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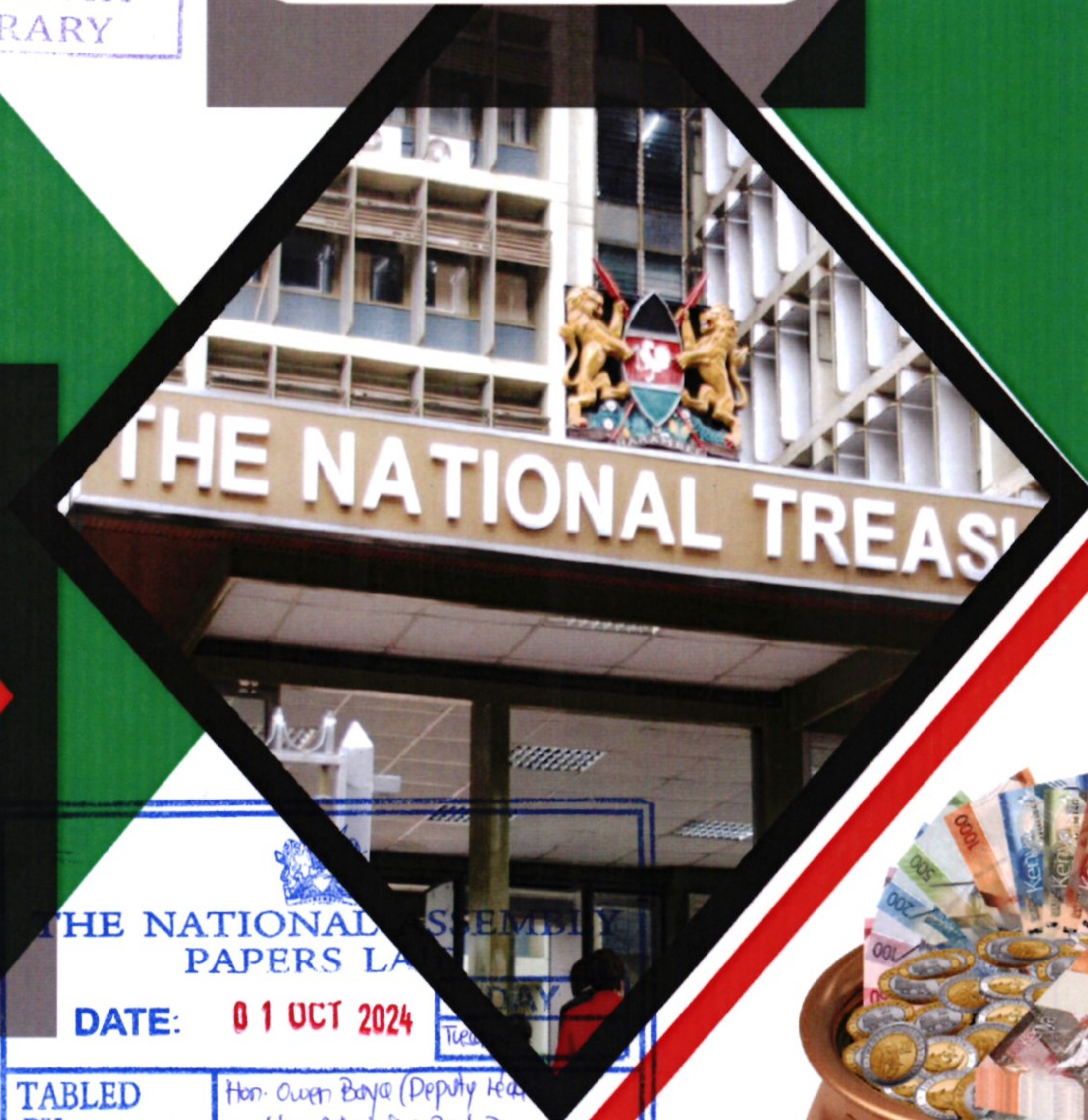

AUDITOR-GENERAL'S PERFORMANCE AUDIT REPORT ON MANAGEMENT OF CASH AND DOMESTIC DEBT BY THE NATIONAL TREASURY

SEPTEMBER 2024

VISION

Making a difference in the lives and livelihoods of the Kenyan people

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FOREWARD BY THE AUDITOR - GENERAL

I am pleased to present this Performance Audit Report on Management of Cash and Domestic Debt by The National Treasury. My Office carried out the audit under the mandate conferred on me by Section 36 of the Public Audit Act, 2015. The Act mandates the Auditor - General to examine the economy, efficiency and effectiveness with which public money has been expended pursuant to Article 229 (6) of the Constitution of Kenya, 2010.

Performance, financial and compliance audits form the three-pillars of the audit assurance framework that I have established to give focus to the varied and wide scope of the audit work done by my Office. The framework is intended to provide a high level of assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for, but their use results in positive impacts on the lives and livelihoods of the citizens. The main goal of our performance audit is to ensure effective use of public resources and promote service delivery to the citizens. Our performance audits examine compliance with policies, obligations, laws, regulations, standards and whether the resources are managed in a sustainable manner. They also examine the economy, efficiency and effectiveness with which public resources have been expended. I am hopeful that corrective action will be taken in line with our recommendations in the report.

The report is submitted to Parliament in accordance with Article 229 (7) of the Constitution of Kenya, 2010 and Section 39 (1) of the Public Audit Act, 2015. I have also submitted copies of the report to the Principal Secretary, The National Treasury and the Chief of Staff and Head of the Public Service.

FCPA Nancy Gathungu, CBS
<u>AUDITOR - GENERAL</u>
20 September, 2024

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LIST OF ABBREVIATIONS

AACP	-	Annual Aggregate Cash Plan
ATM	-	Average Time to Maturity
BPS	-	Budget Policy Statement
CMAC	-	Cash Management Advisory Committee
CMC	-	Cash Management Committee
CMTT	-	Cash Management Technical Team
CBK	-	Central Bank of Kenya
CoB	-	Controller of Budget
DMD	-	Debt Management Department
DeMPA	-	Debt Management Performance Assessment
DPI	-	Debt Management Performance Indicator
DPS&RM	-	Debt Policy, Strategy & Risk Management
DRS	-	Debt Recording & Settlement
DSA	-	Debt Sustainability Analysis
FY	-	Financial Year
GoK	-	Government of Kenya
GDP	-	Gross Domestic Product
IFB	-	Infrastructure Bonds
MDAs	-	Ministries, Departments and Agencies
MTDS	-	Medium Term Debt Strategy
MTEF	-	Medium Term Expenditure Framework
OCoB	-	Office of Controller of Budget
PDMO	-	Public Debt Management Office
PFM	-	Public Finance Management
TNT	-	The National Treasury
TSA	-	Treasury Single Account

DEFINITION OF TERMS

Bank Overdraft: A short-term borrowing by Government to cover temporary cash shortfalls and repayable within 12 months.

Cash Management: Making the right amount of money available at the right time and the right place to meet the government's obligations in the most cost-effective way

Domestic Debt: Part of public debt that is payable to creditors within the country.

Fiscal Deficit: The difference between total revenue and total expenditure of the Government. It is computed by deducting Government expenditure net of lending from the Government revenue.

Maturity: The date at which the final repayment of a debt instrument is due.

Medium Term: A period of not less than 3 (three)years but not more than 5 (five) years.

Redemption: Repayment of a loan

Short Term: A period within 12 months

Treasury Bills: These are a secure, short-term investment, offering you returns after a relatively short commitment of funds.

Treasury Bonds: These are a secure, medium- to long-term investment that typically offer you interest payments every six months throughout the bond's maturity.

Treasury Single Account: A centralized bank account system where all National and County Government deposits and payment transactions are processed.

Yield: The rate of return an investor can expect to earn if he/she holds a debt instrument until maturity.

EXECUTIVE SUMMARY

Introduction

1. Article 229 (6) of the Constitution of Kenya, 2010 and Section 36 of the Public Audit Act, 2015 mandates the Auditor-General to examine and report on the economy, efficiency and effectiveness with which public money has been expended.
2. Cash management refers to ensuring the right amount of money is available at the right time and the right place to meet the government's obligations in the most cost-effective way, with the overall objective of ensuring effectiveness and efficiency in government resource allocation.[1]
3. Debt management, according to the INTOSAI Development Initiative (IDI) Manual 2020, refers to the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.
4. The overall objective of cash management is to ensure effectiveness and efficiency in government resource allocation. On the other hand, the objective of debt management is to ensure that the government meets its borrowing needs at the lowest possible cost consistent with a rational degree of risk.
5. Cash management and debt management inter-relate because debt issuance decisions are made in the context of the government`s overall cash position. Efficient and effective cash and debt management are extremely important for governments during normal times, but become critical during financial crises. In normal times, good cash management practices can produce considerable savings for governments through understanding and accurate management of liquid financial assets when navigating through periods of insufficient cash.
6. Debt Management Strategy guides public debt management and aims at minimizing borrowing costs and risk of public debt amidst continuous paradigm changes in the domestic and global financial markets. Additionally, effective public debt management strategy permits fiscal policy to operate efficiently while minimizing financial portfolio risks relating to market movements and debt rollovers. It is therefore, imperative that the debt management strategy and related policies

[1] The National Treasury and Economic Planning's Cash Management Framework, January 2020.

are designed to ensure investor confidence, minimize borrowing costs, enhance market stability and ensure a stable cash management regime.

7. Cash management and debt management can however, be differentiated as follows; Cash Management has a relatively short-term outlook whereas debt management has a relatively medium-term to long-term outlook. While the objective of cash management is to meet government obligations in a timely and cost-effective manner, the objective of debt management is to ensure that the government meets its borrowing needs at lowest possible cost consistent with a rational degree of risk.
8. Government cash managers rely heavily on availability of complete databases of historical revenues and expenditures to enable better cash planning through the use of trend analysis, often using interfaces with government financial management information systems.
9. When the country is issuing debt securities in the domestic market through auctions, the borrowing plan also includes the auction calendar. Efficient and effective cash management supports development of a committed and transparent borrowing plan, and contributes overall to reducing the cost of debt.
10. Kenya's fiscal deficits (exclusive of grants) were projected to decrease from Kshs.638.200 billion in FY 2018/2019 to Kshs.629.914 billion in FY 2019/2020 then to Kshs.614.078 billion in FY 2020/2021. However, in FY 2021/2022, the fiscal deficit was projected to increase to Kshs.976.106 billion, then decline to Kshs.893.000 billion in FY 2022/2023[2]. In contrast, the actual fiscal deficit amounts as reported in the Budget Review and Outlook Paper for years 2018 to 2023 were Kshs.732.035 billion, Kshs.831.499 billion, Kshs.965.717 billion, Kshs.827.710 billion and Kshs.860.491 billion in FYs 2018/2019, 2019/2020, 2020/2021, 2021/2022 and 2022/2023 respectively.[3] Therefore, the actual fiscal deficits has been increasing in comparison to the projected deficit.
11. In bridging the fiscal balance, the Government borrowed both externally and domestically whereby the net domestic financing amounted to Kshs.311.511 billion, Kshs.306,536 billion, Kshs.500.2 billion, Kshs.626.926 billion and Kshs.521.5 billion for FYs 2017/2018, 2018/2019, 2019/2020, 2020/2021, 2021/2022 and 2022/2023 respectively.

[2] Budget Policy Statement FYs 2018/2019 to 2022/2023, page 13.
[3] Annual Debt management report 2021/2022pg. 7

12. The IMF-World Bank debt sustainability analysis conducted in December 2022 in collaboration with The National Treasury revealed that Kenya's present value of public debt as at the end of December 2022 was at 60% of GDP (5% above the threshold of 55% of GDP) out of which domestic debt was 33.2% of GDP while external debt was 26.8% of GDP.
13. As at the end of December 2022, the total interest payments as a percentage of GDP was at Kshs.807.895 billion (5.3%) comprising Kshs.594.489 billion (3.9%) for domestic debt and Kshs.213.406 billion (1.4%) for external debt. Interest payment for the domestic debt remained high, almost triple the level paid on external debt, even though their respective stocks are the same. This difference reflects the high-interest rates on domestic debt due to the unfavorable domestic debt market, attracting minimal capital inflows.[4]
14. Cash Management function of The National Treasury is guided by The National Treasury Cash Management Framework 2020, which is provided for under Section 29 (i) of the PFM Act, 2012. The function involves various National Treasury departments involved in Accounting Policy, Economic Affairs, Public Debt Management and Budget Affairs among other key stakeholders.

Objective of the Audit

15. The main objective of the audit was to assess measures put in place by The National Treasury (TNT) in ensuring effective cash and domestic debt management.

Audit Scope

16. The audit examined cash management operations and data of TNT, CBK and OCoB for the five (5) years from FYs 2018/2019 to 2022/2023. However, the assessment of cash planning and forecasting was only possible for FYs 2021/2022 and 2022/2023 as the Cash Framework 2020 implementation had just commenced. The audit focused on the operationalization of cash management framework, reliability of government forecasts and plans in meeting government obligations, utilization and management of government proceeds for both short term and long-term domestic borrowing.

[4] 2023 Medium Term Debt Strategy pg. 12.

Summary of Findings

Extent of Achievements

17. In the recent past, The National Treasury (TNT) has put in place measures towards enhancing the management of cash and public debt, which include the following;
    i. The National Treasury established its first cash management framework in January 2020.
    ii. There has been increased provision of information through publication of public debt information.
    iii. Kenya's debt ceiling is now anchored as a percentage of gross domestic product (GDP), from the previous nominal ceiling of Kshs.10 trillion.
    iv. The formulation and preparation of the National Budget has been adhering to budget guidelines and timelines, as provided for in the annual National Treasury Circulars.
    v. Automation of primary and secondary market process through the CBK DhowCSD. This is a new Central Securities Depository (CSD) that offers a streamlined and secure portal for investing in Government securities.
18. However, despite the above efforts, audit findings indicate that cash and domestic management operations are yet to function effectively, as detailed below: -

A. Policies, Institutional Arrangement and Capacity Put in Place by The National Treasury in Ensuring Effective Functioning of Cash Management

i) Ongoing Operationalization of The National Treasury Cash Management Framework 2020

19. Review of correspondences and interviews with the Cash Management Unit revealed that, The National Treasury established its first cash management framework in January 2020. The framework is based on the Constitution of Kenya, 2010, the Public Finance Management Act, 2012, the Public Finance Management Regulations, 2015 and The National Treasury's Strategic Plan 2018/2019-2022/2022.
20. Additionally, review of correspondences and interviews with the Cash Management Unit revealed that the operationalization of the Cash Management Framework 2020 was ongoing.

ii) Inadequate Use of Modern Cash Management Tools and Techniques in Enhancing Efficiency of Cash Management Function

21. The Treasury Management Unit has been undergoing capacity enhancement through secondment of a technical resource person from the Central Bank of Kenya on treasury management for an initial period of two (2) years that commenced February 2023. The terms of reference of the technical resource person include;
    (a) Cash Flow: The development of cash flow forecasting tools to enhance the cash flow module currently in place; preparation of annual aggregate cash plans to guide in the monthly and weekly requirements for domestic borrowing; preparation of variance analysis between the forecasts and actual cash flows; and support for the cash management team in capacity building.
    (b) IFMIS and Government Payment System: Involves providing advice and documenting necessary changes in IFMIS system and CBK Internet Banking requirements to enable implementation of the Treasury Single Account (TSA).
22. As at the time of the audit, its only CBK Internet Banking that had been implemented. Implementation of the remaining Terms of Reference was ongoing. In addition, cash planning and forecasting was being done using spreadsheets.
23. Even though there has been progress in building capacity, there is need to continually build technical capacity of the existing officers to enhance the understanding of cash management function and use of modern cash management tools and techniques in enhancing effective cash management. Although use of spreadsheets is an essential tool that is widely used for cash planning and forecasting, the tool may not be entirely reliable since by using it for forecasting entails manual collection and conversion of data, thereby increasing the likelihood of human error. Considering the magnitude of the government budget and the size of revenues and expenditures of all public entities, the accuracy of the manual cash forecasts may be doubtful and unreliable. Cash managers may require additional time to confirm the validity of the data prior to implementation of cash plans. Consequently, there is need for application of modern analytical and simulation techniques models for efficiency and effective cash management.

B. Cash Planning and Forecasting of Government Priorities and Obligations

24. The National Treasury and Planning Framework for Cash Management January 2020, paragraph 2.1 provides that aggregate cash planning shall be consistent with the macroeconomic framework, the annual budget and up to date projected revenues, expenditure and debt outcomes. Effectiveness in cash management ensures that the national government meets its budgetary allocations in a timely and cost-effective manner.

    Review of documents and interviews with the Cash Management Unit revealed the following;

i) Preparation of Aggregate Cash Plans Consistent with Macroeconomic Framework, Annual Budget, Revenue and Expenditure and Debt Outcomes

25. The National Treasury had its first Aggregate Cash Planning in the FY 2021/2022. Interviews with Cash Management officers and a further detailed review of the FY 2021/2022 and FY 2022/2023 Annual Aggregate Cash Plans (AACPs), revealed that the development of aggregate cash plans is based on original estimates and monthly projections on revenues patterns, expenditures patterns of the MDAs, public debt, cash balances and any arising deficit financing. This information is further disaggregated on a monthly and sometimes on a weekly basis to determine the cash requirements that will inform disbursements. It is also noted that during the financial year, even though short-term borrowing is determined at the beginning of the year, it is subsequently revised in the supplementary budgets, due to changes in the financial market environment.

ii) Liquidity Constraints Impeding Effective Implementation of the Cash Plans

26. Despite the progressive development of the AACPs and consistency with the macro-economic framework and cash adjustments requirements made during the year, The National Treasury has not been able to fully meet its budgetary allocations in a timely and effective manner as the budget under absorption of total amounts Kshs.151.637 billion, Kshs.256.429 billion and Kshs.377.362 billion in FYs 2020/2021, 2021/2022 and 2022/2023 respectively were noted in the audit. These was due to;

a) Inadequate Exchequer Funds Resulting from Outstanding Exchequer Requests

27. Exchequer Publications and Outstanding Exchequer Requests statements for FYs 2021/2022 to 2022/2023 review revealed that out of budget under absorption amounts of Kshs.256.429 billion, Kshs.91.527 billion (35.69%) was attributed to outstanding Exchequer requests in FYs 2021/2022. Similarly, out of a budget under-absorption of Kshs.377.362, Kshs.77.545 billion (20.55%) was attributed to outstanding Exchequer requests in FY 2022/2023.
28. The outstanding Exchequer Requests were mainly attributed to the under-achievement of revenue collection targets by Kshs.130.356 billion (4.5%) in FY 2020/2021, Kshs.277.093 billion (8.3%) in FY 2021/2022 and Kshs.375.361 billion (10.4%) in FY 2022/2023 from domestic and external sources.
29. The underperformance of revenue collection was due to;
    i. **Underperformance in Domestic Borrowing Revenues:** Review of Exchequer Publications revealed that revenues from domestic borrowings underperformed by Kshs.84.512 billion (9.7%) in FY 2020/2021, by Kshs.144.983 billion (8.3%) in FY 2021/2022 and by Kshs.251.705 billion (10.4%) in FY 2022/2023.
    ii. **Underperformance in External and Grants Revenues:** The outstanding Exchequer release, especially for the development, was also attributed to the underperformance of external loans and grants revenues by Kshs.45.263 billion (10.7 %) in FY 2020/2021, Kshs.181.578 billion (43.1%) in the FY 2021/2022 and Kshs.25.107 billion (4.9%) in the FY 2022/2023.
30. Review also revealed that in FY 2021/2022 development expenditures had the largest proportion (45.72 percent) of outstanding Exchequer requests amounting to Kshs.41.847 billion while in 2022/2023, recurrent expenditure had the largest proportion (45.49 percent) of outstanding Exchequer requests of Kshs.35.275 billion closely followed by development expenditure amount of Kshs.25.104 billion in FY 2022/2023.
31. In light of the foregoing, low allocation of the development budget may have affected the rate of development and sustainability of services in the country, while the under-expenditure of the recurrent budget implies that citizens were not provided with all requisite services that had been budgeted for.

b) Delays in Requesting for Funds from the Exchequer by Ministries, Departments and Agencies

32. Interviews with The National Treasury officials indicated that other than the Outstanding Exchequer Issues, inadequate capacity to absorb the funds already allocated and delays occasioned by Ministries Departments and Agencies in requesting for funds from the Exchequer contributed to The National Treasury not being able to fully meet the National Government's budgetary allocations in a timely and effective manner, thus contributing to budget under-absorption.

