



*Approved  
SNA  
13/8/24*

REPUBLIC OF KENYA


THIRTEENTH PARLIAMENT – SECOND SESSION

-----  
THE NATIONAL ASSEMBLY

SPECIAL FUNDS ACCOUNTS COMMITTEE

REPORT

ON THE CONSIDERATION OF THE REPORT OF THE AUDITOR GENERAL ON  
THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING  
FUND AND PRISON FARM REVOLVING FUND FOR THE FINANCIAL YEARS  
2020/2021 AND 2021 /2022

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	14 AUG 2024
	DAY: WEDNESDAY
TABLED BY:	MDN. RATION BAWOJA MP VICE-CHAIR-SPECIAL FUNDS
CLERK AT THE TABLE:	ESTHER NGENJO

Directorate of Audit, Appropriations, and Other Select Committees  
National Assembly  
Parliament Buildings  
NAIROBI

August, 2024

Table of Contents

<b>1.0 PREFACE .....</b>	<b>5</b>
<b>1.1 Establishment and Mandate of Special Funds Accounts Committee .....</b>	<b>5</b>
1.2 Committee Membership.....	5
1.3 Committee Secretariat.....	6
<b>2.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022 .....</b>	<b>7</b>
2.1 Examination of the report of the Auditor-General for the Financial Year 2020/2021 ....	7
2.2 Examination of the report of the Auditor-General for the Financial Year 2021/2022..	14
<b>3.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRISON FARM REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022 .....</b>	<b>21</b>
3.1 Examination of the Report of the Auditor-General for the Financial Year 2020/2021	21
3.2 Examination of the Report the Auditor-General for the Financial Year 2021/2022 .....	26

## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>CoK</b>	-	Constitution of Kenya, 2010
<b>FY</b>	-	Financial Year
<b>MDAs</b>	-	Ministries, Departments and Agencies
<b>MOTIHUD</b>	-	Ministry of Transport Infrastructure Housing and Urban Development
<b>PFM</b>	-	Public Finance Management
<b>OAG</b>	-	Office of the Auditor-General
<b>PSASB</b>	-	Public Sector Accounting Standards Board
<b>RMLF</b>	-	Road Maintenance Levy Fund

### **CHAIRPERSON'S FOREWORD**

Hon. Speaker, on behalf of the Special Funds Accounts Committee and pursuant to Standing Order 199, it is my pleasant duty and honor to present to the House the report of the Committee on the audited financial statements for the Prison Industries Revolving Fund and Prison Farm Revolving Fund for 2020/2021 and 2021 /2022 financial years.

Oversight over national revenue and expenditure is amongst the roles of the National Assembly as stipulated under Article 95 (4) (c) of the Constitution of Kenya, 2010. Further, Article 226 provides that an Act of Parliament shall provide for the designation of an Accounting Officer in every public entity at the national level who is accountable to the National Assembly for its financial management. In addition, Article 229(8) mandates this House to debate and take appropriate action on audit reports from the Auditor-General.

In fulfilment of these constitutional provisions, the National Assembly established various Committees to examine reports of the Auditor-General to ascertain whether public funds are utilized in a lawful, authorized, effective, efficient, economical, and transparent manner. The Special Funds Accounts Committee, which was established in the Fifth Session of the Eleventh Parliament following the review of the National Assembly's Standing Orders, is one of these Committees.

The Committee received oral and written submissions from Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, which formed the basis of its observations, findings, and recommendations.

Hon. Speaker, I wish to express appreciation to the Honorable Members of the Committee, the Office of the Speaker, and the Clerk of the National Assembly, the Parliamentary Liaison Offices of the Auditor-General and the National Treasury and the Committee Secretariat for facilitating the Committee in the production of this report.



Hon. A. RAHIM DAWOOD - VICE CHAIR

f.

**HON. FATUMA ZAINAB MOHAMMED, M.P.**

**CHAIRPERSON, SPECIAL FUNDS ACCOUNTS COMMITTEE**

## 1.0 PREFACE

### 1.1 Establishment and Mandate of Special Funds Accounts Committee

1. The Special Funds Accounts Committee is one of the six Watchdog Committees of the National Assembly established under Standing Order 205. It is mandated to examine the reports of the Auditor General on the following:

- i) *Funds established by statute or by subsidiary legislation, except Funds under Standing Order 205B (Decentralized Funds Accounts Committee)*
- ii) *The Equalization Fund;*
- iii) *The Equalization Fund Advisory Board;*
- iv) *The Political Parties Fund; and*
- v) *Other funds as may be communicated by the Honorable Speaker*

### 1.2 Committee Membership

2. The Committee comprises the following members:

S/ N	Name	Constituency	Party
1	Hon. Fatuma Zainab Mohammed, MP (Chairperson)	Migori (CWR)	Independent
2	Hon. Dawood Abdul Rahim, HSC, MP (Vice Chairperson)	North Imenti	Independent
3	Hon. Faith Wairimu Gitau, MP	Nyandarua (CWR)	UDA
4	Hon. Charles Ngusya Nguna	Mwingi West	Wiper
5	Hon. Dr. Christine Ombaka Oduor, MP	Siaya (CWR)	ODM
6	Hon. Erastus Kivasu Nzioka, MP	Mbooni	Wiper
7	Hon. Eve Akinyi Obara, MP	Kabondo Kasipul	ODM
8	Hon. Joseph Majimbo Kalasinga, MP	Kabuchai	FORD-K
9	Hon. Tom Mboya Odege, MP	Nyatike	ODM
10	Hon. Catherine Nakhabi Omanyoo, MP	Busia (CWR)	ODM
11	Hon. Cecilia Asinyen Ngigit, MP	Turkana (CWR)	UDA
12	Hon. Erick Wamumbi, MP	Mathira	UDA
13	Hon. Joseph Kimutai Chererot, MP	Kipkelion East	UDA
14	Hon. Joshua Odongo Oron, MP	Kisumu Central	ODM
15	Hon. Paul Kibichi Biego, MP	Chesumei	UDA

### 1.3 Committee Secretariat

3. The Secretariat facilitating the Committee comprises the following staff:

S/N	NAME	DESIGNATION
1.	Mr. Erick Nyambati	Clerk Assistant I
2.	Ms. Comfort Achieng	Clerk Assistant III
3.	Mr. Nimrod Mate	Clerk Assistant III
4.	Mr. Robert Ngetich	Fiscal Analyst II
5.	Ms. Judith Kanyoko	Legal Counsel II
6.	Ms. Bevaline Mosoti	Research Officer III
7.	Mr. Derrick Kathurima	Media Relations Officer III
8.	Ms. Faith Muiya	Public Communications Officer III
9.	Mr. Peter Mutethia	Hansard Audio Officer III
10.	Mr. Joshua Lenambet	Serjeant At Arms

## **2.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022**

4. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday 4<sup>th</sup> July 2023, and Tuesday 21<sup>st</sup> November 2023 to adduce evidence on the audited financial Statements for the Prison Industries Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:
  1. Brig. (Rtd) John Warioba - Commissioner General Prisons
  2. Mr. Peter Njoroge - Director Prisons Services
  3. Ms. Christine Nangwana - Head Legal services
  4. Mr. Arthur Nduati - Chief Finance Officer
  5. Mr. Johnson Njuguna - Director Audit
  6. Samfantony Kyalo, SSP- Prison Enterprise
  7. Benson Irungu, CIP-Prison Enterprise

### **2.1 Examination of the report of the Auditor-General for the Financial Year 2020/2021**

#### **a. Inaccuracies in the Financial Statements**

5. The statement of cash flows reflects an amount of Kshs. 2,671,989 in respect of the purchase of non-current assets under cash flow from investing activities while the property, plant and equipment schedule in Note 15 to the financial statements reflects nil additions during the year. The resultant difference was not explained or reconciled. Further, the increase in accounts receivables is reflected in the statement of cash flows as a negative balance of Kshs. 30,318,827 instead of a negative balance of Kshs. 113,109,259, resulting in an unexplained variance of Kshs. 82,790,432.

In addition, the decrease in payables is reflected in the statement of cash flows as a negative balance Kshs. 41,628,085 instead of a negative balance of Kshs. 69,509,274, resulting in an unexplained variance of Kshs. 27,881,188.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

#### **Submissions by the Accounting Officer**

6. The Accounting Officer acknowledged that the cash flow statement reflects an amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities, which was not included in the property, plant and equipment movement schedule.
7. She noted that the above-stated expenditure relates to part of the contract payment for Kshs.6,954,070.00 to construct a building to house the Prison Industry PRIAQUA machines for the Prison Staff Training College water purification project. The amount was erroneously omitted from the assets schedule and has been incorporated into the financial year 2022/2023 draft accounts.

8. She further submitted that Kshs.30,318,827.00 was captured as an Increase in accounts receivables in the cash flow statement. Previously, this amount was held as cash and cash equivalent in the books of accounts and has now been transferred to accounts receivables since it has not been realised. Kshs.82,790,432.10 is part of the total credit sales made during the year of Kshs.136,185,518.00 and does not affect cash flow since the statement is prepared using the direct method.
9. She also submitted that the decrease in accounts payables of Kshs.41,628,085.99 reflected in the statement of cash flow relates to the payments made to creditors during the financial year. The balance of Kshs.27,881,188.00 did not affect the cash flow statement under investing activities, but cash inflows under sales had already been recognised.

#### **Observations and Findings of the Committee**

10. The Committee observed that
  - i. The amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities was erroneously omitted from the assets schedule and has been incorporated in the financial year 2022/2023 draft accounts.
  - ii. The unexplained variances of Kshs. 82,790,432.10 and Kshs. 27,881,188.00 have been explained.
  - iii. The matter is resolved.

#### **Recommendations of the Committee**

11. The Committee recommends that the Accounting Officer must ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015 .

#### **b. Unsupported Cash and Cash Equivalents**

12. The statement of financial position reflects a cash and cash equivalents balance of Kshs. 593,362,910 as of 30 June 2021. Although the Fund's reporting date is 30 June 2021, the books of accounts for the 2020/2021 financial year were closed on 19 July 2021. As a result, the cut-off procedures were not followed to determine the reported cash and cash equivalents balance.
13. Further, one cash book and a single bank account were maintained in the year under review to record financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements for audit purposes.
14. In addition, the reported cash, and cash equivalents balance of Kshs.593,362,910 is a computed figure for reporting and was not supported with a cash book, bank reconciliations or certificate of bank balances. In the circumstances, it has not been



possible to confirm the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.593,362,910 as at 30 June, 2021.

#### **Submissions by the Accounting Officer**

15. The Accounting Officer acknowledged that the statement of financial position reflects a balance of Kshs 593,362,910.39 with respect to cash and cash equivalent. She submitted that the closing bank balances are derived from the total revenues collected net of the total expenditures and are supported by the CBK bank account statement as at the date of closure. Prison Industry Revolving Fund operates within the State Department accounting system. Transactions for all payments are processed and paid through the IFMIS system.
16. She further submitted that during the financial year ended 30 June 2021, the IFMIS system was allowed to operate up to 13 July 2021 to ensure processing and clearance of bills that were in process, including transactions for both the State Department and the Fund. All payments made after 30 June were treated as debtors or creditors for the reporting period.
17. She also submitted that the Prison Industry Revolving Fund maintains one cashbook and one bank account held at CBK, which serves both the Prison Industry Revolving Fund and the Prison Farms Revolving Fund. The State Department sought authority from the National Treasury to separate the bank accounts. The authority to open separate bank accounts was, however, not granted.
18. The National Treasury advised the State Department to align the Funds to Public Finance Management Act 2012. The State Department is constituting an inter-ministerial taskforce to align the two funds to the PFM Act 2012.

#### **Observations and Findings of the Committee**

19. The Committee observed that:
  - i. The reported cash, and cash equivalents balance of Kshs. 593,362,910 was not supported with a cash book, bank reconciliations or certificate of bank balances contrary to Section 31(4) of the Public Audit Act
  - ii. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintain one cash book and one bank account;
  - iii. A Task Force has been constituted to align the Regulations of the two funds with the PFM Act 2012; and
  - iv. The matter remained unresolved.

#### **Recommendations of the Committee**

20. The Committee recommends that:
  - i. within six months of the adoption of this report, the Accounting Officer must submit a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification.

- ii. within three months of the adoption of this report, the Accounting Officer must submit a cash book, bank reconciliations and certificate of bank balances to support the reported balance of Kshs. 593,362,910 to the Auditor General for audit verification.
- iii. The Accounting Officer must ensure that all supporting documents are submitted during the audit process in compliance with section 31 of the Public Audit Act, 2015.

**c. Unsupported Revenue from Exchange Transactions**

- 21. The statement of financial performance reflects sales of furniture and number plates totalling Kshs. 397,006,637 for the year ended 30 June 2021.
- 22. However, the main cash book maintained for recording these sales was the same one used to record sales from prison farms. The combined cash book reflects amounts received without indicating the source of revenue and the account to which it relates, whether prison industries or farms.
- 23. Further, the cash book was updated using the entries in the bank statements instead of the source documents raised at the point of sale. As a result, the revenue generated in respect of sales of furniture and number plates was not supported with documentary evidence in the form of cash book extracts, miscellaneous receipt books or bank statements.
- 24. In addition, the manual revenue register maintained to support the amount of Kshs. 397,006,637 could not be reconciled with the entries posted in the main cash book. Consequently, the accuracy and completeness of the revenue from exchange transactions of Kshs. 397,006,637 could not be confirmed.

**Submissions by the Accounting Officer**

- 25. The Accounting Officer submitted that the Prison Industries Revolving Fund collected Kshs. 397,006,637.00 as sales from furniture and number plates during the financial year 2020/2021. The fund had a total of 104 industry stations. Each station has its independent serialized Government miscellaneous receipt (MR) and independent MPESA pay bill numbers, which are utilized to collect revenue.
- 26. The monies collected through the MPESA pay bill are transmitted daily to the CBK account. Receipts are regularly presented from the Prison Stations to the Prison Headquarters for verification and recording. All the presented receipts are later controlled by a sales/revenue ledger, which records all station revenue collected and forms the basis of the total annual revenue.
- 27. The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintain one cash book and one bank account held at CBK for all transactions. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.

28. The National Treasury advised that Prison Industries Revolving Fund and Prison Farms Revolving Fund Regulations be updated and aligned with the Public Finance Management Act, 2012, to facilitate the granting authority to open separate bank accounts.

**Observations and Findings of the Committee**

29. The Committee observed that;
- i. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.
  - ii. The matter is resolved.

**Recommendations of the Committee**

30. The Committee recommends that the Accounting Officer must ensure that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations.

**d. Unsupported Non-Current Assets**

31. The statement of financial position reflects a non-current assets balance of Kshs. 60,475,786 as at 30 June 2021, which is at variance with Note 15 to the financial statements on property, plant and equipment figure of Kshs. 57,549,346, resulting in an unreconciled variance of Kshs. 2,926,440.
32. Further, the assets register maintained for the Prison Industries Revolving Fund was last updated on 30 June, 2017. In the circumstances, the accuracy and completeness of the non-current assets of Kshs. 60,475,786 as at 30 June, 2021 could not be confirmed.

**Submissions by the Accounting Officer**

33. The Accounting Officer submitted that the difference of Kshs. 2,926,440.00 between the balance in the financial statement of Kshs. 60,475,786 and the figure appearing in the notes amounting to Kshs. 57,549,346.11 has been reconciled, and the prior year adjustment has been effected in the draft account for the 2022/2023 Financial Year. The Fixed Assets register had not been updated during the audit. The fixed assets register has been updated.

**Observations and Findings of the Committee**

34. The Committee observed that:
- i. Noncurrent assets had an unreconciled variance of Kshs. 2,926,440 between the reported figures in the note to the financial statements and the statement of financial position.

- ii. The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020
- iii. The matter remained unresolved

#### **Recommendations of the Committee**

35. **The Committee recommends that,**

36. **within three months of the adoption of this report;**

- i. The Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulation 2020, for audit verification.
- ii. The Accounting Officer to reconcile the variance of Kshs. 2,926,440 and submit the supporting documents to the Auditor General for audit verification.

#### **Other Matters**

##### **e. Long Outstanding Creditors**

37. As disclosed in Note 16 to the financial statements, the statement of financial position as of 30 June 2021 reflects trade and other payables—creditors of Kshs.312,345,174. The balance includes Kshs.82,921,500 owed to other Government entities that have been outstanding for more than a year. Management has not explained why the creditors were not paid despite the Fund having funds in its bank account as of 30 June 2021.

#### **Submissions by the Accounting Officer**

38. The Accounting Officer submitted that bills totaling to Kshs. 312,345,174.00 were not settled at the end of the financial year. The related payment vouchers were undergoing verification and the exercise had not been finalized by the closure of the Financial Year. However, bills amounting to Kshs. 226,233,304.00 have since been settled, leaving a balance of Kshs. 86,111,870.00 comprising of Kshs. 82,921,500.00 and Kshs. 300,000.00 payables to National Industrial Training Authority and Agricultural Show of Kenya. respectively. These bills have not been cleared due to liquidity challenges. However, the Fund intends to settle them in the current financial year.

#### **Observations and Findings of the Committee**

39. The Committee observed that:
- i. The Fund has outstanding bills of Kshs. 86,111,870.00
  - ii. The matter remained unresolved.

#### **Recommendations of the Committee**

40. The Committee recommends that

Within three months of the adoption of this report, the Accounting Officer must submit to the Auditor General a progress report on the status of unpaid bills for audit verification.

##### **f. Unresolved Prior Year Matters**

**Stalled Project for the Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plates Blanks**

41. As previously reported, Kamiti Main Prison Industry records revealed that machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have remained idle. In addition, a three-year contract for supply and delivery of motorized vehicle number plate blanks was signed on 7 November, 2017 and the raw materials were supplied.
42. However, the raw materials (motorized vehicle number plate blanks) remain at the Kamiti Prison Industries stores. Information indicates that a case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks was filed in the Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services seeking specific performance of the contract or in the alternative compensation for the full contract value of Kshs.1,050,000,000.
43. No information was provided on the current status of the case. Further, the Management has not disclosed a contingent liability in these financial statements in relation to the case.

