
4. Hon. Erastus Kivasu Nzioka, M.P.
5. Hon. James Kamau Wamacukuru, M.P.
6. Hon. Dennitah Ghati, HSC, M.P
7. Hon. Irene Muthoni Kasalu, MP
8. Hon. Alfred Agoi Masadia, M.P
9. Hon. Mwambu Mabongah, M.P.
10. Hon. Jared Okelo, M.P.
11. Hon. Geoffrey Omuse, M.P.
12. Hon. Esther Muthoni Passaris, OGW, M.P.
13. Hon. Dr. Irene Kasalu, M.P
14. Hon. Mohamed Ali Mohamed M.P
15. Hon. Justus Kizito Mugali, M.P.

**APOLOGIES**

1. Hon. Shakeel Shabbir Ahmed, CBS, M.P
2. Hon. Mohamed Ali Lokiru, M.P.
3. Hon. Mark Lomunokol, M.P
4. Hon. Rehema Jaldesa, M.P.
5. Hon. Abdi Koropu Tepo, M.P.

**COMMITTEE SECRETARIAT**

1. Ms. Lucy Kimathi - Principal Clerk Assistant II
2. Ms. Hellen Ekadeli - Second Clerk Assistant
3. Ms. Clare Kidombo - Researcher
4. Ms. Clarah Kimeli - Senior Legal Counsel
5. Ms. Catherine Burure - Fiscal Analyst
6. Ms. Kaare Naserian - Serjeant-at-Arms
7. Ms. Fatuma Abdi - Audio-Recording Officer
8. Mr. Meshack Mutali - Office Attendant

**IN-ATTENDANCE**

**OFFICE OF THE AUDITOR GENERAL**

1. Mr. Francis Kabui - Manager – Audit
2. Mr. Samuel M. Mburu - Manager - Auditor
3. Mr. Joseph Mwangi - Supervisor - Auditor

**NATIONAL TREASURY**

1. Mr. Geoffrey Mwitari - Liaison/Manager – Accountant

**MIN.NO./NA./SFAC/2019/001 - PRELIMINARIES**

The meeting was called to order at 3.45 p.m. with a word of prayer from the Chairperson. The agenda of the meeting was as circulated:

1. Prayers
2. Preliminaries
3. Confirmation of Minutes
4. Matters Arising
- 5. Consideration of draft report of Women Enterprise Development Fund.**
6. Any Other Business
8. Adjournment.

**MIN.NO./NA./SFAC/2019/006 - CONFIRMATION OF MINUTES**

The confirmation of minutes was deferred to the next session.

**MIN.NO./NA/SFAC/2019/007 - WOMEN ENTERPRISE DEVELOPMENT FUND REPORT FOR YEAR ENDED 30TH JUNE 2018**

**AUDIT QUERY NO. 1- RECEIVABLES FROM EXCHANGE TRANSACTIONS**

**1.1 Loss of Funds**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position includes an amount of Kshs. 24,625,450 due from nineteen (19) constituencies but claimed to have been misappropriated by the employees. Further, the amount includes Kshs. 21,170,000 due from twenty constituencies misappropriated by employees in previous financial years. No provision had however, been made in the financial statements in respect of the above losses nor any recoveries made as at 30 June 2018.



**The Committee recommends that the Director of Criminal Investigation (DCI) fast tracks the investigation of the cases.**

### ***1.2 Non-performing Financial Intermediaries Loans***

The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position as at 30 June 2018 includes non-performing loans totaling Kshs. 83,248,508 due from financial intermediary partners. Any provision that would have been necessary in relation to this had not been incorporated in the financial statements.

**The Committee recommends that –**

- (i) The Fund makes adequate provision for bad debts in line with the International Public Sector Accounting Standards (IPSAS) standards; and**
- (ii) The Fund reviews its vetting processes and credit policies on engagement with Financial Intermediaries.**

### ***1.3 Doubtful Recovery of LPO Financing and CWES Loans***

The receivables from exchange transactions balance of Kshs. 2,832,405,516 further includes loans relating to LPO Financing of Kshs. 11,386,677 which were due but not paid as at 30 June 2018. This amount has however increased from Kshs. 7,440,277 reported in 2016/2017 financial year. Also included in the receivables from exchange transaction balance of Kshs. 2,836,891,724 is an amount of Kshs. 855,933,915 due from Constituency Women Enterprise Scheme (CWES) which had been outstanding for more than one year and out of which an amount of Kshs. 61,796,082 had zero repayments amounts during the year under review.

Recoverability of these loans is doubtful since they had been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances is clearly doubtful, the provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover any potentially irrecoverable amounts and contrary to the WEF Credit Policy and Guidelines.

**The Committee recommends that –**

- (i) The Fund makes adequate provision for bad debts in line with the IPSAS standards; and**
- (ii) The Fund reviews its vetting processes and credit policies on engagement with Financial Intermediaries.**

#### **1.4 Outstanding Imprest and Advances**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 include a balance of outstanding imprests of Kshs. 508,240 and advances of Kshs. 1,244,434. Outstanding imprests of Kshs. 368,700 ought to have been surrendered or otherwise accounted for on or before 30 June 2018 in accordance with Section 93 of the Public Finance Management ( National Government) Regulations, 2015 and the accounting officer had not recovered the outstanding imprest from the defaulting officers' salaries with an interest, therefore breaching the regulations on imprests.

Also, included in the advances balance of Kshs. 1,244,434 includes an amount of Kshs. 98,000 outstanding from officers who had left the Fund making recovery of the outstanding amounts doubtful. No explanation was provided for these anomalies.

In view of the foregoing, the accuracy, completeness and full recoverability of the balance of Kshs. 2,832,405,516 under receivable from exchange transactions as at 30 June 2018 could not be confirmed.

**The Committee recommends that the officer with the outstanding imprest be reported to the Credit Reference Bureau (CRB) and be compelled to pay back the amount at the prevailing Central Bank rate.**

#### **AUDIT QUERY NO. 2 - EMPLOYEE COSTS**

The statement of financial performance reflects an amount of Kshs. 182,443,959 in respect of employee costs. This includes an expenditure on acting allowances amounting of Kshs. 424,035 paid to two (2) officers who were appointed on acting capacity on 1 December 2015 for a renewable period of six (6) months. These officers however acted for more than six months contrary to Human Resource Policies and Procedures and Women Enterprise Fund Human Resource Policy.

**The Committee recommends that Fund ensures compliance with their Human Resource Policies and Procedures and Women Enterprise Fund Human Resource Policy and provide penalties in case on non-compliance.**

#### **AUDIT QUERY NO. 3 - EMPLOYEE BENEFIT OBLIGATION GRATUITY**

The employee benefit obligation/gratuity liability of Kshs. 24,751,873 as reflected in the statement of financial position. However, the opening



balance of Kshs. 15,310,323 was not supported. As a consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 24,751,873 as at 30 June 2018 could not be ascertained.

**The relevant schedule for the opening balance of employee gratuity of Kshs. 15,310,323 has been provided and confirmed. The matter has been resolved.**

#### **AUDIT QUERY NO. 4 - OTHER MATTERS**

##### ***4.1 Financial Performance***

The Fund's financial performance continued to deteriorate during the year from a loss of Kshs. 12,043,444 in 2016/2017 to a loss of Kshs. 56,554,343 in 2017/2018. The accumulated surplus for the Fund continued to be depleted having decreased from Kshs. 508,233,689 in 2016/2017 to Kshs. 451,679,346 in 2017/2018. Although the management has indicated that it is engaging with the parent Ministry and the National Treasury for funding of the Fund's operations, this has not yielded any results to date.

**The Committee recommends that the performance of the Fund be evaluated in the subsequent financial year by the Auditor General.**

##### ***4.2 Use of invalid documents from suppliers during procurement process***

The Fund paid a supplier an amount of Kshs. 311,568 for supply and delivery of goods. Examination of attached documents in support of the payment revealed that the supplier had a certificate of registration dated 30 December 2013 and the same expired on 30 December 2015. It has not been explained how a firm with an expired registration certificate was included in the list of pre-qualified firms and contracted to supply. Consequently, the validity of this expenditure could not be confirmed.

**The Committee observed that it was confirmed that the supplier, Rackercy Agencies had provided a valid certificate dated 4 July 2017 for a period of two years and therefore the matter has been resolved.**

##### ***4.3 Undisclosed Pending Bill on Insurance***

Examination of records held by the Fund showed a payment of Kshs. 214,868 to an insurance service provider, on behalf of the Fund's staff. Review of the invoices in support of the expenditure showed that some staff received medical services in the financial year 2014/2015. This insurance bill was not included in the list of outstanding accounts payables for the



previous financial years. This is contrary to the accrual basis of recognition and accounting for prior period adjustments.

**The Committee observed that the documents in respect to the payments were provided for verification and therefore the matter has been resolved.**

#### **AUDIT QUERY NO. 5 - PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS FOR THE FINANCIAL YEAR 2016/2017**

The following issues raised in the audit report for the financial year 2016/2017 were yet to be resolved.

##### **5.1 Remuneration of Directors**

The Fund had a budgetary provision of Kshs. 6,852,000 on remuneration of directors but spent Kshs. 10,486,000 during the year 2016/2017 on the item resulting in an over expenditure of Kshs. 3,634,401 (53%). However, authority for reallocation of funds from other items to remuneration of directors or in support of the over-expenditure was not provided for audit examination.

The remuneration of directors' expenditure of Kshs. 10,486,400 included an amount Kshs.960,000 paid to Board members as sitting allowances for undertaking normal operational activities of approval loans to various groups. The expenditure also included an amount of Kshs. 1,107,200 paid to non-Board members as sitting allowances for being in attendance of various board committee meetings. The propriety of expenditure totaling Kshs. 2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

Although the board had an approved annual calendar of meetings with five (5) scheduled full Board meetings and twenty-five (25) scheduled committee meetings for the financial year 2016/2017, eighteen (18) full Board meetings and fifty (50) committee meetings were held during the year. The Board did not therefore adhere to the corporate plan and consequently subjected the Fund to unbudgeted expenditure of Kshs. 3,634,401 on remuneration of directors.

**The Committee recommends-**

- (i) that the Accounting Officer of the Fund ensures compliance with section 43(2) of the Public Finance Management Act, 2012;**

- (ii) that in subsequent audits, the Auditor General should scrutinize the terms of engagement of non- Board Members;
- (iii) that the Board ensures compliance with the approved corporate plan to avoid unbudgeted expenditure; and
- (iv) that the Ministry responsible reviews the Government Financial Management (Women Enterprise Fund) Regulations, 2007 and aligns it with the Mwongozo Code particularly on the limits on Board sittings.

## **AUDIT QUERY NO.6 - RECEIVABLES FROM EXCHANGE TRANSACTIONS**

### **6.1 Loss of Funds**

The receivables from exchange transactions balance of Kshs. 2,323,541,431 included an amount of Kshs. 21,170,000 due from twenty constituencies but claimed to have been misappropriated by the employees. The amount also included Kshs. 3,100,000 and Kshs. 6,300,000 due from Kwanza Constituency and Kisumu County respectively, which were misappropriated by employee I 2015/16 financial year. No provision had however been made in the financial statements in respect of the above losses.

### **6.2 Non-performing Financial Intermediaries Loans**

The receivables from exchange transactions balance of Kshs. 2,323,541,431 included non-performing loans totaling Kshs. 106,618,100 due from financial intermediary partners. Any provision that would be necessary in relation to this uncertainty has not been incorporated in the financial statements.

### **6.3 Doubtful Recovery of LPO Financing and CWEs Loans**

The receivables from exchange transactions balance of Kshs. 2,323,541,431 further included loans relating to LPO financing of Kshs. 7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of Kshs. 65,135,500 with no repayments recorded during the ear under review. Recoverability of these loans is doubtful since they have been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances was clearly doubtful, no provisions were made against them in the financial statements.