C. Assessment of Utilization of Proceeds of Government Securities

i) Inadequate Utilization of Bonds Proceeds for Development

33. During the period under review, The National Treasury realized proceeds amounting Kshs.2,974.696 billion from Treasury Bonds Issuance. Out of this, Kshs.2,671.254 billion was transferred to CFS account of which Kshs.558.870 billion was utilized to settle maturing domestic debt while the remaining balance of Kshs.2,112.384 billion funded Exchequer releases to MDAs.
34. Utilization of these proceeds to fund repayment of maturing Treasury Bonds contradicts the Fiscal Responsibilities Principle, Section 15(2)(c) of PFM Act, 2012 that provides that the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. Additionally, inquiry with TNT on the reasons for not utilizing the bonds as per the fiscal responsibility principles and prospectus indicated that debt obligation is a first charge of the Consolidated Fund pursuant to Regulation 42(1)(a) of PFM Regulations, 2015. Secondly, because of fungibility of money, the moneys were used exchange-ably to fund priority Exchequer Requests instead of lying idle in the Treasury Bonds Accounts. It was also explained that provided that at the end of the financial year the budget was fully funded, there should be no problem. As a result, the audit could not verify what specific projects the Treasury Bonds proceeds were expended on. Further, a number of Infrastructure Bond prospectuses indicates the purpose of Treasury Bonds to be general and not specific to a particular infrastructure project making it difficult to confirm utilization of the proceeds to specific projects. In the long-run, non-adherence to fiscal principles, which is an important pre-requisite for sound macro-economic environment, may weaken investor confidence and development of markets for government securities.

ii) Allocation of Development Expenditure Below Public Finance Fiscal Responsibility Principle 30 Percent Threshold

35. In the period under review, it was revealed that development expenditure of national government averaged 13.95% of the total national budget allocation in the last three (3) financial years. The development expenditure is therefore 16.05% below fiscal principal threshold of 30% of the total national budget allocation. For instance, out of the total national government allocation, only 15.94% was allocated for development in FY 2020/2021, 14.30% in FY 2021/2022, and 11.61% in FY 2022/2023. Since the 2023/2024 fiscal policy over the medium-term focuses on supporting the government's Bottom-Up Economic Transformation Agenda (BETA), implementation of this agenda is likely to face delays due to delayed funding.

iii) Partial Implementation of Treasury Single Account

36. Interviews with the Cash Management Unit staff revealed that The National Treasury was yet to fully operationalize a Treasury Single Account (TSA). The Cabinet had approved implementation on 15 January, 2024. In addition, The National Treasury had made milestones such as automation of the Exchequer process and taking stock of all government bank accounts. Steps to reduce idle government cash balances had also commenced. The National Treasury also adopted a hybrid model for TSA which shall allow entities to operate both at CBK and Commercial banks. The implementation of the TSA is aimed at simplifying the government's banking and providing visibility of cash resources and at the same time enhancing transparency of the government's cash management.

iv) Inadequate Automation of Cash and Debt Management Operational Interactions

37. Correspondences and interviews with the Cash Management Unit revealed the following;

a. Automation of Exchequer Yet to be Fully Rolled Out

38. For the IFMIS cash management module to be operational, it requires automation of end-to-end exchequer release process for updating the actuals data in the cash flow forecast template. The IFMIS cash management module relies upon the completed end to end exchequer release process and approvals workflow from both MDAs and Counties to update the actuals data in the cash flow forecast template. Even though the need to automate arose from the recommendations of

the Technical Assistance Report of 2019, the process incurred significant delay of over two (2) years as both the legal and technical requirements of the various end users had to be assessed and gaps addressed. At the time of the audit, the automation of cash planning had been implemented while exchequer release automation was at the piloting stage.

b. Inadequate Cash-Debt Management Integration

39. IFMIS consists of several modules that support the different functional processes associated with Government Fiscal Management. These include modules for macroeconomic forecasting, budget preparation, budget execution (including cash management, accounting and fiscal reporting), managing the size of the civil service establishment and its payroll and pensions, debt management, tax administration and auditing. The debt function through the debt management module in IFMIS is yet to be inter-phased. This is because as at the time of audit, the migration to the new CS-Meridian system was yet to be finalized. Coordination and exchange of information between cash and debt functions is likely to be impacted due to inability to access real-time cash and debt data and delayed generation of out-turn analysis reports, which facilitates efficient decision making on when and how much cash can be borrowed by the government in order to meet its obligations.

D. Assessment of Adherence to Legislation on the Sourcing and Usage of Bank Overdraft Facility

i) **Failure by The National Treasury to Fully Repay the Overdraft Loan Facility at The End of Each Financial Year**

40. The overdraft facility is a temporary source of cash to cater for priority payments and emergencies used by The National Treasury when revenue streams such as tax receipts and debt do not flow into government accounts at a pace that matches expenditure cash demands. The facility is limited to five percent of the gross recurrent revenue of the government's previous years' audited accounts.

41. Review of Overdraft Bank statements for the FYs 2018/2019 to 2022/2023 revealed outstanding overdraft balances averaging Kshs.59.472 billion at the end of each financial year.

42. During the audit, it was observed that Treasury Bills and bank overdrafts are short-term borrowings to cover temporary cash shortfalls and are repayable within twelve

months. The surplus Treasury Bills are used to settle the bank overdraft and increase its limit while shortfalls increase the overdraft facility. The overdraft facility for the period under review was observed not to have been settled at year-end due to insufficient funds. As a result, the long outstanding overdraft balances lead to increased interest as a cost of borrowing.

E. Other Findings

i) Discrepancies in Treasury Bills Monthly Bank Account Reconciliations Statements

43. Review of Cashbook of Treasury Bills Account number 1000000977 for the five (5) year period, revealed that The National Treasury did not prepare accurate monthly bank reconciliations of Treasury Bills Account in FY 2017/2018. The discrepancies were not investigated to appropriately update the cashbook for the subsequent years. This resulted to unresolved long outstanding reconciling items in the bank reconciliation statement.

44. The audit sought further clarification from the Debt Settlement office on the discrepancies and established that only three transactions are posted in the Treasury Bill Cashbook. These are Treasury Bill Proceeds, Receipts from the Exchequer and the Call-Ups. However, the receipt from the overdraft account had not been posted in the cashbook as at the time of the audit. Therefore, in the absence of Treasury Bills Proceeds and Redemption Schedule for the period, the audit could not confirm the actual movement of cash as explained by the Management. As a result of the above discrepancies, there may be misstatement of ledger accounts (e.g. Treasury Bills Proceeds ledger), fictitious payments and/or misstatement of cashbook balances in the subsequent years.

ii) Non-Recording of Domestic Debt by the PDMO in the CS-DRMS

45. Interviews with the Back Office Ag. Deputy Director at the time of the audit, revealed that PDMO did not record domestic debt data in the CS-DRMS system. Instead, reliance is placed on the Central Bank of Kenya's system for recording, managing and reporting of domestic debt. Non-recording of the domestic debt data by the PDMO may result in inadequate monitoring, reconciling and management of the domestic debt.

Conclusion

46. The National Treasury established a Cash Management Framework, in January 2020, that guides on effective functioning of cash management. The operationalization of the framework is ongoing as The National Treasury established Cash Management Unit, appointed a technical resource person on 01 February, 2023 to oversee Cash Flow and IFMIS and Government Payment System and also appointed members to the Cash Management Committee and Cash Management Technical Team on 13 June 2023 in response to the staff turnover. Despite the progress in building capacity, there still remains a need to enhance technical capacity of the existing officers in understanding cash management functions and use of modern cash management tools and techniques.
47. Even though The National Treasury's preparation of the Aggregate Annual Cash Plans (AACPs) is consistent with the macro-economic framework, The National Treasury (TNT) has not been able to adequately meet its budgetary obligations in a timely and cost-effective manner due to liquidity constraints arising from shortfalls in external and domestic receipts.
48. There is inadequate visibility of the government balances, cash inflows and cash outflows due to incomplete operationalization of a Treasury Single Account (TSA) and inadequate cash-debt management integration as per objectives of cash management framework. Additionally, efficient coordination between cash and debt functions continues to be negatively impacted due to inability to access real-time cash and debt data, and lack of generation of reliable outturn reports which facilitates efficient decision making on when and how much cash can be borrowed by the government to meet its obligations.
49. The national government's development budget allocation averaged 13.95%. Also, the proceeds from Treasury Bonds have not been adequately utilized for development purposes. Therefore, The National Treasury has not adequately adhered to the Fiscal Principles stated in Section 15(1) and 15(2)(a) and (c) of the Public Finance Management Act, 2012, that in managing the national government's public finances, The National Treasury is required to enforce and adhere to The Fiscal Responsibility principle of:

i. Over the medium-term a minimum 30 percent of the national and county governments budget shall be allocated to the development expenditure;
ii. over the medium term the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
iii. over the medium term the national government's borrowings shall be used only for the purpose of financing development expenditure not for recurrent expenditure.

50. The National Treasury has not been able to prudently utilize the overdraft facility. For instance, short-term borrowing instruments such as Treasury Bills and Bank Overdrafts are employed for purposes of cash management. In addition, while all short-term securities should be settled within a year, this does not apply to Bank Overdrafts as these balances are rolled over to subsequent financial years. The long outstanding overdraft balances attract high interest hence have negative impact on the overall cash flow position due to increased cost of debt.

Recommendations

51. In view of the findings and conclusions of the audit, the following are recommendations for implementation by The National Treasury to ensure effective cash management:
52. There is need for The National Treasury to continually build technical capacity of the existing officers to enhance the understanding of cash management function and use of modern cash management tools and techniques in enhancing effective cash management.
53. To ensure effective government cash planning and forecasting and full implementation of government priorities and obligations while reducing the risk of cash shortage or restricting expenditures, the National Treasury should finalize on;
    i. The operationalization of the Treasury Single Account to ensure government's centralized control of cash resources that enables optimum use of government balances;
    ii. The integration of both cash planning functions and debt management function through the public debt module in IFMIS and CS-Meridian to ensure efficient execution of budget.

54. To ensure that the government meets its budgetary allocations in a timely and cost-effective manner, in the long term, The National Treasury should; emphasize operationalization of fiscal performance measures recommended in Budget Review Outlook Paper 2023/2024 of ensuring strong revenue performance paired with careful expenditure controls while protecting social spending.
55. The National Treasury should adhere to and enforce the Fiscal Responsibility Principles in Section 15(1) and 15(2) (a) and (c) of the Public Finance Management Act, 2012, that requires that a minimum of 30 percent of the national and county governments budgets are allocated to the development expenditure over the medium-term and that over the medium term the national government's borrowings are to be used only for the purpose of financing development expenditure and not for recurrent expenditure.
56. To ensure prudent management of overdraft facility, The National Treasury should strengthen revenue performance, cap expenditure and develop the market for government securities by building robust financial market policy and regulatory framework and diversifying financial products and services in order to ensure cash inflows are adequate and timely in meeting government's short-term obligations.
57. The National Treasury should establish adequate internal control systems that ensure accurate preparation of monthly bank reconciliations of government Treasury Bills account. Further, the management should ensure the accuracy and completeness of records in the Cash Book for purposes of generating reliable monthly and end year account balances. Any discrepancies or reconciling items should be investigated immediately and appropriate action taken including updating the relevant cash books.
58. The National Treasury through the Public Debt Management Office should ensure maintenance of reliable debt data of domestic debt transactions to ensure they are within the guidelines and risk parameters of the debt strategy in order to enable an effective cash management system.

1.0 BACKGROUND TO THE AUDIT

Introduction

1.1 Article 229 (6) of the Constitution of Kenya, 2010 and Section 36 of the Public Audit Act, 2015 mandates the Auditor-General to examine and report on the economy, efficiency and effectiveness with which public money has been expended.

1.2 Cash management refers to ensuring the right amount of moneys available at the right time and the right place to meet government's obligations in the most cost-effective way. Faced with increasing priorities, decreased revenues and constraint access to financial markets, governments are continuously facing challenges in executing their budget in a timely and cost-effective manner. A comprehensive and robust cash management is key to ensuring that cash is adequate and available in a timely manner in order to meet government's obligations[5].

1.3 Debt management, according to the INTOSAI Development Initiative (IDI) Manual 2020, refers to the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

1.4 According to The National Treasury and Economic Planning's Cash Management Framework (January 2020), the overall objective of government cash management is to ensure effectiveness and efficiency in government resource allocation i.e. having the right amount of money in the right place at the right time to meet the government obligations in a timely manner and cost-effective way.

1.5 At first glance, cash management and debt management seem distinct in their goals and operations, and in fact, they have evolved independently over time in numerous nations. These two (2) functions can be differentiated as follows;

1.6 Cash Management has a relatively short-term outlook whereas debt management has a relatively medium-term to long-term outlook. While the objective of cash management is to meet government obligations in a timely and cost-effective manner, the objective of debt management is to ensure that

[5] The National Treasury and Economic Planning's Cash Management Framework, January 2020.

the government meets its borrowing needs in lowest possible cost consistent with a prudent degree of risk.

1.7 However, these two (2) functions inter-relate in the following manner;

"Efficient and effective cash and debt management are extremely important for governments during normal times, but become critical during financial crises. In normal times, good cash management practices can produce considerable savings for governments through accurate understanding and management of liquid financial assets and navigating through periods of insufficient cash. For instance, during periods of financial crisis, effective cash management can still support vital social protection programmes in the vital sectors of the economy.[6]

1.8 Debt Management Strategy guides public debt management and aims at minimizing borrowing costs and risk of public debt amidst continuous paradigm changes in the domestic and global financial markets. Similarly, effective public debt management strategy permits fiscal policy to operate efficiently while minimizing financial portfolio risks relating to market movements and debt rollovers. It is therefore imperative that the debt management strategy and related policy are designed to ensure investor confidence, minimize borrowing costs, enhance market stability and ensure a stable cash management regime.

1.9 Government cash managers rely heavily on the availability of complete databases of historical revenues and expenditures to enable better cash planning through the use of trend analysis, often using interfaces with government financial management information systems (Khan and Pessoa, 2010).[7]

1.10 When the government is issuing debt securities in the domestic market through auctions, the borrowing plan should also include the auction calendar. Moreover, efficient and effective cash management supports the development of a more committed and transparent borrowing plan, and contributes overall to reducing the cost of debt. The cash flow forecasts are normally a function of

[6] John Gardner and Brian Olden. *Cash Management and Debt Management: Two Sides of the Same Coin*? Pg. 283-310

[7] Abdul Khan and Mario Pessoa (2010). *Conceptual Design: A Critical Element of a Government Financial Management Information System Project.* International Monetary fund. Fiscal Affairs Department

Government Accounting Services, although in some developing countries the Debt Management Offices could assume that responsibility.

1.11 Because of the close linkage between central government cash flow forecasts and Debt Managers, it is essential that regular and reliable information sharing occur between these two functions. It is important to stress that execution of the annual borrowing plan requires consistent and close observation of market conditions. In moments of intense adversity, issuance plans may be adjusted in such a way as to minimize the volatility of government bond market, thus ensuring an adequate balance between costs and risks.

1.12 Kenya's fiscal deficit (exclusive of grants) were projected to decrease from Kshs.638.200 billion in FY 2018/2019 to Kshs.629.914 billion in FY 2019/2020 then to Kshs.614.078 billion in FY 2020/2021. In FY 2021/2022 however, the fiscal deficit was projected to increase to Kshs.976.106 billion, then projected to decrease to Kshs.893.000 billion in FY 2022/2023[8]. In contrast, according to the Budget Review and Outlook Paper for years 2018 to 2023, the actuals fiscal deficit amounts were reported to be Kshs.732.035 billion, Kshs.831.499 billion, Kshs.965.717 billion, Kshs.827.710 billion and Kshs.860.491 billion in FYs 2018/2019, 2019/2020, 2020/2021, 2021/2022 and 2022/2023 respectively. Therefore, the actual fiscal deficits have been increasing in comparison to the projected deficit.

1.13 In bridging the fiscal balance, the Government borrowed both externally and domestically whereby the net domestic financing amounted to Kshs.311.511 billion, Kshs.306,536 billion, Kshs.500.2 billion, Kshs.626.926 billion and Kshs.521.5 billion for FYs 2017/18, 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23 respectively.

1.14 The IMF-World Bank debt sustainability analysis conducted in December 2022 in collaboration with the National Treasury revealed that Kenya's present value of public debt as at the end of December 2022, was at 60% of GDP (5% above threshold of 55% of GDP) of which the domestic debt was 33.2% of GDP while external debt was 26.8% of GDP.

1.15 As at the end of December 2022, the total interest payments as a percentage of GDP were Kshs.807.895 billion (5.3%) comprising Kshs.594.489 billion

[8] Budget Policy Statement FYs 2018/2019 to 2022/2023

(3.9%) for domestic debt and Kshs 213.406 billion (1.4%) for external debt. Interest payment for the domestic debt remained high, almost triple the level paid on external debt even though their respective stocks was the same. This difference reflects the high-interest rates on domestic debt due to the unfavorable domestic debt market which attracts minimal capital inflows.[9]

1.16 Cash Management function of The National Treasury is guided by The National Treasury Cash Management Framework 2020, which is provided for under Section 29 (i) of the PFM Act 2012. The function is a team-function that involves various National Treasury departments involved in Accounting Policy, Economic Affairs, Public Debt Management and Budget Affaires among other key stakeholders.

Motivation for the Audit

1.17 The Auditor-General authorized the audit after consideration of the following factors;

(i) Achieving an ambitious development agenda, including all the sustainable development goals, will require an equally ambitious, comprehensive, holistic and transformative approach with respect to the means of implementation, combining different means of implementation and integrating the economic, social and environmental dimensions of sustainable development. This should be underpinned by effective, accountable and inclusive institutions, sound policies and good governance at all levels. For instance;

(a) The 2015 Addis Ababa Action Agenda establishes a strong foundation to support the implementation of the 2030 agenda for the sustainable development through providing a new global framework for financing sustainable development by aligning all financing flows and policies with economic, social and environmental priorities. It acknowledges domestic public resources, debt and debt sustainability as action areas in the agenda among others.

(b) The Bottom-Up Economic Transformational Agenda is anchored on 5 (five) pillars: Agriculture, MSME Economy, Housing and Settlement, Healthcare, as well as Digital and Creative Economy. The priority

[9] 2023 Medium Term Debt Strategy pg. 12.

interventions proposed in the 2022-2027 plan are expected to contribute towards 6 (six) broad objectives including lowering the cost of living, eradicating hunger, managing unemployment, improving fiscal performance, stabilizing foreign exchange and ensuring inclusive economic growth. Approximately Kshs.2.67 trillion is required to fully implement the agenda as most projects are capital intensive. In cognizant of the prevailing constrained fiscal space, rising global inflation, long-term impact of the Covid-19 pandemic and the Russia–Ukraine conflict among other geopolitical dynamics, prudent borrowing in financing the deficits and having the right amount of money in the right place at the right time to meet these and other government obligations in a timely manner and cost-effective way is key.