#### **Submissions by the Accounting Officer**

44. The Accounting Officer submitted that the Kenya Prisons Service started producing motor-vehicle number plates in 1974. The production process was modernized and improved over time. In 2014, a decision was made to migrate from the old number plates to the new generation number plates. The State Department procured and installed machines at a total cost of Kshs.15,295,500 to generate the new number plates in the year 2016. The matter is the subject of a civil case No. E321 of 2020 filed in the Milimani High court between Tropical Technologies Ltd and the State Department for Correctional Services, and the matter is still pending in court. In addition, a provision for contingency liability has been provided in the Fund's draft Financial Statements for the 2022/2023 Financial Year, which were being prepared.

#### **Observations and Findings of the Committee**

45. The Committee observed that:
  - i. There is a pending court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services; and
  - ii. machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have remained idle.
  - iii. The matter remained unresolved.

#### **Recommendations of the Committee**

##### **46. The Committee recommends that:**

Within three months of the adoption of this report, the Accounting Officer must provide a progress report to the Auditor-General on the court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020;

## 2.2 Examination of the report of the Auditor-General for the Financial Year 2021/2022

### a. Inaccuracies in the Statement of Cash Flows

47. The statement of cash flows reflects a decrease in payables by Kshs. 223,236,974, while a recalculation of the movement in payables under Note 16 to the financial statements revealed a decrease by Kshs. 126,151,443, resulting in an unexplained variance of Kshs. 97,085,531. In addition, the statement reflects no change in non-current receivables, while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs. 59,970,930, resulting in an unexplained variance of Kshs. 59,970,930.
48. Further, the statement reflects an amount of Kshs. 260,283,489 in respect of net cash flows used in investing activities. This amount includes Kshs. 223,236,974 relating to a decrease in payables, which represents an operating activity and not an investing activity. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

### Submissions by the Accounting Officer

49. The Accounting Officer submitted as follows:

- (i) There was a decrease in payables of Kshs. 223,236,974, as reflected in the cash flow. The balance of Kshs 186,193,731.00 was derived as follows:

Description	Amounts- Kshs
Creditors B/F from F/y 2020/2021	312,345,174.00
Add New creditors for the year	97,085,531.00
Total creditors for the year	409,430,705.00
Less Creditors settled during the year	223,236,974.00
Outstanding creditors C/f F/Y 2021/2022	186,193,731.00

- (ii) There was a decrease in non-current receivables of Kshs. 136,185,518 which represented settled debtors, the carrying amount in the current year was derived as follows:

Debtors B/F from F/Y 2020/2021	195,843,535.83
Add new Debtors for the year	196,156,448.00
Total Debtors	391,999,983.83
less Debtors settled during the year	136,185,518.00
Net Debtors C/F for F/Y 2021/2022	255,814,465.83

- (iii) The statement of cash flows reflected an amount of Kshs 260,283,489.00 as a net cash flow from investing activities which included an amount of Kshs 223,236,974.00 being amount cleared in respect of creditors.

### **Observations and Findings of the Committee**

The Committee observed that the matter is resolved.

#### **b. Overstatement of Trade and Other Payables Balance**

50. The statement of financial position as disclosed in Note 16 to the financial statements, reflects trade and other payables - creditors balance of Kshs. 186,193,731, which included an amount of Kshs. 58,879,973 paid and posted in the cash book on 30 June 2022. However, the payment was also disclosed in the bank reconciliation statement for June, 2022 among the unrepresented cheques. In the circumstances, the accuracy of the trade and other payables - creditors' balance of Kshs.186,193,731 could not be confirmed.

#### **Submissions by the Accounting Officer**

51. The Accounting Officer submitted that the unpaid vouchers totalling Kshs. 58,879,973 were inadvertently posted in the cashbook as of 30 June 2022. She further submitted that the cashbook for the year 2022/2023 has been adjusted to exclude the payments totalling Kshs. 58,879,973 as a prior-year adjustment and subsequently effected in the Financial Statements for the 2022/2023 financial year.

### **Observations and Findings of the Committee**

52. The Committee observed that the matter is resolved.

#### **c. Unsupported Cash and Cash Equivalents Balance**

53. The statement of financial position as disclosed in Note 10 to the financial statements, reflects cash and cash equivalents balance of Kshs.7,795,251. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two (2) Funds are distinct and prepare separate sets of financial statements. Further, the bank reconciliation statement for the Fund presented for audit reflected an amount of Kshs.20,469,565 as payments in the bank statement, not in the cash book as at 30 June, 2022, out of which an amount of Kshs.650,000 related to the 2019/2020 financial year. The failure to record the payments in the cash book was not explained.
54. In addition, the bank reconciliation statement for June 2022 reflects unrepresented cheques totalling Kshs.115,526,747, including stale cheques totalling Kshs.2,284,510. In the circumstances, the accuracy, completeness, and existence of the cash and cash equivalents balance of Kshs.7,795,251 could not be confirmed.

#### **Submissions by the Accounting Officer**

55. The Accounting Officer submitted that the State Department for Correctional Services maintains one cashbook and one bank account, which serves both Prison Industries Revolving Fund and Prison Farms Revolving Fund. The State Department for

Correctional Services sought authority from the National Treasury to separate the bank accounts.

56. She also submitted that the National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A taskforce has been constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs. 7,795,251.00 was derived from calculating the total revenues collected minus the total payments plus the balance B/F from the previous year. The figure is supported by the certificate of bank balance issued by the Central Bank of Kenya (CBK) as of June 30, 2022.
57. The Accounting Officer also submitted that payments totalling Kshs. 20,469,565 were inadvertently omitted from the cashbook. The relevant payment vouchers have been posted in the cashbooks, and appropriate prior-year adjustments have been effected in the financial statements for 2022/2023.
58. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. This amount includes payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, which included Unreversed Stale Cheques. The stale cheques of Kshs. 2,284,510 in the bank reconciliation represents payments inadvertently posted in the cashbook. The payments have since been reversed.

#### **Observations and Findings of the Committee**

59. The Committee observed that:

- i. The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintains one cash book and one bank account;
- ii. A task Force had been constituted to align the Regulations of the two funds with the PFM Act 2012, and progress has since been made towards the matter and
- iii. The matter remained unresolved.

#### **Recommendations of the Committee**

60. The Committee recommends that within six months upon the adoption of this report, the Accounting Officer must submit a progress report to the Auditor—General on aligning the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with the PFM Act 2012.

#### **d. Unexplained Variance and Incomplete Fixed Asset Register**

61. The statement of financial position reflects a non-current assets balance of Kshs.93,404,716, while the corresponding Note 15 in the financial statements indicates a non-current assets balance of Kshs.94,595,861, resulting in an unexplained variance of



Kshs.1,191,145. Further, the assets register provided for audit was not comprehensive and updated to reflect the date/year of acquisition, cost, depreciation rate, disposals and serial numbers as required. In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs.93,404,716 could not be confirmed.

**Submissions by the Accounting Officer**

62. The Accounting Officer submitted that the statement of financial position reflects a non-current assets balance of Kshs. 93,404,716, as disclosed in Note 15 to the Financial Statements, indicates non-current assets amounting to Kshs. 94,595,861 before depreciation of Kshs. 4,117,584, as disclosed in note 8 to the financial statements. The amount of Kshs.93,404,716 was ascertained as follows:

Total assets	94,595,861
<i>Less</i> depreciation	(4,117,584)
Assets net of depreciation	90,478,277
Add Scrap machinery	2,926,440
NBV in the financial position	93,404,716

63. She further submitted that the Fund’s Asset Register was not fully updated at the reporting date. The register is complete and was provided to the auditor for review.

**Observations and Findings of the Committee**

64. The Committee observed that:
- i. The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020
  - ii. The matter remained unresolved.

**Recommendations of the Committee**

65. The Committee recommends that, within three months upon adoption of this report, the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulation 2020, for audit verification.

**e. Material Uncertainty Related to Sustainability of Services**

66. Note 5 to the financial statements discloses that if the motor vehicle number plate production is transferred to the National Transport and Safety Authority (NTSA) or any other Government entity, the sustainability of services of the Prison Industries Revolving Fund shall be affected adversely. As at November 2022, production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision, as a result of which production has since stopped at Kamiti Maximum Prison, resulting in the raw materials worth Kshs.101,348,772 and the fixed assets (machinery) held at Kamiti Maximum Prison being idle. These conditions indicate a material uncertainty, which may cast significant doubt on the Fund’s ability to sustain its services.

### **Submissions by the Accounting Officer**

67. The Accounting Officer submitted that if the production of Motor Vehicle number plates is transferred to NTSA or any other government entity, the going concern of the Prison Industries Revolving Fund would be significantly affected. She submitted that as of November 2022, raw materials for number plates held at Kamiti Prison worth Kshs.101,348,772.00 and other fixed assets related to number plates will be rendered obsolete.
68. However, the management was working on implementing measures to ensure the Fund's going concern is not threatened. The measures include adopting strategies to increase revenue streams through the following measures:
1. Modernization of Industry Equipment to enhance efficiency in production.
  2. Explore Public Private Partnership-Kenya Prison Service has a ready workforce and land which can be used to attract potential partners. e.g. in the manufacture of furniture.
  3. Broaden revenue streams. For example, Commercialize the PRIAQUA Brand, Commercialize paint production, and enhance leatherwork in prisons, among other measures.
  4. Construction of modern workshops to replace dilapidated structures.
  5. Training of instructors on modern technologies for technology transfer
  6. Enhanced marketing of the prison industry products

### **Observations and Findings of the Committee**

69. The Committee observed that:
- i. Production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision as at November, 2022;
  - ii. The transfer of the production of the number plates from the Fund - which is the main source of income for the Fund, to NTSA has significantly affected the going concern of the Fund.
  - iii. Raw materials worth Kshs. 101,348,772 and the machinery held at Kamiti Maximum Prison are idle;
  - iv. The matter remained unresolved.

### **Recommendations of the Committee**

70. The Committee recommends that:
- i. Within six months of the adoption of this report, the Accounting Officer to provide a progress report on the implementation of measures taken by the Fund to ensure that it remains a going concern.
  - ii. Within three months of the adoption of this report, the Accounting Officer seeks authority to dispose of idle raw material and machinery held at Kamiti Maximum Prison
  - iii. Within six months of the adoption of this report, the Accounting Officer to provide a progress report to the Auditor – General on the disposal.

## **Other Matters**

### **f. Budgetary Control and Performance**

71. The statement of comparison of budget and actual amounts reflects a final revenue budget amount of Kshs. 608,047,134 and an actual comparable basis amount of Kshs. 381,290,980, resulting in collections of Kshs. 226,756,156 or 37% of the budgeted revenue. Similarly, the statement reflects the final recurrent budget expenditure amount of Kshs. 652,043,729 against an actual comparable basis expenditure of Kshs. 467,853,225, resulting in an under-expenditure of Kshs. 184,190,504 or 28% of the budgeted expenditure. Management has not justified the underperformance and suppressed expenditure. The under collection of revenue may have affected the operations and, hence, negatively impacted the planned activities of the Fund.

### **Submissions by the Accounting Officer**

72. The Accounting Officer submitted that the Statement of Comparison of Budget and Actual amounts revealed that the Prison Industry Revolving Fund had projected to generate Kshs. 608,047,134 from the sale of goods and services during the year under audit. However, the actual receipt during the same accounting period amounted to Kshs. 381,290,980, resulting in underperformance of Kshs. 226,756,156 or 37% of the projected receipts. Similarly, the fund spent Kshs. 467,559,491 out of the approved budget of Kshs. 652,043,729, resulting in an under-expenditure of Kshs. 184,484,238 or 28% of the budget.
73. She further submitted that this was occasioned by the outbreak of the COVID-19 pandemic, which inhibited the movement of inmates, persistent low demand for the products, and other economic constraints in the country, resulting in low business; hence, these had a profound effect on the Fund's operations. The Fund wholly relies on the revenues collected from its sales to finance its expenditures.

### **Observations and Findings of the Committee**

74. The Committee observed that:
- i. The Fund's underperformance of Kshs. 226,756,156, or 37%, was caused by the outbreak of the COVID 19 pandemic.
  - ii. The underperformance by the Fund resulted in a 28% under-expenditure.
  - iii. The matter is resolved.

### **g. Unresolved Prior Year Matters**

75. In the previous year's audit report, several issues were raised under Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

### **Submissions by the Accounting Officer**

76. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:

- i. The Prison Industry Revolving Fund had a closing PMG account balance of Kshs 175,987,430 as of 30 June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Coordination after the merging of ministries, where prisons were transferred to the Ministry of Interior & Coordination of National Government.
- ii. **Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plate Blanks**—The process was frustrated by court cases between the State Department and the contractors. However, the production of number plates was transferred to another Government entity in October 2022.
- iii. **Opening a separate bank account for the Prisons Farms Revolving Fund:** The National Treasury, in conjunction with the State Department for Correctional Services, has initiated the process of developing regulations that conform with the PFM Act. This will facilitate the granting of authority to open a separate bank account for the two Funds.
- iv. Long Outstanding Creditors owed to National Industrial Training Authority amounting to Kshs. 82,921,500 is awaiting the availability of funds to be settled.

### **Observations and Findings of the Committee**

77. The Committee observed that;

- (i) Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Section53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021
- (ii) The matter is unresolved.

### **Recommendations of the Committee**

78. The Committee recommends that within three months upon the adoption of this report, the Accounting Officer provide a status report for unresolved prior-year matters to the Auditor General for audit verification.

### **3.0 EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE PRISON FARM REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022**

79. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday, 21<sup>st</sup> November 2023, to adduce evidence on the audited financial Statements for the Prison Farm Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:

1. Brig (Rtd) John Warioba - Commissioner General Prisons
2. Mr. Peter Njoroge - Director, Prisons Services
3. Ms. Christine Nangwana - Head, Legal Services
4. Mr. Arthur Nduati - Chief Finance Officer
5. Mr. Johnson Njuguna – Head of Accounting
6. Samfantony Kyalo, SSP - Prison Enterprise
7. Benson Irungu, CIP -Prison Enterprise

#### **3.1 Examination of the Report of the Auditor-General for the Financial Year 2020/2021**

##### **a. Inaccuracies in the Presentation of the Financial Statements**

80. The statement of cash flows reflects cash flows from operating activities amounting to Kshs.119,111,044. However, the balance includes a reduction of creditors from the previous year of Kshs.871,000. A review of the statement of financial position indicates that creditors decreased by Kshs.821,000 from Kshs.1,700,000 to Kshs.829,000 as disclosed in Note 20(b) to the financial statements, resulting in an unreconciled difference of Kshs.50,000. Further, the statement of comparison of budget and actual amounts reflects an amount of Kshs.261,327,868 in respect of the original and final budget.

81. However, the cast amount for the original and final budget is Kshs.259,892,868 resulting in an unexplained variance of Kshs.1,435,000 respectively. In addition, the statement of financial position reflects the total non-current assets of Kshs.111,539,902, which includes an amount of Kshs.1,096,300 for scrap machinery. However, this amount and the item were not included in the property, plant and equipment movement schedule in Note 18 to the financial statements. In the circumstances, the accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June 2021 could not be confirmed.

##### **Submissions by the Accounting Officer**

82. The Accounting Officer submitted the difference of Kshs. 50,000 was due to an error in the cash flow statement, while the Kshs 821,000 paid to creditors was overstated by capturing the amount as Kshs 871,000. The error has since been rectified as a prior year adjustment in the 2021/2022 Financial Statements.

83. She further submitted that the total amount was Kshs.261,327,868.00, as shown in the approved budget. There was no budget adjustment during the financial year. The variance is attributed to a typographical error rectified in 2020/2021. It was also submitted that

Kshs 1,096,300,00 was attributed to scrap machinery not included in the property, plant, and equipment movement schedule. The property, plant and equipment movement schedules have since been adjusted to incorporate the machinery.

#### **Observations and Findings of the Committee**

84. The Committee observed that:

- i. The variance in the statement of cash flows was due to a typographical error, and
- ii. The matter is resolved.

#### **b. Unsupported Revenue**

85. As **disclosed** in Note 9 of the financial statements, the statement of financial performance reflects total revenue of Kshs.355,889,736 in respect to the sale of goods. However, an audit inspection of various prison farms revealed that records such as the ledgers, receipts vouchers, cash books and banking of receipts from the sale of goods were not provided for audit review. Consequently, the accuracy, completeness and existence of the reported revenue amounting to Kshs.355,889,736 could not be confirmed.

#### **Submissions by the Accounting Officer**

86. The Accounting Officer submitted that the statement of financial performance reflects the total revenue of Kshs. 355,889,736. The amount comprises Kshs127,272,079,21 for sales for the year under review and Ksh 228,617,656.58 for amounts paid to settle the previous year's debts.
87. She further submitted that the Fund has a total of 93 farming stations. The stations maintain accounting documents, which include miscellaneous receipts, S13-Counter receipts vouchers, S11-Counter receipts & issue vouchers, S12 and a sales ledger. All receipts from the sale of goods/services are received through a cashless payment platform, i.e. pay bill and Electronic Funds Transfer (EFT/RTGS). The monies received are recorded in a miscellaneous receipt. The amount received through the pay bill is transmitted daily to an account maintained at the Central Bank of Kenya through the Equity Bank collection account.
88. She also submitted that the receipts (MRs) are regularly presented to the headquarters for verification and recording. A sales ledger later controls all the presented receipts, which records all revenue collected from the prison stations and consolidates the amounts to generate the total annual revenue collection.
89. She further submitted that some documents had been misfiled and misclassified during the audit exercise and could not be retrieved on time. The documents have since been provided to the auditors. In addition, the management instructed all field stations individually to adhere strictly to the PFM Act, maintain all necessary records, and ensure that documents are available to the auditors on a timely basis.