**The Committee recommends –**

- (i) **That the Fund should lend directly to borrowers instead of using Financial Intermediaries;**
- (ii) **That the Fund makes adequate provision for bad debts in line with the IPSAS standards;**
- (iii) **The Fund reviews its lending policies to improve recoverability of loans.**

#### ***6.4 Unsupported Opening Balances***

The opening balances of LPO financing and *pikipiki* loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were not analyzed and therefore it was not possible to verify and confirm those balances as reflected in the financial statements.

**The Committee observed that the relevant schedules for opening balances of Local Purchase Order (LPO) financing and *Pikipiki* loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were submitted and verified and therefore the matter resolved.**

#### ***6.5 Outstanding Imprests***

The receivables from exchange transactions balances of Kshs. 2,323,541,431.00 includes outstanding imprest of Kshs. 1,321,459.00 which ought to have been surrendered or otherwise accounted for on or before 30 June 2017 in accordance with section 93 of Public Finance Management Regulations (PFM) 2015. In addition, during the year, various officers were issued with multiple imprests amounting to Kshs. 4,975, 780.00 all before the previous issued to them surrendered. This contravenes the regulations.

The accounting officer had not recovered the outstanding imprest from the defaulting officers salary with an interest, therefore, the accounting officer is in breach of the regulations on imprest. No explanation has been provided for this breach.

**The Committee observed that the imprest surrender documents were submitted and verified by the Auditor General and the matter stands resolved.**

#### ***6.6 Payables and Accruals***

Payables and accruals balance of Kshs. 29,895,361.00 included an amount of Kshs. 26,762,000 in respect of loans approved to various groups that has not been disbursed for various reasons. However, the non-disbursement



after the approval does not constitute a liability since the funds are still with the fund neither has the asset in form of the loan been created for the fund.

**The Committee observed that cheques were later dispatched to the various beneficiaries and the liability therefore has been discharged from the Fund's books of accounts as confirmed by the Auditor General. The matter stands resolved.**

### **6.7 Gratuity**

The gratuity fund was previously operated outside the funds financial records and as 30 June 2016, the amount of cash held in the gratuity account was disclosed as Kshs. 25,251,035.00 and no corresponding liability was shown in the financial statement. In the year under review, both the cash and the liability for gratuity account have been introduced in the financial records of the fund but no detailed composition of the opening balance liability has been provided for audit examination.

The financial statements for the financial year 2015/2016 have not been restated to cater for the introduction of gratuity liability in the accounting records. As consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 15,310,323.00 could not be ascertained.

Further, the total gratuity expenditure for the year as reflected on Note 8 to the financial statements amounts to Kshs. 10,640,300.00 while the detailed schedule provided in support of the expenditure amounts to Kshs. 21,870,545.00 resulting in unexplained difference of Kshs.11,230,245.

**The Committee recommends that Accounting Officer of the Fund complies with the International Public Sector Accounting Standards (IPSAS) in preparation of financial statements.**

### **AUDIT QUERY NO.7- COMMUNICATION SUPPLIES AND SERVICES**

The communication supplies and services expense as disclosed in Note 7 to the financial statements of Kshs. 5,684,446.00 including staff airtime amounting to approximately Kshs. 3,675,682.00 comprising of monies paid to staff on monthly basis. This amount is not subject to tax in line with the income tax regulations. No explanation has been provided for non-compliance.

**The Committee recommends –**

- (i) **that the Accounting Officer of the Fund ensures compliance with section 3 of the Income Tax Act (Cap 470); and**
- (ii) **that all benefits accruable to staff should be paid through the payroll.**

## **GENERAL OBSERVATIONS AND RECOMMENDATIONS**

Some of the key observations from the Auditor General's report include -

### **1. LOSS OF FUNDS**

The Committee observed that there was embezzlement of funds by employees of the Fund amounting to Kshs.24,625,450 due from 19 constituencies during the period under review. The Committee noted that this is a recurring problem from previous financial years. It was noted that this was linked to the involvement of employees in disbursement of loans.

Article 226 (5) of the Constitution of Kenya, 2010 provides that, *"If the holder of a public office, including a political office, directs or approves the use of public funds contrary to law or instructions, the person is liable for any loss arising from that use and shall make good the loss, whether the person remains the holder of the office or not"*.

**The Committee therefore recommends that Director of Criminal Investigation (DCI) fast tracks the investigation into the cases of misappropriation of funds.**

### **2. UNRECOVERABLE LOANS**

The Committee observed that unrecoverable loans was a recurring audit query which could attributed to groups seemingly incorporated with the intent to defraud the fund noting that they disintegrated after receipt of funds and failure to adhere to existing lending policies. The Committee observed that there are funds which are still outstanding that were lend through the Financial Intermediaries whose recoverability is doubtful.

**The Committee therefore recommends-**

- (i) **that there is need for the Fund to enhance their lending policies to improve recoverability of loans; and**
- (ii) **that the Fund should lend directly to borrowers instead of using Financial Intermediaries.**

### **3. LATE SUBMISSION OF DOCUMENTS**

The Committee observed that the Accounting Officer of the Fund failed to submit documents for audit within the time stipulated under the Public Audit Act, 2015. In addition, the officers contravened the provisions of Section 68 of the Public Finance Management Act that bestows all the responsibility of proper management of the Fund's books of accounts.

**The Committee therefore recommends that the Accounting Officer of the Fund ensures compliance with section 62 of the Public Audit Act, 2015 and section 68 of the Public Finance Management Act, 2012.**

**MIN.NO./NA./SFAC/2019/008 - ADJOURNMENT/DATE OF  
NEXT MEETING**

There being no other business the meeting was adjourned at 6.30 p.m.

**SIGNED**.....



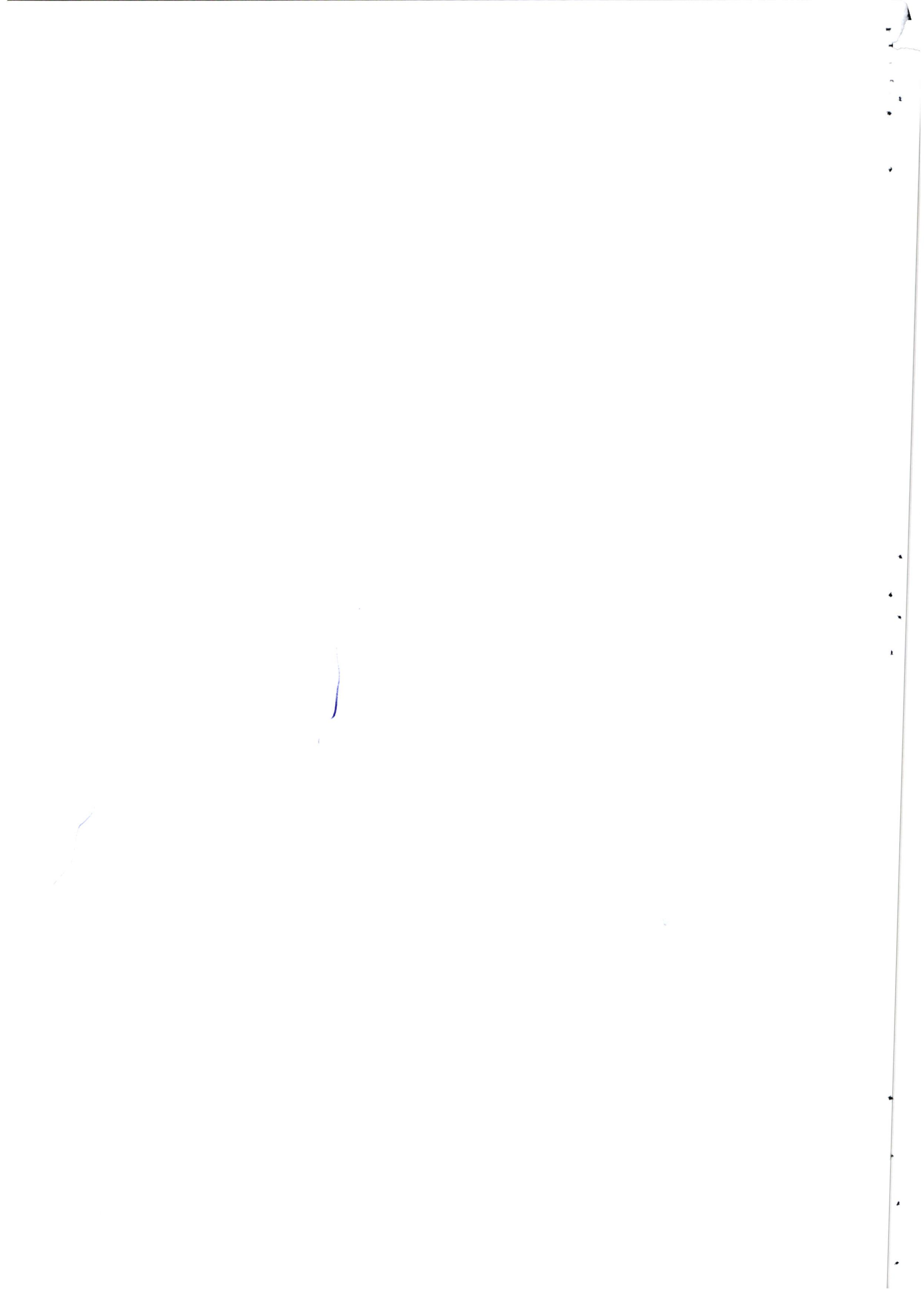
**HON. KATHURI MURUNGI, M.P**

(Chairperson)

**DATE**.....

29<sup>th</sup> October, 2019.





**MINUTES OF THE 27<sup>TH</sup> SITTING OF THE SPECIAL FUNDS ACCOUNTS  
COMMITTEE HELD ON THURSDAY, 1<sup>ST</sup> AUGUST, 2019 IN COMMITTEE  
ROOM 12, MAIN PARLIAMENT BUILDINGS AT 10.00 A.M.**

**PRESENT**

1. Hon. Kathuri Murungi, M.P. **-Chairperson**
2. Hon. Erastus Kivasu Nzioka, M.P.
3. Hon. Marwa Kitayama Maisori, M.P.
4. Hon. Dennitah Ghati, HSC, M.P
5. Hon. James Kamau Wamacukuru, M.P.
6. Hon. Mohamed Ali Lokiru, M.P.
7. Hon. Irene Kasalu, M.P.
8. Hon. Shakeel Shabbir Ahmed, M.P

**APOLOGIES**

1. Hon. William Kamuren Chepkut, M.P. **- Vice Chairperson**
2. Hon. Mohamed Ali Mohamed M.P
3. Hon. Mwambu Mabongah, M.P.
4. Hon. Rehema J aldesa, M.P.
5. Hon. Alfred Agoi Masadia, M.P
6. Hon. Justus Kizito Mugali, M.P.
7. Hon. Jared Okelo, M.P.
8. Hon. Geoffrey Omuse, M.P.
9. Hon. Mark Lomunokol, M.P
10. Hon. Esther Passaris, M.P.
11. Hon. Abdi Koropu Tepo, M.P.