(c) Further financing of the plan is based on a fiscal consolidation commitment whereby the fiscal deficit must progressively decline from the current 2022/2023 deficit of 6.2 percent of GDP to 3 percent of GDP by FY 2026-2027; revenue projections must exceed average performance for the last three years; and expenditure growth is capped at 75% of the revenue growth rate. This calls for Budget neutrality which is a key principle for required policy interventions.[10]

(ii) The report of the Budget and Appropriations Committee on the 2022 MTDS noted that the Government's financing is already dependent on domestic financing which has been observed from previous deviations from existing annual strategies in favor of domestic borrowing. The Committee noted that while it is important for domestic market sustainability, if the same was not coupled with adequate market reforms, it could exert pressure on the domestic financial market leading to crowding out effect and increase borrowing cost. The Committee observed that the domestic financial market is at the core of deficit financing strategy proposed in the 2022 MTDS despite the domestic debt portfolio having a high interest rate and refinancing risk.

[10] http://parliament.go.ke/sites/default/files/202211/ASSESSMENT%20OF%20THE%20COST%20IMPLICATIONS%20OF%20THE%20BOTTOMUP%20ECONOMIC%20TRANSFORMATION%20PLAN%202022-2027.pdf

1.18 Pursuant to regulations 16 of the Controller of Budget regulation,2021, the Controller of Budget can compel The National Treasury and Central Bank of Kenya (CBK) to give the CoB real-time access to monitor cash movements into and out of the accounts. The regulations give the CoB a clear view on cash outflows from the Consolidated Fund, Equalization Fund, County Revenue Fund and any other public accounts to ensure that accounting officers do not breach set ceilings in the use of public funds.[11]

[11] https://www.businessdailyafrica.com/bd/economy/-budget-controller-seeks-real-time-access-to-state-accounts-3847526

2.0 DESIGN OF THE AUDIT

Audit Objective

2.1. The main objective of the audit was to assess measures put in place by The National Treasury (TNT) in ensuring effective cash and domestic debt management. Specifically, the audit sought to;

(i) Assess the policies, institutional arrangement and capacity put in place by The National Treasury in ensuring effective functioning of cash management.

(ii) Assess whether cash planning and forecasting ensures government priorities and obligations can be implemented without risk of cash shortage or restricting expenditures.

(iii) Assess whether government securities (Treasury Bills and Bonds) sourcing are through cash plans/forecasts and borrowing plans and within prudent degree of risk and minimum costs.

(iv) Assess whether the utilization of proceeds of government securities are for the intended purpose, according to Fiscal Responsibility Principles Section 15 of PFM Act, 2012 and Section 26 of the PFM Regulations, 2015.

(v) Assess whether the sourcing and usage of the bank overdraft facility undertaken is as prescribed by legislation and adheres to the principles of economy.

Scope of the Audit

2.2. The audit examined cash management operations and data of TNT, CBK and CoB for the five (5) years from FYs 2018/2019 to 2022/2023. However, the assessment of cash planning and forecasting was only possible for FYs 2021/2022 and 2022/2023 as the Cash Framework 2020 implementation had just commenced. The audit focused on the operationalization of cash management framework, reliability of government forecasts and plans in meeting government obligations, use and management of government proceeds from both short term and long-term domestic borrowing.

Methods of Data Collection

2.3. The audit was conducted in accordance with Public Debt Auditing and Performance Auditing Guidelines set by International Organization of Supreme Audit Institution (INTOSAI). The audit also used Public Debt Management Manual (A Handbook for Supreme Audit Institutions) August 2020 and Office of the Auditor General-Kenya (OAG-Kenya) Performance Audit Policies and Procedures Manual as reference material.

2.4. The audit team used documentary review and interviews to gather data as follows;

Document Review

2.5. To understand the Legal and Institutional Framework the audit team reviewed the Constitution of Kenya, 2010; PFM Act 2012; PFM (National Government) Regulations 2015; The National Treasury Cash Management Framework 2020; Debt and Borrowing Policy 2020; DEMPA Tool & Guide, and; UNCTAD Principles as per **Appendix I**.

2.6. To understand the key processes and stakeholders involved in cash management, the team reviewed the Budgeting & Debt Management Procedures Manual, National Treasury Strategic Plan 2018/2019-2022/2023, Organizational Structure, staff establishment among other documents.

2.7. To gain information on cash management, the team reviewed the Framework for Cash Management, Annual Cash Plans, Budget Policy Statements (BPS), Aggregate Cash Plan inputs, Revenue Plans, Expenditure Plans, Debt Medium-Term Expenditure Framework (MTEF), Treasury Bonds Prospectus, Domestic Debt Portfolio, Medium Term Debt Management Strategies, Budget Estimates and Annual Borrowing Programs for the F/Ys 2018/2019 to 2022/2023.

2.8. To gain understanding on emerging issues, development & concerns in cash management, the team reviewed The National Treasury forecasts, cash plans, borrowing programs, Controller of Budget Implementation Reports, Annual Debt Management Performance Reports and Office of the Auditor-General Audit Reports.

Interviews

2.9. To understand the key processes, various domestic debt instruments, planning for borrowing, implementation, utilization, reporting and emerging issues, development & concerns in cash management, the team interviewed officers in the Directorate of Public Debt Management and specifically Middle Office Department as per **Appendix II**.

2.10. To understand the role played by Controller of Budget in cash management, the audit team interviewed officers in key positions from the Office of the Controller of Budget.

2.11. To understand the procedures, processes and controls put in place by the Accountant General in cash management, the audit team interviewed the Senior Deputy Accountant General at TNT.

2.12. The team also interviewed senior officers from the Central Bank of Kenya who directly deal with cash management, to understand the role played by CBK in cash management. This is as per **Appendix II.**

Assessment Criteria

2.13. The main assessment criteria were drawn from The Constitution of Kenya, 2010, PFM Act, 2012, PFM (National Government) Regulations, 2015, Central Bank of Kenya Act, Debt and Borrowing Policy, 2020, Agency Agreement between The National Treasury and The Central Bank of Kenya, DeMPA Assessment Tool 2021, Resource Mobilization Department (Front Office) Procedural Manual, Middle Office Procedural Manual and the Approved Framework for Cash Management as per **Appendix I.**

3.0 DESCRIPTION OF THE AUDIT AREA

Cash Management Institutional Framework

3.1 Cash management describes the process by which the Government projects and manages day to day cash inflows and outflows.

3.2 An efficient Government accounting system and robust procedures for monitoring, controlling Government spending, and forecasting revenues are essential for effective Government cash management. Typically, it is the Ministry of Finance that has the primary responsibility of developing and maintaining these systems.

3.3 To establish a solid framework for Government financial management, budgetary analysis, and responsible cash management, Government agencies must regularly forecast their revenue and expenditure flows. In terms of budgetary analysis, this information may be required on a monthly basis or even more frequently period.

The Functions of the National Treasury and Economic Planning

3.4 The National Treasury derives its mandate from Article 225 (1) of the Constitution of Kenya, 2010, which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. It will undertake the following functions:

(i) Formulate, implement and monitor macro-economic policies involving expenditure and revenue;

(ii) Manage the level and composition of national public debt, national guarantees and other financial obligations of National Government;

(iii) Mobilize domestic and external resources for financing National and County Government budgetary requirements.

(iv) To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

3.5 The National Treasury & Economic Planning has established a Cash Management Framework that governs the Cash Management function of the institution. This Framework is mandated under Section 29 (i) of the Public Finance Management Act, 2012, which requires the establishment of a comprehensive framework to oversee cash transactions of the National Government.

3.6 The National Treasury Cash Management Framework involves Departments and Entities responsible for the National Treasury Cash Management function. To effectively combine the efforts of these Departments and Entities in ensuring prudent cash management, National Treasury Cash Management Unit has been created. The Unit serves as a platform for the collaboration and harmonization of the various skills and expertise of these key Departments and Entities. This collaboration plays a crucial role in guiding the decision-making bodies responsible for cash management.

3.7 According to the National Treasury's Cash management framework, the Cash Management Committee (CMC) and the Cash Management Technical Team (CMTT) constitute the Cash Management Advisory Committee (CMAC). The CMC serves as the primary decision-making body and provides strategic guidance for cash management, while the CMTT handles the day-to-day cash management activities and assists the CMC in carrying out its functions. Further, the Framework establishes a Cash Management Unit that facilitates the operations of the Cash Management Advisory Committee.

3.8 To foster collaboration within the Cash Management function of The National Treasury, the Cash Management Unit will assume the responsibility of providing secretariat support to the Cash Management Advisory Committee. The Secretariat will serve as a centralized hub where the primary stakeholders in cash management can convene to share their data and information.

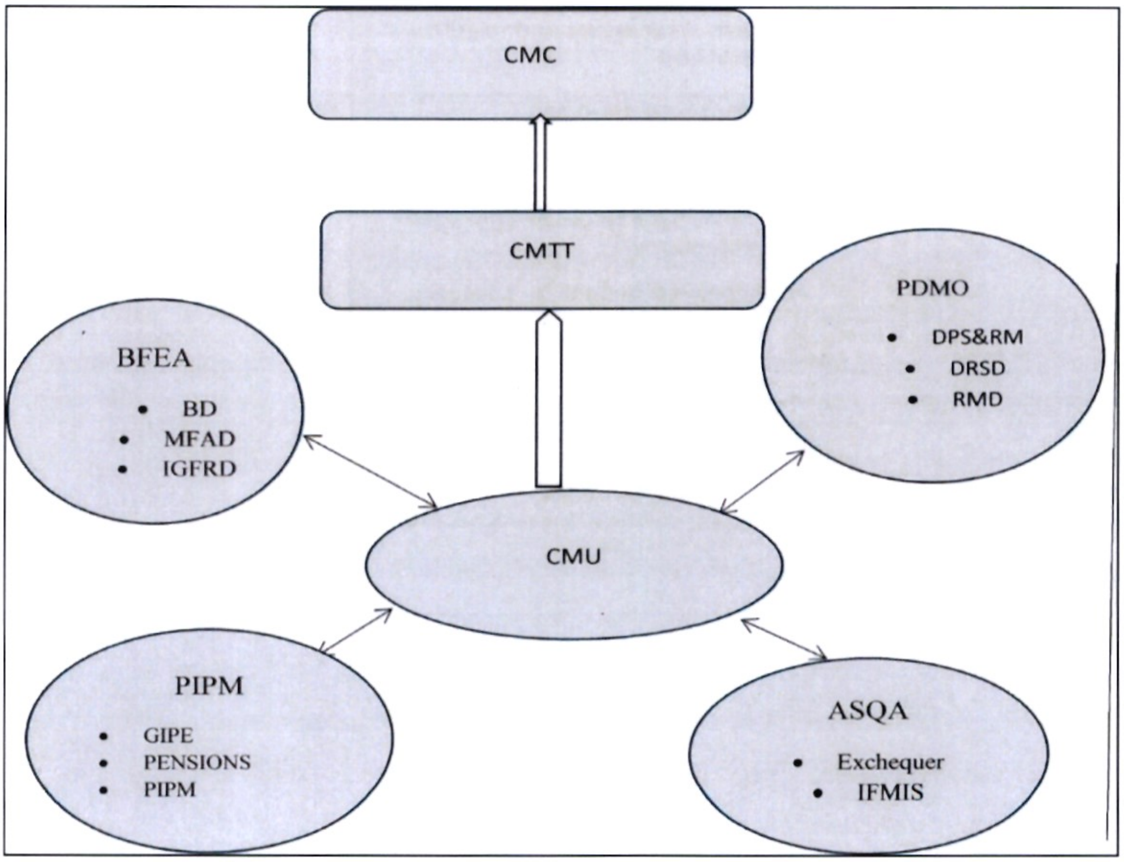
3.9 The National Treasury several key departments and entities involved in Cash Management include:

(i) The Accounting Services Department (ASD)
(ii) Resource Mobilization Department (RMD)
(iii) Debt Policy, Strategy, and Risk Management (DPS&RM)
(iv) Debt Recording and Settlement (DR&S)
(v) Budget Department (BD) in collaboration with the Macro and Fiscal Affairs Department (MFAD)
(vi) Intergovernmental Fiscal Relations (IGFR)
(vii) Integrated Financial Management Information System (IFMIS)
(viii) Government Investment and Portfolio Enterprises (GIPE)
(ix) Public Investment and Portfolio Management (PIPM)
(x) Pensions Department (PD)

Coordination Structure of Cash Management

3.10 Departmental and Cash Management Advisory Committee relationship in the execution of The National Treasury cash management function is as shown in **Figure 1**. The CBK is a key institution in cash management and normally may be consulted from time to time on the cash management function.

Figure 1:The Cash Management Coordination Structure



Source: The National Treasury Cash Management Framework, 2020.

Key:

CMC: Cash Management Committee GIPE: Government Investment and Public Enterprise

CMU: Cash Management Unit CMTT: Cash Management Technical Team

ASQA: Accounting Services and Quality Assurance BD: Budget Department

PIPM: Public Investment and Portfolio Management

IGFRD: Inter-Governmental Fiscal Relations Department

IFMIS: Integrated Financial Management Information System

PDMO: Public Debt Management Office

DPSRM: Debt Policy, Strategy and Risk Management

DRSM: Debt Recording and Settlement

RMD: Resource Mobilization Department

BFEA: Budget Fiscal Economic Affairs

MFAD: Macro and Fiscal Affairs Department

Roles and Responsibilities

3.11 The cash management function is spread across The National Treasury Departments responsible for accounting policy, economic affairs, public debt management and budget. The specific roles and responsibilities under cash management are shown below;

(i) The Cash Management Unit

3.12 To enhance Government Cash Management Function, The National Treasury Cash Management Unit (TCMU) which is domiciled under the Accounting Services and Quality Assurance Directorate provides the secretariat support to the primary National Treasury Directorates engaged in cash management. The head at the helm of the cash management unit holds responsibility for overseeing its operations and the unit performs the following functions;

(a) Overall coordination of cash management in The National Treasury, preparation of Aggregate Cash Plan and guidance on monthly allocations amongst other functions.
(b) Providing information on cash performance for management of the budget and liquidity.
(c) Cash forecasting and cash flow revisions.

(ii) Budget Fiscal and Economic Affair

3.13 The Department is headed by the Director General, Budget Fiscal and Economic Affairs (BFEA) or Designated Officer and provides information on;

(a) Revenue collection and projections.
(b) Macro data to guide aggregate projections.
(c) Approved budget by category.
(d) Review of MDA cash plans.
(e) County funding
(f) Establish and maintain the list of service delivery MDAs as part of the budget process.

3.14 In relation to Domestic Debt, the Department is mandated to carry out the following functions;

(a) Formulate, implement and monitor macro-economic, fiscal and financial policies and regulations.
(b) Coordinate the preparation of the macro-fiscal framework to guide preparation and implementation of the budget.

(c) Coordination of preparation and presentation to Parliament of Medium-Term Expenditure Framework (MTEF) and Annual Estimates of expenditure.

(d) Development of broad priorities for allocation of public expenditure and implementing Ministerial Ceiling System.

(e) Enforcing proper management control, monitoring and evaluation for efficient utilization of budgetary resource to realize value for money.

(f) Setting up systems for the budget process e.g. Government Financial System (GFS) classification MTEF Budget.

(g) Ensuring that allocation of resources is consistent with Government policy priorities.

(iii) The Accounting Services and Quality Assurance

3.15 The Department is charged with the following roles;

(a) Review of aggregate cash plans.

(b) Provide information on Exchequer management and reporting.

(c) Funding of government overdraft.

(d) Management of cash buffer.

(e) Provide relevant platform on IFMIS for cash management.

(iv) Public Investment and Portfolio Management

3.16 Public Investment and Portfolio Management (PIPM) provide information on;

(a) Monitoring of Major Public Investments (PIPM- PIM) and ensure the status is updated for guidance on projects for Exchequer releases.

(b) Projections and actual receipts from parastatals on a monthly basis.

(c) Pension projections and actual payments.

(v) Public Debt Management Office

3.17 The functions of Public Debt Management Office (PDMO) are enlisted under Section 63 of the PFM Act, 2012 and Regulation 194 of the PFM (National Government) Regulations, [Rev. 2020] and include but not limited to;

(a) Carrying out the government's debt management policy of minimizing its financing cost over the long-term taking account of risk.

(b) Maintaining a reliable debt data base for all loans taken by the National Government, County Governments and their entities including other loans guaranteed by the national government.

(c) Preparing and updating the annual medium-term debt management strategy including debt sustainability analysis.

(d) Preparing and implementing the national government borrowing plan including servicing of outstanding debts.

(e) Acting as the principal in the issuance of Government debt securities on behalf of The National Treasury (TNT).

(f) To monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy.

(g) Transacting in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

3.18 Public Debt Management office is organized into three (3) Technical inter-dependent Departments namely; -

(a) The Resource Mobilization Department (Front Office),

(b) Debt Policy, Strategy and Risk Management Department Middle Office), and

(c) Debt Recording and Settlement Department (Back Office).

(i) The Resource Mobilization Department

3.19 It is also referred to as Front Office and is mandated to carry out the following functions:

(a) Undertake domestic and foreign borrowing including raising of grants in accordance with relevant laws.

(b) Prepare and implement the National Government Borrowing Plan and in consultation with the fiscal agent prepare the annual domestic debt issuance calendar.

(c) Act as the principal in the issuance of Government debt securities on behalf of The National Treasury through the Implementation of government securities auction calendar.

(ii) Debt Policy, Strategy and Risk Management Department

3.20 Also known as the Middle Office, it normally undertakes the following functions:

(i) Carrying out the government's debt management policy of minimizing its financing cost over the long-term taking account of risk through preparation, implementation and review of the Medium-Term Debt Strategy.

(ii) Monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy.

(iii) Transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

(iv) Prepare statutory debt related reports for the Cabinet Secretary.

(v) Undertake periodic public debt sustainability analysis, portfolio risks and costs analysis.

(vi) Review public debt management policy and guidelines.

(vii) Advise and coordinate domestic debt market for government debt securities.

(iii) Debt Recording and Settlement Department

3.21 Also referred to as Back Office, it is mandated to carry out the following functions:

(a) Maintaining a reliable debt data base for all loans taken by the National Government, County Governments and their entities including other loans guaranteed by the National Government.

(b) Process and settle debt service and disbursement of loans and grants.

(c) Prepare, reconcile and maintain financial statements on debt and grants related transactions and submit to the Accounting Officer responsible for finance.

(d) Maintain Public Debt Registry.

(e) Maintain a comprehensive and reliable debt database for public debt and grants.

(iv) The Budget Fiscal and Economic Affairs Directorate

3.22 In relation to Domestic Debt, the Budget Fiscal and Affairs Directorate is mandated to carry out the following functions

(a) Formulate, implement and monitor macro-economic, fiscal and financial policies and regulations.

(b) Coordinate the preparation of the macro-fiscal framework to guide preparation and implementation of the budget.

(c) Coordination of the preparation and presentation to Parliament of Medium-Term Expenditure Framework (MTEF) and Annual Estimates of expenditure.

(d) Development of broad priorities for allocation of public expenditure and implementing Ministerial Ceiling System.

(e) Enforcing proper management control, monitoring and evaluation for efficient utilization of budgetary resource to realize value for money.

(f) Setting up systems for the budget process e.g. Government Financial System (GFS) classification MTEF Budget.

(g) Ensuring that allocation of resources is consistent with Government policy priorities.