### **Observations and Findings of the Committee**

90. The Committee observed that:

- i. Documents from the prison farms, such as ledgers, receipt vouchers, cash books, and bank accounts for receipts from the sale of goods, were not provided for audit review to support the total revenue of Kshs. 355,889,736
- ii. The matter is unresolved.

### **Recommendations of the Committee**

91. The Committee recommends that:

- i. **Within three months upon adoption of this report, the Accounting Officer must provide supporting documents to support the total revenue of Kshs.355,889,736 for audit verification: and**
- ii. **The Accounting Officer must ensure timely submission of accounting documents for audit verification during the audit as per Section 31(4) of the Public Audit Act, 2015.**

#### **c. Unsupported Cash and Cash Equivalents**

92. As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs.50,000 has not been explained. Further, bank reconciliations were not provided. In the circumstances, the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.381,419,861 could not be confirmed.

### **Submissions by the Accounting Officer**

93. The Accounting Officer submitted that the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs. 50,000 was due to an error in capturing the amount paid to creditors as Kshs 871,000 instead of Kshs 821,000 in the cash flow statement. A reconciliation between the cash book and the bank was undertaken, and a bank reconciliation statement was submitted to the auditors. The error has since been rectified as a prior year adjustment in the Financial Statements of 2021/2022.

### **Observations and Findings of the Committee**

94. The Committee observed that the matter is resolved.

#### **d. Unsupported Non-Current Assets**

95. As disclosed in Note 18 to the financial statements, the statement of financial position reflects total non-current assets of Kshs. 111,539,902. However, Management did not provide an asset register incorporating all the classes of assets managed and maintained

by the Fund to support the balance of assets held by the Fund. In the circumstances, the accuracy, completeness, and valuation of the non-current assets of Kshs. 111,539,902 could not be confirmed.

#### **Submissions by the Accounting Officer**

96. The Accounting Officer submitted that the statement of financial performance reflected Kshs. 111,539,902 as total of non-current assets as of 30th June 2021. The manual asset register has since been updated to reflect the correct status of the assets.

#### **Observations and Findings of the Committee**

97. The Committee observed that:

- i. The Fund's asset register was manual and not updated: and
- ii. The matter is unresolved.

#### **Recommendations of the Committee**

98. The Committee recommends that:

- i. **Within three months of the adoption of this report, the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020 for audit verification.**
- ii. **The Accounting Officer ensures that the Asset register of the Fund is digitized within the 2024/25 financial year.**

#### **e. Unresolved Prior Year Matters**

99. In the previous year's audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the Public Sector Accounting Standards Board templates provisions and the National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.

#### **Submissions by the Accounting Officer**

100. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:

- i. The Prison Farms Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June, 2019, which was money not yet transferred from the former Ministry Of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to the Ministry of Interior & Coordination of National Government.;
- ii. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill was due to limited budgetary allocations. In the current financial year, an allocation has been provided, the pending bill has been processed and was awaiting funding from the National Treasury;



- iii. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. The Accounting Officer submitted that the National Treasury, in conjunction with the State Department for Correctional Services, has initiated the development of Regulations that conform to the PFM Act. to facilitate the granting of authority to open the bank account.
4. She also submitted that the management was making efforts to resolve all these pending matters.

#### **Observations and Findings of the Committee**

101. 18. The Committee observed that:
- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Sec.53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
  - ii. The matter is unresolved.

#### **Recommendations of the Committee**

102. The Committee recommends that within three months upon adoption of this report, the Accounting Officer provides a status report for unresolved prior year matters to the Auditor General for audit verification.

#### **f. Undue Delay in Disposal of Assets**

103. Physical verification in Kitale Main Prison Farm in October 2021 revealed that a Board of Survey on stores and unserviceable items was conducted on 10 September, 2019, which identified various old and ageing livestock for disposal.
104. On 19 December 2019, the State Department for Correctional Services halted the disposal exercise, advising that an auctioneer had been identified to conduct the disposal.
105. However, the disposal process had not been concluded as of October 2021. In the circumstances, value for money could not be realized due to the deterioration of the value of the livestock.

#### **Submissions by the Accounting Officer**

106. The Accounting Officer submitted that the State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction. However, the State Department reviewed the option of auctioning the livestock and decided to sell the same meat for inmates' consumption at the prevailing supply price. One hundred one mature animals were disposed of at Kshs. 12,998,450.00; hence, value for money was realized.

#### **Observations and Findings of the Committee**

107. The Committee observed that;

- i. The State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction.
- ii. The matter is resolved.

**g. Commingling of Funds**

108. A review of the cashbook revealed that Management uses a single cash book for recording financial transactions and maintains one bank account for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, leading to the commingling of funds. Further, the two funds prepare and submit separate sets of financial statements for audit purposes. In the circumstances, effective internal controls on funds could not be confirmed.

**Submissions by the Accounting Officer**

109. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account that serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services sought authority from the National Treasury to separate the bank accounts. The National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A task force has since been constituted and is working towards aligning the Regulations with the PFM Act.

**Observations and Findings of the Committee**

110. The Committee observed that:

- i. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and one bank account:
- ii. A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012
- iii. The matter is unresolved.

**Recommendations of the Committee**

111. **The Committee recommends that**

Within six months of the adoption of this report, the Accounting Officer must submit a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification

**3.2 Examination of the Report the Auditor-General for the Financial Year 2021/2022**

**a. Unsupported Cash and Cash Equivalentents**

112. The statement of financial position reflects a cash equivalents balance of Kshs.55,704,138 as disclosed in Note 11 to the financial statements. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements.

113. Further, bank reconciliations provided for audit reflect an amount of Kshs. 115,526,747 in respect of un-presented cheques, of which Kshs. 2,284,510 were stale as of 30 June 2022.

114. In the circumstances, the accuracy, completeness and existence of the reported cash and cash equivalents balance of Kshs. 55,704,138 could not be confirmed.

#### **Submissions by the Accounting Officer**

115. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account, which serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services has since sought authority from the National Treasury to separate the bank accounts.

116. However, the National Treasury declined the request and directed that the Regulations governing the funds' operations be aligned with the PFM Act 2012. Subsequently, a task Force was constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs 55,704,138 was derived from the total revenues collected net of the total expenditures and is supported by the CBK bank account statement as of the closure date.

117. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. The amount included payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, including unreversed stale cheques. The stale cheques of Kshs.2,284,510 in the bank reconciliation represent payments inadvertently posted in the cashbook. The payments have since been reversed.

#### **Observations and Findings of the Committee**

118. The Committee observed that:

- i. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and bank account;
- ii. A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012
- iii. The matter is unresolved.

#### **Recommendations of the Committee**

119. The Committee recommends that

within six months upon adoption of this report, the Accounting Officer must submit a progress report to the Auditor—General on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012

### **Other Matter**

#### **b. Unresolved Prior Year Matters**

120. The previous year's audit report raised several issues under the Report on Financial Statements and Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

#### **Submissions by the Accounting Officer**

121. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
- i. The Prison Farms Revolving Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to Ministry of Interior & Coordination of National Government;
  - ii. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill is attributed to limited budgetary allocations. In the current financial year, an allocation has been provided for, the bill has been processed and is awaiting funding from the National Treasury;
  - iii. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. She submitted that the National Treasury, in conjunction with the State Department for Correctional Services, has initiated the development of Regulations that conform with the PFM Act. This will facilitate the granting of authority to open the bank account.
122. She further submitted that the management is making efforts to resolve all these pending matters.

#### **Observations and Findings of the Committee**

123. The Committee observed that:
- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(1) of the PFM Act,2012, Sec.53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
  - ii. The matter is unresolved.

#### **Recommendations of the Committee**

124. The Committee recommends that

Within three months of the adoption of this report, the Accounting Officer must provide a status report for unresolved prior-year matters to the Auditor General for audit verification.

**c. Failure to Use Information Technology in Finance and Procurement Sections**

125. The Prison Farms Revolving Fund was established by Legal Notice No.87 of the Exchequer and Audit Act (Cap 412) Regulations of 1993 and became operational on 1 July 1992. Despite being in operation for 30 years, the Fund has yet to automate its operations, especially for financial reporting and procurement of goods and services. Transaction processing, ledgers, and financial statements are done manually.

126. Further, the Fund has yet to implement e-procurement to manage the procurement processes as required by the Public Procurement and Assets Disposal Regulations, 2020 and Executive Order No. 2 of 2018.

127. Management has not explained the failure to automate its operations.

**Submissions by the Accounting Officer**

128. The Accounting Officer submitted that the operations of the Fund were partially automated in the following areas;

- i. All payments are made through IFMIS, and
- ii. All revenues are collected through a cashless platform – E-citizen, EFTs/RTGs

129. However, the Fund has since initiated the process of acquiring a Financial Management system in the 2023/2024 financial year.

**Observations and Findings of the Committee**

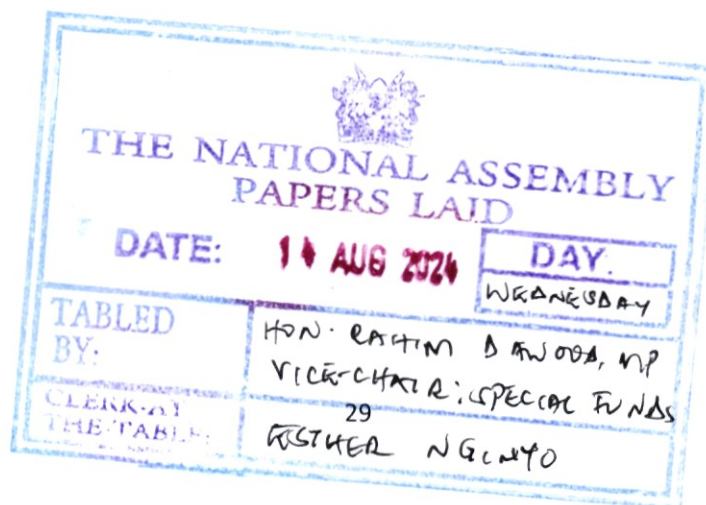
130. The Committee observed that:

- i. The Fund has neither automated its operations nor implemented e-procurement in managing its procurement processes, and
- ii. The matter is unresolved

**Recommendations of the Committee**

131. **The Committee recommends that**

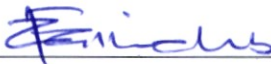



Within six months of the adoption of this report, the Accounting Officer must submit a status report to the Auditor-General on the acquisition of the Financial Management System and the implementation of e-procurement.





**THIRTEENTH PARLIAMENT – THIRD SESSION**  
**THE NATIONAL ASSEMBLY**  
**SPECIAL FUNDS ACCOUNTS COMMITTEE.**  
**ADOPTION LIST FOR THE**  
**TENTH REPORT ON AUDITED FINANCIAL STATEMENTS FOR**  
**THE:**

- |                                     |   |                         |
|-------------------------------------|---|-------------------------|
| 1. Prison Industries Revolving Fund | - | 2020/2021 and 2021/2022 |
| 2. Prison Farm Revolving Fund       | - | 2020/2021 and 2021/2022 |

NO.	NAME	SIGNATURE
1.	Hon. Fatuma Zainab Mohammed, MP - <b>Chairperson</b>	
2.	Hon. Dawood Abdul Rahim, HSC, MP – <b>Vice-Chairperson</b>	
3.	Hon. Charles Ngusya Nguna, MP	
4.	Hon. Dr. Christine Ombaka Oduor, MP	
5.	Hon. Erastus Kivasu Nzioka, MP	
6.	Hon. Eve Akinyi Obara, MP	
7.	Hon. Faith Wairimu Gitau, MP	
8.	Hon. Joseph Majimbo Kalasinga, MP	
9.	Hon. Tom Mboya Odege, MP	
10.	Hon. Catherine Nakhabi Omanyoo, MP	
11.	Hon. Cecilia Asinyen Ngitit, MP	
12.	Hon. Erick Wamubi MP	
13.	Hon. Joseph Kimutai Cherorot, MP	
14.	Hon. Joshua Odongo Oron, MP	
15.	Hon. Paul Biego Kibichy, MP	



**MINUTES OF THE 48<sup>TH</sup> SITTING OF THE SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON THURSDAY 24<sup>TH</sup> AUGUST 2023, IN COMMITTEE ROOM 7 MAIN  
PARLAMENT BUILDINGS AT 9.30 AM.**

---

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Erastus Kivasu Nzioka, MP
3. Hon. Eve Akinyi Obara, MP
4. Hon. Tom Mboya Odege, MP
5. Hon. Joseph Kimutai Chererot, MP
6. Hon. Paul Kibichi Biego, MP

**APOLOGIES**

1. Hon. Dawood Abdul Rahim., MP
2. Hon. Charles Nguna Ngusya, MP
3. Hon. Dr Christine Ombaka Oduor. MP
4. Hon. Joseph Majimbo Kalasinga. MP
5. Hon. Faith Wairimu Gitau, MP
6. Hon. Catherine Nakhabi Omanyoma, MP
7. Hon. Cecilia Asinyen Ngigit, MP
8. Hon. Erick Kahugu Wamumbi, MP
9. Hon. Joshua Odongo Oron, MP

**PRISON INDUSTRIES REVOLVING FUND**

- |                              |  |
|------------------------------|--|
| 1. Ms. Salome Beacco         | - Principal Secretary, Correctional Services |
| 2. Brig (Rtd) John K Warioba | - Commissioner General, Prisons Services     |
| 3. Mr. Arthur Nduati         | - Senior Chief Accountant                    |
| 4. Mr. Samfartony Kyalo      | - Accountant                                 |
| 5. Mr. Peter Njoroge         | - Director Prisons Industries Enterprise     |
| 6. Mr. Patrick Kariri        | - Director of Prisons Farm                   |
| 7. Ms. Christine Nangwana    | - Legal Officer                              |
| 8. Mr. Benson Zrunuu         | - Accountant                                 |

**OFFICE OF THE AUDITOR-GENERAL**

- |                         |   |
|-------------------------|---|
| 1. Mr. Njoroge Waithima | - Deputy Director Audit                 |
| 2. Mr. David Osiemo     | - Auditor/Parliamentary Liaison Officer |
| 3. Mr. Dorcas Kihanya   | - Auditor/Parliamentary Liaison Officer |
| 4. Ms. Lawrence Kiilu   | - Deputy Director Audit                 |

**NATIONAL TREASURY**

- |                      |                                 |
|----------------------|---------------------------------|
| Mr. Simon K. Kiriiba | - Parliamentary Liaison Officer |
|----------------------|---------------------------------|

**IN ATTENDANCE**

## NATIONAL ASSEMBLY SECRETARIAT

- |                        |                          |
|------------------------|--------------------------|
| 1. Mr. Leonard Machira | - Senior Clerk Assistant |
| 2. Mr. Silvanus Makau  | - Clerk Assistant III    |
| 3. Ms. Bevaline Mosoti | - Research Assistant III |
| 4. Mr. Robert Ngetich  | - Fiscal Analyst II      |
| 5. Ms. Pauline sifuma  | - Hansard Reporter       |
| 6. Mr. Peter Mutethia  | - Searjeant At Arms      |

### MIN. NA/AA&SC-SFAC/2023/072:

### PRELIMINARIES

The Chairperson called the meeting to order at 10.00 a.m., followed by a word of prayer and introductions.

The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Examination of the Auditor General Reports on Accounts of the Prison Industries Revolving Fund for the Financial Years 2020/2021 and 2021/2022.**
4. Any Other Business
5. Adjournment Date of the next meeting.

Afterwards, Ms. Salome Beacco, the Principal Secretary, undertook the witness oath. He tabled the management responses and supporting documents on the audited accounts of the Prisons Industries Revolving Fund for the financial years 2020/2021 and 2021/2022.

### MIN. NA/AA&SC-SFAC/2023/073: CONSIDERATION OF THE REPORTS OF THE AUDITOR- GENERAL ON THE AUDITED ACCOUNTS OF THE PRISONS INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022.

#### **Brief on the mandate and scope of the Fund**

The Accounting Officer briefed the Committee on the operations and scope of the Prisons Industries Revolving Fund.

#### **Financial Year 2020/2021**

The Committee examined the Auditor General's report for the Railway Development Levy Fund, Holding Account for the Financial year 2018/19 as follows:

##### **1. Inaccuracies in the Financial Statements**

The statement of cash flows reflects an amount of Kshs. 2,671,989 in respect of purchase of non-current assets under cash flow from investing activities. Further, the property, plant and equipment schedule in Note 15 to the financial statements reflects nil additions during the year. The resultant

### **1. Inaccuracies in the Financial Statements**

The statement of cash flows reflects an amount of Kshs. 2,671,989 in respect of purchase of non-current assets under cash flow from investing activities. Further, the property, plant and equipment schedule in Note 15 to the financial statements reflects nil additions during the year. The resultant difference was not explained or reconciled. In addition, the increase in accounts receivables is reflected in the statement of cash flows as a negative balance of Kshs. 30,318,827 instead of a negative balance of Kshs. 113,109,259, resulting in an unexplained variance of Kshs. 82,790,432.

Also, the decrease in payables is reflected in the statement of cash flows as a negative balance of Kshs.41,628,085 instead of a negative balance of Kshs.69,509,274, resulting in an unexplained variance of Kshs.27,881,188. In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

#### **Management response**

The Accounting Officer submitted that the Kshs. 2,671,989.00, in respect of part payment for the construction of a building to house the Prison Industry PRIAQUA machines for the water purification project at Prison Staff Training College, was erroneously omitted in the assets register and thus not included in the property, plant and equipment movement schedule of the financial statements.

She also stated that the Kshs 30,318,827.00 was captured as an increase in accounts receivables in the cash flow statement. She stated that previously, the amount was held as cash and cash equivalent in the books of accounts and has since been transferred to accounts receivables since the amount has not been realized. She indicated that Kshs 82,790,432.10 was part of the total credit sales made during the year of Kshs. 136,185,518.00, it did not affect the cash flow since the statement was prepared using the direct method.