**COMMITTEE SECRETARIAT**

1. Ms. Hellen Ekadeli - Second Clerk Assistant
2. Ms. Clare Kidombo - Research Analyst
3. Mr. Meshack Mutali - Office Attendant

**IN-ATTENDANCE**

**OFFICE OF THE AUDITOR GENERAL**

1. Mr. Francis N. Kabui - Audit Manager/Liaison Officer
2. Mr. Samuel Mburu - Manager Audit

## **THE NATIONAL TREASURY**

1. Mr. Geoffrey Mwitari-Assistant Accountant General

## **STATE DEPARTMENT OF GENDER**

### **UWEZO FUND**

1. Hon. Safina Kwekwe Tsungu - Principal Secretary, Gender
2. Mr. Peter Lengapiani - Head of Secretariat
3. Ms. Naumy J. Kemboi - Head of Accounts
4. Mr. Isaac Ngige - Parliamentary Liaison Officer
5. Ms. Polline Githinji - Chief Accountant
6. Ms. Annie Njau - Chief Youth Officer
7. Mr. Caliph Ombati - Deputy Chief Finance Officer
8. Mr. Gad Etyang - Human Resource Officer

### **WOMEN ENTERPRISE FUND**

1. Eng. Charles Mwingi - CEO
2. CPA Paul Wangai - Finance & Adm. Manager
3. Mr. Raphael Kinolo - Credit Manager
4. Ms. Mary Anne Ngoima - Asst. Manager, Legal Affairs

## **MIN.NO./NA./SFAC/2019/153 - PRELIMINARIES AND ADOPTION OF THE AGENDA**

The Chairperson called the meeting to order at 10.20 a.m. with a word of prayer from Hon. Erastus Kivasu, MP.

The following agenda of the meeting was adopted as circulated having been proposed and seconded by Hon. Marwa Kitayama, MP and Hon. Erastus Kivasu, MP respectively:

1. Prayers.
2. Preliminaries.
3. Confirmation of minutes.
4. **Meeting with the Principal Secretary, State Department of Gender Affairs to respond to audit queries raised in the report of the Auditor-General on financial statements for Uwezo Fund for the year ended 2017 and Women Enterprise Fund for the year ended 30 June, 2018.**
5. Matters Arising.
6. Any Other Business.



7. Adjournment/Date of Next Meeting.

**MIN.NO./NA/SFAC/2019/154 - CONFIRMATION OF MINUTES**

The agenda was deferred to the next meeting and therefore there were no matters arising.

**MIN.NO./NA/SFAC/2019/155 - MEETING WITH THE PS, GENDER AFFAIRS DURING CONSIDERATION OF THE REPORT OF AUDITOR-GENERAL ON FINANCIAL STATEMENTS FOR UWEZO FUND FOR YEAR ENDED 30<sup>TH</sup> JUNE 2017 AND WOMEN ENTERPRISE FUND FOR YEAR ENDED 30<sup>TH</sup> JUNE, 2018.**

The Hon. Safina Kwekwe Tsungu, the Principal Secretary, State Department of Gender Affairs appeared before the Committee on 1<sup>st</sup> August, 2019 to respond to the audit queries raised in the report of the Auditor-General for Uwezo Fund and Women Enterprise Fund for the year ended 30<sup>th</sup> June 2017 and 30<sup>th</sup> June, 2018 respectively. She was accompanied by:

1. Mr. Peter Lengapiani - Head of Secretariat, Uwezo Fund;
2. Ms. Naumy J. Kemboi - Head of Accounts, Uwezo Fund;
3. Ms. Polline Githinji - Chief Accountant, Uwezo Fund;
4. Ms. Annie Njau - Chief Youth Officer, Uwezo Fund;
5. Mr. Caliph Ombati - Deputy Chief Finance Officer, Uwezo Fund;
6. Mr. Gad Etyang - Human Resource Officer, Uwezo Fund;
7. Eng. Charles Mwingi - Chief Executive Officer, Women Enterprise Fund;
8. CPA Paul Wangai - Finance & Administration Manager, Women Enterprise Fund;
9. Mr. Raphael Kinolo - Credit Manager Women Enterprise Fund;
10. Ms. Mary Anne Ngoima - Asst. Manager, Legal Affairs, Women Enterprise Fund; and
11. Mr. Isaac Ngige - Parliamentary Liaison Officer, Ministry of Public Service, Youth and Gender;

**REPORT OF AUDITOR - GENERAL ON FINANCIAL STATEMENTS FOR  
UWEZO FUND FOR YEAR ENDED 30<sup>TH</sup> JUNE 2017**

**Accuracy of the Financial Statements**

i. The first and final sets of financial statements for the year ended 30 June 2017 submitted for audit exhibited unexplained account balances movement as detailed below:

<b>Account Name</b>	<b>Balance as per final Set of financial statements (Ksh.)</b>	<b>Balance as per the initial Set of financial statements (Ksh.)</b>	<b>Unexplained Movement/adjustments (Ksh)</b>
<b>Note 7: Constituency Administration costs</b>			
Balance Brought Forward	46,121,430	145,211,430	99,094,832
Unutilized Funds (Bank Balances)	52,785,432	52,348,640	436,783
<b>Note 9: Loans to groups</b>			
CBK balance	500,000,000	657,390,839	157,390,839
Balance in the Main Account	295,738,028	285,099,061	10,636,967
Balance in Repayment Account	1,126,785,244	1,114,572,531	12,212,713
<b>Bank and Cash Balances</b>	2,412,412,986	2,389,124,523	23,288,463
<b>Current Liabilities</b>	58,295,837	0	58,295,837

**Management Response**

The Principal Secretary submitted that the Fund operates on manual platform and generates all reports manually. The initial financial statements had

posting errors that necessitated preparation of amended set of accounts. The movement and adjustments are the resultant corrections which were agreed upon and explanations are as indicated below:

<b>Account Name</b>	<b>Balance as per final Set of financial statements</b>	<b>Balance as per the initial Set of financial statements</b>	<b>Unexplained Movement</b>	<b>Explanation</b>
<b>Note 7:</b> <b>Constituency Administrative costs</b> Balance Brought Forward	46,121,430	145,216,262	99,094,832	Constituency Administrative costs of Kshs. 145,211,430 ought to read Kshs. 145,216,262 for the financial year 2015/2016. This amount was inadvertently picked and posted as unutilized closing bank balance in the initial set of financial statements as opposed to the correct amount of Kshs. 46,121,430 posted in the Amended financial statements for year 2016/2017 hence the difference of Kshs 99,094,832.
Unutilized Funds (Bank Balance)	52,785,423	52,348,640	436,783	The difference of Kshs. 436,783.00 was caused by wrong figures submitted in the bank certificates of Langata, Tinderet and Kipkelion West Constituencies. The correct certificates of bank balance have been availed for audit review.
<b>Note 9:</b> <b>Loans to groups</b> CBK balance	500,000,000	657,390,839	157,390,839	In the year under review, the Fund received development funds for capital loans grants totalling kshs. 500 Million for disbursement to constituencies. The first set of financial statements Inadvertently included first half of constituencies' administrative transfers of Kshs. 156.6 million which



				included casting error of Kshs.790,839 to taling Kshs. 157.39 million. These errors were noted and corrected in the final set of financial statements.
Balance in the Main Account	295,738,028	285,099,061	10,636,967	The difference of Kshs.10,636,967.00 was caused by wrong figures submitted in the bank certificates of Langata and Tinderet whereas Kipkelion West amounts were inadvertently reported as those of Kipkelion East, whose balances had not been provided (nil balances). Mwatate's figures of Kshs. 89,288 were inadvertently reported as Voi's figures. The corrected certificates of bank balances and the schedules of bank balances have been availed for audit review
Balance in Repayment Account	1,126,785,244	1,114,572,531	12,212,713	The difference of Kshs. 12,212,713.00 caused by wrong figures submitted in the bank certificates of Langata and Tinderet whereas Kipkelion West amounts were inadvertently reported as those of Kipkelion East, whose balances had not been provided (nil balances). The corrected bank certificates and schedule of bank balances have been availed for audit review
Bank and Cash Balances	2,412,412,986	2,389,124,523	23,288,463	This was the total difference of the bank certificates for main, administration and repayment account caused by the changing bank balances. (436,783+10,638,967+12,212,713=23,288,463.00)
Current Liabilities	58,295,837.00	0	58,295,837.00	Ksh. 58,295,837.00 is the difference between the total Assets less Equity and Liabilities. (6,418,201,392 -

				6,359,905,555.00 = 58,295,837.00) Refer to page 2 statement of financial position The corrected bank balances received occasioned an increase in the current liabilities
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ii. Further the current liabilities balance of Kshs. 58,295, 837 as at 30 June, 2017 was not supported by any relevant documents. In view of the above unexplained movement/adjustments in the account balances the accuracy of the financial statement cannot under the circumstances be confirmed.

### **Management Response**

The Principal Secretary submitted that current liabilities of Kshs. 58,295,837 had been occasioned by an increase in the total assets (6,418,201,392) as compared with equity and liabilities (6,359,905,555) .

### *Committee's observation*

1. *The adjustments generated by the Fund were confirmed as unsatisfactory by the Auditor-General and the matter remains unresolved;*
2. *The item under Note 7 on Constituency Administrative costs were resolved after the variance of Kshs. 99,094,832 was satisfactorily explained and verified by the Auditor-General.*

## **2.0 Bank and Cash Balances**

**2.1** During the year under review, the Fund maintained bank accounts for each sub-county which were distributed over nine commercial banks and had bank balances amounting to Kshs. 1,475,308,695 as at 30<sup>th</sup> June, 2017, and as disclosed in Note 11 to the financial statements. However, the management did not prepare bank reconciliation statements for the sub county treasuries bank accounts.

### **Management Response**

The Principal Secretary submitted that the Fund maintains bank accounts for each sub-county which are distributed over nine commercial banks. Each of the 290 sub-county treasuries maintains 3 bank accounts totaling 870. It is expected for each of the sub county treasuries to prepare bank reconciliation for each of the bank accounts and dully file them.

She further submitted that the Fund operates on manual platform both at the headquarters and the sub county treasuries. The Fund depends on the services of the sub county accountants, some of whom serve in more than one sub county treasuries, for instance Nairobi County that is under one accountant serving 17 sub county treasuries.

At the time of audit review, the Fund was still receiving and compiling bank reconciliation reports from the 290 constituencies, each operating three bank accounts totaling to 870 bank accounts. The Fund had received 648 bank reconciliations statements and availed for audit review. The exercise is ongoing for the remaining 222 bank accounts.

The Fund had undertaken capacity building programmes for the sub county officers to enhance the Fund's operations and has further engaged with the National Treasury for timely submission of returns.

**Committee observation**

*Out of the eight hundred and seventy (870) bank accounts operated by the Fund, reconciliation of two hundred and twenty two (222) had not been finalized and therefore the matter remains unresolved.*

**2.2.** The following anomalies have also been noted with regard to bank and cash balances of Kshs. 1,412,412,986 as at 30 June 2017 as reflected in the statement of financial position and disclosed under Note 11 to the financial statements;

**i.** The main Co-operative Bank of Kenya account reconciliation statement reflects stale cheques totaling Kshs. 235, 038.00 some dating back as far as June 2014. No explanation has given this anomaly.

**Management Response**

The Principal Secretary submitted that the main Co-operative Bank account reconciliation statement reflected stale cheques totaling to Kshs 235,038.00.

This was due to release of statutory deductions which remained uncleared due to non-availability of NHIF and NSSF numbers of interns who were given time to register with the relevant bodies. However, by the time their contract elapsed, they had not finalized the registration process and could not be traced thereafter.

The amount also included cheques for Toyota, Africa hooper, Beatrice Makandi which had been released to respective payees but had not been presented to the bank for clearance. It figure also include a casting error of Kshs.211. The stale cheques were reversed on 28<sup>th</sup> September 2018 and the cashbook extract and FO 17 was availed for audit review(**Appendix 8**).

**Committee observation**

*As confirmed in the Cash Book, the stale cheques were reversed on 28<sup>th</sup> September, 2018 and the matter resolved as confirmed by the Auditor-General.*

**ii.** The Fund had three accounts in chase bank for Machakos constituency - Main Account, Loan Repayment Account and Administration Account with balances of Kshs. 2,834,972, Kshs. 6,220,652 and Kshs. 4,192 respectively, all totaling Kshs. 9,059,816 as of 30 June 2017. The total amount in these accounts as the end of the previous financial year was cash Kshs. 3,901,940. It is, therefore, apparent the management continued to transact with chase bank even after the institution was placed under statutory management by the Central Bank of Kenya on 7<sup>th</sup> April 2016 thereby increasing the risk of loss of



the funds. Recovery of these amounts is contingent upon the bank reverting to its normal operations.