Functions of the Kenya Revenue Authority

3.23 According to Act of Parliament, Chapter 469, Kenya Revenue Authority (KRA) is charged with collecting revenue on behalf of the Government of Kenya. The specific functions are:

i. To assess, collect and account for all revenues in accordance with the written laws and the specified provisions of the written laws;

ii. To advise on matters relating to the administration of, and collection of revenue under the written laws or the specified provisions of the written laws and;

iii. To perform such other functions in relation to revenue as the Minister may direct.

3.24 Kenya Revenue Authority collaborates with the Macro and Fiscal Affairs Department in preparation of the revenue plan. The KRA provides MFAD with the annual and monthly revenue projection as an input to the development of an inflow schedule that is prepared annually every 15th July.

Functions of the Office of the Controller of Budget

3.25 The functions of the Office of the Controller of Budget (OCoB) are as follows;

(i) Approve Exchequer request.

(ii) Monitor budget implementation.

(iii) Report on the budget implementation and advice government on the prudent use of the resources.

(iv) Ensure that the spending is within the approved ceilings.

(v) Review planning documents for budgets and advice accordingly.

(vi) Approve grants/credits for external or internal debt.[12]

Functions of the Central Bank of Kenya

3.26 The functions of the Central Bank of Kenya (CBK) as per the Agency Agreement between The National Treasury (TNT) and Central Bank of Kenya are as follows;

(i) Implement the borrowing program approved by TNT.

(ii) On receiving the domestic borrowing requirement from TNT, the CBK will prepare a borrowing program for approval by the TNT.

(iii) The CBK shall undertake auctions of domestic Government securities in accordance with the estimated government borrowing requirement.

(iv) On behalf of TNT, the CBK shall announce the results of auction to the media. The CBK shall prepare prospectus of Government domestic securities issues and their listing on the Nairobi Securities Exchange (NSE).

(v) The CBK shall prepare auction rules and guidelines in liaison with TNT

(vi) The CBK will implement market development strategies for Government securities.

Process Description for Cash Management

3.27 According to the Cash Management framework, cash planning involves;

(i) Aggregate Cash Planning

3.28 To ensure effective coordination and planning in Cash Management, Ministries, Departments, and Agencies (MDAs) prepare and submit their annual cash plans to TNT by the end of March, aligned with the Budget circular. MDAs must ensure that their cash plans are consistent with their procurement plans. The Annual Aggregate Cash Plan is completed by May 31st each year. If necessary, MDAs are required to revise their cash plans in line with the Appropriated Budget by Parliament and cash availability recommended by the Cash Management Committee (CMC). These revisions are submitted to TNT within 5 working days after the budget receives presidential assent. The final Annual Aggregate Cash Plan is prepared and approved by the Permanent Secretary of The National Treasury by July 30th each year.

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[12] https://cob.go.ke/

3.29 The cash plan should align with the macroeconomic framework, the annual budget approved by Parliament, any subsequent supplementary budgets, and the most up-to-date projections of revenue, expenditure, and debt outcomes. The aggregate cash plan should provide monthly projections of revenue, expenditure, public debt, cash balances, and any arising deficit financing. These projections can be further broken down on a weekly basis if necessary.

(ii) Annual Borrowing Plan

3.30 An annual borrowing program, consisting of both external and domestic debt, is prepared by June 15th each year upon receipt of the interim aggregate cash plan. This program includes projected debt service and new borrowing for the fiscal year. It is presented in a format that provides a weekly breakdown of domestic and external debt maturities, repayments, interest, and new debt issuance. The annual borrowing program is reviewed in accordance with the approved aggregate cash plan.

3.31 The schedule for in-year and in-month debt payments is based on achieving net domestic financing over the course of the financial year. In collaboration with the Central Bank of Kenya (CBK), an Issuance Calendar is prepared, considering both rolled-over debts, MDA cash requirements, and the market behavior. Net proceeds schedules are submitted to the Cash Management Unit.

3.32 The borrowing program includes a breakdown of debt obligations (interest, maturities) by week for each month, along with plans for honoring them and an issuance plan. The program provides projected means of shortfall financing. CBK overdraft financing movements are monitored for shortfall financing, and the Cash Management Unit, in collaboration with CBK, conducts weekly sensitivity analysis. The borrowing program is reviewed on a monthly basis and adjusted accordingly, especially in response to any proposed supplementary budgets. The Public Debt Management Office (PDMO) prepares a revised borrowing program aligned with the proposed supplementary budget, with corresponding advice given to CBK. The borrowing program is updated with monthly actuals realized.

(iii) Revenue Plan

3.33 The Macro and Fiscal Affairs Department provide an inflow schedule with annual and monthly revenue projections by July 15th. This schedule aligns with the approved fiscal framework and incorporate the monthly projections of the

KRA. It is presented in a format that factors in projected revenue shortfalls or surpluses against the original budget. The revenue projections in the inflow schedule are reviewed and aligned with subsequent revised budgets.

3.34 Every month, the Exchequer team updates the actual tax and non-tax revenue data. The Macro and Fiscal Affairs Department (MFAD) reviews and analyzes the actual versus projected data, presenting the findings to the Cash Management Technical Team (CMTT) and the Cash Management Committee (CMC). Based on these findings, revisions to the Monthly Aggregate Cash Plan and projections are advised. The MFAD provide projected tax and non-tax revenue data on a monthly basis by the 10th of each month.

3.35 The Macro and Fiscal Affairs Department establishes an agreement with the Kenya Revenue Authority (KRA) to develop a framework for rolling one-week revenue projections. MFAD receives these rolling projections to inform decision-making by the Cash Management Technical Team (CMTT).

(iv) Expenditure Plan

3.36 The categorization of outflows follows the guidance provided by The National Treasury (TNT) circulars, which may be issued periodically. The cash plan(s) acknowledges this expenditure categorization. To improve cash planning and ensure smoother budget execution for the provision of services and public investments, expenditures are currently classified as follows:

(i) Category 1: expenditures encompass statutory obligations, including debt payments, salaries, pensions, and the county equitable share.

(ii) Category 2: expenditures consist of significant social, economic, accountability, governance, and security programs, including core services and investments.

(iii) Category 3: expenditures cover all other government-financed expenses in Kenya that do not fall under category 1 or 2.

(iv) Category 4: expenditures pertain to externally funded projects categorized as revenue in the budget, with funds transferred via the exchequer.

3.37 To facilitate the structured allocation of funds, TNT provides quarterly monthly cash allocations broken down by MDAs, County, and category for the remaining months of the fiscal year. These allocations are based on the cash requirements of MDAs, adjusted to fit within the available cash from revenue and debt issuance.

(v) Debt Issuance and Maturities Updates

3.38 The Debt Department regularly updates projections for debt issuance and maturities within the same month. These updates are based on the recommendations of the Cash Management Technical Team (CMTT) and the Cash Management Committee (CMC) meetings. The validation process for these monthly issuance and maturities projections are then followed.

(vi) Tax and Non-Tax Revenue

3.39 The in-year revenue forecasts are supplied by Macro and Fiscal Affairs Department (MFAD) after every supplementary budget. This consist of tax and non-tax revenue forecasts. MFAD works in collaboration with Kenya Revenue Authority (KRA) in coming up with the in-year tax revenue forecasts.

(vii) Monitoring the Daily Exchequer Position and Monthly Reporting

3.40 The Exchequer unit closely monitors the transactions and activities associated with the Consolidated Fund Accounts and promptly provide relevant real-time information to the cash management unit. The Cash Plans are regularly updated with the actual weekly and monthly exchequer outturn.

(viii) County Transfers

3.41 The Inter-Governmental Fiscal Relations Department (IGFRD) submit the annual proposed County Transfers Cash Plan to The Cash Management Unit (TCMU) by 15th June. This comprises information for each County as follows;

(i) Monthly allocation of County Government Equitable Share of Revenue raised Nationally;

(ii) Monthly Conditional Allocations from National Government Revenue;

(iii) Monthly Conditional Allocations from Loans and Grants from Development Partners and;

(iv) Any other planned monthly transfer to the County Government.

3.42 Once County Allocation of Revenue Bill is approved, the IGFRD shares the harmonized cash plan with the TCMU within 15 days of approval and subsequent revisions.

(ix) Quarterly Cash Allocations

3.43 The National Treasury provides projections of quarterly cash available and aggregate approved County and MDAs monthly projections in order to provide the consolidated monthly cash requirements for National and County

Governments. The cash management process can be summarized as shown in the **Figure 2.**

Figure 2: Cash Management Process

National Government Budget and Deficit Financing

3.44 The National Government expenditure has increased steadily over the 5 (five) year period. Similarly, the revenue collected has also increased. However, this revenue is not able to meet the expenditure thus leading to fiscal deficit. This has necessitated increased borrowing over the years to finance this deficit, through domestic and external borrowing. External borrowing includes concessional loans, semi concessional loans and commercial loans, while domestic borrowing includes Treasury Bonds, Treasury Bills and CBK overdrafts. This is as shown in the **Table 1** :

Table 1: National Government Deficit Financing Sources (Kshs. "Million")

FY	Official Budget Statement (Kshs)			Mode of Financing Deficit (Official Budget Statement) (Kshs)	
	Original Approved Budget (million)	Revenues (million)	Fiscal Deficit (million)	External (million)	Domestic (million)
2018/2019	2,680,000	1,592,057	708,920	**414,520**	**284,400**
2019/2020	2,800,000	2,100,000	607,800	**324,300**	**283,500**
2020/2021	2,790,000	1,890,000	840,600	**347,000**	**493,400**
2021/2022	3,030,000	2,100,000	929,700	**271,200**	**658,500**
2022/2023	3,300,000	2,400,000	862,500	**280,700**	**581,700**

Source: *OAG Analysis of 2022/2023 National Government Financial Statement*

Budget Trend Analysis

3.45 The gross estimated Government expenditure has increased over the last five years from Kshs.2,911,690,013,343 in the year 2018/2019 to Kshs.3,832,087,729,957 in the year 2021/2022 representing an increase in estimated expenditure of Kshs.725,681,912,265 or approximately 25% over the five-year period. Similarly, the actual gross expenditure has increased over the last five years from Kshs.2,911,690,013,343 in the year 2018/2019 up to Kshs.3,473,135,105,212 in the year 2021/2022 representing an increase of Kshs.561,445,091,869 or approximately 19% over the period. **Table 2** below/overleaf depicts this trend:

Table 2: Budget Trend Analysis for FYs 2018/2019 - 2022/2023

Year	Gross Estimated Expenditure (Kshs.)	Actual Gross Expenditure (Kshs.)	Under-Expenditure (Kshs.)	Percentage of Under-Expenditure
2018/2019	3,106,405,817,692	2,911,690,013,343	194,715,804,349	6%
2019/2020	3,162,976,512,141	2,908,327,356,465	254,649,155,676	8%
2020/2021	3,379,902,931,417	3,211,490,363,999	168,412,567,419	5%
2021/2022	3,832,087,729,957	3,473,135,105,212	358,952,624,745	9%
2022/2023	4,068,763,311,037	3,614,183,369,857	454,579,941,180	11%

Source: OAG National Government Financial Statement Summary Audit Report for FYr2021/2022

3.46 The above analysis indicates that the under-expenditure of the budget has been averaging at 7.0% of the gross estimated expenditure in the last five (5) years. The under-expenditure of the budget implies that some development programs and delivery of services are not implemented as planned. It may also imply that the estimated expenditure may not be comprehensively backed by correct or accurate data, resulting to overstatements. The under-expenditure is also attributed to under-collection of revenue below the set targets leading to delays in Exchequer releases.

4.0 FINDINGS OF THE AUDIT

4.1 In the recent past, The National Treasury (TNT) has put in place measures towards enhancing the management of cash and public debt, which include the following;

(i) The National Treasury established its first cash management framework in January 2020. The framework is based on the Constitution of Kenya, 2010, the Public Finance Management Act, 2012, the Public Finance Management Regulations, 2015 and The National Treasury Strategic Plan 2018/2019-2022/2022. It also draws from best practices and aims to enhance cash management within The National Treasury by providing guidelines for effective budget execution.

(ii) There has been increased provision of information through publication of public debt information. For instance, monthly debt bulletins, annual public debt management reports and budget books can be accessed from TNT's website;

(iii) In the interest of sustainable management of debt, the Public Debt and Privatization Committee on 21 June, 2023 approved the Public Finance Management (Amendment) Bill, 2021 that sought to have Kenya's debt ceiling anchored as a percentage of gross domestic product (GDP), away from the previous nominal ceiling of Kshs.10trillion and;

(iv) The formulation and preparation of the National Budget has been adhering to budget guidelines and timelines, as provided for in annual The National Treasury circulars.

(v) Automation of primary and secondary market process through the CBK DhowCSD. This is a new Central Securities Depository (CSD) that offers a streamlined portal for investing in Government securities. This digital platform breathes new life into the financial landscape of Kenya, reducing transaction costs and risks while promoting financial stability and inclusion.

4.2 However, despite the above efforts, audit findings indicate that cash management operations are yet to function effectively, as detailed below: -

A. Policies, Institutional Arrangement and Capacity Put in Place by The National Treasury in Ensuring Effective Functioning of Cash Management

i) Ongoing Operationalization of The National Treasury Cash Management Framework 2020

4.3 Section 29, Subsection 1 (a) of the PFM Act, 2012 requires The National Treasury to establish a framework within which the national government shall manage its cash transactions. Further, Sections 83 and 86 of the PFM Regulations 2015, requires The National Treasury to establish sound cash management systems, procedures and process and cash management advisory committee to ensure efficient and effective banking and cash management practices.

4.4 Review of correspondences and interviews with the Cash Management Unit revealed that, The National Treasury established its first cash management framework in January 2020. The framework is based on the Constitution of Kenya, 2010, the Public Finance Management Act, 2012, the Public Finance Management Regulations, 2015 and The National Treasury's Strategic Plan 2018/2019-2022/2022. It also draws from best practices and aims to enhance cash management within The National Treasury by providing guidelines for effective budget execution.

4.5 Review of correspondences and interviews with the Cash management officers revealed that operationalization of the Cash Management Framework 2020 was incomplete but ongoing.

ii) Inadequate Use of Modern Cash Management Tools and Techniques in Enhancing Efficiency of Cash Management Function

4.6 According to the letter: Ref:AG.3/199 Vol.9/ (54) dated 01 February 2023, The Treasury Cash Management Unit in place has been undergoing capacity enhancement through secondment of a technical resource person on treasury management from the Central Bank Kenya for period of 2 (two) year starting February 2023. The terms of reference of the technical resource person include;

(i) Cash Flow: Development of cash flow forecasting tools to enhance the cash flow module currently in place; preparation of annual aggregate cash plans to guide in the monthly and weekly requirements for the purpose of domestic borrowing; preparation of variance analysis between the forecasts and actual cash flows; and support for the cash management team in capacity building.

(ii) IFMIS and Government Payment System: Involves providing advice and document necessary changes in IFMIS system and CBK Internet Banking requirements to enable implementation of the Treasury Single Account (TSA).

4.7 As at the time of the audit, it's only the CBK Internet Banking that had been implemented. Implementation of the remaining Terms of Reference was ongoing. In addition, cash planning and forecasting was being done using spreadsheets.

4.8 Even though there has been progress in building capacity, there is need to continually build technical capacity of the existing officers to enhance the understanding of cash management function and use of modern cash management tools and techniques in enhancing effective cash management. Despite spreadsheets being an essential tool for most organizations during cash planning forecasting, the tool may not be efficient as using spreadsheets for forecasting entails manually collecting and converting data, which increases the likelihood of human error. As a consequence, the accuracy of the cash forecasts may be doubtful and unreliable. Additionally, cash managers may require additional time to confirm the validity of the data prior to implementing the cash plans.[13]

4.9 Further, due to the size, granularity and frequencies of these data, it may require application of modern analytical and simulation techniques models to be applied on the historical TSA data, timely incorporation of possible changes in government policy, regulations and contingencies which may affect the collection of revenues and use of public resources to produce reliable and accurate forecasts for decision making on when and how much cash can be borrowed by the government in meeting its obligations basing on overall availability of cash.

B. Cash Planning and Forecasting of Government Priorities and Obligations

4.10 The National Treasury and Planning Framework for Cash Management January 2020, paragraph 2.1 provides that aggregate cash planning shall be

[13] https://www.xlreporting.com/blog/effective-tool-cashflow-forecasting

consistent with the macroeconomic framework, the annual budget and most up to date projected revenues, expenditure and debt outcomes. Effectiveness in cash management ensures that the national government meets its budgetary allocations in a timely and cost-effective manner.

4.11 Review of documents and interviews with the Cash Management Unit revealed the following;

i) Preparation of Aggregate Cash Plans Consistent with Macroeconomic Framework, Annual Budget, Revenue and Expenditure and Debt Outcomes

4.12 The National Treasury had its first Aggregate Cash Planning in the FY 2021/2022. Aggregate Cash Plan (ACP) is largely to inform expected monthly Exchequer cashflows which in turn promotes harmonization of the short-term borrowing plan for the fiscal year.

4.13 Interviews with the Cash Management officers and review of the FY 2021/2022 and FY 2022/2023 Annual Aggregate Cash Plans (AACPs) revealed that development of the Aggregate Cash Plans is prepared based on original estimates and monthly projection on revenues patterns, expenditures patterns of the MDAs, public debt, cash balances and any arising deficit financing. This information is further disaggregated on a monthly and sometimes on a weekly basis to determine the cash requirements that will inform disbursements. It is also noted that during the financial year even though short-term borrowing is determined at the beginning of the year, subsequently revised in the supplementary budgets, due to changes in the financial market environment.

ii) Liquidity Constraints Impeding Effective Implementation of the Cash Plans

4.14 Despite the AACPs being developed consistent with the macro-economic framework and cash adjustments requirements made during the year, The National Treasury has not been able to fully meet its budgetary allocations in a timely and effective manner as budget under-absorption of amounting to Kshs.151.637 billion, Kshs.256.429 billion and Kshs.377.362 billion in FYs 2020/2021, 2021/2022 and 2022/2023 respectively was observed as indicated in **Table 3.**

Table 3: Summary of Exchequer Publications FYs 2020/2021 to 2022/2023

FY	Receipts	Original Estimates (Kshs.)	Revised Estimates (Kshs.)	Actual Receipts (Kshs.)	Actuals Vs Estimates (%)	Remarks/ Budget Under-Absorption (Kshs. "Bill")	Outstanding Exchequer Request (Kshs. "Bill")
2020/ 2021	Total Receipts	2,830,428,028,746	2,947,129,858,866	2,816,773,197,747	96	151.637	
	Total Exchequer Issues	2,830,428,028,746	2,947,129,858,866	2,795,492,897,039	95		
2021/ 2022	Total Receipts	3,193,004,859,042	3,334,814,452,571	3,057,721,853,257	92	256.429	91.527
	Total Exchequer Issues	3,193,004,859,042	3,334,814,452,571	3,078,385,605,013	92		
2022/ 2023	Total Receipts	3,544,602,089,867	3,620,152,378,939	3,244,791,327,711	90	377.362	77,545
	Total Exchequer Issues	3,544,602,089,866	3,620,152,378,939	3,242,790,391,178	90		

Source: Summary of Exchequer Publications for FYs 2020/2021 to 2022/2023

4.15 The under absorption was attributed to the following reasons;

a) Inadequate Exchequer Funding Resulting from Outstanding Exchequer Requests

4.16 Exchequer Publications and Outstanding Exchequer Request statements for FYs 2021/2022 to 2022/2023 revealed that, out of budget under-absorption amounts of Kshs.256.429 billion, Kshs.91.527 billion (35.69%) was attributed to outstanding exchequer request in FYs 2021/2022. Similarly, out of Kshs.377.362, Kshs.77.545 billion (20.55%) was attributed to outstanding Exchequer Request in FY 2022/2023 as shown in **Table 3.**

4.17 The outstanding Exchequer Requests was majorly attributed to inadequate funds which was also attributed to the under achievement of revenue collection targets by Kshs.130.356 billion (4.5%) in FY 2020/2021, by Kshs.277.093 billion (8.3%) in FY 2021/2022 and by Kshs.375.361 billion (10.4%) in FY 2022/2023 from domestic and external sources. This is shown in **Table 4**.