She also stated that a decrease in accounts payables of Kshs 41,628,085.99, as reflected in the statement of cash flow, relates to payments made to creditors, which were made during the financial year. The balance of Kshs. 27,881,188.00 did not affect the cash flow statement under investing activities, but cash inflows under sales had already been recognized.

#### **Committee observation**

The Committee noted that the matter was not addressed.

The Auditor General to observe the matter in the subsequent matter.

### **2. Unsupported Cash and Cash Equivalents**

The statement of financial position reflects cash and cash equivalents balance of Kshs. 593,362,910 as at 30 June, 2021. Although the reporting date of the Fund is 30 June, 2021, the books of accounts for the 2020/2021 financial year were closed on 19 July 2021.

-As a result, the cut-off procedures were not complied with in determining the reported cash and cash equivalents balance. Further, one cash book and a single bank account were maintained in the

year under review for recording of financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, yet the two Funds are distinct and prepare separate sets of financial statements for audit purposes.

In addition, the reported cash and cash equivalents balance of Kshs.593,362,910 is a computed figure for the purposes of reporting and was not supported with a cash book, bank reconciliations or certificate of bank balances. In the circumstances, it has not been possible to confirm the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs. 593,362,910 as at 30 June, 2021.

#### **Management response**

The Accounting Officer submitted that the balance of Kshs 593,362,910.39 with respect to cash and cash equivalent as reflected in the statement of financial position was derived from the total revenues collected net of the total expenditures. She stated that during the financial year ended 30<sup>th</sup> June 2021, the IFMIS system was allowed to operate up to 13<sup>th</sup> July, 2021 and Payments made after 30<sup>th</sup> were treated as debtors or creditors for the reporting period.

She further stated that the Prison Industry Revolving Fund maintains one cashbook and one bank account held at CBK, which serves both the Prison Industry Revolving Fund and the Prison Farms Revolving Fund. The State Department sought authority from The National Treasury to separate the bank accounts, but authority to open separate bank accounts was not granted. She stated that the Treasury advised the State Department to align the Funds to the Public Finance Management Act 2012. The State Department is constituting an inter-ministerial taskforce to align the two funds to the PFM Act 2012.

#### **Committee observation**

The Committee noted that the matter was not addressed.

### **3. Unsupported Revenue from Exchange Transactions**

The statement of financial performance reflects sales of furniture and number plates totalling Kshs. 397,006,637 for the year ended 30 June, 2021. However, the main cash book maintained for recording sales of furniture and number plates was the same one used to record sales from prison farms. The combined cash book reflects amounts received without indicating the source of revenue and the account to which it relates, whether prison industries or farms. Further, the cash book was updated using the entries in the bank statements instead of the source documents raised at the point of sale. As a result, the revenue generated in respect of sales of furniture and number plates was not supported with documentary evidence in the form of cash book extracts, miscellaneous receipt books or bank statements.

In addition, the manual revenue register is maintained to support the amount of Kshs. 397,006,637 could not be reconciled with the entries posted in the main cash book. Consequently, the accuracy and completeness of the revenue from exchange transactions of Kshs.397,006,637 could not be confirmed.

### **Management Response**

The Accounting officer submitted that the Fund was able to collect Kshs. 397,006,637.00 as sales from furniture and number plates during the financial year 2020/2021. She stated that the Fund had 104 industry stations, with each station having serialized government miscellaneous receipts (MR) and MPESA pay bill numbers used to collect revenue. The monies are later transmitted daily to the CBK account.

### **Committee Observation**

The Committee noted that the matter was not addressed.

#### **4. Unsupported Non-Current Assets**

The statement of financial position reflects a non-current assets balance of Kshs.60,475,786 as at 30 June, 2021, which was at variance with Note 15 to the financial statements on property, plant and equipment figure of Kshs.57,549,346, resulting in an unreconciled variance of Kshs.2,926,440. Further, the assets register maintained for the Prison Industries Revolving Fund was last updated on 30 June, 2017. In the circumstances, the accuracy and completeness of the non-current assets of Kshs.60,475,786 as at 30 June, 2021 could not be confirmed.

### **Management Response**

The Accounting Officer submitted that the difference of Kshs. 2,926,440.00 between the balance in the financial statement of Kshs. 60,475,786, and the figure appearing in the notes amounting Kshs. 57,549,346.11 has been reconciled. She stated that the prior year adjustment had been effected in the draft account for the 2022/2023 Financial Year.

She also stated that the fixed assets register had not been updated at the time of the audit. However, it has since been updated.

### **Committee Observation**

The Committee noted that the matter was not addressed.

#### **5. Long Outstanding Creditors**

As disclosed in Note 16 to the financial statements, the statement of financial position as at 30 June, 2021 reflects trade and other payables - creditors of Kshs. 312,345,174. The balance includes an amount of Kshs. 82,921,500 owed to the other Government entities, which have been outstanding for more than a year. Management has not explained why the creditors were not paid despite the Fund having funds in its bank account as at 30 June, 2021.

### **Management Response**

The Accounting Officer submitted that the bills totalling Kshs. 312,345,174.00 were not settled at the end of the Financial Year as the same was undergoing verification. She explained that the bills amounting to Kshs. 226,233,304.00 had since been settled, leaving a balance of Kshs.

86,111,870.00 comprising of Kshs. 82,921,500.00 and Kshs. 300,000.00 payable to N.I.T.A. and A.S.K. respectively.

#### **Committee Observation**

The Committee noted that the matter was not addressed.

#### **6. Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle**

As previously reported, records at Kamiti Main Prison Industry revealed that machines for producing modern motorized vehicle number plates, which were supplied and delivered in the year 2016 at a cost of Kshs.15,295,500 have not been used for the intended purposes and have since remained idle to date. In addition, a three-year contract for the supply and delivery of motorized vehicle number plate blanks was signed on 7 November 2017, and the raw material was supplied.

However, the raw materials (motorized vehicle number plate blanks) are still held at the Kamiti Prison Industries stores. The information available indicates that a case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks was filed in the Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services, seeking specific performance of the contract or the alternative compensation for the full contract value of Kshs.1,050,000,000.

No information was provided on the current status of the case. Further, the management has not disclosed a contingent liability in these financial statements in relation to the case.

#### **Management Response**

The Accounting Officer submitted that the Kenya Prisons Service started the process of production of motor vehicle number plates in the year 1974. In 2014, a decision was made to migrate from the old number plates to the new generation number plates. In order to generate the new number plates, the state department procured and installed machines at a total cost of Kshs. 15,295,500 in the year 2016.

She stated that the matter was the subject of civil case no. E321 of 2020 was filed in the Milimani High Court between Tropical Technologies Ltd and the State Department for Correctional Services, and the matter is still pending in court. In addition, a provision for contingency liability has been provided in the Fund's draft financial statements for the 2022/2023 Financial Year..

#### **Committee Observation**

The Committee noted that the matter was not addressed.

**7. Failure to Use Information Technology in Finance and Procurement Sections**

The Prison Industries Fund was established by Legal Notice No.314 of the Exchequer and Audit Act (Cap 412) Regulations of 1988 and was deemed operational from 1 July 1987. The Fund, despite being in operation for 34 years, has yet to automate its operations, especially for purposes of financial reporting and procurement of goods and services. The transaction processing, ledgers and financial statements are done manually. Further, the Fund is yet to implement e-procurement for the management of the procurement processes as required by the Public Procurement and Asset Disposal Regulations, 2020 and Executive Order No. 2 of 2018. Management did not provide explanations for the failure to automate its operations.

**Management response**

Management submitted that the Prison Industries Fund was established by Legal Notice N0.314 of the Exchequer and Audit Act and commenced its operation on 1<sup>st</sup> July 1987. She stated that the Fund's operations were not automated due to inadequate budgetary resources. However, a budget for automation has been factored in the financial year (2023/2024) to ensure that procurement and Financial processes are carried out efficiently.

**Committee observation**

The Committee noted that the matter was not addressed.

**Examination of the Auditor General reports for the Prisons Industries Revolving Fund for the Financial Year 2020/2021**

The Committee resolved to postpone the consideration of the Auditor General report for the 2021/2022 Financial Year to a date to be communicated in due course.

MIN. NA/AA&SC-SFAC/2023/151:

ADJOURNMENT/DATE OF NEXT MEETING

There being no other business, the meeting was adjourned at 12.10 p.m. The next meeting will be held on notice.

SIGNED.....*Fatuma*.....DATE.....*12/oct/2023*.....

HON. FATUMA ZAINAB MOHAMMED, MP

(CHAIRPERSON)

SPECIAL FUNDS ACCOUNTS COMMITTEE

**MINUTES OF THE 65<sup>TH</sup> SITTING OF THE SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON TUESDAY, 21<sup>ST</sup> NOVEMBER 2023, IN EKA HOTEL AT 9.30AM.**

---

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Dawood Abdul Rahim, HSC, MP - Vice Chairperson
3. Hon. Dr. Christine Ombaka Oduor, MP
4. Hon. Charles Ngusya Nguna, MP
5. Hon. Erastus Kivasu Nzioka, MP
6. Hon. Eve Akinyi Obara, MP
7. Hon. Tom Mboya Odege, MP
8. Hon. Catherine Nakhabi Omanyoo, MP
9. Hon. Cecilia Asinyen Ngigit, MP
10. Hon. Joseph Kimutai Cherorot, MP

**APOLOGIES**

1. Hon. Faith Wairimu Gitau, MP
2. Hon. Joseph Majimbo Kalasinga, MP
3. Hon. Joshua Odongo Oron, MP
4. Hon. Kahugu Erick Mwangi, MP
5. Hon. Paul Kibichi Biego, MP

**IN ATTENDANCE**

**PRISONS INDUSTRIES FUND AND PRISON FARM REVOLVING FUND**

1. Ms. Salome Beacco - Principal Secretary Correctional Services
2. Brig (Rtd) John Warioba - Commissioner General Prisons
3. Mr. Peter Njoroge - Director Prisons services
4. Ms. Christine Nangwana - Head Legal services
5. Mr. Aurthur Nduati - Chief Finance Officer
6. Mr. Johnson Njuguna - Director Audit
7. Mr. Samfantony Kyalo - prison Enterprise SSP
8. Mr. Benson Irungu - Prison Enterprise CIP

**OFFICE OF THE AUDITOR-GENERAL**

1. Mr. Lawrence M Kiilu - Deputy Director Audit
2. Mr Tausley Kinyanjui - Principal Auditor
3. Mr. David Osiemo - Auditor/Parliamentary Liaison Officer

**NATIONAL TREASURY**

- Dr. Jackson Ndungo - Parliamentary Liaison Officer



## NATIONAL ASSEMBLY SECRETARIAT

- |                        |                                     |
|------------------------|-------------------------------------|
| 1. Mr. Leonard Machira | - Principal Clerk Assistant II      |
| 2. Ms. Comfort Achieng | - Clerk Assistant III               |
| 3. Mr. Silvanus Makau  | - Clerk Assistant III               |
| 4. Ms. Bevaline Mosoti | - Research Assistant III            |
| 5. Ms. Judith Kanyoko  | - Legal Counsel II                  |
| 6. Ms. Maryam Gabow    | - Public Communications Officer III |
| 7. Ms. Pauline Sifuma  | - Hansard Reporter                  |
| 8. Mr. Peter Mutethia  | - Audio officer III                 |
| 9. Mr. Benard Omondi   | - Sergeant at arms                  |

### MIN. NA/AA&SC-SFAC/2023/023:

### PRELIMINARIES

The Chairperson called the meeting to order at 10.014am, followed by a word of prayer and introductions.

The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Examination of the Auditor General Reports on Accounts of the Prisons Industries revolving fund for the Financial Years 2021/2022 and Prisons Farm revolving fund.**
4. Any Other Business
5. Adjournment Date of the next meeting.

After that, the Principal secretary state Department Correctional Services, undertook the witness oath. He tabled the management responses and supporting documents on the audited accounts of Prisons industries revolving Fund for the financial year 2021/2022 and **Prisons Farm revolving Fund** for the financial years 2020/2021 and 2021/2022.

### MIN. NA/AA&SC-SFAC/2023/024:

### CONSIDERATION OF THE AUDIT REPORTS OF PRISONS INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEAR 2021/2022 AND PRISONS FARM REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022

#### **Brief on the mandate and scope of the Fund**

The Accounting officer briefed the Committee on the operations and scope of the **Prisons Industries Revolving Fund and Prisons Farm Revolving Fund,**

## Examination of the Auditor General reports for Prisons Industries Revolving Fund for the financial year 2021/2022

The Committee examined the Auditor General's report for the Prisons industries revolving Fund for the Financial year 2021/2022 as follows:

### 1. Inaccuracies in the Statement of Cash Flows.

The statement of cash flows reflects a decrease in payables by Kshs.223,236,974, while a recalculation of the movement in payables under Note 16 to the financial statements revealed a decrease by Kshs.126,151,443 resulting in an unexplained variance of Kshs.97,085,531. In addition, the statement reflects no change in non-current receivables, while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs.59,970,930, resulting in an unexplained variance of Kshs.59,970,930. Further, the statement reflects an amount of Kshs.260,283,489 regarding net cash flows used in investing activities. This amount includes Kshs.223,236,974 relating to a decrease in payables, representing an operating activity and not an investing activity. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

### Management response

The Accounting Officer submitted that it was true that there was a decrease in payables of Kshs.223,236,974 as reflected in the cash flow. The carrying amount in the current year is derived as follows;

Description	Amounts- Kshs
Creditors B/F from F/y 2020/2021	312,345,174.00
Add New creditors for the year	97,085,531.00
Total creditors for the year	409,430,705.00
Less Creditors settled during the year	223,236,974.00
Outstanding creditors C/f F/Y 2021/2022	186,193,731.00

Management has also indicated that there was a decrease in non-current receivables of Kshs.136,185,518, which represented settled debtors as below:

Debtors B/F from F/Y 2020/2021	195,843,535.83
Add new Debtors for the year	196,156,448.00
Total Debtors	391,999,983.83
less Debtors settled during the year	136,185,518.00
Net Debtors C/F for F/Y 2021/2022	255,814,465.83

(iii) The statement of cash flows reflected an amount of Kshs 260,283,489.00 as a net cash flow from investing activities, which included an amount of Kshs 223,236,974.00 being amount cleared in respect of our creditors

#### **Committee observation**

The Committee noted that the matter was addressed.

### **2. Overstatement of Trade and Other Payables Balance**

Physical verification of the project revealed that the designated pedestrian footbridge at the main junction of Outering Road and Thika Road lacked barriers and a lighting system. Further, the Tassia Road section had open drainages clogged with garbage and overgrown vegetation, even though a firm had been contracted to regularly maintain the drainages along the road. value for money from road assets may not be achieved.

#### **Management response**

The Accounting officer submitted that the unpaid vouchers totaling to Kshs. 58,879,973 were inadvertently posted in the cashbook as at 30<sup>th</sup> June 2022. The cashbook for the year 2022/2023 has been adjusted to exclude the payments totaling Kshs.58,879,973 as a prior year adjustment and subsequently effected in the draft Financial Statements for the year 2022/2023 financial year.

#### **Committee observation**

The Committee noted that the matter was addressed.

### **3. Unsupported Cash and Cash Equivalents Balance**

The statement of financial position, as disclosed in Note 10 to the financial statements, reflects a cash and cash equivalents balance of Kshs.7,795,251. However, one cash book and a single bank account were maintained in the year under review for recording financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, yet the two (2) Funds are distinct and prepared separate sets of financial statements. Further, the bank reconciliation statement for the Fund presented for audit reflected an amount of Kshs.20,469,565 as payments in the bank statement, not in the cash book as of 30 June 2022, out of which an amount of Kshs.650,000 related to 2019/2020 financial year. The failure to record the payments in the cash book was not explained.

In addition, the bank reconciliation statement for June 2022 also reflects unrepresented cheques totalling Kshs.115,526,747, including stale cheques totalling Kshs.2,284,510. In the circumstances, the accuracy, completeness, and existence of the cash and cash equivalents balance of Kshs.7,795,251 could not be confirmed.

### **Management Response**

The Accounting Officer submitted that the financial transactions for the Prison Farm Revolving Fund and the Prison Industry Revolving Fund were processed and paid through a single cashbook and bank account.

She indicated that they had sought authority from the National Treasury for the separation of the accounts. The National Treasury advised the State Department to ensure the Funds Regulations align with the Public Finance Management Act 2012.

She stated that the bank balance of Kshs. 7,795,251.00 was derived from the calculation of the total revenues collected minus the total payments plus the balance B/F from the previous year. In addition, she noted that the figure was supported by the certificate of balance issued by Central Bank of Kenya (CBK) as of 30th of June 2022.

Additionally, she indicated that Payments totalling Kshs. 20,469,565 were inadvertently omitted from the cashbook. The relevant payment vouchers have been posted in the cashbooks. Appropriate prior year adjustments had been effected in the draft accounts for 2022/2023FY and bank reconciliation statements had been updated and reconciled.

### **Committee observation**

The Committee noted that the matter was partially addressed as the fund still did not have a separate cash book.

The Committee noted that a taskforce was established to expedite the process and progress has since been made towards the matter.

### **4. Unexplained Variance and Incomplete Fixed Asset Register**

The statement of financial position reflects a non-current assets balance of Kshs.93,404,716, while the corresponding Note 15 to the financial statements indicates a non-current assets balance of Kshs.94,595,861, resulting in an unexplained variance of Kshs.1,191,145. Further, the assets register provided for audit was not comprehensive and updated to reflect the date/year of acquisition, cost, depreciation rate, disposals and serial numbers as required. In the circumstances, the completeness and accuracy of the property, plant, and equipment balance of Kshs.93,404,716 could not be confirmed.

### **Management Response**

The Accounting Officer submitted that the statement of financial position reflected a non-current assets balance of Kshs. 93,404,716, while, as disclosed in Note 15 to the Financial Statements, non-current assets amount to Kshs. 94,595,861 before depreciation. she noted that the variance resulted from the Fund's Asset Register not being fully updated as at the reporting date.