### **Management Response**

The Principal Secretary submitted that the Fund had three accounts in Chase Bank for Machakos constituency with balances of Kshs. 2,834,972, Kshs. 6,220,652 and Kshs. 4,192 respectively, all totaling Kshs 9,059,816 as 30<sup>th</sup> June, 2017. The amount represents an increase of monies from Kshs 3,901,940 in the previous financial year. The bank was placed under statutory management by the Central Bank of Kenya on 7<sup>th</sup> April, 2016.

She further submitted that the Fund opened and operated the three bank accounts at Chase Bank since inception in 2014, vide the National Treasury authority REF: AG: 3/078/1 Vol. 2/4 dated 23<sup>rd</sup> May, 2014. The Fund thereafter sought direction immediately it learnt of the Chase Bank status and the National Treasury granted authority vide letter no. REF: AG: 3/078/1 Vol. 3/9 dated 25<sup>th</sup> August, 2016 to open three (3) bank accounts, close the existing ones and transfer balances from old to new accounts at Family Bank.

She also submitted that the Fund complied with all the instructions as provided vide letter no. MPSYG/SDGA/ADM/1/17 dated 1<sup>st</sup> September, 2016 and a letter dated 25<sup>th</sup> November, 2016 from Family Bank confirming opening of the three bank accounts. However, Chase Bank vide their letter no. Ref: CB/MACHA/JM/AM/120117/002 dated 12<sup>th</sup> January, 2017 could not close account numbers 0342099045003 and 0342099045001 as they were held under moratorium as per instructions from Central Bank of Kenya while it is only account no. 0342099045002 that could have the balances therein transferred.

The Fund further consulted with the National Treasury vide letter Ref: UWZ/FIN/5/19/ (46) dated 14<sup>th</sup> August, 2017 and were directed that the law applies uniformly to all depositors when a bank is put under receivership vide letter No. AG. 13/78/ Vol. 1/46 dated 18<sup>th</sup> August, 2017. The chronology of events above clearly shows that, as it may be observed, time was taken in entering in to correspondences in line with the PFM Act Section 28(1).

Meanwhile Central Bank of Kenya gave update on 30<sup>th</sup> March, 2017 stating the background of the chase bank receivership and progress so far made and promised to keep the interested stakeholders of various milestone.

The resultant increase in the deposits from Kshs. 3,901,940 to the current balance of Kshs. 9,059,816 is attributed to Loan Repayments. This is as a result of the lengthy process of obtaining relevant authorities and communicating the same as guided.

The Fund could neither close the accounts at Chase Bank nor advice the loan beneficiaries without having proper authorized alternative bank accounts in place.

The tabulated information below gives the breakdown of the net increase of Kshs. 5,157,876. The loan repayment account only had an increase of Kshs. 5,551,359.



RN.	F/Year	2015 - 2016	2016 - 2017	Increment
1	<b>Loan Repayment</b>	669,293	6,220,652	5,551,359
2	<b>Main</b>	3,082,647	2,834,972	(247,675)
3	<b>Administration</b>	150,000	4,192	(145,808)
	<b>Total</b>	<b>3,901,940</b>	<b>9,059,816</b>	<b>5,157,876</b>

The chronology of events above being guided by the PFM Act Section 28(1) and all those correspondences entered into thereafter, clearly shows that the management acted prudently. Correspondences, Bank statements are available for audit review.

Chase Bank was taken over by SBM Bank as a going concern assuming 75% of Assets and Liabilities of the Fund's interest while the remaining 25% was taken over by KDIC. The Fund is recognized as client No. 099045 by SBM Bank and provided a plan for accessing the funds.

All the three bank accounts at CBL were moved to SBM bank, a total of Kshs. 1,612,846 was taken over by KDIC as directed by the CBK, the SBM Bank placed a total of Kshs. 2,419,278 into a Fixed Deposit Account maturing yearly in 3 equal installments at an interest rate of 6.30%. At SBM Bank the Main bank account was used as a collecting account where funds from Administration and Loan Repayment accounts were transferred into. A consolidated amount of Kshs. 3,714,112.65 was moved into the Main account resulting into a total of Kshs. 5,055,835.65 which was finally transferred to KCB Main account and available for utilization by the constituency.

#### **Committee observation**

*Although the resultant increase in the deposits in Chase Bank for Machakos Constituency from Kshs. 3,901,940 as at 30 June 2016 to Kshs. 9,064,216 as at 30 June 2017 is attributable to Loan repayment Account, which increased by Kshs. 5,551,359 while the two accounts, Main and Administration balances reduced by a total of Kshs. 393,483, it is apparent that the management continued to transact with Chase Bank even after the institution was placed under statutory management. The continued transaction with the bank increases the risks of loss of the funds and recovery until the bank resumes normal business. The matter remains unresolved.*

**iii.** Board of survey certificates as at 30<sup>th</sup> June, 2017 and cash books for the nine sub counties treasuries bank accounts were not provided for audit examination.

#### **Management Response**

The Principal Secretary submitted that the Fund had not received board of survey certificates and cash books for the period ending 30<sup>th</sup> June, 2017 for the nine sub counties treasuries bank accounts. The Fund operates 3 cash books for each of the 290 constituencies totaling 870, out of this, 426 boards of survey reports and 492 cashbooks have been compiled. The activity is ongoing to ensure all reports are presented for audit review. The Fund has continued carrying out capacity building to the sub county personnel and also requesting for support from the National Treasury.



**Committee observation**

*Out of the eight hundred and seventy accounts (870), only four hundred and twenty six (462) accounts have been supported by Board of survey reports. Further, out of the eight hundred and seventy accounts only four hundred and ninety two have been supported by cashbooks. In view of the above, the matter remains unresolved.*

**iv.** The bank and cash balances of Kshs. 2,412,412,986 as at 30th June, 2017 included a balance of cash Kshs. 52,785,423 claimed to be amounts transferred to constituencies and which remained unutilized and cash in transit balance of Kshs. 175,500,000 as disclosed under note 7 to the financial statements. However, the balances of Kshs. 52,785,423 and Kshs. 175,500,000 were not supported by any relevant and verifiable documents. Consequently, the validity and existence of the amounts as at 30 June 2017 cannot be confirmed.

**Management Response**

The Principal Secretary submitted that the bank and cash balances of Kshs. 2,412,412,986 as at 30<sup>th</sup> June, 2017 included a balance of Kshs. 52,785,423 being amounts transferred to constituencies which remained unutilized. This amount had been disbursed to the respective constituencies for use on administrative activities.

The Fund is guided by Section 9 of the Public Finance Management (Uwezo Fund) Regulations, 2014 that directs that any amounts remaining in the constituencies' bank accounts at the end of every financial year should be rolled over to the subsequent financial year for the intended purpose. The amounts are supported by the bank certificates of balances for the 290 constituency administration accounts all totaled to Kshs. 52,785,423 and were availed for audit review.

She also submitted that disbursement of Kshs. 175,500,000 to the 290 constituencies was similarly for administrative purposes. The AIEs had been prepared prior to 30<sup>th</sup> June 2017 and the funds were disbursed in the year 2017/2018. AIEs schedule together with their respective copies totaling Kshs. 175,500,000 and bank certificate were available for review.

**Committee observation**

*Out of the amounts transferred to constituencies and which remained unutilized of Kshs. 52,785,423, only Kshs. 20,334,717 had been supported by cashbook and bank balance certificates which were reviewed and the issue partly resolved as confirmed by the Auditor-General.*

**v.** Bank balances schedules for some constituencies provided for audit had unexplained nil balances while related bank certificates reflected the following balances:

<b>Name of Constituency</b>	<b>Main account (Kshs.)</b>	<b>Administrative Account (Kshs.)</b>	<b>Repayment Account (Kshs.)</b>	<b>Total (Kshs.)</b>
Langata	443,851	242,235	2,706,376.05	3,392,462
Tinderet	659,926	4,570	5,489,665.00	6,153,861



Kipkelion West	57,246	5,595	5,576,787.00	5,639,628
Mwatate			4,419,060.00	4,419,060
<b>Total</b>	<b>1,160,723</b>	<b>252,400</b>	<b>18,191,888.00</b>	<b>19,605,011</b>

### **Management Response**

The Principal Secretary submitted that the Fund received certificates of bank balances with nil balances as given by the respective banks. The Fund requested to be given explanations for the unique nil balances for a number of bank accounts. These nil balances were found to be erroneous and the banks provided corrected certificates of bank balances after the financial statements had already been prepared. However, the corrections were captured in the amended financial statements which have been presented for audit review.

### **Committee observation**

*The stated position of erroneous certificates of bank balances with nil balances being received from the respective banks and corrected certificates provided by the banks were not supported and therefore the matter remains unresolved.*

**vi.** The balances confirmed by the bank for Kipkelion East were different from the amount used in the preparation of the financial statements.

### **Management Response**

The Principal Secretary submitted that at the time of filing the initial report, the Fund had received balances for Kipkelion West Constituency and was yet to receive those for Kipkelion East. The balances for Kipkelion West were inadvertently reported as Kipkelion East. The error was corrected in the amended accounts.

<b>Details</b>	<b>Main Kshs.</b>	<b>Admin Kshs.</b>	<b>Repayment Kshs.</b>	<b>Total Kshs.</b>
Balances per financial statements in (Kshs.)	57,246	5,797	5,576,787	5,639,830
Balance as bank certificate in (Kshs.)	3,865,906	181,595	4,029,869	8,077,370
Unexplained difference in Kshs.	(3,808,660)	(175,798)	1,546,918	1,546,918

The Fund, vide letter Ref: UWZ/FIN/5/10/1/ (132) dated 29<sup>th</sup> August 2017 for balances of those accounts with nil balances amongst them was Kipkelion East which was received. The amended financial report and corrected Schedule of bank balances were availed for review.

### **Committee observation**

*The error of interchanging Kipkelion East and Kipkelion West constituencies' bank balances has been corrected in the bank balances schedule. The error had*

*no effect on the financial statement balances. The matter has been resolved as confirmed by the Auditor-General.*

### **3. Loans to Groups**

The statement of financial position as at 30 June, 2017 reflects outstanding loans to groups of Kshs. 3,931,876,732. As disclosed in Note 9 to the financial statements, the figure has been derived by taking the initial National Government capital grant amount of Kshs. 5,854,400,004 and netting off the amount of monies presumably held in the CBK and main bank accounts amounting to Kshs. 795,738,028 and loan monies held in the repayment account amounting to Kshs. 1,126,785,244 all of which were not supported.

Further, there were no debtors' ledgers detailing loans issued by the Fund since inception and repayments made over the years on account of any loan's recovery. There were also no comprehensive loan listings and/or aging analysis in support of outstanding loans.

Consequently, the accuracy, validity and recoverability of the group's loans balance of Kshs. 3,931,876,732 cannot be confirmed.

### **Management Response**

The Principal Secretary submitted that outstanding loans to constituencies of Kshs. 3,931,876,732 was supported by disbursements of Kshs. 5,854,400,004 that were sent to constituencies through the main account less balance in CBK bank account of Ksh. 500,000,000 and balance in the main account of Kshs. 295,738,028.00 and loan repayment bank balances amounting to Kshs. 1,126,785,244.00 both of them are supported by certificates of bank balances as at 30<sup>th</sup> June, 2017.

Given that the loans are managed at the Constituencies, the detailed listing to support the loan balances for each constituency groups had not been received due to the fact that the Fund operates manually both at the headquarters and Sub County Treasuries. The Fund had received debtors' ledgers from constituencies and the balance in the ledger was Kshs. 4,029,153,691.00. The difference between the Kshs. 4,029,153,691.00 and Kshs. 3,931,876,732.00 is as a result of unissued amounts of approved loans that had not been released by the constituencies.