Table 4: Performance of Revenue Against Set Targets FYs 2021/2022 and 2022/2023

Financial Year	2020/2021			2021/2022			2022/2023		
Revenues	Revised	Actual	Performance%	Revised	Actual	Performance%	Revised	Actual	Performance %
Opening Balance	48,028,919,426	48,028,919,426			21,280,300,708			616,548,952	
Tax Revenue	1,469,466,601,139	1,487,519,775,689	101	1,784,391,587,416	1,839,473,162,334	103	2,079,837,901,886	1,961,974,892,387	94
Non Tax Revenue	109,320,218,751	80,753,855,737	74	67,118,160,282	78,437,6 52,839	117	65,561,396,552	81,998,439,277	125
Domestic Borrowing	875,089,568,008	790,577,923,686	90	1,022,022,208,980	877,038,741,180	86	948,106,911,312	696,402,157,519	73
External Loans & Grants	422,413,389,279	377,149,967,767	89	421,189,913,531	239,611,979,669	57	513,418,169,189	488,311,124,134	95
Other Domestic Sources	22,811,162,263	32,742,755,442	144	40,092,582,362	23,160,317,235	58	13,228,000,000	16,104,714,395	122
Total Without Opening Balance	2,899,100,939,440	2,768,744,278,321	95.5	3,334,814,452,571	3,057,721,853,257	91.7	3,620,152,378,939	3,244,791,327,711	89.6

Source: Summary of Exchequer Publications for FYs 2020/2021 to 2022/2023

4.18 The underperformance of revenue collection was due to;

i. **Underperformance in Domestic Borrowing Revenues**

Review of Exchequer Publications revealed that revenues from domestic borrowings underperformed by Kshs.84.512 billion (9.7%) in FY 2020/2021, by Kshs. 144.983 billion (8.3%) in FY 2021/2022 and by Kshs. 251.705 billion (10.4%) in FY 2022/2023.

ii. **Underperformance in External and Grants Revenues**

The outstanding exchequer release, especially for the development, was also attributed to the underperformance of external loans and grants revenues by Kshs.45.263 billion (10.7 %) in FY 2020/2021, by Kshs.181.578 billion (43.1%) in the FY 2021/2022 and Kshs.25.107 billion (4.9%) in the FY 2022/2023.

4.19 Review also revealed that in FY 2021/2022 development expenditures had the largest proportion (45.72 percent) of outstanding exchequer requests amounting to Kshs.41,847 billion while in 2022/2023 recurrent expenditure had the largest proportion (45.49 percent) of outstanding exchequer requests of Kshs.35.275 billion closely followed by development expenditure amount of Kshs.25.104 billion in FY 2022/2023. This is shown in **Table 5**;

Table 5: Outstanding Exchequer Requests for FYs 2021/2022 and 2022/2023

Items	FY 2021/2022 (Kshs)	FY 2021/2022 %	FY 2022/2023 (Kshs)	FY 2022/2023 %
Recurrent	14,061,222,512	15.36	35,275,290,678	45.49
Development	41,847,729,297	45.72	25,104,049,779	32.37
Pensions	6,018,269,231	6.58	12,582,699,115	16.23
June Allocations/ SAGAs Development	29,600,000,000	32.34	4,583,383,310	5.91
Totals	**91,527,221,040**	**100**	**77,545,422,882.54**	**100**

Source: Summary of Outstanding Exchequer Request for FYs 2021/2022 to 2022/2023

4.20 As seen in the **Table 5**, the low allocation of the development budget affected the rate of development and sustainability of services in the country while the under-expenditure of the recurrent budget implies that citizens were not provided with all requisite services which had been budgeted for. It may also imply that budgeting for expenditure may not be taking into consideration revenue collection or cashflows as informed by prior years actual collections and trends in cashflows.

b) Delays in Requesting for Funds from the Exchequer by Ministries, Departments and Agencies

4.21 Even though outstanding Exchequer Request accounted for part of the budget under-absorption, the budget under absorption was also attributed to the Ministries Departments and Agencies inadequate capacity to request for funds and absorb them efficiently. Interviews with The National Treasury indicated that other than the Outstanding Exchequer Issues, delays occasioned by Ministries Departments and Agencies in requesting for funds from the Exchequer and not being able to timely absorb funds contributed to the National Treasury not being able to fully meet the National Government's budgetary allocations in a timely and effective manner, thus contributing the budget under-absorption.

C. Assessment of Utilization of Proceeds of Government Securities

i) Inadequate Utilization of Bonds Proceeds for Development

4.22 Sec 15 (2) (c) of PFM Act, 2012 provides that in managing national government public finances, The National Treasury shall enforce fiscal responsibilities principles of ensuring that national government borrowings over the medium-term, shall be used only for the purpose of financing development expenditure and not for recurrent expenditure and that short-term borrowings should only be restricted to management of cashflows.

4.23 The National Treasury realized proceeds amounting Kshs.2,974.696 billion from Treasury Bonds Issuance during the period under review. Out of this amount, Kshs.2,671.254 billion was transferred to Consolidated Fund Services (CFS) account of which Kshs.558.870 billion was utilized to settle maturing domestic debt and the remaining balance of Kshs.2,112.384 billion funded Exchequer releases to MDAs. The detailed analysis of utilization treasury bonds proceed are as shown in **Appendices VII (a-e)** and summarized in **Table 6.**

Table 6: Assessment of Utilization of the Treasury Bond Proceeds

Financial Year	Proceeds Realized	PVs Amounts	PVs Narrations/ Nature of Expenditures	Reference No
2018/2019	44,741,133,068	444,767,000,000	Exchequer Releases	PVs N01-27
2019/2020	578,102,477,641	508,561,665,892	To enable release exchequer releases to MDA	PVs No 1-2 and PVs Nos 5-28
		50,308,498,111	To enable settle domestic debt maturity on 2nd SEP 2019 and domestic debt maturity on 23rd SEP 2019	PVs 003 and 004
2020/2021	790,577,923,686	790,577,923,686	Transfers to CFS as exchequer releases	All (PVs01-33)
2021/2022	857040491451	877,038,714,179	Exchequer Releases	PVs 01-41
2022/2023	304234285014	333,251,077,021	Exchequer Releases	PVs 1-21
Totals	**2,974,696,310,860**	**2,671,253,801,867**		

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement FYs 2018/2019 to 2022/2023

4.24 As observed from the **Table 6** above, utilization of proceeds for funding repayment of maturing Treasury Bonds contradicts the fiscal responsibilities principles stated in the PFM Act, 2012 Section 15(2)(c). Additionally, inquiry with the National Treasury on the reasons for not utilizing the bonds as per the fiscal responsibility principles and prospectus indicated; that debt obligation is a first charge to the Consolidated Fund pursuant to Regulation 42(1)(a) of Public Finance Management Regulation. Secondly, because of fungibility of money, the moneys were used exchangeable to fund priority Exchequer Requests instead of lying idly in the Treasury Bonds Accounts and provided that at the end of the financial year the budget was fully funded, then there should be no problem. As a result, the audit could not verify what specific projects the Treasury Bonds proceed were expended on.

4.25 Further, review of a number of Infrastructure Bond prospectuses indicates the purpose of these bonds to be very general and not specific to a particular infrastructure project, thereby unable to confirm the utilization of the treasury bonds proceeds. In the long-run, the non-adherence to fiscal principles, which is an important pre-requisite for sound macro-economic environment, may weaken investor confidence and development of markets for government securities.

ii) Allocation of Development Expenditure Below Public Finance Fiscal Responsibility Principle 30 Percent Threshold

4.26 In managing the national government's public finances according to Section 15(1) and (2)(a), Public Finance Management Act, 2012, The National Treasury (TNT) is required to enforce the fiscal responsibly principle of: "over the medium-term a minimum 30 percent of the national and county governments budget shall be allocated to the development expenditure among other principles". Empirically, development expenditure especially in infrastructure can have a multiplier effect which in turn boosts the country's revenue income.

4.27 During the period under review, it was revealed that development expenditure of national government averaged 13.95% of the total national budget allocation in the last three (3) financial years. The development expenditure is therefore 16.05% below fiscal principal threshold of 30% of the total national budget allocation. For instance, out of the total national government allocation of Kshs.2,564.527 billion, Kshs.408.838 billion (15.94%) was allocated for development in FY 2020/2021, out of the total national government allocation of Kshs.2,964.814 billion, Kshs.424.187 billion (14.30%) was allocated for development in FY 2021/2022, and out of the total national government allocation Kshs.3,220.552 billion, Kshs.373.998 billion (11.61%) was allocated for development in FY 2022/2023. Since the 2023/2024 fiscal policy over the medium-term focuses on supporting the government's Bottom-Up Economic

Transformation Agenda (BETA), implementation of this agenda is likely to face delays due to inadequate funding.

iii) Partially implemented Treasury Single Account

4.28 Section 28 (2) of the PFM Act, 2012 provides that The National Treasury (TNT) shall establish a Treasury Single Account (TSA) into which all revenues received by National Government entities shall be deposited and from which all payments of money to or on behalf of National Government entities shall be made. Section 2 of the PFM Act, 2012 defines a Treasury Single Account (TSA), in relation to the National Government, to mean a centralized bank account system where all deposits and payment transactions are processed for State Departments, Commissions and Independent Offices, and any National Government entity which draws directly from the Consolidated Fund and in relation to the County Government. In a county set up, it means a centralized bank account system established in each county where all deposits and payment transactions are processed for county departments and any other county entity which draws directly from the County Revenue Fund.

4.29 Interviews with the Cash Management Unit staff revealed that The National Treasury was yet to fully operationalize a Treasury Single Account (TSA). The Cabinet had approved implementation on 15 January, 2024. In addition, The National Treasury had made milestones such as automation of the Exchequer process and taking stock of all government bank accounts. Steps to reduce idle government cash balances had also been initiated. The National Treasury also adopted a hybrid model for TSA which shall allow entities to operate both at CBK and Commercial banks. The implementation of the Treasury Single Account is aimed at simplifying the government's banking and providing visibility of cash resources and at the same time enhancing transparency of the government's cash management.

4.30 A government's banking arrangements play a pivotal role in effectively overseeing and regulating its financial assets. They are indispensable in guaranteeing that both tax and non-tax revenues are gathered and disbursements are executed accurately and promptly, and that government funds are efficiently administered to minimize borrowing expenses or maximize earnings on any excess cash. Thus, the implementation of a TSA system serves to centralize government's cashflows, affords The National Treasury comprehensive supervision over all government cash transactions, and leads to enhancements in budget management and monitoring.

iv) Inadequate Automation of Cash and Debt Management Operational Interactions

4.31 In accordance with Cash Management Principles in Regulation 83 of the PFM (National Government) Regulations, 2015 and the Cash Management Framework, 2020, The National Treasury is mandated to ensure efficient execution of the budget through effective aggregate control over government cash resources by ensuring timely: information sharing between TNT; revenue collecting agencies and spending MDAs, and integration of debt and cash management among others. Correspondences and interview with the Cash Management Unit revealed the following;

a) Automation of Exchequer Yet to be Rolled Out

4.32 For the IFMIS cash management module to be operational, it requires automation of end-to-end exchequer release process for updating the actuals data in the cash flow forecast template is required. IFMIS cash management module relies upon the completed end to end Exchequer release process for updating the actuals data in the cash flow forecast template. Even though the need arose from the recommendations of the Technical Assistance Report (2019), the process incurred significant delay of over two (2) years as both the legal and technical requirements of the various end users had to be assessed and gaps addressed. As at the time of audit, the automation of cash planning had been implemented while exchequer release automation was at the piloting stage.

b) Inadequate Cash-Debt Management Integration

4.33 IFMIS consists of a number of modules which support the different functional processes associated with Government Fiscal Management. These include modules for macroeconomic forecasting, budget preparation, budget execution (including cash management, accounting and fiscal reporting), managing the size of the civil service establishment and its payroll and pensions, debt management, tax administration and auditing. Debt function through the debt management module in IFMIS had not been inter-phased at the time of the audit as migration to the new CS-Meridian system was not yet finalized. Coordination and exchange of information between cash and debt functions is likely to be impacted due to inability to access to real time cash and debt data in a timely manner and delayed generation of out-turn analysis reports, which facilitate efficient decision making on when and how much cash can be borrowed by the government in meeting its obligations.

D. Assessment of Adherence to Legislation on the Sourcing and Usage of Bank Overdraft Facility

i) Failure by The National Treasury to Fully Repay the Overdraft Loan Facility at the End of Each Financial Year

4.34 Section 83 (3) of PFM (National Government) Regulations, 2015 states that the National Government overdraft at the Central Bank of Kenya shall be retired by the end of the financial year. The overdraft facility is a temporary source of cash to cater for priority payments and emergencies used by Treasury when revenue streams such as tax receipts and debt do not flow into government accounts at a pace that matches expenditure cash demands. The facility is limited to five per cent of the gross recurrent revenue of the government's previous years' audited accounts.

4.35 Review of Overdraft Bank statements for the FYs 2018/2019 to 2022/2023 revealed outstanding overdraft balances averaging Kshs 59.473 billion at the end of each financial year as shown in **Table 7**.

Table 7:Closing Balances of Overdraft Facility for FY 2018/2019 to 2022/2023

FY	Audited Actual Ordinary Revenue (Tax and Non-Tax Receipts)	Overdraft Loan Approved for the Year- (5% of the Last Audited Ordinary Revenue Revenue)	Closing Balance or Overdraft Yet to be Retired as at end 30 June	Actual Interest Expense Cost Paid on Overdraft Loan
2018/2019	1,509,057,905,396	68,495,153,880	57,327,703,413	2,493,536,827
2019/2020	1,618,797,777,894	75,454,895,270	47,149,778,516	3,244,911,268
2020/2021	1,601,016,386,868	80,939,888,895	59,279,439,340	2,204,659,996
2021/2022	1,940,971,132,408	80,050,819,343	58,502,251,034	2,063,728,517
2022/2023	2,059,281,671,520	97,048,556,620	76,456,927,038	5,160,905,847

Source: OAG Analysis of Overdraft Bank Statements for the FYs 2017/2018 to 2022/2023

4.36 Treasury Bills and the bank overdraft are short-term borrowings to cover temporary cash shortfalls and are repayable within twelve months. The surplus Treasury Bills are used to settle the bank overdraft and increase its limit while shortfalls increase the overdraft facility. The overdraft facility for the period under review was observed to have not been settled at year end due to insufficient funds. As a result, the long outstanding overdraft balances lead to increased interest as cost of borrowing.

E. Other Findings

i) Discrepancies in Treasury Bills Monthly Bank Account Reconciliations Statements

4.37 Regulation 90(1) of the PFM (National Government) Regulations 2015, states that Accounting Officers shall ensure bank accounts reconciliations are completed for each bank account held by that Accounting Officer, every month and submit a bank reconciliation statement not later than the 10th of the subsequent month to The National Treasury with a copy to the Auditor-General. Regulation 90(2) requires similar reconciliations to be carried out when responsibility for any bank account or cheque book is handed over from one officer to another and on the occasion of any surprise inspection or survey. Regulation 90(3) states that accounting officers shall ensure any discrepancies noted during bank reconciliation exercise are investigated immediately and appropriate action taken including updating the relevant cash books.

4.38 Review of Cashbook of Treasury Bills Account number 1000000977 for the FY2017/2018 revealed that, The National Treasury did not prepare accurate monthly bank reconciliations of Treasury Bills Account and the discrepancies were not investigated for update of the cashbook hence the unresolved long outstanding reconciling items in the bank reconciliation statement for the FY as shown in **Table 8** overleaf.

Table 8: T-Bills Cashbook FY2017/2018

Month for FY2017/2018	Cumulative Receipts in Bank NOT Recorded in Cash Book	Cumulative Payments in Bank NOT Recorded in Cashbook	Closing Balance
July	881,837,987,615	722,966,311,792	-108,922,645,946
August	972,386,794,537	749,146,411,791	-217,560,295,946
September	972,449,000,273	800,894,601,824	-124,430,281,786
October	1,011,506,450,273	854,116,199,520	-117,096,134,090
November	1,134,271,047,981	939,999,994,897	-246,253,986,421
December	1,207,754,909,546	989,326,185,041	-178,134,607,842
January	1,262,506,009,546	1,052,078,301,918	-163,303,590,965
February	1,238,006,009,546	1,054,073,884,158	-109,748,876,436
March	1,299,551,188,626	1,054,073,884,158	-240,429,288,336
April	1,203,017,059,546	1,019,084,934,158	-89,429,175,222
May	1,342,785,047,184	1,054,425,126,986	-184,165,098,162
June	1,200,727,350,273	1,019,084,934,158	-102,980,953,561

Source: OAG Analysis of Treasury Bills Account Cashbook

4.39 The audit sought further clarification from the Debt Settlement office on the discrepancies and established that only three transactions are posted in the T-Bill Cash book. These includes: Treasury Bill Proceeds, Receipts from the Exchequer and the Call-Ups. However, the receipt from the overdraft account has not been posted in the cashbook as at the time of the audit. Therefore, in the absence of Treasury Bills Proceeds and Redemption Schedule for the period, the audit could not confirm the actual movement of cash as explained by the Management. As a result of the above discrepancies, there may be misstatement of ledger accounts (e.g. Treasury Bills Proceeds ledger) and fictitious payments. This may also lead to misstatement of cashbook balances of subsequent years.

ii) Non-Recording of Domestic Debt by the PDMO in the CS-DRMS

4.40 Section 63 (b) of the PFM Act, 2012, provides for the functions of the PDMO which include the maintaining of a reliable debt data base for all loans taken by the National and County Government and their entities including other loans guaranteed by the National Government. Regulation 194 (h) of PFM Regulations, 2015, obligates the Public Debt Management Office to keep timely, comprehensive and accurate records of outstanding Government debt, guarantees and lending in an appropriate database. Further, the agency agreement between The National Treasury and the Central Bank of Kenya under paragraph 4.8 provides that The National Treasury is responsible for maintaining domestic debt data in the debt database, the Commonwealth Debt Recording and Settlement System (CS-DRMS).

4.41 Interviews with the Back Office Ag Deputy Director as at the time of the audit revealed that PDMO does not record domestic debt data in the CS-DRMS system instead, reliance is placed on the Central Bank of Kenya's system for recording, managing and reporting of domestic debt. Non-recording of the domestic debt data by the PDMO may result to inadequate monitoring, reconciling and management of the domestic debt.

4 42 The National Treasury's responses to the audit findings and auditors' remarks are as shown in **Appendix: VIII**

5.0 CONCLUSION

5.1 The National Treasury established Cash Management Framework, in January 2020, that guides on effective functioning of cash management. The operationalization of the framework is ongoing as The National Treasury established Cash Management Unit, appointed a technical resource person on 01 February, 2023 to oversee Cash Flow and IFMIS and Government Payment System and also appointed members to the Cash Management Committee and Cash Management Technical Team on 13 June, 2023 in response to the staff turnover. In spite of the progress, there is need to continually build technical capacity of the existing officers to enhance the understanding of cash management functions and use modern cash management tools and techniques.

5.2 The National Treasury's preparation of the AACPS has been consistent with the macro-economic framework. However, The National Treasury (TNT) has not been able to adequately meet its budgetary obligations in a timely and cost-effective manner due to liquidity constraints arising from shortfalls in external and domestic receipts.