She also noted that the register was now complete and available to the auditor for review.

### **Committee observation**

The Committee noted that the matter was partially addressed as the asset register provided had assets not been fully updated.

### **5. Material Uncertainty Related to Sustainability of Services.**

Note 5 to the financial statements discloses that if the motor vehicle number plate production is transferred to the National Transport and Safety Authority (NTSA) or any other Government entity, the sustainability of services of the Prison Industries Revolving Fund shall be affected adversely. As of November 2022, production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision, because of which production has since stopped at Kamiti Maximum Prison, resulting in the raw materials worth Kshs.101,348,772 and the fixed assets (machinery) held at Kam'iti Maximum Prison being idle. These conditions indicate that a material uncertainty exists, which may cast significant doubt on the Fund's ability to continue to sustain its services.

### **Management Response**

The Accounting Officer submitted that the ongoing concern for the Prison Industries Revolving Fund had been significantly affected following the transfer of the motor vehicle number plates production function. She indicated that the raw materials for number plates held at Kamiti Prison worth Kshs.101,348,772.00 and other fixed assets for number plates would be rendered obsolete if the transfer was fully affected. She has stated that they were working on adopting measures to increase revenue streams, such as:

- Modernization of Industry Equipment to enhance production efficiency.
- Explore Public Private Partnership-Kenya Prison Service has a ready workforce and land which can be used to attract potential partners. E.g. in the manufacture of Furniture.
- Broaden revenue streams. E.g. commercialising Priaqua Brand, Commercializing paints production and enhancing leatherwork in the prisons, among other measures.
- Construction of modern workshops- dilapidated structures to be replaced
- Training of instructors on modern technologies for technology transfer
- Enhanced marketing of Prison Industry and Products

### **Committee observation**

The Committee noted that the matter was not addressed.

### **6. Budgetary Control and Performance.**

The statement of comparison of budget and actual amounts reflects a final revenue budget amount of Kshs.608,047,134 and an actual on-comparable basis amount of Kshs.381,290,980, resulting in under collections of Kshs.226,756,156 or 37% of the budgeted revenue. Similarly, the statement reflects final recurrent budget expenditure amount of Kshs.652,043,729 against an actual on

comparable basis expenditure of Kshs.467,853,225, resulting in an under-expenditure of Kshs.184,190,504 or 28% of the budgeted expenditure. Management has not justified the underperformance and suppressed expenditure. The undercollection of revenue may have affected the operations and, hence, negatively impacted the planned activities of the Fund.

### **Management Response**

The Accounting Officer submitted that the Fund had projected to generate Kshs.608,047,134 from the sale of goods and services during the year under audit. However, actual receipts during the same period amounted to Kshs.381,290,979.50, resulting in underperformance of Kshs.226,756,156 or 37%. of the projected receipts.

She stated that similarly, the fund spent Kshs.467,559,491.70 out of the approved budget of Kshs.652,043,729, resulting in an under-expenditure of Kshs.184,484,238 or 28% of the budget. She also stated that the low sales adversely affected the achievement of the planned activities of the Fund. Further the Fund relied on the revenues collected from the Fund's sales to finance its expenditure. Therefore, the expenditure budget could not be attained when revenue targets were not achieved.

### **Committee observation**

The Committee noted that the matter was not addressed.

## **7. Unresolved Prior Year Matters**

In the previous year's audit report, several issues were raised under Report on Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or given any explanation for the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

### **Management Response**

The Accounting Officer submitted as follows :

#### **a) Unsupported cash (P.M.G) balance- Kshs. 175,987,430**

The Prison Industry Fund had a closing PMG account balance of Kshs 175,987,430 as of 30th June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination.

#### **b) Stalled projects - supply and delivery of motorized vehicle number plate blanks Tender NO. KPS/T/ICB/10/2014-2017**

The process had been frustrated by court cases between the State Department and the contractors. However, the number plate production was transferred to another Government entity in October 2022.

### **c) Opening separate bank accounts**

The National Treasury, in conjunction with the State Department for Correctional Service, has initiated the process of developing Regulations that conform with the PFM ACT. This will facilitate the granting authority to open separate bank accounts for the Funds.

### **d) Long outstanding creditors**

The long outstanding creditors owed to the National Industrial Training Authority amounting to Kshs. 82,921,500 is awaiting the availability of funds to be settled.

### **Committee observation**

The Committee noted that the matter was not addressed and directed Management to provide correspondence from NTSA to assist in the recovery of funds.

## **Examination of the Auditor General reports for Prison Farms Revolving Fund for the Financial Year 2020/2021z**

### **1. Inaccuracies in Presentation of the Financial Statements**

The statement of cash flows reflects cash flows from operating activities amounting to Kshs.119,111,044. However, the balance includes a reduction of creditors from the previous year of Kshs.871,000. Review of the statement of financial position indicates that creditors decreased by Kshs.821,000 from Kshs.1,700,000 to Kshs.829,000 as disclosed in Note 20(b) to the financial statements, resulting to an unreconciled difference of Kshs.50,000.

Further, the statement of comparison of budget and actual amounts reflects an amount of Kshs.261,327,868 in respect of both the original and final budget. However, the cast amount for the original and final budget is Kshs.259,892,868, resulting in an unexplained variance of Kshs.1,435,000 respectively.

In addition, the statement of financial position reflects total non-current assets of Kshs.111,539,902 which includes an amount of Kshs.1,096,300 in respect of scrap machinery. However, this amount and the item were not included in the property, plant and equipment movement schedule in Note 18 to the financial statements.

The accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June, 2021 could not be confirmed.

**Management Response**

The Accounting Officer submitted that the difference of Ksh. 50,000 was a trans positioning error caused by over casting of settled payables in the cashflow statement of Kshs 871,000 instead of Kshs 821,000.

She stated that the error was typographical, and reconciliation had since been done.

She stated that the original budget and the Actual total amount were Kshs.261,327,868.00, as shown in the attached approved budget. There was no Budget adjustment during the financial year, and the variance was attributed to a typographical error and was subsequently rectified in the revised 2020/2021. She also noted that the amount of Kshs,1,096,300,00 attributed to scrap machinery had not been included in the property plant and equipment movement schedule.

**Committee observation**

The Committee noted that the matter was addressed.

**2. Unsupported Revenue**

The statement of financial performance reflects total revenue of Kshs.355,889,736 in respect of sale of goods. However, an audit inspection of various prison farms revealed that records such as the ledgers, receipts vouchers, cash books and banking of receipts from the sale of goods were not provided for audit review. Consequently, the accuracy, completeness and existence of the reported revenue amounting to Kshs.355,889,736 could not be confirmed.

**Management Response**

The Accounting submitted that the sales figure of Kshs. 355,889,735.79, including an amount of Kshs. 127,272,079.21 being sales for the year under review while the amount of Kshs 228,617,656.58 was in respect of the previous year's debt brought forward (debtors)

She explained that the fund had a total of 93 farming stations, and each station had its independent serialized Government miscellaneous receipt and independent Mpesa paybill, which were utilized for the revenue collection. She noted that all sales were cashless and were recorded in the miscellaneous receipt. She stated that monies collected through the playbill were transmitted daily to the CBK account.

In addition, she stated that the fund had observed that receipts were regularly presented to prison headquarters for verification and recording. She noted that all the presented receipts were later controlled by a sales ledger which recorded all station revenue collected and this formed the basis for the Total annual revenue reported.

**Committee observation**

The Committee noted that the matter was not addressed.



### **3. Unsupported Cash and Cash Equivalents**

As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861 while the cash balance reported at Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs.50,000 has not been explained. Further, bank reconciliations were not provided. In the circumstances, the accuracy, completeness and existence of the reported cash and cash equivalents balance of Kshs.381,419,861 could not be confirmed.

#### **Management Response**

The Accounting submitted that the statement of financial position reflected cash and cash equivalents of Kshs.381,419,861 while the cash balance reported at Central Bank of Kenya was Kshs.381,469,861.

She noted that the difference of Ksh. 50,000 was an error caused by over casting of settled payables in the cashflow statement of Kshs 871,000 instead of Kshs 821,000. She also noted that the bank balance had since been reconciled.

#### **Committee observation**

The Committee noted that the matter was addressed.

### **4. Unsupported Non-Current Assets**

The statement of financial position reflects total non-current assets of Kshs.111,539,902. However, Management did not provide an asset register incorporating all the classes of assets managed and maintained by the Fund to support the balance of assets held by the Fund.

In the circumstances, the accuracy, completeness, and valuation of the non-current assets of Kshs.111,539,902 could not be confirmed.

#### **Management response**

The Accounting officer submitted that that it was true that the statement of financial performance reflected Kshs. 111,539,902 as total of non-current assets as at 30<sup>th</sup> June 2021. She stated that the Fund's asset register had been updated and availed as attached.

#### **Committee observation**

The Committee noted that the matter was not addressed as the asset register had missing details.

### **5. Other Matter-**

#### **Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.

## **Management Responses**

The Accounting officer submitted that it was true that the fund had unresolved prior year audit matters as stated below:

### **a) Unsupported cash (P.M.G) balance- Kshs. 175,987,430**

The Prison Industry Fund had a closing PMG account balance of Kshs 175,987,430 as at 30th June, 2019 which was money not yet transferred from former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination.

### **b) Pending receivable of kshs. 17,000,000**

It relates to an outstanding amount owed to the fund by the state department for correctional services (SDCS). The delay to settle the outstanding bill is attributed to limited budgetary allocations. In the current financial year an allocation has been provided for, the bill has been processed and is awaiting funding from treasury.

### **c) Opening separate bank accounts**

The prisons farms revolving fund commits to opening separate bank account. The National treasury in conjunction with the state department for correctional service has initiated the process of developing regulations that conform with the PFM ACT. This will facilitate granting of authority to open separate bank accounts for the farms fund

## **Committee observation**

The Committee noted that the matter was not addressed.

## **6. Undue Delay in Disposal of Assets**

Physical verification carried out in Kitale Main Prison Farm in October 2021 revealed that a Board of Survey on stores and unserviceable items was conducted on 10 September, 2019, which identified various old and ageing livestock for disposal. On 19 December 2019, the State Department for Correctional Services halted the disposal exercise, advising that an auctioneer had been identified to conduct the disposal. However, the disposal process had not been concluded as of October 2021.

In the circumstances, value for money could not be realized due to deterioration of value of the livestock.

## **Management Response**

The Accounting Officer submitted that the authority for Disposal of the mature livestock was granted. She stated that the State Department decided to sell same as meat for inmates' consumption at the prevailing supply price then. A total of 101 mature animals were disposed and realized Kshs.12,998,450.00.

**Committee observation**

The Committee noted that the matter was addressed.

**7. Comingling of Funds**

Review of the cashbook revealed that Management uses a single cash book for recording of financial transactions and maintains one bank account for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund leading to comingling of funds. This is even though the two funds prepare and submit separate sets of financial statements for audit purposes. In the circumstances, existence of effective internal controls on funds could not be confirmed.

**Management Response**

The Accounting Officer submitted that it was true that the fund maintained one cashbook and bank account which served both PIRF & PFRF and had been so for quite some years. She stated that they had sought authority from National Treasury for separation of the accounts. She also stated that a taskforce was in place to align the Legal Notice with PFM Act.

**Committee observation**

The Committee noted that the matter was not addressed.

**Examination of the Auditor General reports for Prison Farms Revolving Fund, for the Financial Year 2021/2022****8. Unsupported Cash and Cash Equivalents**

Amount: Kshs.55,704,138. Single cash book and a single bank account was maintained in the year under review for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund yet the two Funds are distinct and prepare separate sets of financial statements. Further, bank reconciliation statement for the month of June, 2022 reflects and includes stale cheques amounting to Kshs.2,284,510 were stale.

The accuracy, completeness and existence of cash and cash equivalents balance of Kshs.55,704,138 could not be confirmed.

**Management Response**

The Accounting Officer submitted that it concurred with the observation. She stated that the bank balance of Kshs 55,704,138 was derived from the total revenues collected net of the total expenditures and was supported by the CBK bank account statement as at the date of closure. She also explained that the fund had a total of 93 farming stations and each station has its independent serialized Government miscellaneous receipt and independent mpesa Paybill utilized for collection of revenue.

She stated the sales were cashless and recording was done on miscellaneous receipt. She stated that the Monies collected through the pay bill were transmitted daily basis to the CBK account. She also noted that the receipts we're regularly presented to prisons headquarters for verification and recording. She also noted that all the presented receipts were later controlled by a sales ledger which records all station revenue collected and this forms the basis for the Total annual revenue reported.

#### **Committee observation**

The Committee noted that the matter was partially addressed as the matter on the single cashbook was pending.

#### **Other Matter-**

##### **9. Unresolved Prior Year Matters**

In the audit report of the previous year, several issues were raised under the Report on Financial Statements, and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or given any explanation for failure to adhere to the provisions of the Public Sector Accounting Standards Board templates and The National Treasury's Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.

#### **Management Response**

The Accounting officer submitted the Fund had unresolved prior year audit matters as stated below:

##### **a) Unsupported cash (P.M.G) balance- Kshs. 175,987,430.**

The Prison Industry Fund had a closing PMG account balance of Kshs 175,987,430 as at 30th June, 2019 which was money not yet transferred from former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination.

##### **b) Pending receivable of kshs. 17,000,000**

It relates to an outstanding amount owed to the fund by the state department for correctional services (SDCS). The delay to settle the outstanding bill is attributed to limited budgetary allocations. in the current financial year an allocation has been provided for, the bill has been processed and is awaiting funding from the National Treasury.

##### **c) Opening separate bank accounts**

The National Treasury in conjunction with the state department for correctional service has initiated the process of developing regulations that conform with the PFM ACT. This will facilitate granting of authority to open separate bank accounts.

**Committee observation**

The Committee noted that the matter was not addressed.

**Management Response**

The Accounting Officer submitted that Fund had a closing account balance of Kshs. 95,825,186.72 as at 30th June 2019 which includes funds of Kshs. 56,021,755 not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Coordination of National Government. The PMG amount represents the amount that is held in the former Ministry’s Deposit Account.

**Committee observation**

The Committee noted that the matter was not addressed.

**10. Failure to Use Information Technology in Finance and Procurement Departments**

The Fund, despite being in operation for 30 years, is yet to automate its operations. The financial transactions processing, ledgers and financial statements are done manually. Further, the Fund is yet to implement e-procurement for managing the procurement processes as required by the Public Procurement and Asset Disposal Regulations, 2020 and the Executive Order No.2 of 2018. In the circumstances, Management was in breach of the law.

**Management Response**

The Accounting Officer submitted that the Fund was partially automated in the following areas;

- 1 All payments are done through IFMIS
- 2. All revenues are collected through cashless platform – E-citizen, EFTs/RTGs

She noted that the fund was in the process of acquiring a Financial Management system during the current financial year, which was provisioned for, in the current budget of 2023/2024 financial year.

**Committee observation**

The Committee noted that the matter was not addressed.

**MIN. NA/AA&SC-SFAC/2023/025: ADJOURNMENT/DATE OF NEXT MEETING**

There being no other business, the meeting was adjourned at 12.44 p.m. The next meeting will be held on notice.



SIGNED.....*V. Chair*.....*Rehman*.....DATE.....

f.

HON. FATUMA ZAINAB MOHAMMED, MP

(CHAIRPERSON)

**SPECIAL FUNDS ACCOUNTS COMMITTEE**

**MINUTES OF THE 16<sup>TH</sup> SITTING OF SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON THURSDAY, 4<sup>TH</sup> APRIL 2024, IN PRIDE INN PARADISE HOTEL .**

---

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Dr. Christine Ombaka Oduor, MP
3. Hon. Charles Ngusya Nguna, MP
4. Hon. Eve Akinyi Obara, MP
5. Hon. Erastus Kivasu Nzioka, MP
6. Hon. Tom Mboya Odege, MP
7. Hon. Catherine Nakhabi Omanyoo, MP
8. Hon. Cecilia Asinyen Ngitit, MP
9. Hon. Joseph Kimutai Chererot, MP
10. Hon. Erick Wamumbi, MP
11. Hon. Paul Kibichi Biego, MP

**APOLOGIES**

1. Hon. Dawood Abdul Rahim, HSC, MP - Vice Chairperson
2. Hon. Faith Wairimu Gitau, MP
3. Hon. Joshua Odongo Oron, MP
4. Hon. Joseph Majimbo Kalasinga, MP

**OFFICE OF THE AUDITOR-GENERAL**

Mr. David Osiemo - Liaison Officer.

**NATIONAL TREASURY**

Mr Simon Kiriiba - Liaison Officer

**NATIONAL ASSEMBLY SECRETARIAT**

1. Ms. Erick Nyambati - Clerk Assistant I
2. Ms. Comfort Achieng - Clerk Assistant III
3. Mr. Nimrod Mate - Clerk Assistant III
4. Mr. Robert Ngetich - Fiscal Analyst II
5. Ms. Judith Kanyoko - Legal Counsel II
6. Mr. Derrick Kathurima - Media Relations Officer III
7. Ms. Felistus Muiya - Public Communications Officer III
8. Mr, Joshua Lenambet - Sergeant-at-arms
9. Mr. Abdifatah Mahat - Attachee

**MIN. NA/AA&GPC-SFAC/2024/048**

**PRELIMINARIES**

The Chairperson called the meeting to order at 2.39pm, followed by a word of prayer and introductions. The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Report writing on the Consideration of the Auditor General Reports on Accounts of Prison Farm Revolving Fund for the Financial Years 2021/2022.**
4. Any Other Business
5. Adjournment Date of the next meeting.