She further submitted that Debtor ledgers indicating the respective loan beneficiaries (groups) and the expected dates for full repayment were available for audit review. The challenge of getting debtors' ledger returns from the constituencies is occasioned by delay in submitting reports. The Fund had requested the National treasury to designate accountants to manage the Fund's operations at the sub county treasuries.

To enhance recovery, the Fund had involved the services of the National Government Administrative Officers, training of CUFMCs and conducting intensive loan recovery campaigns.

### **Committee observation**

- i) *The monies held in CBK and other main bank accounts of Kshs. 795,738,028 and loan monies held in the Repayment Account of Kshs.*



- 1,126,785,244 which have been used to compute the loans to groups balance of Kshs. 3,931,876,732 had support documents;
- ii) The schedule submitted with Constituencies' allocations, disbursements, repayments and loan balances was not supported with debtors' ledgers and therefore it was not verifiable;
  - iii) The Fund did not provide a comprehensive loan listings and/or aging analysis in support of outstanding loans; and
  - iv) Lack of critical documents on disbursed loans makes recoverability of the groups' loans balance of Kshs. 3,391,876,732 doubtful.

#### **4. Work - in - Progress**

The statement of financial position reflects under current assets work-in-progress amounting to Kshs. 19,522,765. As disclosed in Note 10 to the financial statements, the amount represents 40% part payment in respect of Enterprise Resource Planning (ERP) software procured and contracted for in the year 2015/2016. The supply, installation and commissioning of the software is yet to be made even though 40% part payment was made over two years ago.

Information available for audit indicates that the implementation of the ERP which was contracted at a sum of Kshs. 48,806,912 has been called off even though there is a valid contract between the fund and the supplier. Further the recoverability and utilization of the part Payment of Kshs. 19,522,765 is doubtful given that the fund management appears to have stopped the implementation of the software. The value for money received by the fund in respect of the software cannot under the circumstances be ascertained.

Further, contrary to the requirements of International Public Sector Accounting Standard (IPSAS) No. 31- Intangible Assets, the cost of the ERP software has been treated as work-In-Progress and classified under current assets instead of non-current assets. No justification has been provided for this accounting treatment.

The validity, existence and accuracy of work-In-Progress balance of Kshs. 19,522,765 cannot, therefore be confirmed.

#### **Management Response**

The Principal Secretary submitted that the statement of financial position reflects under current assets work-in-progress amounting to Kshs. 19,522,765 which represents 40% of the contract sum and part payment in respect of Enterprise Resource Planning (ERP) software procured and contracted in the year 2015/2016.

This payment was proper in honoring the Fund's contractual obligation vide paragraph 1.6.1 of the contract terms spelt in Tender no. UWZ/RFP/040/2014/2015. Further, it is noted that the contract had not been terminated as it was to run for 24 months. At the end of the financial year, the supplier had done a functional requirement design yet to deliver the software for testing, the works was still ongoing and may not have met the criteria of recognition as intangible asset as per **IPSAS 31 Intangible Assets**. The guideline provides for recognition of intangible asset as **"if it is probable that**



***the future economic benefits or service potential that are attributable to the asset will flow to the entity and that the costs or fair value of the asset can be measured reliably”.***

The Fund is in consultation with the concerned government Ministries/ Departments to have the issue be brought to a logical conclusion.

#### **Committee observation**

- i) The supply, installation and commission of the ERP system costing Kshs. 48,806,912 become effective upon contract signing on 19 October 2015 commencing within 30 days thereafter and a contract period of 24 months which has not been signed upto date;*
- ii) The implementation of the ERP software seems to have been called off, and there exists a valid contract between the Fund and the consultant.*
- iii) The recoverability and utilization of the part payment of Kshs. 19,522,765 remains doubtful given that the implementation appears to have stopped and the project period has lapsed;*
- iv) The value for money received by the Fund in respect of the project cannot be ascertained.*

#### **5. Constituencies administration Costs**

The statement of financial performance of the year ended 30 June 2017 reflects administration costs – transfers to constituencies’ figure of Kshs. 131,036,007 which was not supported by any documentary evidence. As disclosed in Note 7 to the financial statements, the figure has been derived after taking into account unsupported opening balance figure of Kshs. 46,121,430 and transfers during the current year of Kshs. 313,200,000, respectively and reducing the total amount with the unsupported utilized funds – bank balance of Kshs. 52,785,423 and cash in transit balance of Kshs. 175,500,000 respectively.

Under the circumstances, it has been not possible to verify and confirm the accuracy of administration costs – transfer to constituencies figure of Kshs. 131,036,007 of the year ended 30 June 2017.

#### **Management Response**

The Principal Secretary submitted that transfers to constituencies figure of Kshs. 131,036,007 had been derived by taking the transfers during the current year of Kshs. 313,200,000 adding to the opening figure of Kshs. 46,121,430 and reducing it with the balances of unutilized funds final figure of Kshs. 52,785,423 and cash in transit balance of Kshs. 175,500,000 (Kshs. 131,036,007 = 313,200,000 + 46,121,430 - 52,785,423 - 175,500,000).

The opening balance of Kshs. 46,121,430 is supported by closing balance of audited financial statements for 2015/2016 financial year which formed opening balance for the year under review. This figure is further supported by bank certificates of balance. The unutilized funds of Kshs. 52,785,423 are supported by bank certificates of balance for Administration accounts for all the 290 constituencies as at 30<sup>th</sup> June, 2017.

Cash in transit of Kshs. 175,500,000 is supported by certificates of bank balance and bank reconciliation statements of the headquarters' bank account. The funding for AIEs totaling Kshs. 175,500,000 had not left the headquarters' bank account by the closure of the year under review. Transfers to constituencies figure of Kshs. 131,036,007 is further supported by expenditure returns that are submitted by the sub county treasuries.

At the time of audit examination not all had been received due to delay by the constituencies in submission of returns.

The Fund has been undertaking capacity building of sub county accountants and youth officers to understand the Fund's operations. Further the Fund has requested the National Treasury to designate accountants to handle the Fund's activities at the sub county treasuries to ensure efficiency in its operations.

#### **Committee observation**

- i) *The Fund did not submit support documents such as expenditure returns from the Constituencies for Administration costs figure of Kshs. 131,036,007. Also, the opening balance of Kshs. 46,121,430 and the unutilized funds bank balance of Kshs. 52,785,423 were not supported, hence the matter is unresolved;*
- ii) *The Fund was able to submit the requisite support documents, including approved list of AIEs for cash in transit balance of Kshs. 175,500,000 for audit review and the matter resolved..*

#### **6. Outstanding Imprests**

The financial statements of the year ended 30<sup>th</sup> June, 2017 at Note 12 shows outstanding staff imprests balance of Kshs. 5,385,476. However, the imprests register was not provided for audit review and imprests totaling Kshs. 807,760 were issued to persons whose details, personal numbers and job groups were not indicated in the imprests schedule.

In addition, a total of Kshs. 1,176,998 was in respect to officers who have already left the service making recovery doubtful. No provision for impairment of the same has been included in these financial statements.

Under the circumstances, it has not been possible to verify and confirm whether the balance of Kshs. 5,385,476 as to 30 June 2017 is fairly stated.

#### **Management Response**

The Principal Secretary submitted that the financial statements for the year ended 30<sup>th</sup> June, 2017 show outstanding imprest balances of Kshs. 5,385,476. The Fund has recovered a total of Kshs. 4,653,284.40 leaving a balance of Kshs. 677,792.00 that is still owing. The fund has confirmed that the officers are still in service.

The recovery letters were done to the concerned accounting officers. Copies of the vouchers, F017 and bank statements were availed for audit review.



### **Committee observations**

- i) *The imprests totaling to Kshs. 807,760 was issued to officers whose details were not provided for verification;*
- ii) *Some officer with outstanding imprests have since left the service and no evidence provided to confirm that the recovery letters dated 7 March 2019 had been sent to the Accounting Officers for recovery of imprest from officers who had left the Fund;*
- iii) *The recovery of Kshs. 4,653,284.40 out of the balance of Kshs. 5,385,476 has been confirmed and outstanding imprest balance of Kshs. 732,191.60 remains unrecovered and therefore unresolved.*

### **7. Non – Disclosure of Contribution in Kind of staff compensation**

The fund has thirty-two officers working on a fulltime basis drawn from various ministries and who continues to draw their salaries from their parent ministries. The financial statements of the fund have however, not taken into account the donation or contribution in kind received from the ministries in form staff salaries of Kshs. 27,180,516 from the financial year ended 30 June 2017.

#### **Management Response**

The Principal Secretary submitted that the Fund has 32 staff working full time and drawn from various Ministries. The Fund benefitted from their services in form of staff salaries of Kshs. 27,180,516. This was disclosed under note 4 in line with IPSAS 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) that states ***“an entity may, but not required to, recognize services in-kind as revenue and as an asset. An entity shall disclose either on the face of, or in the notes to, the general-purpose financial statements”***(Appendix 19).

#### **Committee observation**

*The matter has been resolved as confirmed by the Auditor-General.*

### **8. Board of Directors - Composition and Meetings**

Out of seven directors who served in the Board of the Fund during the year under review, five were independent non-executive and four of the seven ceased being directors on 28<sup>th</sup> February 2017. There has been no replacement or extension of their terms which could easily impact on the strategic decision making of the Fund. Further, the Board held only three full board meetings contrary to the Code of Governance for State Corporations, 2015 which requires the Board of Directors to hold a minimum of four meetings.

#### **Management Response**

The Principal Secretary submitted that the seven directors who served the board during the year under review four ceased being directors on 28<sup>th</sup> February, 2017. The Fund started the process of replacement or/and extension just before the expiry of the board members' respective term, it is noted that by the closure of the financial year it had not been finalized.

She further submitted that the Board had only three meetings as opposed to four due lack of quorum. As correctly observed above, the term of most



members had expired. However, an additional director was appointed to the Board on 24<sup>th</sup> July, 2017 making a quorum for Board operations (**Appendix 20**).

**Committee observation**

- i) *There had been no replacement or extension of the Directors' terms as at 30 June 2017;*
- ii) *An additional Director was appointed to the Board on 24<sup>th</sup> July, 2017 and this could easily impact on the strategic decision making of the Fund during the year under review;*
- iii) *Only three full board meetings were held in the year contrary to the Code of Governance for State Corporations, 2015; and*
- iv) *The matter remains unresolved.*

**MIN.NO./NA./SFAC/2019/156 - WOMEN ENTERPRISE FUND FOR YEAR ENDED 30<sup>TH</sup> JUNE, 2018**

**1.0 Receivables from Exchange Transactions**

**1.1 Loss of Funds**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position includes an amount of Kshs. 24,625,450 due from nineteen (19) constituencies but claimed to have been misappropriated by the employees. Further, the amount includes Kshs. 21,170,000 due from twenty constituencies misappropriated by employees in previous financial years. No provision had however, been made in the financial statements in respect of the above losses nor any recoveries made as at 30 June 2018.

**Management Response**

The Principal Secretary submitted that the Fund had taken action against the implicated staff by terminating their services, recovering the amounts due from their terminal dues. Further management has engaged the Directorate of Criminal Investigations for investigations to be carried out and recoveries done for the misappropriated funds. Arising from these actions, Kshs. 1,072,116 has been recovered leaving a balance of Kshs. 23,553,334 (Appendix I).

On the issue of provisioning, section h of the Fund's accounting policy provides for a general provision of 1%. The review of the accounting policy will be considered in the current Financial Year in order to provide for specific losses.

**Committee observation**

*Out of Kshs. 24,625,450 due from nineteen (19) Constituencies due to misappropriation by the employees, only Kshs. 1,072,116 has been indicated as having been recovered leaving a balance of Kshs. 23,553,334. However, the recoveries could not be confirmed since they were not supported with relevant documents except for Kshs. 150,000. The query remains unresolved.*

**1.2 Non-performing Financial Intermediaries Loans**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 in the statement of financial position as at 30 June 2018 includes non-

performing loans totaling Kshs. 83,248,508 due from financial intermediary partners. Any provision that would have been necessary in relation to this had not been incorporated in the financial statements.