5.3 There is inadequate visibility of the government balances, cash inflows and cash outflows due to lack of Treasury Single Account (TSA) and inadequate cash-debt management integration as per objectives of cash management framework. Additionally, efficient coordination between cash and debt functions continues to be negatively impacted due to delayed access to real time cash and debt data, and generation of unreliable outturn reports which facilitates efficient decision making on when and how much cash can be borrowed by the government in meeting its obligations.

5.4 The national government development budget allocation averaged by 13.05%. Further, the proceeds for the treasury bonds have not been adequately used for development purposes. Therefore, The National Treasury has not adequately adhered to the Fiscal Principles stated in Section 15(1) and 15(2)(a) and (c) of the Public Finance Management Act, 2012, that in managing the national government's public finances, The National Treasury is required to enforce and adhere to The Fiscal Responsibility principle of:

i. Over the medium-term a minimum 30 percent of the national and county governments budget shall be allocated to the development expenditure and over the medium term;

ii. The national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure and over the medium term;

iii. The national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. Since the 2023/2024, fiscal policy over the medium-term focuses on supporting the government's Bottom-Up Economic Transformation Agenda (BETA). Implementation of this agenda is likely to face delays due to inadequate funding. In the long-run, the non-adherence to fiscal principles which is an important pre-requisite for sound macro-economic environment may weaken investor confidence and development of markets for government securities.

5.5 The National Treasury has not been able to appropriately utilize the overdraft facility. Short-term borrowing instruments i.e. Treasury Bills and Bank Overdrafts are employed for the purpose of cash management. While all short-term securities should be settled within a year, this does not apply to Bank Overdrafts as these balances are rolled over to subsequent financial years. The long outstanding overdraft balances attract high interest hence have negative impact on the overall cash flow position due to increased cost of debt.

6.0 RECOMMENDATIONS

6.1 In view of the findings and conclusions of the audit, the following are recommendations for implementation by The National Treasury to ensure effective cash management:

6.2 There is need for The National Treasury to continually build technical capacity of the existing officers to enhance the understanding of cash management function and use of modern cash management tools and techniques in enhancing effective cash management. Considering the size, granularity and frequencies of aggregate budget figures ; conversion of data from budget to cash-base, generation of monthly, weekly and daily cash flow forecasts data, while planning for cash these may require; application of modern analytical and simulation techniques models to be applied on the historical TSA data; timely incorporation of possible changes in government policy and regulations and contingencies' that affects collection of revenues and use of public resources to produce reliable and accurate forecasts for decision making on when and how much cash can be borrowed by the government in meeting its obligations.

6.3 To ensure government cash planning and forecasting that ensures government priorities and obligations are implemented without risk of cash shortage or restricting expenditures and optimization of government balances;

(i) The National Treasury should finalize the operationalization of the Treasury Single Account to ensure government's centralized control of cash resources that enables optimum use of government balances.

(ii) The National Treasury should finalize the integration of both cash planning functions and debt management function through the public debt module in IFMIS and CS-Meridian to ensure efficient execution of budget through; adequate coordination of cash and debt functions and, real time access of government cash flows pattern and other financial market information crucial for decision making.

6.4 To ensure that the government meets its budgetary allocations in a timely and cost-effective manner, in the long term, The National Treasury should; emphasize operationalization of fiscal performance measures recommended in the Budget Review Outlook Paper 2023/2024 of ensuring strong revenue performance paired with careful expenditure controls while protecting social spending .These measures include; implementation of The Medium-Term Revenue Strategy that guides on tax reforms, improve the tax system, and boost revenue over the medium term and ;optimization of Own Source Revenue collection; adherence to fiscal responsibility principles; and clearance of pending bills in the County Governments. Additionally, given the current realities, the government should focus on reprioritization and cost-cutting measures to ensure smooth implementation of priority programs for the remainder of the financial year. These will contribute to prudent management of the overdraft facility, achievement fiscal consolidation target of reducing deficit budget financing that promises sustainable debts management.

6.5 The National Treasury should adhere to and enforce the Fiscal Responsibility Principles in Section 15(1) and 15(2) (a) and (c) of the Public Finance Management Act, 2012, that requires that a minimum of 30 percent of the national and county governments budgets are allocated to the development expenditure over the medium-term and that over the medium term the national government's borrowings are to be used only for the purpose of financing development expenditure and not for recurrent expenditure.

6.6 To ensure prudent management of overdraft facility, The National Treasury should strengthen revenue performance, cap expenditure and develop the market for government securities. This is to ensure cash inflows are adequate and timely in meeting government short term obligations (including redemption and interest payment for the maturing government securities). This will also minimize use of the overdraft facility and accumulation of unpaid balances.

6.7 The National Treasury should establish adequate internal control systems that shall ensure accurate preparation of monthly bank reconciliations of government Treasury Bill account. Further, the management should ensure the accuracy and completeness of records in the Cash Book for purposes of generating reliable monthly and end year account balances. Any discrepancies or reconciling items should be investigated immediately and appropriate action taken including updating the relevant cash books.

6.8 The National Treasury through the Public Debt Management Office should ensure maintenance of reliable debt data of domestic debt transactions to ensure they are within the guidelines and risk parameters of the debt strategy in order to enable an effective cash management system.

7.0 APPENDICES

Appendix I: List of Documents Reviewed

S/No	Document Reviewed.	Information Obtained
1.	Constitution of Kenya, 2010	Composition of Debt Principles and Framework of Public Finance Mandate of the National Treasury. Mandate of OAG.
2.	Public Finance Management Act 2012	Establishment of Registrar of National Securities. Establishment and maintenance of a register of the National Government Securities. Power of the Cabinet Secretary to appoint and enter into agreements with advisers, agents and underwriters for the purpose of raising loans and issuing, managing or redeeming National Government Securities. Power of the National Government to issue securities. Establishment of PDMO and its objectives. Functions of PDMO Role of the Cabinet Secretary in Debt Management and reports to be prepared by the PDMO.
3.	Public Finance Management (National Government) Regulations, 2015	Implementation of Medium-Term Debt Strategy. Ways the national government borrows funds. Functions of PDMO Criteria of Issuing government securities Establishment and purpose of Sinking Fund.
4.	Central Bank of Kenya Act, 2015	Function of Central Bank as a Fiscal Agent of Public Entities
5.	Debt and Borrowing Policy, 2020	Objective of PDMO: Domestic Debt Market Development
6.	The National Treasury Cash Management Framework ,2020	Objective of Cash Management, Cash Management Organizational structure, Roles and Functions of various offices and processes involved.
7.	Agency Agreement between the National Treasury and Central Bank of Kenya	Roles and responsibilities of the Principal and the Agent.
8.	DeMPA Assessment Tool, 2021	Public Debt Management Best Practice.
9.	RMD Procedural Manual	Role of Resource Mobilization Office in Domestic Borrowing
10.	Debt Management Quality Systems Procedures	Role of Middle Office in Domestic Borrowing

Appendix II: List of Key Personnel Interviewed

S/NO.	Persons Interviewed	Data Obtained
1.	Public Debt Management Office-Debt Policy, Strategy and Risk Management (Middle Office)	Key Process in Domestic Borrowing Various Domestic Debt Instruments Planning for Borrowing Implementation, Utilization and Reporting Domestic Borrowing Emerging Issues, Development & Concerns in Domestic Borrowing,
2.	Controller of Budget	Role of Controller of Budget in Domestic Borrowing.
3.	Senior Deputy Accountant General	Process & Controls put in place in receiving proceeds from domestic borrowing. Documents used in receipt of proceeds. Types of securities used in domestic borrowing in Kenya. How and who determines the Overdraft.
4.	Central Bank of Kenya (Financial Market Department)	The role of CBK in Domestic Borrowing. Process of acquiring Domestic Debt Securities.

Appendix III: Statement of Actual Revenues & Net Exchequer Issues for FYs 2020/2021 to 2022/2023 (Budget Under Absorption)

FY	RECEIPTS	Original Estimates (Kshs.)	Revised Estimates (Kshs.)	Actual Receipts (Kshs.)	% Actuals Vs Estimates	Remarks
2020/ 2021	Opening Balance 01.07.2020 (Note 1)		48,028,919,425.79	48,028,919,425.79		
	Tax Revenue	1,567,632,123,908.99	1,469,466,601,139.49	1,487,519,775,689.25	101.23%	
	Non-Tax Revenue	66,134,718,178.01	109,320,218,750.66	80,753,855,737.00	73.87%	
	Domestic Borrowing (Note 2)	786,648,145,090.00	875,089,568,008.00	790,577,923,686.10	90.34%	
	External Loans and Grants	373,196,540,683.00	422,413,389,278.85	377,149,967,766.70	89.28%	
	Other Domestic Financing	36,816,500,886.00	22,811,162,263.21	32,742,755,441.79	143.54%	
	Total Revenue	**2,830,428,028,746.00**	**2,947,129,858,866.00**	**2,816,773,197,746.63**	**95.58%**	
	ISSUES					
	Total Recurrent Exchequer Issues (MDAs)	1,062,992,246,942.00	1,085,512,287,349.00	1,067,686,519,134.15	98.36%	
	Total CFS Exchequer issues	1,028,064,061,221.00	1,070,176,609,500.00	975,808,568,768.85	91.18%	
	Total development Exchequer Issues	356,768,980,901.00	408,838,222,335.00	372,485,625,697.90	91.11%	The National Government Development Allocation **15.94%** of the Total National Government Budget
			2,564,527,119,184.00			
	Total Issues to County Governments	382,602,739,682.00	382,602,739,682.00	379,512,183,437.60	99.19%	
	Total Exchequer Issues	**2,830,428,028,746.00**	**2,947,129,858,866.00**	**2,795,492,897,038.50**	**94.85%**	Budget Under absorption Kshs. 151.637 Billion
2021/ 2022	**RECEIPTS**	**Original Estimates (Kshs.)**	**Revised Estimates (Kshs.)**	**Actual Receipts (Kshs.)**		
	Opening Balance 01.07.2021 (Note 1)			21,280,300,708.13		
	Tax Revenue	1,707,432,569,865.77	1,784,391,587,415.97	1,839,473,162,334.40	103.09%	
	Non-Tax Revenue	68,191,603,994.11	67,118,160,282.00	78,437,652,838.92	116.87%	
	Domestic Borrowing (Note 2)	1,008,428,584,928.72	1,022,022,208,979.77	877,038,741,180.00	85.81%	
	External Loans and Grants	379,659,517,890.95	421,189,913,530.81	239,611,979,668.50	56.89%	
	Other Domestic Financing	29,292,582,362.45	40,092,582,362.45	23,160,317,235.05	57.77%	
	Total Revenue	**3,193,004,859,042.00**	**3,334,814,452,571.00**	**3,057,721,853,256.87**	**91.69%**	

FY	RECEIPTS	Original Estimates (Kshs.)	Revised Estimates (Kshs.)	Actual Receipts (Kshs.)	% Actuals Vs Estimates	Remarks
	ISSUES					
	Reccurent Exchequer Issues (MDA)	1,106,555,313,426.00	1,231,158,266,090.00	1,205,909,373,883.20	97.95%	
	Total CFS Exchequer issues	1,327,220,068,220.00	1,309,468,454,190.00	1,191,070,404,012.05	90.96%	
	Total development Exchequer Issues	389,229,477,396.00	424,187,732,291.00	341,005,827,118.15	80.39%	The National Government Development Allocation **14.30%** of the Total National Government Budget.
			2,964,814,452,571.00			
	TOTAL ISSUES -EQUITABLE SHARE	370,000,000,000.00	370,000,000,000.00	340,400,000,000.00	92.00%	
	Total Exchequer Issues	**3,193,004,859,042.00**	**3,334,814,452,571.00**	**3,078,385,605,013.40**	**92.31%**	Budget Under Absorption Kshs. 256.429 Billion
2022/2023	**RECEIPTS**	**Original Estimates (Kshs.)**	**Revised Estimates (Kshs.)**	**Actual Receipts (Kshs.)**		
	Opening Balance 01.07.2022 (Note 1)			21,280,300,708.13		
	Tax Revenue	2,071,923,833,574.00	2,079,837,901,885.71	1,961,974,892,386.55	94.33%	
	Non-Tax Revenue	69,660,578,983.00	65,561,396,552.30	81,998,439,276.80	125.07%	
	Domestic Borrowing (Note 2)	1,040,458,161,200.00	948,106,911,312.05	696,402,157,518.65	73.45%	
	External Loans and Grants	349,331,516,110.00	513,418,169,188.90	488,311,124,134.00	95.11%	
	Other Domestic Financing	13,228,000,000.00	13,228,000,000.00	16,104,714,394.50	121.75%	
	Total Revenue	**3,544,602,089,867.00**	**3,620,152,378,938.96**	**3,244,791,327,710.50**	**89.63%**	
	ISSUES					
	Recurrent Exchequer Issues (MDA)	1,178,399,125,393.00	1,268,812,430,857.00	1,221,568,076,570.45	96.28%	
	Total CFS Exchequer issues	1,571,810,752,102.00	1,577,741,706,081.00	1,313,589,969,728.50	83.26%	
	Total development Exchequer Issues	424,392,212,371.00	373,998,242,001.00	308,032,344,879.20	82.36%	National Government Development Allocation **11.61%** of the Total National Government Budget.
			3,220,552,378,939.00			
	TOTAL ISSUES - EQUITABLE SHARE	370,000,000,000.00	399,600,000,000.00	399,600,000,000.00	100.00%	
	Total Exchequer Issues	**3,544,602,089,866.00**	**3,620,152,378,939.00**	**3,242,790,391,178.15**	**89.58%**	Budget Under-absorption **Kshs. 377.362 Billion**

Source: The National Treasury Statements of Actual Revenues & Net Exchequer Issues as at 30 June, 2021, as at 30 June 2022 and as at 30 June 2023

Appendix IV: MDAs Under-absorption by Vote heads from FYs 2020/2021 to 2022/2023

VOTE	MINISTRIES / DEPARTMENTS/AGENCIES	Original Estimates	Revised Estimates	Exchequer Issues	Exchequer Issues to Revised Estimates
		Kshs..	Kshs.	Kshs.	%
As at 30 June 2021					
CFS 053	Subscriptions to International Organizations	500,000.00	500,000.00	-	0.0%
D1093	State Department for shipping and Maritime.	5,000,000.00	5,000,000.00	-	0.0%
D2091	Teachers Service Commission	600,000,000.00	200,000,000.00	-	0.0%
D2141	National Gender and Equality Commission	5,000,000.00	2,874,000.00	-	0.0%
	Unallocated :IDA-Urban Development Grant (UDG)	51,031,875.20	51,031,875.20	-	0.0%
D1023	State Department for Correctional Services	784,100,000.00	257,579,844.00	55,348,693.15	21.5%
D1271	Ethics and Anti-Corruption Commission	40,800,000.00	40,800,000.00	14,167,795.00	34.7%
D1185	State Department for Social Protection	2,186,130,000.00	1,917,900,000.00	836,914,694.00	43.6%
D1291	Office of the Director of Public Prosecutions	129,000,000.00	49,000,000.00	22,926,593.00	46.8%
D1011	Executive Office of President	4,961,171,015.00	7,527,900,095.00	4,277,069,239.95	56.8%
CFS 052	Salaries , Allowances & Miscellaneous	4,167,408,778.00	4,167,408,778.00	2,620,158,303.45	62.9%
R1011	The Executive Office of the President	21,728,255,323.00	23,566,586,164.00	15,994,701,690.20	67.9%
As at 30 June 2022					
CFS 053	Subscriptions to International Organisations	500,000.00	500,000.00	-	0.0%
D2141	National Gender and Equality Commission	-	10,131,000.00	-	0.0%
R1092	State Department for Transport	751,200,336.00	1,691,515,862.00	323,697,789.05	19.1%
D2071	Public Service Commission	19,300,000.00	19,300,000.00	6,488,758.90	33.6%
D1092	State Department of Transport	1,196,300,000.00	984,800,000.00	408,496,204.00	41.5%
D1185	State Department for Social Protection	2,651,038,823.00	2,874,738,823.00	1,277,112,152.40	44.4%
D1184	State Department for Labour	2,560,718,482.00	866,620,213.00	434,778,668.60	50.2%
D1066	State Department for Early Learning & Basic Education	11,426,600,000.00	13,866,322,991.00	7,334,163,293.45	52.9%
D1271	Ethics and Anti-Corruption Commission	67,493,119.00	67,493,119.00	36,715,134.75	54.4%
D2091	Teachers Service Commission	645,100,000.00	495,100,000.00	274,720,718.30	55.5%
D1071	The National Treasury	46,547,971,738.00	63,106,920,457.00	35,614,404,678.75	56.4%
D1122	State Department for Information Communications and Technology & Innovation	4,707,662,268.00	3,577,660,000.00	2,122,034,481.95	59.3%
D1261	The Judiciary	1,895,000,000.00	2,153,923,723.00	1,313,989,297.15	61.0%
D1064	State Department for Vocational and Technical Training	2,248,436,000.00	1,908,457,335.00	1,198,435,999.90	62.8%
D1252	State Law Office and Department of Justice	181,301,535.00	137,801,535.00	88,439,340.30	64.2%

VOTE	MINISTRIES / DEPARTMENTS/AGENCIES	Original Estimates	Revised Estimates	Exchequer Issues	Exchequer Issues to Revised Estimates
D2021	National Land Commission	38,896,786.00	38,896,786.00	25,472,091.90	65.5%
D1094	State Department for Housing & Urban Development	12,999,600,000.00	13,069,940,000.00	8,805,185,917.30	67.4%
D1175	State Department for Industrialization	3,272,900,000.00	2,787,900,000.00	1,913,136,491.05	68.6%
As at 30 June 2023					
CFS 053	Subscriptions to International Organizations	500,000.00	-	-	0.0%
D1026	State Department for Internal Security & National Administration	-	-	-	0.0%
D1068	State Department for Post Training and Skills Development	33,000,000.00			0.0%
D1083	State Department for Public Health and Professional Standards	-	2,337,250,000.00	-	0.0%
D1093	State Department for shipping and Maritime.	489,000,000.00	900,000.00	-	0.0%
D1177	State Department for Investment Promotion	-	1,238,121,044.00	-	0.0%
D2021	National Land Commission	90,300,000.00		-	0.0%
D2141	National Gender and Equality Commission	10,131,000.00	10,131,000.00	-	0.0%
D1214	State Department for Youth	1,732,790,000.00	983,370,119.00	117,380,119.00	11.9%
D1092	State Department of Transport	1,350,000,000.00	2,661,602,165.00	576,682,835.00	21.7%
D1032	State Department for Devolution	297,000,000.00	227,377,778.00	56,000,000.00	24.6%
D1192	State Department for Mining	-	131,084,058.00	41,312,900.10	31.5%
D1202	State Department for Tourism	352,210,000.00	34,010,000.00	12,609,866.20	37.1%
D1024	State Department for Immigration and Citizen Services	-	106,663,915.00	41,210,244.00	38.6%
D1132	State Department for Sports	133,000,000.00	20,875,000.00	8,250,000.00	39.5%
R1083	State Department for Public Health and Professional Standards	-	1,697,115,604.00	775,532,270.00	45.7%
D1041	Ministry of Defence	3,468,000,000.00	3,365,350,874.00	1,747,489,410.20	51.9%
D1184	State Department for Labour	572,500,000.00	422,500,000.00	220,877,537.10	52.3%
D2111	Auditor General	380,610,000.00	19,610,000.00	10,506,720.00	53.6%
D1203	State Department for Wildlife	686,810,000.00	186,810,000.00	100,586,926.00	53.8%
D1122	State Department for Information Communications and Technology & Innovation	3,989,000,000.00	1,169,629,763.00	631,016,612.45	54.0%
D1185	State Department for Social Protection	2,808,500,000.00	2,555,685,203.00	1,445,089,295.25	56.5%
R1054	State Department for Diaspora Affairs	-	658,000,000.00	373,441,524.05	56.8%
D1213	State Department for Public Service	602,940,000.00	202,612,150.00	115,025,000.00	56.8%
D1291	Office of the Director of Public Prosecutions	45,000,000.00	12,135,429.00	7,135,429.00	58.8%
D1173	State Department for Cooperatives	422,500,000.00	20,822,500,000.00	12,752,610,962.40	61.2%
D1332	State Department for Forestry		617,439,205.00	379,092,938.35	61.4%
D1174	State Department for Trade	1,486,600,000.00	1,265,050,000.00	794,411,000.00	62.8%