**MIN. NA/AA&GPC-SFAC/2024/049**

**REPORT WRITING ON THE CONSIDERATION OF  
THE AUDITOR GENERAL REPORTS ON  
ACCOUNTS OF PRISON FARM REVOLVING FUND  
FOR THE FINANCIAL YEARS 2021/2022**

**EXAMINATION OF THE REPORT OF THE AUDITOR-GENERAL FOR THE  
FINANCIAL YEAR 2021/2022**

**a. Unsupported Cash and Cash Equivalents**

2. The statement of financial position reflects a cash equivalents balance of Kshs.55,704,138 as disclosed in Note 11 to the financial statements. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements.
3. Further, bank reconciliations provided for audit reflect an amount of Kshs. 115,526,747 in respect of unrepresented cheques, of which Kshs. 2,284,510 were stale as of 30 June 2022.
4. In the circumstances, the accuracy, completeness and existence of the reported cash and cash equivalents balance of Kshs. 55,704,138 could not be confirmed.

**Submissions by the Accounting Officer**

5. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account, which serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services has since sought authority from the National Treasury to separate the bank accounts.
6. However, the National Treasury declined the request and directed that the Regulations governing the funds' operations be aligned with the PFM Act 2012. Subsequently, a task Force was constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs 55,704,138 was derived from the total revenues collected net of the total expenditures and is supported by the CBK bank account statement as of the closure date.



7. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. The amount included payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, including unreversed stale cheques. The stale cheques of Kshs.2,284,510 in the bank reconciliation represent payments inadvertently posted in the cashbook. The payments have since been reversed.

#### **Observations and Findings of the Committee**

##### **8. The Committee observed that:**

- i. **The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and bank account;**
- ii. **A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012**
- iii. **The matter remained unresolved.**

#### **Recommendations of the Committee**

9. **The Committee recommends that within six months of the adoption of this report, the Accounting Officer submit a progress report to the Auditor—General on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012**

#### **Other Matter**

##### **b. Unresolved Prior Year Matters**

10. The previous year's audit report raised several issues under the Report on Financial Statements and Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

#### **Submissions by the Accounting Officer**

11. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
  - i. The Prison Farms Revolving Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to Ministry of Interior & Coordination of National Government;
  - ii. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill is attributed to limited budgetary allocations. In the current

financial year, an allocation has been provided for, the bill has been processed and is awaiting funding from the National Treasury;

- iii. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. She submitted that the National Treasury, in conjunction with the State Department for Correctional Services, has initiated the development of Regulations that conform with the PFM Act. This will facilitate the granting of authority to open the bank account.

12. She further submitted that the management is making efforts to resolve all these pending matters.

#### **Observations and Findings of the Committee**

##### **13. The Committee observed that:**

- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Sec.53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
- ii. The matter remained unresolved.

#### **Recommendations of the Committee**

**14. The Committee recommends that within three months of the adoption of this report, the Accounting Officer provide a status report for unresolved prior-year matters to the Auditor General for audit verification.**

##### **c. Failure to Use Information Technology in Finance and Procurement Sections**

15. The Prison Farms Revolving Fund was established by Legal Notice No.87 of the Exchequer and Audit Act (Cap 412) Regulations of 1993 and became operational on 1 July 1992. Despite being in operation for 30 years, the Fund has yet to automate its operations, especially for financial reporting and procurement of goods and services. Transaction processing, ledgers, and financial statements are done manually.

16. Further, the Fund has yet to implement e-procurement to manage the procurement processes as required by the Public Procurement and Assets Disposal Regulations, 2020 and Executive Order No. 2 of 2018.

17. Management has not explained the failure to automate its operations.

#### **Submissions by the Accounting Officer**

18. The Accounting Officer submitted that the operations of the Fund were partially automated in the following areas;

- ii. All payments are made through IFMIS, and
- iii. All revenues are collected through a cashless platform – E-citizen, EFTs/RTGs

19. However, the Fund has since initiated the process of acquiring a Financial Management system in the 2023/2024 financial year.

**Observations and Findings of the Committee**

20. The Committee observed that:

- i. The Fund has neither automated its operations nor implemented e-procurement in managing its procurement processes, and
- ii. The matter is unresolved

**Recommendations of the Committee**

21. The Committee recommends that within six months of the adoption of this report, the Accounting Officer submits a status report to the Auditor-General on the acquisition of the Financial Management System and the implementation of e-procurement.

MIN. NA/AA&GPC-SFAC/2024/050.      ADJOURNMENT/DATE OF NEXT MEETING

There being no other business, the meeting was adjourned at 3.41p.m. The next meeting will be held on notice.

SIGNED..........DATE. 17/08/2024.....

HON. FATUMA ZAINAB MOHAMMED, MP  
(CHAIRPERSON)  
SPECIAL FUNDS ACCOUNTS COMMITTEE

**MINUTES OF THE 14<sup>TH</sup> SITTING OF SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON WEDNESDAY, 3<sup>RD</sup> APRIL 2024, IN PRIDE INN PARADISE HOTEL .**

---

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Dr. Christine Ombaka Oduor, MP
3. Hon. Charles Ngusya Nguna, MP
4. Hon. Eve Akinyi Obara, MP
5. Hon. Erastus Kivasu Nzioka, MP
6. Hon. Tom Mboya Odege, MP
7. Hon. Catherine Nakhabi Omanyoo, MP
8. Hon. Cecilia Asinyen Ngitit, MP
9. Hon. Joseph Kimutai Cherorot, MP
10. Hon. Erick Wamumbi, MP
11. Hon. Paul Kibichi Biego, MP

**APOLOGIES**

1. Hon. Dawood Abdul Rahim, HSC, MP - Vice Chairperson
2. Hon. Faith Wairimu Gitau, MP
3. Hon. Joshua Odongo Oron, MP
4. Hon. Joseph Majimbo Kalasinga, MP

**OFFICE OF THE AUDITOR-GENERAL**

Mr. David Osiemo - Liaison Officer.

**NATIONAL TREASURY**

Mr Simon Kiriiba - Liaison Officer

**NATIONAL ASSEMBLY SECRETARIAT**

1. Ms. Erick Nyambati - Clerk Assistant I
2. Ms. Comfort Achieng - Clerk Assistant III
3. Mr. Nimrod Mate - Clerk Assistant III
4. Mr. Robert Ngetich - Fiscal Analyst II
5. Ms. Judith Kanyoko - Legal Counsel II
6. Mr. Derrick Kathurima - Media Relations Officer III
7. Ms. Felistus Muiya - Public Communications Officer III
8. Mr. Joshua Lenambet - Sergeant-at-arms
9. Mr. Abdifatah Mahat - Attachee

MIN. NA/AA&GPC-SFAC/2024/042

**PRELIMINARIES**

The Chairperson called the meeting to order at 2.10 pm followed by a word of prayer and introductions. The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Report writing on the Consideration of the Auditor General Reports on Accounts of Prison Industries Revolving Fund for the Financial Years 2021/2022.**
4. Any Other Business
5. Adjournment Date of the next meeting.

MIN. NA/AA&GPC-SFAC/2024/043 -

**REPORT WRITING ON THE CONSIDERATION OF THE AUDITOR GENERAL REPORTS ON ACCOUNTS OF PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2021/2022.**

**Examination of the report of the Auditor-General for the Financial Year 2021/2022**

**a. Inaccuracies in the Statement of Cash Flows**

2. The statement of cash flows reflects a decrease in payables by Kshs. 223,236,974, while a recalculation of the movement in payables under Note 16 to the financial statements revealed a decrease by Kshs. 126,151,443, resulting in an unexplained variance of Kshs. 97,085,531. In addition, the statement reflects no change in non-current receivables, while a recalculation of the movement under Note 13(b) to the financial statements revealed an increase of Kshs. 59,970,930, resulting in an unexplained variance of Kshs. 59,970,930.
3. Further, the statement reflects an amount of Kshs. 260,283,489 in respect of net cash flows used in investing activities. This amount includes Kshs. 223,236,974 relating to a decrease in payables, which represents an operating activity and not an investing activity. In the circumstances, the accuracy and completeness of the statement of cash flows could not be confirmed.

**Submissions by the Accounting Officer**

4. The Accounting Officer submitted as follows:
  - (i) There was a decrease in payables of Kshs. 223,236,974, as reflected in the cash flow. The balance of Kshs 186,193,731.00 was derived as follows:

<b>Description</b>	<b>Amounts- Kshs</b>
Creditors B/F from F/y 2020/2021	312,345,174.00
Add New creditors for the year	97,085,531.00
Total creditors for the year	409,430,705.00
Less Creditors settled during the year	223,236,974.00
Outstanding creditors C/f F/Y 2021/2022	186,193,731.00

- (ii) There was a decrease in non-current receivables of Kshs. 136,185,518 which represented settled debtors, the carrying amount in the current year was derived as follows:

Debtors B/F from F/Y 2020/2021	195,843,535.83
Add new Debtors for the year	196,156,448.00
Total Debtors	391,999,983.83
less Debtors settled during the year	136,185,518.00
Net Debtors C/F for F/Y 2021/2022	255,814,465.83

- (iii) The statement of cash flows reflected an amount of Kshs 260,283,489.00 as a net cash flow from investing activities which included an amount of Kshs 223,236,974.00 being amount cleared in respect of creditors.

#### Observations and Findings of the Committee

The Committee observed that

- i. The statement of cash flows reflected an amount of Kshs 260,283,489.00 as a net cash flow from investing activities which included an amount of Kshs 223,236,974.00 being amount cleared in respect of creditors.
- ii. The matter is resolved.

#### 5. Recommendations of the Committee

The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.

#### b. Overstatement of Trade and Other Payables Balance

6. The statement of financial position as disclosed in Note 16 to the financial statements, reflects trade and other payables - creditors balance of Kshs. 186,193,731, which included an amount of Kshs. 58,879,973 paid and posted in the cash book on 30 June 2022. However, the payment was also disclosed in the bank reconciliation statement for June, 2022 among the unrepresented cheques. In the circumstances, the accuracy of the trade and other payables - creditors' balance of Kshs.186,193,731 could not be confirmed.

### **Submissions by the Accounting Officer**

7. The Accounting Officer submitted that the unpaid vouchers totalling Kshs. 58,879,973 were inadvertently posted in the cashbook as of 30 June 2022. She further submitted that the cashbook for the year 2022/2023 has been adjusted to exclude the payments totalling Kshs. 58,879,973 as a prior-year adjustment and subsequently effected in the Financial Statements for the 2022/2023 financial year.

### **Observations and Findings of the Committee**

#### **8. The Committee observed that**

- i. **The unpaid vouchers totalling Kshs. 58,879,973 were inadvertently posted in the cashbook.**
- ii. **The Auditor General verified that the cashbook for the year 2022/2023 had been adjusted to exclude the payments totalling Kshs. 58,879,973 as a prior-year adjustment**
- iii. **the matter is resolved.**

#### **d. Unsupported Cash and Cash Equivalents Balance**

9. The statement of financial position as disclosed in Note 10 to the financial statements, reflects cash and cash equivalents balance of Kshs.7,795,251. However, one cash book and a single bank account were maintained in the year under review to record financial transactions for the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two (2) Funds are distinct and prepare separate sets of financial statements. Further, the bank reconciliation statement for the Fund presented for audit reflected an amount of Kshs.20,469,565 as payments in the bank statement, not in the cash book as at 30 June, 2022, out of which an amount of Kshs.650,000 related to the 2019/2020 financial year. The failure to record the payments in the cash book was not explained.
10. In addition, the bank reconciliation statement for June 2022 reflects unrepresented cheques totalling Kshs.115,526,747, including stale cheques totalling Kshs.2,284,510. In the circumstances, the accuracy, completeness, and existence of the cash and cash equivalents balance of Kshs.7,795,251 could not be confirmed.

### **Submissions by the Accounting Officer**

11. The Accounting Officer submitted that the State Department for Correctional Services maintains one cashbook and one bank account, which serves both Prison Industries Revolving Fund and Prison Farms Revolving Fund. The State Department for Correctional Services sought authority from the National Treasury to separate the bank accounts.
12. She also submitted that the National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A taskforce has been constituted to align Regulations with the PFM Act 2012. The bank balance of Kshs. 7,795,251.00 was derived from calculating the total revenues collected minus the total

payments plus the balance B/F from the previous year. The figure is supported by the certificate of bank balance issued by the Central Bank of Kenya (CBK) as of June 30, 2022.

13. The Accounting Officer also submitted that payments totalling Kshs. 20,469,565 were inadvertently omitted from the cashbook. The relevant payment vouchers have been posted in the cashbooks, and appropriate prior-year adjustments have been effected in the financial statements for 2022/2023.
14. She further submitted that the bank reconciliation statement for the Prisons Enterprises Fund reflected an amount of Kshs. 115,526,747 as payments in the cashbook but not in the bank statement as of 30 June 2022. This amount includes payments that did not clear as of 30 June 2022; however, these payments cleared in July 2022, which included Unreversed Stale Cheques. The stale cheques of Kshs. 2,284,510 in the bank reconciliation represents payments inadvertently posted in the cashbook. The payments have since been reversed.

#### **Observations and Findings of the Committee**

##### **15. The Committee observed that:**

- i. **The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintains one cash book and one bank account;**
- ii. **A task Force had been constituted to align the Regulations of the two funds with the PFM Act 2012, and progress has since been made towards the matter and**
- iii. **The matter remained unresolved.**

#### **Recommendations of the Committee**

16. **The Committee recommends that within six months of the adoption of this report, the Accounting Officer to submit a progress report to the Auditor—General on aligning the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with the PFM Act 2012.**

##### **e. Unexplained Variance and Incomplete Fixed Asset Register**

17. The statement of financial position reflects a non-current assets balance of Kshs.93,404,716, while the corresponding Note 15 in the financial statements indicates a non-current assets balance of Kshs.94,595,861, resulting in an unexplained variance of Kshs.1,191,145. Further, the assets register provided for audit was not comprehensive and updated to reflect the date/year of acquisition, cost, depreciation rate, disposals and serial numbers as required. In the circumstances, the completeness and accuracy of the property, plant and equipment balance of Kshs.93,404,716 could not be confirmed.

#### **Submissions by the Accounting Officer**

18. The Accounting Officer submitted that the statement of financial position reflects a non-current assets balance of Kshs. 93,404,716, as disclosed in Note 15 to the Financial



Statements, indicates non-current assets amounting to Kshs. 94,595,861 before depreciation of Kshs. 4,117,584, as disclosed in note 8 to the financial statements. The amount of Kshs.93,404,716 was ascertained as follows:

Total assets	94,595,861
<i>Less</i> depreciation	(4,117,584)
Assets net of depreciation	90,478,277
Add Scrap machinery	2,926,440
NBV in the financial position	93,404,716

19. She further submitted that the Fund's Asset Register was not fully updated at the reporting date. The register is complete and was provided to the auditor for review.

#### **Observations and Findings of the Committee**

##### **20. The Committee observed that:**

- i. **The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020.**
- ii. **The matter remained unresolved.**

#### **Recommendations of the Committee**

21. **The Committee recommends that, within three months of the adoption of this report the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and asset Disposal Regulation 2020, for audit verification.**

##### **f. Material Uncertainty Related to Sustainability of Services**

22. Note 5 to the financial statements discloses that if the motor vehicle number plate production is transferred to the National Transport and Safety Authority (NTSA) or any other Government entity, the sustainability of services of the Prison Industries Revolving Fund shall be affected adversely. As at November 2022, production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision, as a result of which production has since stopped at Kamiti Maximum Prison, resulting in the raw materials worth Kshs.101,348,772 and the fixed assets (machinery) held at Kamiti Maximum Prison being idle. These conditions indicate a material uncertainty, which may cast significant doubt on the Fund's ability to sustain its services.

##### **Submissions by the Accounting Officer**

23. The Accounting Officer submitted that if the production of Motor Vehicle number plates is transferred to NTSA or any other government entity, the going concern of the Prison Industries Revolving Fund would be significantly affected. She submitted that as of November 2022, raw materials for number plates held at Kamiti Prison worth

Kshs.101,348,772.00 and other fixed assets related to number plates will be rendered obsolete.

24. However, the management was working on implementing measures to ensure the Fund's going concern is not threatened. The measures include adopting strategies to increase revenue streams through the following measures:

- Modernization of Industry Equipment to enhance efficiency in production.
- Explore Public Private Partnership-Kenya Prison Service has a ready workforce and land which can be used to attract potential partners. e.g. in the manufacture of furniture.
- Broaden revenue streams. For example, Commercialize the PRIAQUA Brand, Commercialize paint production, and enhance leatherwork in prisons, among other measures.
- Construction of modern workshops to replace dilapidated structures.
- Training of instructors on modern technologies for technology transfer
- Enhanced marketing of the prison industry products

#### **Observations and Findings of the Committee**

25. The Committee observed that:

- i. Production of the number plates at Kamiti Maximum Prison was transferred to NTSA through a Cabinet decision as at November, 2022;
- ii. The transfer of the production of the number plates from the Fund - which is the main source of income for the Fund, to NTSA has significantly affected the going concern of the Fund.
- iii. Raw materials worth Kshs. 101,348,772 and the machinery held at Kamiti Maximum Prison are idle;
- iv. The matter remained unresolved.

#### **Recommendations of the Committee**

26. The Committee recommends that:

- i. **Within six months of the adoption of this report, the Accounting Officer to provide a progress report on the implementation of measures taken by the Fund to ensure that it remains a going concern.**
- ii. **Within three months of the adoption of this report, the Accounting Officer seeks authority to dispose of idle raw material and machinery held at Kamiti Maximum Prison**
- iii. **Within six months of the adoption of this report, the Accounting Officer to provide a progress report to the Auditor – General on the disposal.**

#### **Other Matters**

- g. **Budgetary Control and Performance**

27. The statement of comparison of budget and actual amounts reflects a final revenue budget amount of Kshs. 608,047,134 and an actual comparable basis amount of Kshs. 381,290,980, resulting in collections of Kshs. 226,756,156 or 37% of the budgeted revenue. Similarly, the statement reflects the final recurrent budget expenditure amount of Kshs. 652,043,729 against an actual comparable basis expenditure of Kshs. 467,853,225, resulting in an under-expenditure of Kshs. 184,190,504 or 28% of the budgeted expenditure. Management has not justified the underperformance and suppressed expenditure. The under collection of revenue may have affected the operations and, hence, negatively impacted the planned activities of the Fund.