### **Management Response**

The Principal Secretary submitted that the Fund disbursed Kshs. 1,841,830,000 to 163,380 beneficiaries through 110 institutions between 2007 and 2014. It is noted that out of Kshs. 1.84 Billion disbursed under Financial Intermediaries Channel Kshs. 83,284,508 was outstanding with 14 institutions as reported in 2017/2018 financial year.

Of the 14 Financial Intermediaries with outstanding balance of Kshs. 83,284,508, Six (6) of them have fully paid their loans amounting to Kshs. 11,469,214 as at 30<sup>th</sup> June, 2019, leaving eight(8) Financial Intermediaries with loan balances totaling to Kshs. 71,815,294 (Appendix II). The Fund was allowed to institute legal proceedings against the three defaulters which process is underway. Further, the Fund engaged 4 auctioneers to facilitate disposal of the properties secured by the other defaulting Intermediaries (Appendix II).

On the issue of provisioning, section h of the Fund's accounting policy provides for a general provision of 1%. The review of the accounting policy will be considered in the current Financial Year in order to provide for specific losses.

### **Committee observation**

*Out of the 14 Financial Intermediaries (FIs) with outstanding balance of Kshs. 83,284,508 as at 30 June, 2017, six (6) have fully paid their loans amounting to Kshs. 11,649,916 as at 30 June, 2019.*

*The other eight (8) FIs have outstanding loan balances totaling to Kshs. 71,815,294 which remain unrecovered and therefore the matter is unresolved.*

### **1.3 Doubtful Recovery of LPO Financing and CWEs Loans**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 further includes loans relating to LPO Financing of Kshs. 11,386,677 which were due but not paid as at 30 June 2018. This amount has however increased from Kshs. 7,440,277 reported in 2016/2017 financial year. Also included in the receivables from exchange transaction balance of Kshs. 2,836,891,724 is an amount of Kshs. 855,933,915 due from Constituency Women Enterprise Scheme (CWES) which had been outstanding for more than one year and out of which an amount of Kshs. 61,796,082 had zero repayments amounts during the year under review. Recoverability of these loans is doubtful since they had been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances is clearly doubtful, the provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover any potentially irrecoverable amounts and contrary to the WEF Credit Policy and Guidelines.



## **Management Response**

The Principal Secretary submitted that since the roll out of the LPO Financing product in 2015, the Fund has disbursed a total of Kshs. 64,869,050 benefiting 109 women entrepreneurs. Out of these amounts, Kshs. 48,490,247 has been repaid promptly. Whereas there was an increase in the amounts due from the LPO/LSO loans from Kshs. 7,440,277 to Kshs. 11,386,677 as reported in 2017/2018 financial year.

She further submitted that all the defaulters had been issued with demand letters as well as listed with Credit Reference Bureau (CRB). The Fund had conducted physical visits to the respective Procuring entity's offices to confirm whether the LPOs had been serviced or not, and make follow up for the payment of defaulted amounts. As a result of these efforts, fourteen (14) clients in liaison with the respective procuring entities have responded and paid a total of Kshs. 5,503,874 in FY 2018/2019 leaving a balance of Kshs. 5,882,803.

Further, the Fund had instituted legal suits to recover the outstanding amounts and has also engaged auctioneers to repossess and dispose the securities provided.

### **Committee observation**

- i) There was an increase in the amounts due from the LPO/LSO loans from Kshs. 7,440,277 to Kshs. 11,386,677 in financial year 2017/18;*
- ii) Fourteen (14) clients had paid a total of Kshs. 5,503,874 in financial year 2018/19 leaving a balance of Kshs. 5,882,803 unrecovered; and*
- iii) the matter remains unresolved.*

She further submitted on Status of CWES Zero Repayments Amounts of Kshs. 61,796,082, Women Enterprise Fund had disbursed a total of Kshs. 13,927,891,830 to Kshs. 1,481,569 beneficiaries since inception. From this cumulative disbursement, a total of Kshs. 855,933,915 had been outstanding for more than one year with Kshs. 61,796,082 having zero repayments.

The Fund is engaged in aggressive recovery strategies deploying recovery teams strategically in low repayment areas, working closely with key stakeholders like the chiefs and Ward administrators. A dedicated debt recovery unit has also been created within the credit department. These efforts have resulted in the reduction of the Zero repayment amount from Kshs. 61,796,082 to Kshs. 50,370,500 as at 30<sup>th</sup> June, 2019 (Appendix IV).

Out of 668 zero repayment accounts with amounts of Kshs. 50,370,500 outstanding for more than one year are as a result of the following reasons:

- Disintegration and internal wrangles in groups after officials and a few members share the loan proceeds without knowledge of the entire group. The Fund has been pursuing the implicated groups through various mechanisms e.g. convening meetings through chief sermons, field recoveries among others.
- Other zero repayment accounts are due to unforeseen calamities e.g. Droughts, Floods, Fires hence prompting the Fund to reschedule the loans after loss of business.



- Urban to Rural migration as well as insecurity leading to displacement of the borrowers.
- Public perception that the loans given are grants from Government hence lack of commitment in servicing the facilities, however the Fund has been carrying out sensitization campaigns besides pursuing repayment of the loans by the defaulters.

**Committee observation**

- i) *An amount of Kshs. 855,933,915 was due from CWEs as at 30 June 2018 which had reduced to Kshs.834, 270,065 as at 30 June 2019. However, this have been outstanding for more than one year and although the zero repayments amounts in the CWEs loans have reduced from Kshs. 61,796,082 as at 30 June 2018 to Kshs. 50,370,500 as at 30 June 2019. The matter remains unresolved;*
- ii) *The provision made of 1% for all loans to recognize the inherent credit risk appears to be inadequate to cover the potentially irrecoverable amounts and contrary to the WEF Credit Policy and Guidelines.*

**1.4 Outstanding Imprest and Advances**

The receivables from exchange transactions balance of Kshs. 2,832,405,516 include a balance of outstanding imprests of Kshs. 508,240 and advances of Kshs. 1,244,434. Outstanding imprests of Kshs. 368,700 ought to have been surrendered or otherwise accounted for on or before 30 June 2018 in accordance with Section 93 of the Public Finance Management ( National Government) Regulations, 2015 and the accounting officer had not recovered the outstanding imprest from the defaulting officers' salaries with an interest, therefore breaching the regulations on imprests.

Also, included in the advances balance of Kshs. 1,244,434 includes an amount of Kshs. 98,000 outstanding from officers who had left the Fund making recovery of the outstanding amounts doubtful. No explanation was provided for these anomalies.

In view of the foregoing, the accuracy, completeness and full recoverability of the balance of Kshs. 2,832,405,516 under receivable from exchange transactions as at 30 June 2018 could not be confirmed.

**Management Response**

The Principal Secretary submitted that out of the outstanding imprest of Kshs. 508,240, a total of Kshs. 490,240.00 has been fully accounted for leaving out a balance of Kshs. 18,000 which owes on an officer who undertook the exercise but resigned before submitting the surrender documents. Follow up on recovery of the balance is on course.

Further, out of an amount of Kshs. 98,000 in advances owing from officers who have either left the Fund or have been suspended, a total of Kshs. 52,500 have been accounted for while another Kshs. 45,500 owing from suspended officers will be recovered from their final dues once their matters are concluded.

**Committee observation**

*The outstanding imprests had been recovered except for Kshs. 18,000 from an officer who has since left the country.*

**2.0 Employee Costs**

The statement of financial performance reflects an amount of Kshs. 182,443,959 in respect of employee costs. This includes an expenditure on acting allowances amounting of Kshs. 424,035 paid to two (2) officers who were appointed on acting capacity on 1 December 2015 for a renewable period of six (6) months. These officers however acted for more than six months contrary to Human Resource Policies and Procedures and Women Enterprise Fund Human Resource Policy.

**Management Response**

The Principal Secretary submitted that section 4.2.6 of the WEF Human Resource Policy, Acting Allowance should be for a maximum period of six months. The error was occasioned in the wording of the letters that renewed the acting appointments after the lapse of the six months for the two officers.

However, the letters have been recalled for corrective action and new letters that accurately capture the nature of the appointments and the allowances payable have been issued (Appendix VI). With the correction of the letters, we confirm therefore that the monies paid were justifiable.

She further submitted that the Fund had planned to formally recruit for the two positions in December 2017 but this was overtaken by the circular from the Head of Public Service directing the Fund not to recruit nor replace any vacant position until the merger process is concluded and this is the reason why they are still acting.

**Committee observation**

*Two officers appointed on acting capacities on 1 December 2015 got paid acting allowances amounting to Kshs. 424,035 during the year under review. This was contrary to HR Policies and WEF HR Policy.*

**3.0 Employee Benefit Obligation Gratuity**

The employee benefit obligation/gratuity liability of Kshs. 24,751,873 as reflected in the statement of financial position. However, the opening balance of Kshs. 15,310,323 was not supported. As a consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 24,751,873 as at 30 June 2018 could not be ascertained.

**Management Response**

The Principal Secretary submitted that relevant schedule for opening balances employee benefit obligation/gratuity of Kshs. 15,310,323 has been provided.

**Committee observation**

*The relevant schedule for the opening balance of employee gratuity of Kshs. 15,310,323 has been provided and confirmed. The matter has been resolved.*



## **Other Matters**

### **1. Financial Performance**

The Fund's financial performance continued to deteriorate during the year from a loss of Kshs. 12,043,444 in 2016/2017 to a loss of Kshs. 56,554,343 in 2017/2018. The accumulated surplus for the Fund continued to be depleted having decreased from Kshs. 508,233,689 in 2016/2017 to Kshs. 451,679,346 in 2017/2018. Although the management has indicated that it is engaging with the parent Ministry and the National Treasury for funding of the Fund's operations, this has not yielded any results to date.

#### **Management Response**

The Fund reported an increased deficit of Kshs. 56,554,343 compared to the previous FY owing to increased administrative and operational costs attributable to expansion to 8 new regional offices meant to increase efficiency and to reduce the turnaround time for the loan disbursement. The Fund has continuously engaged the parent Ministry and The National Treasury for increased allocation to Fund operations and as a result the recurrent allocation was increased from Kshs. 115,222,500 in 2017/18 FY to Kshs. 206,222,500 in the 2018/2019 Financial Year.(Appendix VIII).

#### **Committee observation**

*The Fund's recurrent allocation increased from Kshs. 115,222,500 in FY 2016/17 to Kshs. 206,222,500 in the FYs 2017/18 and 2018/19. The matter remains unresolved.*

### **2. Use of invalid documents from suppliers during procurement process**

The Fund paid a supplier an amount of Kshs. 311,568 for supply and delivery of goods. Examination of attached documents in support of the payment revealed that the supplier had a certificate of registration dated 30 December 2013 and the same expired on 30 December 2015. It has not been explained how a firm with an expired registration certificate was included in the list of pre-qualified firms and contracted to supply.

Consequently, the validity of this expenditure could not be confirmed.

#### **Management Response**

Prequalification for the 2017-2019 FY suppliers was done in April 2017. At the time of prequalification, Rackercy Agencies had a valid certificate under the AGPO category. We also confirmed that the firm had a valid AGPO certificate at the time of the payment of payment of Kshs. 311,568, and certified ourselves that they continued to operate in good standing.