VOTE	MINISTRIES / DEPARTMENTS/AGENCIES	Original Estimates	Revised Estimates	Exchequer Issues	Exchequer Issues to Revised Estimates
D1108	Ministry of Environment and Forestry	3,369,300,000.00	2,627,300,000.00	1,653,997,497.00	63.0%
D1035	State Department for Development for the ASAL	9,360,193,700.00	14,428,093,700.00	9,263,702,544.55	64.2%
D1023	State Department for Correctional Services	1,095,400,000.00	435,171,870.00	282,693,053.20	65.0%
D1123	State Department for Broadcasting & Telecommunications	817,000,000.00	266,446,545.00	181,556,740.00	68.1%
D1261	Judiciary Fund	1,900,000,000.00	1,900,000,000.00	1,310,000,000.00	68.9%

Source: The National Treasury Statements of Actual Revenues & Net Exchequer Issues as at 30 June, 2021, as at 30 June 2022 and as at 30 June 2023

Appendix V: Outstanding Exchequer Requests for FY 2021/2022

		Outstanding Exchequer requests from MDAs as at 30.06.2022					
Vote	MDA	Salaries	SAGAs	Recurrent	Recurrent Totals	Development	Recurrent & Development Total
				Kshs.	Kshs.	Kshs.	Kshs.
1011	Executive Office of the President	-	-	2,660,210,471.50	**2,660,210,471.50**	207,175,601.15	**2,867,386,072.65**
1021	State Department for Interior and Citizen Services	-	-	2,612,264,155.60	**2,612,264,155.60**	574,429,748.10	**3,186,693,903.70**
1023	State Department for Correctional Services	-	-	-	**-**	-	**-**
1032	State Department for Devolution	-	-	-	**-**	-	**-**
1035	State Department for Development of the ASAL	-	-	-	**-**	-	**-**
1041	Ministry of Defense	-	-	1,755,036,502.30	**1,755,036,502.30**	-	**1,755,036,502.30**
1052	Ministry of Foreign Affairs	-	-	74,033,554.15	**74,033,554.15**	-	**74,033,554.15**
1064	State Department for Vocational and Technical Training	-	-	300,301,946.00	**300,301,946.00**	-	**300,301,946.00**
1065	State Department for University Education	-	-	-	**-**	-	**-**
1066	State Department for Early Learning & Basic Education	-	-	175,455,314.55	**175,455,314.55**	591,984,000.00	**767,439,314.55**
1068	State Department for Post Training and Skills Development	-	-	-	**-**	-	**-**
1069	State Department for Implementation of Curriculum Reforms	-	-	-	**-**	-	**-**
1071	The National Treasury	-	-	1,800,236,027.40	**1,800,236,027.40**	23,125,604,408.05	**24,925,840,435.45**
1072	State Department for Planning	-	-	-	**-**	2,900,000,000.00	**2,900,000,000.00**
1081	Ministry of Health	-	-	-	**-**	6,041,378,780.43	**6,041,378,780.43**
1091	State Department for Infrastructure	-	-	-	**-**	2,190,000,000.00	**2,190,000,000.00**
1092	State Department for Transport	-	-	1,000,000,000.00	**1,000,000,000.00**	7,125,945.00	**1,007,125,945.00**
1093	State Department for Shipping and Maritime	-	-	-	**-**	-	**-**
1094	State Department for Housing & Urban Development	-	-	-	**-**	3,317,869,033.00	**3,317,869,033.00**
1095	State Department for Public Works	-	-	-	**-**	-	**-**
1108	Ministry of Environment and Forestry	-	-	-	**-**	200,000,000.00	**200,000,000.00**
1109	Ministry of Water & Sanitation and Irrigation	-	-	-	**-**	-	**-**
1112	Ministry of Lands and Physical Planning	-	-	-	**-**	243,043,609.05	**243,043,609.05**
1122	State Department for Information Communication Technology & Innovation	-	-	1,115,999.00	**1,115,999.00**	770,448,311.75	**771,564,310.75**
1123	State Department for Broadcasting & Telecommunications	-	-	-	**-**	-	**-**
1132	State Department for Sports	-	-	-	**-**	-	**-**

		Outstanding Exchequer requests from MDAs as at 30.06.2022					
Vote	MDA	Salaries	SAGAs	Recurrent	Recurrent Totals	Development	Recurrent & Development Total
				Kshs.	Kshs.	Kshs.	Kshs.
1134	State Department for Culture and Heritage	-	-	-	-	-	-
1152	Ministry of Energy	-	-	-	-	-	-
1162	State Department for Livestock.	-	-	-	-	451,922,249.00	**451,922,249.00**
1166	State Department for Fisheries, Aquaculture & the Blue Economy	-	-	-	-	47,000,000.00	**47,000,000.00**
1169	State Department for Crop Development & Agricultural Research	-	-	44,502,495.80	**44,502,495.80**	399,682,405.90	**444,184,901.70**
1173	State Department for Cooperatives	-	-	-	-	-	-
1174	State Department for Trade and Enterprise Development	-	-	-	-	-	-
1175	State Department for Industrialization	-	-	-	-	-	-
1184	State Department for Labour	-	-	-	-	-	-
1185	State Department for Social Protection, Pensions & Senior Citizens Affairs	-	-	165,162,081.40	**165,162,081.40**	692,071,044.30	**857,233,125.70**
1194	Ministry of Mining and Petroleum	-	-	-	-	-	-
1202	State Department for Tourism	-	-	-	-	-	-
1203	State Department for Wildlife	-	-	-	-	-	-
1212	State Department for Gender	-	-	-	-	-	-
1213	State Department for Public Service	-	-	118,584,596.00	**118,584,596.00**	19,175,874.15	**137,760,470.15**
1214	State Department for Youth Affairs	-	-	-	-	-	-
1221	State Department for East African Community	-	-	-	-	-	-
1222	State Department for Regional and Northern Corridor Development	-	-	-	-	-	-
1252	State Law Office and Department of Justice	-	-	-	-	-	-
1261	The Judiciary	-	-	-	-	-	-
1271	Ethics and Anti-Corruption Commission	-	-	-	-	-	-
1281	National Intelligence Service	-	-	-	-	-	-
1291	Office of the Director of Public Prosecutions	-	-	-	-	-	-
1311	Office of the Registrar of Political Parties	-	-	-	-	-	-
1321	Witness Protection Agency	-	-	-	-	-	-
2011	Kenya National Commission on Human Rights	-	-	-	-	-	-

		Outstanding Exchequer requests from MDAs as at 30.06.2022					
Vote	MDA	Salaries	SAGAs	Recurrent	Recurrent Totals	Development	Recurrent & Development Total
				Kshs.	Kshs.	Kshs.	Kshs.
2021	National Land Commission	-	-	-	-	-	-
2031	Independent Electoral and Boundaries Commission	-	-	-	-	-	-
2041	Parliamentary Service Commission	-	-	725,632,875.75	725,632,875.75	-	725,632,875.75
2042	National Assembly	-	-	1,303,487,272.85	1,303,487,272.85	-	1,303,487,272.85
2043	Parliamentary Joint Services	-	-	25,415,000.00	25,415,000.00	68,818,286.95	94,233,286.95
2051	Judicial Service Commission	-	-	-	-	-	-
2061	The Commission on Revenue Allocation	-	-	-	-	-	-
2071	Public Service Commission	-	-	129,955,235.40	129,955,235.40	-	129,955,235.40
2081	Salaries and Remuneration Commission	-	-	-	-	-	-
2091	Teachers Service Commission	-	-	1,169,828,984.30	1,169,828,984.30	-	1,169,828,984.30
2101	National Police Service Commission	-	-	-	-	-	-
2111	Auditor General	-	-	-	-	-	-
2121	Office of the Controller of Budget	-	-	-	-	-	-
2131	The Commission on Administrative Justice	-	-	-	-	-	-
2141	National Gender and Equality Commission	-	-	-	-	-	-
2151	Independent Policing Oversight Authority	-	-	-	-	-	-
	Sub Totals	-	-	**14,061,222,512.00**	**14,061,222,512.00**	**41,847,729,296.83**	**55,908,951,808.83**
	Pensions						**6,018,269,230.95**
	June Allocations						**29,600,000,000.00**
	Total	-	-	**14,061,222,512.00**		**41,847,729,296.83**	**91,527,221,039.78**
	Treasury Bonds redemptions						-
	Treasury Bills redemptions						-
	Public Debt- Foreign payments due (June)						-
	Less T.Bonds proceeds reserve account						-
	Public Debt Sub - Totals						-
	Public Debt (Pre 1997)						-
	Grand Totals			-			**91,527,221,039.78**

Appendix VI: Outstanding Exchequer Requests for FY 2022/2023

30-06-23		FY 2022/2023					
Vote	MDA	Recurrent	Recurrent	Development	Development	Development	Recurrent & Development Total
			Totals	(SAGAs)	Development	(Totals)	Recurrent & Development Total
		Kshs.	Kshs.	Kshs.	Kshs.		Kshs.
1011	Executive Office of the President	1,779,613,640.40	**1,779,613,640.40**	-	140,000,000.00	140,000,000.00	**1,919,613,640.40**
1012	Office of the Deputy President	-	-	-	-	-	-
1013	Office of the Prime Cabinet Secretary	-	-	-	-	-	-
1021	State Department for Interior and Citizen Services	-	-	-	-	-	-
1023	State Department for Correctional Services	134,926,125.40	**134,926,125.40**	-	75,015,455.05	75,015,455.05	**209,941,580.45**
1024	State Department for Immigration and Citizen services	-	-	-	-	-	-
1025	National Police Service	878,279,443.60	**878,279,443.60**	-	-	-	**878,279,443.60**
1026	State Department for Internal Security & National Administration	1,247,706,689.95	**1,247,706,689.95**	-	-	-	**1,247,706,689.95**
1032	State Department for Devolution	-	-	-	-	-	-
1035	State Department for Development of the ASAL	888,872,250.00	**888,872,250.00**	-	4,649,979,665.00	4,649,979,665.00	**5,538,851,915.00**
1041	Ministry of Defence	7,666,999,297.48	**7,666,999,297.48**	-	1,617,775,924.75	1,617,775,924.75	**9,284,775,222.23**
1052	Ministry of Foreign Affairs	-	-	-	-	-	-
1053	State Department for Foreign Affairs	822,893,554.35	**822,893,554.35**		-	-	**822,893,554.35**
1054	State Department for Diaspora Affairs	-	-	-	-	-	-
1064	State Department for Vocational and Technical Training	1,399,797,445.00	**1,399,797,445.00**	-	-	-	**1,399,797,445.00**
1065	State Department for University Education	61,834,482.65	**61,834,482.65**	-	-	-	**61,834,482.65**
1066	State Department for Early Learning & Basic Education	1,423,722,868.00	**1,423,722,868.00**	-	1,243,700,000.00	1,243,700,000.00	**2,667,422,868.00**
1068	State Department for Post Training and Skills Development	-	-	-	-	-	-
1069	State Department for Implementation of Curriculum Reforms	-	-	-	-	-	-
1071	The National Treasury	8,998,353,399.00	**8,998,353,399.00**	417,312,500.00	10,997,670,234.85	11,414,982,734.85	**20,413,336,133.85**
1072	State Department for Planning	-	-	-	-	-	-

30-06-23		FY 2022/2023					
Vote	MDA	Recurrent	Recurrent	Development	Development	Development	Recurrent & Development Total
			Totals	(SAGAs)	Development	(Totals)	Recurrent & Development Total
		Kshs.	Kshs.	Kshs.	Kshs.		Kshs.
1081	Ministry of Health	639,255,922.90	**639,255,922.90**	2,393,530,059.85	-	2,393,530,059.85	**3,032,785,982.75**
1083	State Department for Public Health and Professional Standards	921,583,334.00	**921,583,334.00**		2,337,250,000.00	2,337,250,000.00	**3,258,833,334.00**
1091	State Department for Infrastructure	-	-	-	-	-	-
1092	State Department for Transport	18,640,167.00	**18,640,167.00**	-	1,281,500,000.00	1,281,500,000.00	**1,300,140,167.00**
1093	State Department for Shipping and Maritime	-	-	-	-	-	-
1094	State Department for Housing & Urban Development	-	-	-	224,884,470.05	224,884,470.05	**224,884,470.05**
1095	State Department for Public Works	-	-	-	-	-	-
1104	State Department for Irrigation	4,567,800.00	**4,567,800.00**	300,000,000.00	-	300,000,000.00	**304,567,800.00**
1108	Ministry of Environment and Forestry	-	-	390,500,000.00	-	390,500,000.00	**390,500,000.00**
1109	Ministry of Water & Sanitation and Irrigation	-	-	-	-	-	-
1112	Ministry of Lands and Physical Planning	-	-	-	-	-	-
1122	State Department for Information Communication Technology & Innovation	-	-	-	400,281,321.00	400,281,321.00	**400,281,321.00**
1123	State Department for Broadcasting & Telecommunications	-	-	-	84,354,840.00	84,354,840.00	**84,354,840.00**
1132	State Department for Sports	12,625,000.00	**12,625,000.00**	-	2,250,000.00	2,250,000.00	**14,875,000.00**
1134	State Department for Culture and Heritage	-	-	-	-	-	-
1152	Ministry of Energy	206,266,149.11	**206,266,149.11**	-	-	-	**206,266,149.11**
1162	State Department for Livestock.	-	-	-	-	-	-
1166	State Department for Fisheries, Aquaculture & the Blue Economy	5,795,831.00	**5,795,831.00**	-	-	-	**5,795,831.00**
1169	State Department for Crop Development & Agricultural Research	-	-	-	282,231,538.15	282,231,538.15	**282,231,538.15**
1173	State Department for Cooperatives	-	-	-	-	-	-
1174	State Department for Trade	-	-	-	-	-	-

30-06-23		FY 2022/2023					
Vote	MDA	Recurrent	Recurrent	Development	Development	Development	Recurrent & Development Total
			Totals	(SAGAs)	Development	(Totals)	Recurrent & Development Total
		Kshs.	Kshs.	Kshs.	Kshs.		Kshs.
1175	State Department for Industrialization	72,374,241.90	**72,374,241.90**	-	-	-	**72,374,241.90**
1176	State Department for Micro, Small & Medium Enterprises Development	-	-	-	-	-	-
1177	State Department for Investment Promotion	40,000,000.00	**40,000,000.00**	-	1,238,083,333.00	1,238,083,333.00	**1,278,083,333.00**
1184	State Department for Labour	-	-	-	48,468,416.00	48,468,416.00	**48,468,416.00**
1185	State Department for Social Protection	1,165,659,936.00	**1,165,659,936.00**	200,000,000.00	-	200,000,000.00	**1,365,659,936.00**
1192	State Department for Mining	-	-	-	-	-	-
1194	Ministry of Mining and Petroleum	-	-	-	-	-	-
1202	State Department for Tourism	-	-	-	-	-	-
1203	State Department for Wildlife	-	-	70,500,000.00	-	70,500,000.00	**70,500,000.00**
1212	State Department for Gender	-	-	-	185,604,581.35	185,604,581.35	**185,604,581.35**
1213	State Department for Public Service	2,378,437,425.65	**2,378,437,425.65**	61,540,750.00	-	61,540,750.00	**2,439,978,175.65**
1214	State Department for Youth	-	-	-	-	-	-
1221	State Department for East African Community	-	-	-	-	-	-
1222	State Department for Regional and Northern Corridor Development	-	-	550,000,000.00	-	550,000,000.00	**550,000,000.00**
1252	State Law Office and Department of Justice	138,656,167.15	**138,656,167.15**	-	-	-	**138,656,167.15**
1261	The Judiciary	307,206,820.00	**307,206,820.00**	-	295,000,000.00	295,000,000.00	**602,206,820.00**
1271	Ethics and Anti-Corruption Commission	106,038,226.00	**106,038,226.00**	-	-	-	**106,038,226.00**
1281	National Intelligence Service	1,643,160,498.00	**1,643,160,498.00**	-	-	-	**1,643,160,498.00**
1291	Office of the Director of Public Prosecutions	147,377,697.75	**147,377,697.75**	-	-	-	**147,377,697.75**
1311	Office of the Registrar of Political Parties	-	-	-	-	-	-
1321	Witness Protection Agency	-	-	-	-	-	-

30-06-23		FY 2022/2023					
Vote	MDA	Recurrent	Recurrent	Development	Development	Development	Recurrent & Development Total
			Totals	(SAGAs)	Development	(Totals)	Recurrent & Development Total
		Kshs.	Kshs.	Kshs.	Kshs.		Kshs.
1332	State Deparment for Forestry	-	-	200,000,000.00	-	200,000,000.00	**200,000,000.00**
2011	Kenya National Commission on Human Rights	-	-	-	-	-	-
2021	National Land Commission	-	-	-	-	-	-
2031	Independent Electoral and Boundaries Commission	991,699,604.20	**991,699,604.20**	-	-	-	**991,699,604.20**
2041	Parliamentary Service Commission	-	-	-	-	-	-
2042	National Assembly	903,623,884.60	**903,623,884.60**	-	-	-	**903,623,884.60**
2043	Parliamentary Joint Services	103,625,070.80	**103,625,070.80**	-	-	-	**103,625,070.80**
2051	Judicial Service Commission	-	-	-	-	-	-
2061	The Commission on Revenue Allocation	-	-	-	-	-	-
2071	Public Service Commission	34,804,148.35	**34,804,148.35**	-	-	-	**34,804,148.35**
2081	Salaries and Remuneration Commission	-	-	-	-	-	-
2091	Teachers Service Commission	130,893,558.20	**130,893,558.20**	-	-	-	**130,893,558.20**
2101	National Police Service Commission	-	-	-	-	-	-
2111	Auditor General	-	-	-	-	-	-
2121	Office of the Controller of Budget	-	-	-	-	-	-
2131	The Commission on Administrative Justice	-	-	-	-	-	-
2141	National Gender and Equality Commission	-	-	-	-	-	-
2151	Independent Policing Oversight Authority	-	-	-	-	-	-
	Sub Totals	**35,275,290,678.44**	**35,275,290,678.44**	**4,583,383,309.85**	**25,104,049,779.20**	**29,687,433,089.05**	**64,962,723,767.49**
	Pensions						**12,582,699,115.05**
	Counties Allocations						-
	Domestic Debt						
	Grand Totals	-					**77,545,422,882.54**