#### **Submissions by the Accounting Officer**

28. The Accounting Officer submitted that the Statement of Comparison of Budget and Actual amounts revealed that the Prison Industry Revolving Fund had projected to generate Kshs. 608,047,134 from the sale of goods and services during the year under audit. However, the actual receipt during the same accounting period amounted to Kshs. 381,290,980, resulting in underperformance of Kshs. 226,756,156 or 37%. of the projected receipts. Similarly, the fund spent Kshs. 467,559,491 out of the approved budget of Kshs. 652,043,729, resulting in an under-expenditure of Kshs. 184,484,238 or 28% of the budget.

29. She further submitted that this was occasioned by the outbreak of the COVID-19 pandemic, which inhibited the movement of inmates, persistent low demand for the products, and other economic constraints in the country, resulting in low business; hence, these had a profound effect on the Fund's operations. The Fund wholly relies on the revenues collected from its sales to finance its expenditures.

#### **Observations and Findings of the Committee**

##### **30. The Committee observed that:**

- i. **The Fund's underperformance of Kshs. 226,756,156, or 37%, was caused by the outbreak of the COVID 19 pandemic.**
- ii. **The underperformance by the Fund resulted in a 28% under-expenditure.**
- iii. **The matter is resolved.**

##### **h. Unresolved Prior Year Matters**

31. In the previous year's audit report, several issues were raised under Report on Financial Statements, Lawfulness and Effectiveness in Use of Public Resources, and Report on Effectiveness of Internal Controls, Risk Management and Governance. However, Management has not resolved the issues or explained the failure to adhere to the provisions of the Public Sector Accounting Standards Board templates.

#### **Submissions by the Accounting Officer**

32. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
- i. The Prison Industry Revolving Fund had a closing PMG account balance of Kshs 175,987,430 as of 30 June 2019, which was money not yet transferred from the former Ministry of Home Affairs (MOHA) deposit account to the Ministry of Interior and Coordination after the merging of ministries, where prisons were transferred to the Ministry of Interior & Coordination of National Government.
  - ii. **Stalled Project for Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plate Blanks**—The process was frustrated by court cases between the State Department and the contractors. However, the production of number plates was transferred to another Government entity in October 2022.
  - iii. **Opening a separate bank account for the Prisons Farms Revolving Fund:** The National Treasury, in conjunction with the State Department for Correctional Services, has initiated the process of developing regulations that conform with the PFM Act. This will facilitate the granting of authority to open a separate bank account for the two Funds.
  - iv. Long Outstanding Creditors owed to National Industrial Training Authority amounting to Kshs. 82,921,500 is awaiting the availability of funds to be settled.

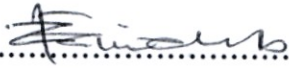
### **Observations and Findings of the Committee**

33. The Committee observed that;
- (i) Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Section53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
  - (ii) The matter remained unresolved.

**Recommendations of the Committee**

34. The Committee recommends that within three months of the adoption of this report, the Accounting Officer provide a status report for unresolved prior-year matters to the Auditor General for audit verification.

MIN. NA/AA&GPC-SFAC/2024/044. ADJOURNMENT/DATE OF NEXT MEETING  
There being no other business, the meeting was adjourned at 4.05p.m. The next meeting will be held on notice.

SIGNED..........DATE. 17/08/2024.....

HON. FATUMA ZAINAB MOHAMMED, MP  
(CHAIRPERSON)  
SPECIAL FUNDS ACCOUNTS COMMITTEE

**MINUTES OF THE 13<sup>TH</sup> SITTING OF SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON WEDNESDAY, 3<sup>RD</sup> APRIL 2024, HELD IN PRIDE INN PARADISE HOTEL .**

---

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Dr. Christine Ombaka Oduor, MP
3. Hon. Charles Ngusya Nguna, MP
4. Hon. Eve Akinyi Obara, MP
5. Hon. Erastus Kivasu Nzioka, MP
6. Hon. Tom Mboya Odege, MP
7. Hon. Catherine Nakhabi Omanyoo, MP
8. Hon. Cecilia Asinyen Ngitit, MP
9. Hon. Joseph Kimutai Cherorot, MP
10. Hon. Erick Wamumbi, MP
11. Hon. Paul Kibichi Biego, MP

**APOLOGIES**

1. Hon. Dawood Abdul Rahim, HSC, MP - Vice Chairperson
2. Hon. Faith Wairimu Gitau, MP
3. Hon. Joshua Odongo Oron, MP
4. Hon. Joseph Majimbo Kalasinga, MP

**OFFICE OF THE AUDITOR-GENERAL**

Mr. David Osiemo - Liaison Officer.

**NATIONAL TREASURY**

Mr Simon Kiriiba - Liaison Officer

**NATIONAL ASSEMBLY SECRETARIAT**

1. Ms. Erick Nyambati - Clerk Assistant I
2. Ms. Comfort Achieng - Clerk Assistant III
3. Mr. Nimrod Mate - Clerk Assistant III
4. Mr. Robert Ngetich - Fiscal Analyst II
5. Ms. Judith Kanyoko - Legal Counsel II
6. Mr. Derrick Kathurima - Media Relations Officer III
7. Ms. Felistus Muiya - Public Communications Officer III
8. Mr. Joshua Lenambet - Sergeant-at-arms
9. Mr. Abdifatah Mahat - Attachee

**MIN. NA/AA&GPC-SFAC/2024/039**

**PRELIMINARIES**

The Chairperson called the meeting to order at 12.40 pm followed by a word of prayer and introductions. The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Report writing on the Consideration of the Auditor General Reports on Accounts of Prison Industries Revolving Fund for the Financial Years 2020/2021.**
4. Any Other Business
5. Adjournment Date of the next meeting.

**MIN. NA/AA&GPC-SFAC/2024/040** -

**REPORT WRITING ON THE CONSIDERATION OF THE AUDITOR GENERAL REPORTS ON ACCOUNTS OF PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021.**

**EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS FOR THE PRISON INDUSTRIES REVOLVING FUND FOR THE FINANCIAL YEARS 2020/2021 AND 2021/2022**

1. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday 4<sup>th</sup> July 2023, and Tuesday 21<sup>st</sup> November 2023 to adduce evidence on the audited financial Statements for the Prison Industries Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:
  1. Brig. (Rtd) John Warioba - Commissioner General Prisons
  2. Mr. Peter Njoroge - Director Prisons Services
  3. Ms. Christine Nangwana - Head Legal services
  4. Mr. Arthur Nduati - Chief Finance Officer
  5. Mr. Johnson Njuguna - Director Audit
  6. Samfantony Kyalo, SSP- Prison Enterprise
  7. Benson Irungu, CIP-Prison Enterprise

**1.1 Examination of the report of the Auditor-General for the Financial Year 2020/2021**

**a. Inaccuracies in the Financial Statements**

2. The statement of cash flows reflects an amount of Kshs. 2,671,989 in respect of the purchase of non-current assets under cash flow from investing activities while the property, plant and equipment schedule in Note 15 to the financial statements reflects nil additions during the year. The resultant difference was not explained or reconciled. Further, the increase in accounts receivables is reflected in the statement of cash flows as a negative balance of Kshs. 30,318,827 instead of a negative balance of Kshs. 113,109,259, resulting in an unexplained variance of Kshs. 82,790,432.

In addition, the decrease in payables is reflected in the statement of cash flows as a negative balance Kshs. 41,628,085 instead of a negative balance of Kshs. 69,509,274, resulting in an unexplained variance of Kshs. 27,881,188.

In the circumstances, the accuracy and completeness of the balances reflected in the financial statements could not be confirmed.

#### **Submissions by the Accounting Officer**

3. The Accounting Officer acknowledged that the cash flow statement reflects an amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities, which was not included in the property, plant and equipment movement schedule.
4. She noted that the above-stated expenditure relates to part of the contract payment for Kshs.6,954,070.00 to construct a building to house the Prison Industry PRIAQUA machines for the Prison Staff Training College water purification project. The amount was erroneously omitted from the assets schedule and has been incorporated into the financial year 2022/2023 draft accounts.
5. She further submitted that Kshs.30,318,827.00 was captured as an Increase in accounts receivables in the cash flow statement. Previously, this amount was held as cash and cash equivalent in the books of accounts and has now been transferred to accounts receivables since it has not been realised. Kshs.82,790,432.10 is part of the total credit sales made during the year of Kshs.136,185,518.00 and does not affect cash flow since the statement is prepared using the direct method.
6. She also submitted that the decrease in accounts payables of Kshs.41,628,085.99 reflected in the statement of cash flow relates to the payments made to creditors during the financial year. The balance of Kshs.27,881,188.00 did not affect the cash flow statement under investing activities, but cash inflows under sales had already been recognised.

#### **Observations and Findings of the Committee**

7. The Committee observed that
  - i. The amount of Kshs.2,671,989.00 for the purchase of non-current assets under investing activities was erroneously omitted from the assets schedule and has been incorporated in the financial year 2022/2023 draft accounts.
  - ii. The unexplained variances of Kshs. 82,790,432.10 and Kshs. 27,881,188.00 have been explained.
  - iii. The matter is resolved.

#### **Recommendations of the Committee**

8. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are**



**followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2015.**

**b. Unsupported Cash and Cash Equivalents**

9. The statement of financial position reflects a cash and cash equivalents balance of Kshs. 593,362,910 as of 30 June 2021. Although the Fund's reporting date is 30 June 2021, the books of accounts for the 2020/2021 financial year were closed on 19 July 2021. As a result, the cut-off procedures were not followed to determine the reported cash and cash equivalents balance.
10. Further, one cash book and a single bank account were maintained in the year under review to record financial transactions for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund. Yet, the two Funds are distinct and prepare separate sets of financial statements for audit purposes.
11. In addition, the reported cash, and cash equivalents balance of Kshs.593,362,910 is a computed figure for reporting and was not supported with a cash book, bank reconciliations or certificate of bank balances. In the circumstances, it has not been possible to confirm the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.593,362,910 as at 30 June, 2021.

**Submissions by the Accounting Officer**

12. The Accounting Officer acknowledged that the statement of financial position reflects a balance of Kshs 593,362,910.39 with respect to cash and cash equivalent. She submitted that the closing bank balances are derived from the total revenues collected net of the total expenditures and are supported by the CBK bank account statement as at the date of closure. Prison Industry Revolving Fund operates within the State Department accounting system. Transactions for all payments are processed and paid through the IFMIS system.
13. She further submitted that during the financial year ended 30 June 2021, the IFMIS system was allowed to operate up to 13 July 2021 to ensure processing and clearance of bills that were in process, including transactions for both the State Department and the Fund. All payments made after 30 June were treated as debtors or creditors for the reporting period.
14. She also submitted that the Prison Industry Revolving Fund maintains one cashbook and one bank account held at CBK, which serves both the Prison Industry Revolving Fund and the

Prison Farms Revolving Fund. The State Department sought authority from the National Treasury to separate the bank accounts. The authority to open separate bank accounts was, however, not granted.

15. The National Treasury advised the State Department to align the Funds to Public Finance Management Act 2012. The State Department is constituting an inter-ministerial taskforce to align the two funds to the PFM Act 2012.

#### **Observations and Findings of the Committee**

##### **16. The Committee observed that:**

- i. **The reported cash, and cash equivalents balance of Kshs. 593,362,910 was not supported with a cash book, bank reconciliations or certificate of bank balances contrary to Section 31(4) of the Public Audit Act**
- ii. **The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintain one cash book and one bank account;**
- iii. **A Task Force has been constituted to align the Regulations of the two funds with the PFM Act 2012; and**
- iv. **The matter remained unresolved.**

#### **Recommendations of the Committee**

##### **17. The Committee recommends that:**

- i. **within six months of the adoption of this report, the Accounting Officer to submit a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification.**
- ii. **within three months of the adoption of this report, the Accounting Officer to submit a cash book, bank reconciliations and certificate of bank balances to support the reported balance of Kshs. 593,362,910 to the Auditor General for audit verification.**
- iii. **The Accounting Officer to ensure that all supporting documents are submitted during the audit process in compliance with section 31 of the Public Audit Act, 2015.**

##### **c. Unsupported Revenue from Exchange Transactions**

18. The statement of financial performance reflects sales of furniture and number plates totalling Kshs. 397,006,637 for the year ended 30 June 2021.
19. However, the main cash book maintained for recording these sales was the same one used to record sales from prison farms. The combined cash book reflects amounts received without

indicating the source of revenue and the account to which it relates, whether prison industries or farms.

20. Further, the cash book was updated using the entries in the bank statements instead of the source documents raised at the point of sale. As a result, the revenue generated in respect of sales of furniture and number plates was not supported with documentary evidence in the form of cash book extracts, miscellaneous receipt books or bank statements.
21. In addition, the manual revenue register maintained to support the amount of Kshs. 397,006,637 could not be reconciled with the entries posted in the main cash book. Consequently, the accuracy and completeness of the revenue from exchange transactions of Kshs. 397,006,637 could not be confirmed.

#### **Submissions by the Accounting Officer**

22. The Accounting Officer submitted that the Prison Industries Revolving Fund collected Kshs. 397,006,637.00 as sales from furniture and number plates during the financial year 2020/2021. The fund had a total of 104 industry stations. Each station has its independent serialized Government miscellaneous receipt (MR) and independent MPESA pay bill numbers, which are utilized to collect revenue.
23. The monies collected through the MPESA pay bill are transmitted daily to the CBK account. Receipts are regularly presented from the Prison Stations to the Prison Headquarters for verification and recording. All the presented receipts are later controlled by a sales/revenue ledger, which records all station revenue collected and forms the basis of the total annual revenue.
24. The Prison Industries Revolving Fund and Prison Farms Revolving Fund maintain one cash book and one bank account held at CBK for all transactions. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.
25. The National Treasury advised that Prison Industries Revolving Fund and Prison Farms Revolving Fund Regulations be updated and aligned with the Public Finance Management Act, 2012, to facilitate the granting authority to open separate bank accounts.

#### **Observations and Findings of the Committee**

26. The Committee observed that;
  - i. The posting of revenue generated in the cash book has since been rectified by clearly indicating the source of the revenue.\
  - ii. The matter is resolved.

### Recommendations of the Committee

27. The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2012.89. Unsupported Cash and Cash Equivalents.

#### d. Unsupported Non-Current Assets

28. The statement of financial position reflects a non-current assets balance of Kshs. 60,475,786 as at 30 June 2021, which is at variance with Note 15 to the financial statements on property, plant and equipment figure of Kshs. 57,549,346, resulting in an unreconciled variance of Kshs. 2,926,440.
29. Further, the assets register maintained for the Prison Industries Revolving Fund was last updated on 30 June, 2017. In the circumstances, the accuracy and completeness of the non-current assets of Kshs. 60,475,786 as at 30 June, 2021 could not be confirmed.

### Submissions by the Accounting Officer

30. The Accounting Officer submitted that the difference of Kshs. 2,926,440.00 between the balance in the financial statement of Kshs. 60,475,786 and the figure appearing in the notes amounting to Kshs. 57,549,346.11 has been reconciled, and the prior year adjustment has been effected in the draft account for the 2022/2023 Financial Year. The Fixed Assets register had not been updated during the audit. The fixed assets register has been updated.

### Observations and Findings of the Committee

31. The Committee observed that:

- i. Noncurrent assets had an unreconciled variance of Kshs. 2,926,440 between the reported figures in the note to the financial statements and the statement of financial position.
- ii. The fixed assets register provided was not in-compliance with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020
- iii. The matter remained unresolved

### Recommendations of the Committee

32. The Committee recommends that, within three months of the adoption of this report;
- i. the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and asset Disposal Regulation 2020, for audit verification.

- ii. **The Accounting Officer to reconcile the variance of Kshs. 2,926,440 and submit the supporting documents to the Auditor General for audit verification.**

#### **Other Matters**

##### **e. Long Outstanding Creditors**

- 33. As disclosed in Note 16 to the financial statements, the statement of financial position as of 30 June 2021 reflects trade and other payables—creditors of Kshs. 312,345,174. The balance includes Kshs. 82,921,500 owed to other Government entities that have been outstanding for more than a year. Management has not explained why the creditors were not paid despite the Fund having funds in its bank account as of 30 June 2021.

##### **Submissions by the Accounting Officer**

- 34. The Accounting Officer submitted that bills totaling to Kshs. 312,345,174.00 were not settled at the end of the financial year. The related payment vouchers were undergoing verification and the exercise had not been finalized by the closure of the Financial Year. However, bills amounting to Kshs. 226,233,304.00 have since been settled, leaving a balance of Kshs. 86,111,870.00 comprising of Kshs. 82,921,500.00 and Kshs. 300,000.00 payables to National Industrial Training Authority and Agricultural Show of Kenya. respectively. These bills have not been cleared due to liquidity challenges. However, the Fund intends to settle them in the current financial year.

#### **Observations and Findings of the Committee**

##### **35. The Committee observed that:**

- i. **The Fund has outstanding bills of Kshs. 86,111,870.00**
- ii. **The matter remained unresolved.**

#### **Recommendations of the Committee**

- 36. **The Committee recommends that within three months of the adoption of this report, the Accounting Officer submits to the Auditor General a progress report on the status of unpaid bills for audit verification.**

##### **f. Unresolved Prior Year Matters**

#### **Stalled Project for the Production of Modern Motorized Vehicle Number Plates and Supply and Delivery of Motorized Vehicle Number Plates Blanks**

- 37. As previously reported, Kamiti Main Prison Industry records revealed that machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have remained idle. In addition, a three-year contract for supply and delivery of motorized vehicle number plate blanks was signed on 7 November, 2017 and the raw materials were supplied.
- 38. However, the raw materials (motorized vehicle number plate blanks) remain at the Kamiti Prison Industries stores. Information indicates that a case relating to the supply and delivery

of Motorized Vehicle Number Plate Blanks was filed in the Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services seeking specific performance of the contract or in the alternative compensation for the full contract value of Kshs.1,050,000,000.