#### **Committee observation**

*It has been confirmed that the supplier, Rackercy Agencies has provided a valid certificate dated 4 July 2017 for a period of two years and therefore the matter has been resolved.*

### **3. Undisclosed Pending Bill on Insurance**

Examination of records held by the Fund showed a payment of Kshs. 214,868 to an insurance service provider, on behalf of the Fund's staff. Review of the



invoices in support of the expenditure showed that some staff received medical services in the financial year 2014/2015. This insurance bill was not included in the list of outstanding accounts payables for the previous financial years. This is contrary to the accrual basis of recognition and accounting for prior period adjustments.

The payment of Kshs. 214,868 relate to insurance bill for the period 2014/2015 FY that had not previously been brought to our attention and therefore was not included as a pending bill in the previous financial years. The bill was indeed certified as a genuine and regular, owing from the Fund. The bill was accommodated/paid within the budgeted expenditure for the year. (Appendix X).

***Committee observation***

*The documents in respect to the payments were provided for verification and therefore the matter has been resolved.*

**4.0 Progress on follow up of auditor recommendations for the financial year 2016/2017.**

The following issues raised in the audit report for the financial year 2016/2017 were yet to be resolved.

**4.1 Remuneration of Directors**

(a) The Fund had a budgetary provision of Kshs. 6,852,000 on remuneration of directors but spent Kshs. 10,486,000 during the year 2016/2017 on the item resulting in an over expenditure of Kshs. 3,634,401 (53%). However, authority for reallocation of funds from other items to remuneration of directors or in support of the over-expenditure was not provided for audit examination.

(b) The remuneration of directors' expenditure of Kshs. 10,486,400 included an amount Kshs. 960,000 paid to board members as sitting allowances for undertaking normal operational activities of approval loans to various groups. The expenditure also included an amount of Kshs. 1,107,200 paid to non-board members as sitting allowances for being in attendance of various board committee meetings.

The propriety of expenditure totaling Kshs. 2,067,200 in respect of these allowances could not therefore be confirmed under the circumstances.

(c) Although the board had an approved annual calendar of meetings with five (5) scheduled full board meetings and twenty-five (25) scheduled committee meetings for the financial year 2016/2017, eighteen (18) full board meetings and fifty (50) committee meetings were held during the year. The board did not therefore adhere to the corporate plan and consequently subjected the Fund to unbudgeted expenditure of Kshs. 3,634,401 on remuneration of directors.

## Management Response

The Principal Secretary submitted that:

- a) The actual over expenditure was Kshs. 2,994,000 and not Kshs. 3,634,400 as per the report. The difference of Kshs. 640,000 relates to the Chair's honoraria which was budgeted for and paid for separately. The oversight in seeking reallocation of the Kshs. 2,994,000 to cater for the increases expenditure is noted and is regrettable. I however wish to report that the over expenditure was accommodated within the Fund's recurrent budget for the year.
- b) As a strategy to reduce the turnaround time of loan applications, the Advisory Board sitting on 27<sup>th</sup> June, 2013 mandated the Loans committee to sit on a need basis to consider and approve loan requests. Other sittings that were not in the board calendar relates to instances where the board sat to consider recruitment matters which included shortlisting and interview positions are required in the HR terms and conditions of service.
- c) A total of Kshs. 580,000 and not Kshs. 1,107,200 was paid to experts who were co-opted by the board through official invitation to offer expert advice on certain specialized areas. The experts were paid at the same rate as the board members. The entire expenditure was incurred for the budgeted purposes. (Appendix I)

The HR terms and conditions of service give the responsibility of the recruitment for managerial positions to the advisory Board. As such the additional meetings were necessary in the fulfillment of that requirement (Appendix I).

### Committee observation

- i) *The Fund did not produce no evidence of authority given for reallocation of funds from other items to remuneration of Directors or in support of the over expenditure. Therefore the matter remains unresolved;*
- ii) *The remuneration of Directors' expenditure of Kshs. 10,486,400 included an amount of Kshs. 960,000 paid to Board Members as sitting allowances for undertaking normal operational activities of approving loans;*
- iii) *The expenditure also included an amount of Kshs. 1,107,200 paid to Non-Board Members as sitting allowances for being in attendance of various board committee meetings. The matter remains unresolved; and*
- iv) *The Board did not adhere to the corporate plan (approved annual calendar of meetings) and consequently subjected the Fund to unbudgeted expenditure of Kshs. 3,634,401 on remuneration of Directors.*

## 4.2 Receivables from Exchange Transactions

### (i) Loss of Funds

The receivables from exchange transactions balance of Kshs. 2,323,541,431 included an amount of Kshs. 21,170,000 due from twenty constituencies but claimed to have been misappropriated by the employees. The amount also included Kshs. 3,100,000 and Kshs. 6,300,000 due from Kwanza Constituency and Kisumu County respectively, which were misappropriated

by employee I 2015/16 financial year. No provision had however been made in the financial statements in respect of the above losses.

**(ii) Non-performing Financial Intermediaries Loans**

The receivables from exchange transactions balance of Kshs. 2,323,541,431 included non-performing loans totaling Kshs. 106,618,100 due from financial intermediary partners. Any provision that would be necessary in relation to this uncertainty has not been incorporated in the financial statements.

**(iii) Doubtful Recovery of LPO Financing and CWEs Loans**

The receivables from exchange transactions balance of Kshs. 2,323,541,431 further included loans relating to LPO financing of Kshs. 7,440,277 which were due and not paid as at 30 June 2017 and Constituency Women Enterprise Schemes (CWEs) of Kshs. 65,135,500 with no repayments recorded during the year under review. Recoverability of these loans is doubtful since they have been in arrears for periods that are longer than the repayment periods stipulated in the loan agreements. Although the recovery of these loan balances was clearly doubtful, no provisions were made against them in the financial statements.

**Committee observation**

The issues under paragraphs 4.2 (i) to (iii) were raised in the previous financial year hence current status is as responded.

**4.2 (iv) Unsupported Opening Balances**

The opening balances of LPO financing and pikipiki loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were not analyzed and therefore it was not possible to verify and confirm those balances as reflected in the financial statements.

**Management Response:**

The relevant schedules for opening balances of LPO financing and pikipiki loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively have been provided.

**Committee observation**

*The relevant schedules for opening balances of LPO financing and Pikipiki loans of Kshs. 5,302,714 and Kshs. 2,126,445 respectively were provided and confirmed as correct and therefore the matter resolved.*

**4.2 (v) Outstanding Imprests**

The receivables from exchange transactions balances of Kshs. 2,323,541,431.00 includes outstanding imprest of Kshs. 1,321,459.00 which ought to have been surrendered or otherwise accounted for on or before 30 June 2017 in accordance with section 93 of Public Finance Management Regulations (PFM) 2015. In addition, during the year, various officers were issued with multiple imprests amounting to Kshs. 4,975, 780.00 all before the previous issued to them surrendered. This contravenes the regulations.



The accounting officer had not recovered the outstanding imprest from the defaulting officers salary with an interest, therefore, the accounting officer is in breach of the regulations on imprest. No explanation has been provided for this breach.

#### **Management Response**

- i) **On Outstanding Imprest**, the Principal Secretary submitted that Kshs. 1,339,159.00 outstanding as at 30th June 2017 had been fully surrendered or recovered through the payroll.
- ii) **On Multiple Imprest Issued**, management had noted the concern and corrective action had been taken subsequently and no officer is being issued with imprest before clearing outstanding ones.

#### **Committee observation**

*The imprests surrender documents were confirmed and the matter resolved.*

#### **4.3 Payables and Accruals**

Payables and accruals balance of Kshs. 29,895,361.00 included an amount of Kshs. 26,762,000 in respect of loans approved to various groups that has not been disbursed for various reasons. However, the non-disbursement after the approval does not constitute a liability since the funds are still with the fund neither has the asset in form of the loan been created for the fund.

#### **Management Response**

The Principal Secretary submitted that an asset in form of loan for the said Kshs. 26,762,000 had already been created. The same was a component of the disbursements for the year and therefore qualified as a liability to the Fund since the cheques had not reached the beneficiaries as at the end of the financial year. The cheques were later dispatched to the various beneficiaries and cleared in the normal manner. The liability was therefore discharged from our books.

#### **Committee observation**

*The cheques were later dispatched to the various beneficiaries and the liability therefore has been discharged from the Fund's books of accounts. The matter has been resolved.*

#### **4.4 Gratuity**

The gratuity fund was previously operated outside the funds financial records and as 30 June 2016, the amount of cash held in the gratuity account was disclosed as Kshs. 25,251,035.00 and no corresponding liability was shown in the financial statement. In the year under review, both the cash and the liability for gratuity account have been introduced in the financial records of the fund but no detailed composition of the opening balance liability has been provided for audit examination.

The financial statements for the financial year 2015/2016 have not been restated to cater for the introduction of gratuity liability in the accounting records. As consequence, the accuracy of the closing balance of gratuity liability amounting to Kshs. 15,310,323.00 could not be ascertained.

Further, the total gratuity expenditure for the year as reflected on Note 8 to the financial statements amounts to Kshs. 10,640,300.00 while the detailed schedule provided in support of the expenditure amounts to Kshs. 21,870,545.00 resulting in unexplained difference of Kshs. 11,230,245.

#### **Management Response**

The Principal Secretary submitted that a breakdown for the amount of Kshs. 10,640,350.00 in respect of gratuity expenditure for the year and another for Kshs. 21,870,545 representing the actual payments to staff during the year has been. Hence, therefore submit that there is no difference between the reported expenditure and the schedule provided.

#### **Committee observation**

- i) The respective comparative figures for 2015/2016 were not confirmed in the financial statements for the year ended 30 June 2017 to cater for the introduction of gratuity liability in the accountability records and as such the accuracy of the closing balance of gratuity liability amounting to Kshs. 15,310,323 as at 30 June 2017 could not be confirmed. The matter remains unresolved;*
- ii) The detailed schedule in respect of the gratuity expenditure for the year amounting to Kshs. 10,640,350.00 and the actual payments to staff during the year of Kshs. 21,870,545 had been provided for review to the Auditor-General.*

#### **4.5 Communication Supplies and Services**

The communication supplies and services expense as disclosed in Note 7 to the financial statements of Kshs. 5,684,446.00 including staff airtime amounting to approximately Kshs. 3,675,682.00 comprising of monies paid to staff on monthly basis. This amount is not subject to tax in line with the income tax regulations. No explanation has been provided for non-compliance.

#### **Management Response**

The Principal Secretary submitted that as a measure of cost management, the Fund does not have fixed lines where calls would be made, but as a policy, senior officers are reimbursed their telephone costs on a monthly basis to enable them undertake their responsibilities. This is well captured in the staff's appointment letters. The resultant cost is less than what would be spent if fixed lines would be installed. It's important to note that the amounts reimbursed are in line with the provisions of the relevant circulars for the various grades.

**Committee observation**

The staff airtime allowances of Kshs. 3,675,682 comprising of monies paid to staff on a monthly basis was not subjected to tax in line with the income tax law during the year 2016/2017. The matter remains unresolved.

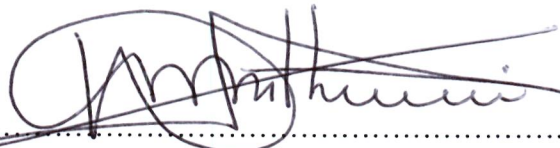
**Concluding remarks**

The Committee urged the PS, Gender to improve on the financial reports of Uwezo Fund and recommended the Fund to streamline the policies of Uwezo Fund to suit its needs instead of merging the two funds.

**MIN.NO./NA./SFAC/2019/158- ADJOURNMENT/DATE OF NEXT MEETING**

The meeting was adjourned at 2.15 p.m. and the next meeting will be held on notice.

SIGNED.....