39. No information was provided on the current status of the case. Further, the Management has not disclosed a contingent liability in these financial statements in relation to the case.

#### **Submissions by the Accounting Officer**

40. The Accounting Officer submitted that the Kenya Prisons Service started producing motor-vehicle number plates in 1974. The production process was modernized and improved over time. In 2014, a decision was made to migrate from the old number plates to the new generation number plates. The State Department procured and installed machines at a total cost of Kshs.15,295,500 to generate the new number plates in the year 2016. The matter is the subject of a civil case No. E321 of 2020 filed in the Milimani High court between Tropical Technologies Ltd and the State Department for Correctional Services, and the matter is still pending in court. In addition, a provision for contingency liability has been provided in the Fund's draft Financial Statements for the 2022/2023 Financial Year, which were being prepared.

#### **Observations and Findings of the Committee**

##### **41. The Committee observed that:**

- i. **There is a pending court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020, between a technology company and the Principal Secretary, State Department for Correctional Services; and**
- ii. **machines for producing modern motorized vehicle number plates, which were supplied and delivered in 2016 at a cost of Kshs. 15,295,500, have remained idle.**
- iii. **The matter remained unresolved.**

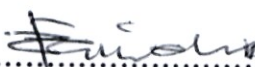
**Recommendations of the Committee**

**42. The Committee recommends that:**

**Within three months of the adoption of this report, the Accounting Officer to provide a progress report to the Auditor-General on the court case relating to the supply and delivery of Motorized Vehicle Number Plate Blanks at Milimani High Court, Case No. E321 of 2020;**

**MIN. NA/AA&GPC-SFAC/2024/041. ADJOURNMENT/DATE OF NEXT MEETING**

There being no other business, the meeting was adjourned at 1.05p.m. The next meeting will be held on notice.

SIGNED..........DATE. 17/08/2024.....

**HON. FATUMA ZAINAB MOHAMMED, MP  
(CHAIRPERSON)  
SPECIAL FUNDS ACCOUNTS COMMITTEE**

**MINUTES OF THE 15<sup>TH</sup> SITTING OF SPECIAL FUND ACCOUNTS COMMITTEE  
HELD ON THURSDAY, 4<sup>TH</sup> APRIL 2024, IN PRIDE INN PARADISE HOTEL .**

**PRESENT**

1. Hon. Fatuma Zainab Mohammed, MP - Chairperson
2. Hon. Dr. Christine Ombaka Oduor, MP
3. Hon. Charles Ngusya Nguna, MP
4. Hon. Eve Akinyi Obara, MP
5. Hon. Erastus Kivasu Nzioka, MP
6. Hon. Tom Mboya Odege, MP
7. Hon. Catherine Nakhabi Omanyoo, MP
8. Hon. Cecilia Asinyen Ngitit, MP
9. Hon. Joseph Kimutai Cherorot, MP
10. Hon. Erick Wamumbi, MP
11. Hon. Paul Kibichi Biego, MP

**APOLOGIES**

1. Hon. Dawood Abdul Rahim, HSC, MP - Vice Chairperson
2. Hon. Faith Wairimu Gitau, MP
3. Hon. Joshua Odongo Oron, MP
4. Hon. Joseph Majimbo Kalasinga, MP

**OFFICE OF THE AUDITOR-GENERAL**

Mr. David Osiero - Liaison Officer.

**NATIONAL TREASURY**

Mr Simon Kiriiba - Liaison Officer

**NATIONAL ASSEMBLY SECRETARIAT**

1. Ms. Erick Nyambati - Clerk Assistant I
2. Ms. Comfort Achieng - Clerk Assistant III
3. Mr. Nimrod Mate - Clerk Assistant III
4. Mr. Robert Ngetich - Fiscal Analyst II
5. Ms. Judith Kanyoko - Legal Counsel II
6. Mr. Derrick Kathurima - Media Relations Officer III
7. Ms. Felistus Muiya - Public Communications Officer III
8. Mr. Joshua Lenambet - Sergeant-at-arms
9. Mr. Abdifatah Mahat - Attachee



**MIN. NA/AA&GPC-SFAC/2024/045**

**PRELIMINARIES**

The Chairperson called the meeting to order at 9.30 a, followed by a word of prayer and introductions. The following agenda was adopted as circulated:

1. Prayers
2. Preliminaries/Introductions
3. **Report writing on the Consideration of the Auditor General Reports on Accounts of Prison Farm Revolving Fund for the Financial Years 2020/2021.**
4. Any Other Business
5. Adjournment Date of the next meeting.

**MIN. NA/AA&GPC-SFAC/2024/046**

**REPORT WRITING ON THE CONSIDERATION OF  
THE AUDITOR GENERAL REPORTS ON  
ACCOUNTS OF PRISON FARM REVOLVING FUND  
FOR THE FINANCIAL YEARS 2020/2021**

**EXAMINATION OF THE REPORT OF THE AUDITOR GENERAL ON THE  
FINANCIAL STATEMENTS OF THE PRISON FARM REVOLVING FUND FOR THE  
FINANCIAL YEARS 2020/2021**

1. Ms Salome M. Beacco, Principal Secretary, State Department for Correctional Services, appeared before the Committee on Tuesday, 21<sup>st</sup> November 2023, to adduce evidence on the audited financial Statements for the Prison Farm Revolving Fund for Financial Years 2020/2021 and 2021/2022, respectively. She was accompanied by:

1. Brig (Rtd) John Warioba - Commissioner General Prisons
2. Mr. Peter Njoroge - Director, Prisons Services
3. Ms. Christine Nangwana - Head, Legal Services
4. Mr. Arthur Nduati - Chief Finance Officer
5. Mr. Johnson Njuguna – Head of Accounting
6. Samfantony Kyalo, SSP - Prison Enterprise
7. Benson Irungu, CIP -Prison Enterprise

**EXAMINATION OF THE REPORT OF THE AUDITOR-GENERAL FOR THE  
FINANCIAL YEAR 2020/2021**

**a. Inaccuracies in the Presentation of the Financial Statements**

2. The statement of cash flows reflects cash flows from operating activities amounting to Kshs.119,111,044. However, the balance includes a reduction of creditors from the previous year of Kshs.871,000. A review of the statement of financial position indicates that creditors decreased by Kshs.821,000 from Kshs.1,700,000 to Kshs.829,000 as disclosed in Note 20(b) to the financial statements, resulting in an unreconciled difference of Kshs.50,000. Further, the statement of comparison of budget and actual amounts reflects an amount of Kshs.261,327,868 in respect of the original and final budget.

3. However, the cast amount for the original and final budget is Kshs.259,892,868 resulting in an unexplained variance of Kshs.1,435,000 respectively. In addition, the statement of financial position reflects the total non-current assets of Kshs.111,539,902, which includes an amount of Kshs.1,096,300 for scrap machinery. However, this amount and the item were not included in the property, plant and equipment movement schedule in Note 18 to the financial statements. In the circumstances, the accuracy and completeness of the balances reflected in the financial statements for the year ended 30 June 2021 could not be confirmed.

#### **Submissions by the Accounting Officer**

4. The Accounting Officer submitted the difference of Kshs. 50,000 was due to an error in the cash flow statement, while the Kshs 821,000 paid to creditors was overstated by capturing the amount as Kshs 871,000. The error has since been rectified as a prior year adjustment in the 2021/2022 Financial Statements.
5. She further submitted that the total amount was Kshs.261,327,868.00, as shown in the approved budget. There was no budget adjustment during the financial year. The variance is attributed to a typographical error rectified in 2020/2021. It was also submitted that Kshs 1,096,300,00 was attributed to scrap machinery not included in the property, plant, and equipment movement schedule. The property, plant and equipment movement schedules have since been adjusted to incorporate the machinery.

#### **Observations and Findings of the Committee**

##### **6. The Committee observed that:**

- i. **The variance in the statement of cash flows was due to a typographical error, and**
- ii. **The matter is resolved.**

#### **Recommendations of the Committee**

7. **The Committee recommends that the Accounting Officer ensures that all applicable accounting and financial controls, systems, standards, laws, and procedures are followed in the preparation of the financial statements in compliance with the Public Finance Management Act, 2012 and in accordance with the standards prescribed by the Public Sector Accounting Standards Board as per Regulation 101(4) of the Public Finance Management (National Government) Regulations, 2012.**

##### **b. Unsupported Revenue**

8. As **disclosed** in Note 9 of the financial statements, the statement of financial performance reflects total revenue of Kshs.355,889,736 in respect to the sale of goods. However, an audit inspection of various prison farms revealed that records such as the ledgers, receipts vouchers, cash books and banking of receipts from the sale of goods were not provided for

audit review. Consequently, the accuracy, completeness and existence of the reported revenue amounting to Kshs.355,889,736 could not be confirmed.

#### **Submissions by the Accounting Officer**

9. The Accounting Officer submitted that the statement of financial performance reflects the total revenue of Kshs. 355,889,736. The amount comprises Kshs127,272,079,21 for sales for the year under review and Ksh 228,617,656.58 for amounts paid to settle the previous year's debts.
10. She further submitted that the Fund has a total of 93 farming stations. The stations maintain accounting documents, which include miscellaneous receipts, S13-Counter receipts vouchers, S11-Counter receipts & issue vouchers, S12 and a sales ledger. All receipts from the sale of goods/services are received through a cashless payment platform, i.e. pay bill and Electronic Funds Transfer (EFT/RTGS). The monies received are recorded in a miscellaneous receipt. The amount received through the pay bill is transmitted daily to an account maintained at the Central Bank of Kenya through the Equity Bank collection account.
11. She also submitted that the receipts (MRs) are regularly presented to the headquarters for verification and recording. A sales ledger later controls all the presented receipts, which records all revenue collected from the prison stations and consolidates the amounts to generate the total annual revenue collection.
12. She further submitted that some documents had been misfiled and misclassified during the audit exercise and could not be retrieved on time. The documents have since been provided to the auditors. In addition, the management instructed all field stations individually to adhere strictly to the PFM Act, maintain all necessary records, and ensure that documents are available to the auditors on a timely basis.

#### **Observations and Findings of the Committee**

##### **13. The Committee observed that:**

- i. Documents from the prison farms, such as ledgers, receipt vouchers, cash books, and bank accounts for receipts from the sale of goods, were not provided for audit review to support the total revenue of Kshs. 355,889,736
- ii. The matter is unresolved.

#### **Recommendations of the Committee**

##### **14. The Committee recommends that**

- i. Within three months of the adoption of this report, the Accounting Officer to provide supporting documents to support the total revenue of Kshs.355,889,736 for audit verification: and

- ii. **The Accounting Officer to ensure timely submission of accounting documents for audit verification during the audit as per Section 31(4) of the Public Audit Act, 2015.**

**c. Unsupported Cash and Cash Equivalents**

15. As disclosed in Note 14 to the financial statements, the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs.50,000 has not been explained. Further, bank reconciliations were not provided. In the circumstances, the accuracy, completeness, and existence of the reported cash and cash equivalents balance of Kshs.381,419,861 could not be confirmed.

**Submissions by the Accounting Officer**

16. The Accounting Officer submitted that the statement of financial position reflects cash and cash equivalents of Kshs.381,419,861, while the cash balance reported at the Central Bank of Kenya was Kshs.381,469,861. The difference of Kshs. 50,000 was due to an error in capturing the amount paid to creditors as Kshs 871,000 instead of Kshs 821,000 in the cash flow statement. A reconciliation between the cash book and the bank was undertaken, and a bank reconciliation statement was submitted to the auditors. The error has since been rectified as a prior year adjustment in the Financial Statements of 2021/2022.

**Observations and Findings of the Committee**

**17. The Committee observed that**

- i. **The difference of Kshs. 50,000 was due to an error in capturing the amount paid to creditors as Kshs 871,000 instead of Kshs 821,000 in the cash flow statement.**
- ii. **The error had since been rectified as a prior year adjustment in the Financial Statements of 2021/2022.**
- iii. **The matter is resolved.**

**d. Unsupported Non-Current Assets**

18. As disclosed in Note 18 to the financial statements, the statement of financial position reflects total non-current assets of Kshs. 111,539,902. However, Management did not provide an asset register incorporating all the classes of assets managed and maintained by the Fund to support the balance of assets held by the Fund. In the circumstances, the accuracy, completeness, and valuation of the non-current assets of Kshs. 111,539,902 could not be confirmed.

**Submissions by the Accounting Officer**

19. The Accounting Officer submitted that the statement of financial performance reflected Kshs. 111,539,902 as total of non-current assets as of 30th June 2021. The manual asset register has since been updated to reflect the correct status of the assets.

### **Observations and Findings of the Committee**

#### **20. The Committee observed that:**

- i. **The Fund's asset register was manual and not updated: and**
- ii. **The matter is unresolved.**

### **Recommendations of the Committee**

#### **21. The Committee recommends that:**

- i. **Within three months of the adoption of this report, the Accounting Officer to provide the Auditor General with an updated asset register that complies with Regulation 166(1) of the Public Procurement and Asset Disposal Regulations, 2020 for audit verification.**
- ii. **The Accounting Officer ensures that the Asset register of the Fund is digitized within the 2024/25 financial year.**

#### **e. Unresolved Prior Year Matters**

22. In the previous year's audit report, several issues were raised under the Report on Financial Statements and Report on Lawfulness and Effectiveness in Use of Public Resources. However, the Management has not resolved the issues or explained the failure to adhere to the Public Sector Accounting Standards Board templates provisions and the National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.

### **Submissions by the Accounting Officer**

23. The Accounting Officer submitted that the unresolved prior year audit matters were as stipulated below:
  - iii. The Prison Farms Fund had a closing PMG account balance of Kshs 56,021,755 as at 30th June, 2019, which was money not yet transferred from the former Ministry Of Home Affairs (MOHA) deposit account to the Ministry of Interior and Co-ordination after the merging of ministries where prisons were transferred to the Ministry of Interior & Coordination of National Government.;
  - iv. The pending receivable of Kshs 17 million relates to an outstanding amount owed to the fund by the State Department for Correctional Services (SDCS). The delay in settling this outstanding bill was due to limited budgetary allocations. In the current financial year, an allocation has been provided, the pending bill has been processed and was awaiting funding from the National Treasury;
  - v. On the issue of opening a separate bank account for the Prisons Farms Revolving Fund. The Accounting Officer submitted that the National Treasury, in conjunction with the

State Department for Correctional Services, has initiated the development of Regulations that conform to the PFM Act. to facilitate the granting of authority to open the bank account.

5. She also submitted that the management was making efforts to resolve all these pending matters.

#### **Observations and Findings of the Committee**

##### **24. The Committee observed that:**

- i. Management has not resolved prior year audit issues, contrary to Sec.68(2)(l) of the PFM Act,2012, Sec.53(1)(a) and (b) of the Public Audit Act,2015 and National Treasury Circular Ref AG.4/16/2Vol.3(72) dated 30 June, 2021.
- ii. The matter remained unresolved.

#### **Recommendations of the Committee**

25. The Committee recommends that within three months of the adoption of this report, the Accounting Officer provides a status report for unresolved prior year matters to the Auditor General for audit verification.

##### **f. Undue Delay in Disposal of Assets**

26. Physical verification in Kitale Main Prison Farm in October 2021 revealed that a Board of Survey on stores and unserviceable items was conducted on 10 September, 2019, which identified various old and ageing livestock for disposal.
27. On 19 December 2019, the State Department for Correctional Services halted the disposal exercise, advising that an auctioneer had been identified to conduct the disposal.
28. However, the disposal process had not been concluded as of October 2021. In the circumstances, value for money could not be realized due to the deterioration of the value of the livestock.

#### **Submissions by the Accounting Officer**

29. The Accounting Officer submitted that the State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction. However, the State Department reviewed the option of auctioning the livestock and decided to sell the same meat for inmates' consumption at the prevailing supply price. One hundred one mature animals were disposed of at Kshs. 12,998,450.00; hence, value for money was realized.

#### **Observations and Findings of the Committee**

30. The Committee observed that;
  - i. The State Department for Correctional Services had sought authority to dispose of mature livestock, and approval was granted for the auction.

ii. The matter is resolved.

**g. Commingling of Funds**

31. A review of the cashbook revealed that Management uses a single cash book for recording financial transactions and maintains one bank account for both the Prison Farms Revolving Fund and the Prisons Industries Revolving Fund, leading to the commingling of funds. Further, the two funds prepare and submit separate sets of financial statements for audit purposes. In the circumstances, effective internal controls on funds could not be confirmed.

**Submissions by the Accounting Officer**

32. The Accounting Officer acknowledged that the State Department for Correctional Services maintains one cashbook and one bank account that serves the Prison Industries Revolving Fund and Prison Farms Revolving Fund. She submitted that the State Department for Correctional Services sought authority from the National Treasury to separate the bank accounts. The National Treasury declined and directed that the regulations governing the funds' operations be aligned with the PFM Act 2012. A task force has since been constituted and is working towards aligning the Regulations with the PFM Act.

**Observations and Findings of the Committee**

33. The Committee observed that:

- i. The Prison Farms Revolving Fund and the Prison Industries Revolving Fund maintained one cash book and one bank account:
- ii. A task Force was constituted to align the Regulations of the two funds with the PFM Act 2012
- iii. The matter remained unresolved.

**Recommendations of the Committee**

34. The Committee recommends that within six months of the adoption of this report, the Accounting Officer submits a progress report on the alignment of the Regulations governing the operations of the Prison Farms Revolving Fund and the Prison Industries Revolving Fund with PFM Act 2012 to the Auditor General for audit verification

MIN. NA/AA&GPC-SFAC/2024/047. ADJOURNMENT/DATE OF NEXT MEETING

There being no other business, the meeting was adjourned at 1.01p.m. The next meeting will be held on notice.

SIGNED.....*Fatuma*.....DATE 17/08/2024.....

HON. FATUMA ZAINAB MOHAMMED, MP  
(CHAIRPERSON)  
SPECIAL FUNDS ACCOUNTS COMMITTEE