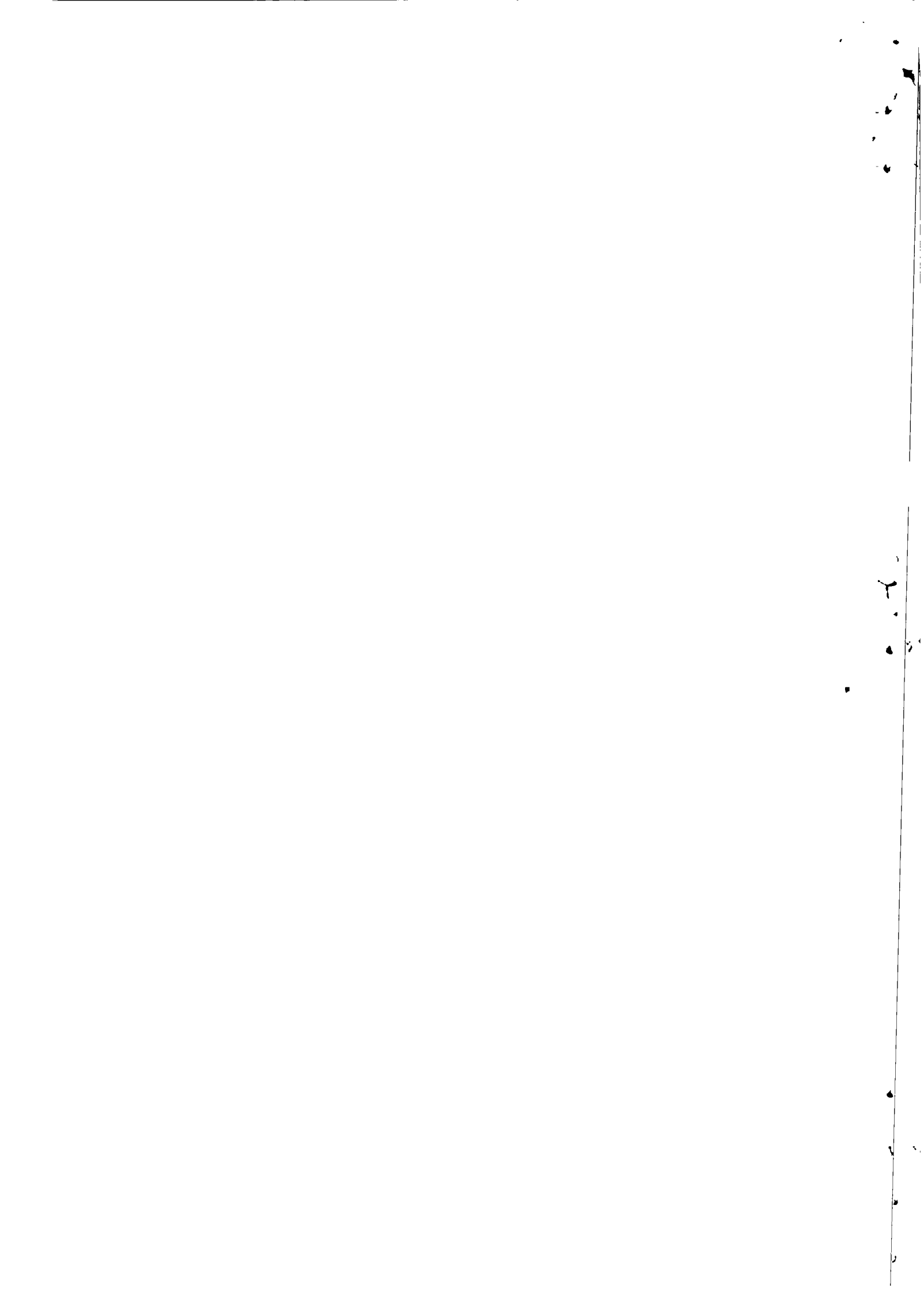
**HON. KATHURI MURUNGI, M.P**

(Chairperson)

DATE.....

06/08/2019.





**MINUTES OF THE 38<sup>TH</sup> SITTING OF THE SPECIAL FUNDS ACCOUNTS COMMITTEE HELD ON TUESDAY 29<sup>TH</sup> OCTOBER, 2019 IN COMMITTEE ROOM 12, MAIN PARLIAMENT BUILDINGS AT 9.30 A.M.**

**PRESENT**

1. Hon. Kathuri Murungi, M.P. - **Chairperson**
2. Hon. William Kamuren Chepkut, M.P. - **Vice Chairperson**
3. Hon. Dennitah Ghati, HSC, M.P.
4. Hon. Alfred Agoi Masadia, M.P.
5. Hon. Erastus Kivasu Nzioka, M.P.
6. Hon. Geoffrey Omuse, M.P.
7. Hon. Marwa Kitayama Maisori, M.P.
8. Hon. Dr. Irene Kasalu, M.P.
9. Hon. Jared Okelo, M.P.
10. Hon. Mwambu Mabongah, M.P.
11. Hon. Rehema Jaldesa, M.P.

**APOLOGIES**

1. Hon. Esther Passaris, M.P.
2. Hon. Mohamed Ali Lokiru, M.P.
3. Hon. James Kamau Wamacukuru, M.P.
4. Hon. Mohamed Ali Mohamed M.P.
5. Hon. Shakeel Shabbir Ahmed, M.P.
6. Hon. Justus Kizito Mugali, M.P.
7. Hon. Mark Lomunokol, M.P.
8. Hon. Abdi Koropu Tepo, M.P.

**COMMITTEE SECRETARIAT**

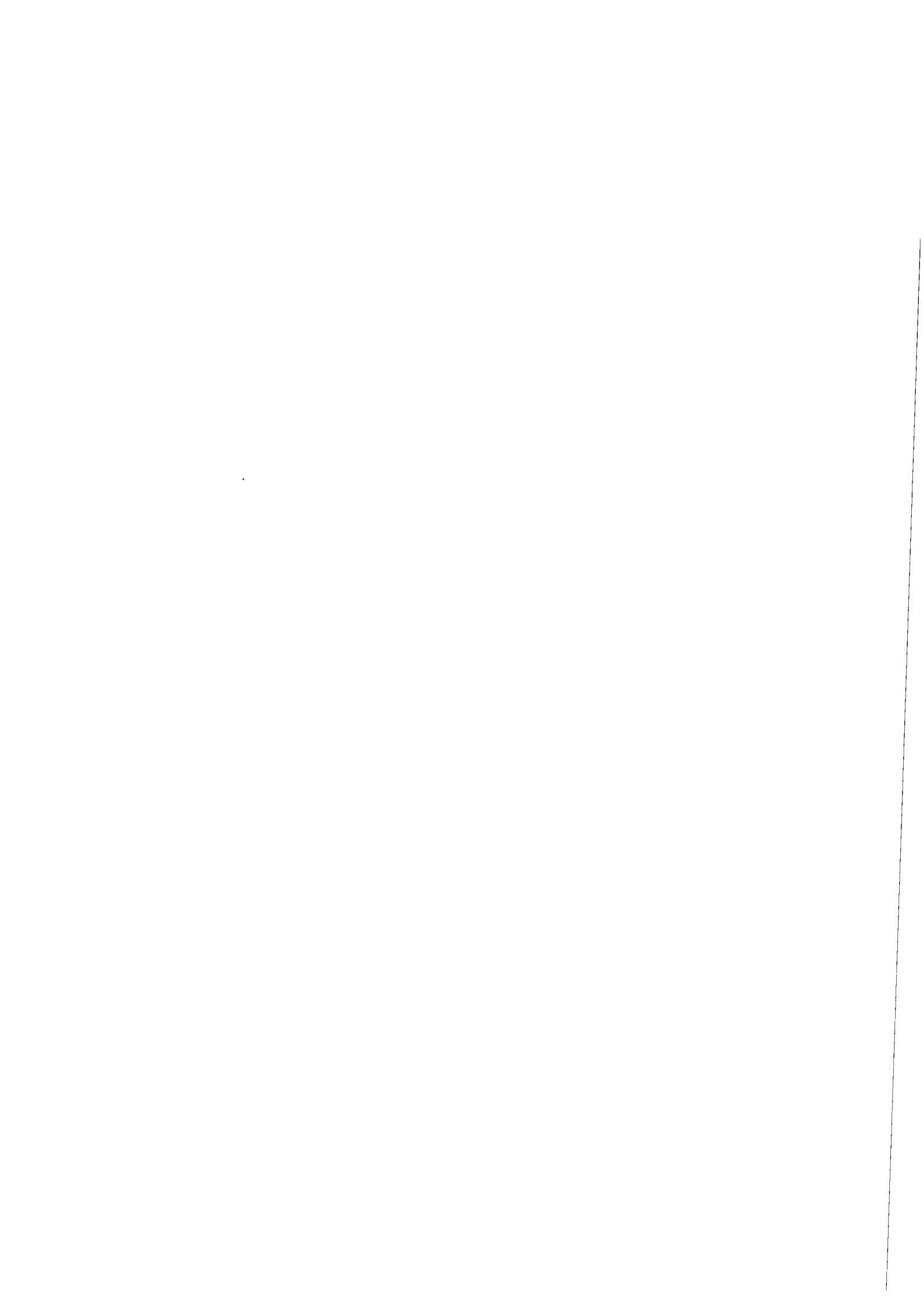
1. Ms. Lucy Kimathi - Principal Clerk Assistant II
2. Ms. Naserian Kaare - Serjeant At Arms
3. Ms. Fatuma Abdi - Audio Officer

**MIN.NO./NA./SFAC/2019/204 - ADOPTION OF THE AGENDA**

The Chairperson called the meeting to order at 9.40 a.m. with a word of prayer.

The following agenda of the meeting was adopted as circulated having been proposed and seconded by Hon. Jared Okelo, M.P. and Hon. Alfred Agoi Masadia, M.P respectively:

1. Prayers.
2. Preliminaries.
3. Confirmation of pending minutes.
4. Matters Arising.





**5. Review and adoption of the Seventh Committee report on audited financial statements of the Uwezo Fund (F/Y 2016/17) and the Women Enterprise Fund ( F/Y 2017/18)**

6. Any Other Business.

7. Adjournment/Date of Next Meeting.

**MIN.NO./NA/SFAC/2019/210 - CONFIRMATION OF MINUTES**

The Minutes of the 27<sup>th</sup> sitting were confirmed as true deliberations of the meeting having been proposed and seconded by M.P. and Hon. Erastus Kivasu, M.P. and Hon. Marwa Kitayama M.P. respectively.

The Minutes of the report writing retreat held on 10<sup>th</sup> to 14<sup>th</sup> October, 2019 were confirmed as true deliberations of the meeting having been proposed and seconded by Hon. Mwambu Mabongah, M.P. and Hon. William Kamuren Chepkut, M.P respectively.

**MIN.NO./NA/SFAC/2019/211 - MATTERS ARISING**

There were no matters arising.

**MIN.NO./NA/SFAC/2019/212 - ADOPTION OF COMMITTEE REPORT**

The reports on audited financial statements for the Uwezo Fund for financial year 2016/17 and the Women Enterprise Fund for financial year 2017/18 were reviewed and adopted on a proposal by Hon. Geoffrey Omuse, M.P and seconded by Hon. Alfred Agoi Masadia, M.P.

**MIN.NO./NA./SFAC/2019/213 - ANY OTHER BUSINESS**

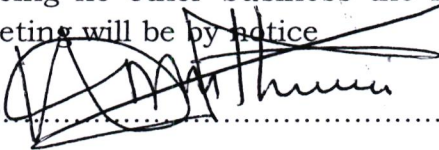
The Chairman informed the Committee of the Liaison Committee launch of Committee performance reports scheduled for 31<sup>st</sup> October, 2019 and invited all members for the activity.

He further reminded Members to schedule to attend the report writing retreat scheduled on 7-11, November, 2019 in Mombasa County

**MIN.NO./NA./SFAC/2019/214 - ADJOURNMENT/DATE OF NEXT MEETING**

There being no other business the meeting was adjourned at 10.58 a.m.  
Next meeting will be by notice

SIGNED



Date

29/10/2019

**HON. KATHURI MURUNGI, M.P**  
(Chairperson)