Appendix VII (a): Utilization of Treasury Bonds Proceeds FY 2018/2019

FY 2018 2019 Treasury Bond Proceeds Utilization				
Date	Amount Kshs.	Bank statement	Cash book No/PV Number	utilization/
4.03.2019	500,000,000	Confirmed	27	Exchequer release
27.6.2019	582,000,000	Confirmed	29	Exchequer release
20.6.2019	39,500,000,000	Confirmed	28	Exchequer release
15.05.2019	58,000,000,000	Confirmed	27	Exchequer release
25.04.2019	2,245,000,000	Confirmed	26	Exchequer release
17.04.2019	58,000,000,000	Confirmed	25	Exchequer release
1.04.2019	2,300,000,000	Confirmed	24	Exchequer release
28.03.2019	14,200,000,000	Confirmed	23	Exchequer release
1.03.2019	6,000,000,000	Confirmed	21	Exchequer release
27.02.2019	48,000,000,000	Confirmed	19	Exchequer release
13.02.2019	23,000,000,000	Confirmed	18	Exchequer release
30.01.2019	7,500,000,000	Confirmed	17	Exchequer release
29.01.2019	30,000,000,000	Confirmed	16	Exchequer release
22.01.2019	1,730,000,000	Confirmed	15	Exchequer release
31.12.2018	1,000,000,000	Confirmed	14	Exchequer release
31.12.2018	5,000,000,000	Confirmed	13	Exchequer release
19.12.2018	25,000,000,000	Confirmed	12	Exchequer release
13.12.2018	1,270,000,000	Confirmed	10	Exchequer release
7.12.2018	3,900,000,000	Confirmed	11	Exchequer release
6.12.2018	3,600,000,000	Confirmed	9	Exchequer release
28.11.2018	16,000,000,000	Confirmed	8	Exchequer release
22.11.2018	11,500,000,000	Confirmed	7	Exchequer release
14.11.2018	1,340,000,000	Confirmed	5	Exchequer release
9.11.2018	21,200,000,000	Confirmed	6	Exchequer release
25.10.2018	7,400,000,000	Confirmed	4	Exchequer release
27.09.2018	28,000,000,000	Confirmed	3	Exchequer release
1.08.2018	10,000,000,000	Confirmed	1	Exchequer release
30.08.2018	18,000,000,000	Confirmed	2	Exchequer release
Total	**444,767,000,000**			

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement

Appendix VII (b): Utilization of Treasury Bonds Proceeds FY 2019/2020

T.BOND PROCEEDS 2019/2020				
Date	**Amount**	**Traced In Bank Statement**	**PV N0/ Cashbook Number**	**Utilization**
26-08-19	10,151,107,513.00	Traced In Bank Statement	PV 001	To enable release exchequer realise to MDA
16-08-19	49,763,116,330.00	Traced In Bank Statement	PV 002	To enable release exchequer realise to MDA
14-08-19	28,000,000,000.00	Traced In Bank Statement	PV No 005	Exchequer releases
30-08-19	7,633,550,121.00	Traced In Bank Statement	PV 003	To enable settle domestic debt maturity on 2ND SEP 2019
18-09-19	42,674,947,990.00	Traced In Bank Statement	Pv 004	To enable settle domestic debt maturity on 23 SEP 2019
27-09-19	5,839,600,000.00	Traced In Bank Statement	PV 06	Exchequer releases
09-10-19	9,500,000,000.00	Traced In Bank Statement	pv 007	Exchequer releases
29-10-19	15,000,000,000.00	Traced In Bank Statement	PV 008	Exchequer releases
07-10-19	16,000,000,000.00	Traced In Bank Statement	pv 009	Exchequer releases
13-11-19	37,275,798,824.15	Traced In Bank Statement	pv 010	Exchequer releases
19-12-19	36,375,200,000.00	Traced In Bank Statement	PV 011	Exchequer releases
07-01-20	28,443,185,470.00	Traced In Bank Statement	PV 012	Exchequer releases
28-01-20	18,128,288,623.50	Traced In Bank Statement	PV 013	Exchequer releases
3-02-2020	48,610,842,450.70	Traced In Bank Statement	PV 014	Exchequer releases
03-02-20	3,330,969,650.00	Traced In Bank Statement	PV 016	Exchequer releases
27-02-2020	25,000,000,000.00	Traced In Bank Statement	PV 015	Exchequer releases
04-01-20	23,358,370,644.00	Traced In Bank Statement	PV 017	Exchequer releases
14-04-20	25,000,000,000.00	Traced In Bank Statement	PV 018	Exchequer releases
16/04/2020	10,000,000,000.00	Traced In Bank Statement	PV 019	Exchequer releases
21/04/2020	3,862,578,019.40	Traced In Bank Statement	PV 20	Exchequer releases
30/04/2020	33,000,000,000.00	Traced In Bank Statement	PV 033	Exchequer releases
13/05/2020	2,805,552,475.00	Traced In Bank Statement	PV 022	Exchequer releases
15/05/2020	19,000,000,000.00	Traced In Bank Statement	PV 23	Exchequer releases

T.BOND PROCEEDS 2019/2020				
Date	**Amount**	**Traced In Bank Statement**	**PV N0/ Cashbook Number**	**Utilization**
22/05/2020	1,728,707,943.00	Traced In Bank Statement	PV 024	Exchequer releases
29-May-20	6,500,000,000.00	Traced In Bank Statement	PV 25	Exchequer releases
06-05-20	2,453,568,495.00	Traced In Bank Statement	PV 026	Exchequer releases
23/06/2020	40,000,000,000.00	Traced In Bank Statement	PV 28	Exchequer releases
25/06/2020	9,434,779,454.00	Traced In Bank Statement	PV 27	Exchequer releases
Total	**558,870,164,002.75**			

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement

Appendix VII (c): Utilization of Treasury Bonds Proceeds FY 2020/2021

TRESAURY BOND UTILIZATION 2020 2021				
Date	**Amount**	**Bank Statement**	**PV No.**	**Utilization**
5-08-19	31,500,000,000.00	Confirmed	001	Exchequer Releases
10.08.2020	49,092,648,100.00	Confirmed	002	Exchequer Releases
24.08.2020	41,079,479,588.30	Confirmed	003	Exchequer Releases
15.09.2020	78,389,387,346.30	Confirmed	004	Exchequer Releases
9.10.2021	20,000,000,000.00	Confirmed	007	Exchequer Releases
15.10.2020	44,762,801,421.85	Confirmed	006	Exchequer Releases
30.10.2020	12,000,000,000.00	Confirmed	005	Exchequer Releases
6.11.2020	20,000,000,000.00	Confirmed	008	Exchequer Releases
20.11.2020	38,421,239,060.00	Confirmed	009	Exchequer Releases
24.11.2020	25,310,127,694.90	Confirmed	010	Exchequer Releases
3.12.2020	12,253,900,750.00	Confirmed	011	Exchequer Releases
18.12.2020	10,427,882,835.00	Confirmed	012	Exchequer Releases
31.12.2020	2,527,800,085.00	Confirmed	013	Exchequer Releases
08.01.2021	32,788,239,593.75	Confirmed	014	Exchequer Releases
15.01.2021	14,195,516,064.00	Confirmed	015	Exchequer Releases
22.01.2021	41,528,224,058.60	Confirmed	016	Exchequer Releases
26.01.2021	30,000,000,000.00	Confirmed	017	Exchequer Releases
28.01.2021	19,087,824,127.80	Confirmed	018	Exchequer Releases
02.02.2021	9,131,252,793.40	Confirmed	020	Exchequer Releases
05.02.2021	13,202,890,076.25	Confirmed	019	Exchequer Releases
12.02.2021	28,723,220,659.35	Confirmed	021	Exchequer Releases
18.02.2021	13,871,652,569.80	Confirmed	023	Exchequer Releases
23.02.2021	10,500,000,000.00	Confirmed	024	Exchequer Releases
4.03.2021	508,949,907.05	Confirmed	025	Exchequer Releases
18.03.2021	48,668,148,300.00	Confirmed	026	Exchequer Releases
12.04.2021	30,000,000,000.00	Confirmed	027	Exchequer Releases
16.04.2021	46,273,120,746.90	Confirmed	028	Exchequer Releases
22.04.2021	5,338,749,443.60	Confirmed	029	Exchequer Releases
12.05.2021	20,000,000,000.00	Confirmed	030	Exchequer Releases
25.05.2021	10,000,000,000.00	Confirmed	031	Exchequer Releases
26.05.2021	10,974,594,303.80	Confirmed	032	Exchequer Releases
24.06.2021	20,020,274,160.00	Confirmed	033	Exchequer Releases
Total	**790,577,923,685.65**			

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement

Appendix VII (d): Utilization of Treasury Bonds Proceeds FY 2021/2022

TREASURY BOND UTILIZATION 2021 2022 TRANSFER TO EXCHEQUER				
Date	Amount	bank statement	PV no	Utilization
12.07.2021	37,764,278,453.45	Confirmed	001	Exchequer release
22.07.2021	25,286,613,486.40	Confirmed	002	Exchequer release
23.07.2021	4,803,590,891.40	Confirmed	003	Exchequer release
11.08.2021	11,423,743,142.00	Confirmed	004	Exchequer release
16.08.2021	15,035,407,020.70	Confirmed	005	Exchequer release
19.08.2021	25,350,956,582.70	Confirmed	006	Exchequer release
20.08.2021	12,051,319,912.30	Confirmed	007	Exchequer release
25.08.2021	19,810,743,440.40	Confirmed	008	Exchequer release
15.09.2021	48,804,209,505.60	Confirmed	009	Exchequer release
21.09.2021	30,000,000,000.00	Confirmed	010	Exchequer release
22.09.2021	10,000,000,000.00	Confirmed	011	Exchequer release
5.10.2021	30,000,000,000.00	Confirmed	012	Exchequer release
15.10.2021	36,510,625,504.95	Confirmed	013	Exchequer release
29.10.2021	7,289,030,169.00	Confirmed	014	Exchequer release
05.11.2021	16,514,511,517.25	Confirmed	015	Exchequer release
11.11.2021	30,109,909,718.95	Confirmed	017	Exchequer release
17.11.2021	9,523,493,800.00	Confirmed	016	Exchequer release
19.11.2021	33,035,743,097.50	Confirmed	018	Exchequer release
03.12.2021	3,112,483,750.00	Confirmed	019	Exchequer release
08.12.2021	23,662,622,182.00	Confirmed	020	Exchequer release
07.01.2022	15,769,234,062.50	Confirmed	022	Exchequer release
13.01.2022	9,828,576,026.40	Confirmed	023	Exchequer release
20.01.2022	27,897,652,676.15	Confirmed	024	Exchequer release
10.02.2022	14,841,634,483.75	Confirmed	025	Exchequer release
17.02.2022	21,733,779,434.65	Confirmed	026	Exchequer release
21.02.2022	50,000,000,000.00	Confirmed	027	Exchequer release
25.02.2022	18,000,000,000.00	Confirmed	028	Exchequer release
4.03.2022	6,147,230,120.50	Confirmed	030	Exchequer release
11.03.2022	24,021,483,480.25	Confirmed	029	Exchequer release
17.03.2022	13,480,835,156.00	Confirmed	031	Exchequer release
25.03.2022	5,447,125,187.25	Confirmed	032	Exchequer release
8.04.2022	24,381,839,939.75	Confirmed	033	Exchequer release
14.04.2022	12,383,967,585.00	Confirmed	035	Exchequer release
27.04.2022	18,544,582,628.25	Confirmed	034	Exchequer release

TREASURY BOND UTILIZATION 2021 2022 TRANSFER TO EXCHEQUER				
Date	Amount	bank statement	PV no	Utilization
18.05.2022	20,000,000,000.00	Confirmed	036	Exchequer release
20.05.2022	9,687,106,424.50	Confirmed	037	Exchequer release
03.06.2022	48,484,378,360.35	Confirmed	038	Exchequer release
13.06.2022	34,163,949,767.00	Confirmed	039	Exchequer release
16.06.2022	39,359,975,954.70	Confirmed	040	Exchequer release
29.06.2022	19,998,249,728.90	Confirmed	041	Exchequer release
30.12.2021	12,777,857,988.50	Confirmed	021	Exchequer release
Total	**877,038,741,179.00**			

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement

Appendix VII (e): Utilization of Treasury Bonds Proceeds FY 2022/2023

T.BOND TRANSFER TO EXCHEQUER/TBOND UTILIZATION				
Date	**Amount**	**PV**	**Traced Bank**	**Utilization**
21.07.2022	6,166,817,235.25	002	Confirmed	Exchequer release
27.07.2022	9,439,612,073.80	001	Confirmed	Exchequer release
22.08.2022	21,000,000,000.00	003	Confirmed	Exchequer release
29.08.2022	18,226,932,732.45	004	Confirmed	Exchequer release
19.09.2022	10,000,000,000.00	005	Confirmed	Exchequer release
23.09.2022	15,393,246,382.00	006	Confirmed	Exchequer release
26.09.2022	15,435,633,216.15	007	Confirmed	Exchequer release
13.10.2022	15,442,650,972.05	008	Confirmed	Exchequer release
27.102022	13,602,823,431.85	009	Confirmed	Exchequer release
14.11.2022	28,600,000,000.00	010	Confirmed	Exchequer release
16.11.2022	46,485,064,098.20	011	Confirmed	Exchequer release
29.11.2022	18,000,000,000.00	012	Confirmed	Exchequer release
30.11.2022	1,092,504,092.80	013	Confirmed	Exchequer release
15.012.2022	24,340,778,017.00	014	Confirmed	Exchequer release
30.12.2022	8,093,250,000.00	015	Confirmed	Exchequer release
03.01.2023	2,636,336,769.80	016	Confirmed	Exchequer release
18.01.2023	31,000,000,000.00	017	Confirmed	Exchequer release
23.01.2023	1,216,187,783.70	019	Confirmed	Exchequer release
25.01.2023	18,062,448,209.35	018	Confirmed	Exchequer release
15.02.2023	16,751,394,569.90	020	Confirmed	Exchequer release
31.01.2023	12,265,397,437.10	021	Confirmed	Exchequer release
Total	**333,251,077,021.40**			

Source: Review Analysis of Treasury Bonds Payment Vouchers and Treasury Bond Bank Statement

Appendix VIII: The National Treasury Audit Responses and Auditors' Remarks

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
General	In general approach to this audit, there is a mix-up between cash management and domestic borrowing. The two aspects in Kenyan context are management differently though the two units work closely together to ensure debt obligations are settled in good time. Cash Management entails the management of the entire government inflows and outflows, and it is not limited to domestic borrowing. The inflows may be from Tax revenues, non-tax revenues, Donor and Grants, External borrowing or Domestic borrowing. Cash Management also involves management of the outflows in form of disbursements to all Ministries, state departments and Agencies under the broad categories of recurrent budget, development budget, Consolidated Fund Services (CFS) as well disbursement to County governments.	The audit focused on a problem/ function rather than an entity: Domestic Debt and Cash Management are interrelated/two side of the same coin	The Topic revised to **Effective Cash and Domestic Debt Management Coordination** Kindly refer to Chapter 1 of our report. In the near future the audit of Budget Formulation and Later on Cash Management will be considered to assess the progress of operationalizing the Cash Management Framework.
Par. 1.7-1.14	In the introduction part in page 7 to 9 is majorly on debt management while the content of the report as well as the conclusions are on cash management. We are therefore of the opinion that the audit of cash be conducted independently from the audit of domestic borrowing for the reports to have meaningful findings that improve the performance of each area.	This is not true: Chapter 1: Introduction provides introduction and linkages between Cash Management and Debt Management	Chapter 1: Background provided a clear linkage between the two functions of Cash Management and Debt Management. The team have included definitions from Cash Management Function
Par.1.16	The Motivation of the audit described in Par 1.16 could be expounded further to tie it to the scope of the audit in this case, cash management or domestic borrowing, The motivation stated, as is , requires a wider scope of the audit which may include audit of	As part of Performance Audit Methodology Process (Internal Process). Both Qualitative and Quantitative aspects	The Motivation on Citizen Digital can be deleted as it speaks more of utilization of the

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
	the budgeting process as well as audit of the entire public debt. This motivation may not be achieved if the audit is limited to cash management.	were considered in qualifying the audit topic. Even though qualifying a topic is majorly subjective Professional judgment, logic and other empirical evidence formed the basis of choosing the topic.	Sovereign Infrastructure Bond. However, in future this topic could be independently pursued.
Page 20-23	In roles and responsibilities in page 20-23, there is a mix up of roles. It is important to clarify that the Cash Management Unit in (i) is part of the Accounting Services and Quality Assurance in (iii) in page 20.Budget Fiscal and Economic Affairs in (ii) in page 20 performs the same roles and functions as the Budget Fiscal and Economic Affairs Directorate in (iv) in page 23.The harmonization of the roles will give a clear picture of where the cash management is anchored as well as where the domestic debt function is domiciled.	It is duly acknowledged that the Cash Management Unit falls under the Accounting Services and Quality Assurance. Nevertheless, there is no confusion regarding roles as they have been clearly delineated in the cash management framework.	The roles and responsibilities remain as is since they were picked from the table in the Cash Management Framework.
Par 4.1 (i-iv)	The measures indicated in Par 4.1 i to iv relates to public debt while the observations and findings mentioned in 4,2 relates to cash management. We are of the opinion that the audit of cash management should be conducted independently from the audit of domestic. There is a disconnect between the two aspects making it difficult to respond. We would appreciate a meeting with the team of auditors to put a cross on the role of cash management and the function of domestic borrowing with the aim of improving the findings and the eventual report.	**This is true:** Positives on Cash Management have been added. However, the audit upholds that the two functions are interrelated as earlier indicated.	Positive on Cash Management have been added that focused on Development of 2020, Cash Management Framework.

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
Paragraph 4.18	Treasury Single Account yet to be Operationalized. It's true that The National Treasury was yet to fully operationalize a TSA since the Cabinet had just approved its implementation on 15th January 2024. However, there are several preliminaries that are required to be met before the TSA is fully implemented. This includes Exchequer automaton among others (see attached Road map).	**This is true.**	Remains unchanged.
Par 4.3 and 4.4	The subtitle Operationalization of The National Treasury Cash Management Framework 2020 is complete but ongoing. Is left hanging. However, as a general response to the underlying issue, we would wish to mention that the Treasury Management Framework is Ongoing.	This is true.	The title has been revised to Treasury Management Framework is Ongoing
Par. 4.5 to 4.7	In regard to technical capacity, The National Treasury continues to build technical capacity on the Cash Management Unit and did receive a Cash Management Technical Advisor from Central Bank of Kenya last year. The unit has also received additional technical officers to assist in cash plan analysis that includes cashflow projections and trend analysis.	That's accurate. Nevertheless, as at the time of audit, interviews with the cash management officers revealed that there was still a requirement for further capacity building.	Remains unchanged.
Par 4.8 to 4.10	Par 4.8 is left hanging. However, in terms of preparation of Aggregate Cash Planning, The National Treasury had its first Aggregate Cash Planning in FY 2021/2022. The Aggregate Cash Plan is largely to inform expected monthly exchequer cash inflows and outflows as well as study trend analysis in revenue collection. Kindly note that short-term borrowing is determined at the beginning of the year and revised accordingly in subsequent supplementary budgets, it's not tied up to seasonal cash shortages that may be experienced in the course of the financial year. We wish to mention that the overall budget in year performance is partly used to inform	The paragraph is clear. and the aspect of revisions of the figures in supplementary budget has been captured. As earlier indicated the audit was problem based. Therefore, a wholistic picture is reported; the reasons provided have been captured adequately. The team is of the opinion that Audit of Budget to be carried out	The Paragraph provides finding if preparation of the Aggregate Cash Plan is in line with Macroeconomic Framework, Annual Budget, Revenue and Expenditure and Debt Outcomes. The revisions aspect is now captured.

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
	preparation of supplementary budgets, Development of the initial aggregate cash plans is prepared based on original estimates. However, it's worth noting that then cash plans are revised accordingly after the supplementary budgets. ii) Liquidity Constraints Impeding Effective Implementation of the cash Plans. Noted that the budget balances occasioned by various factors some of which are beyond the control of cash management, The Budget under absorption is 'partly attributed to failure by MDAs to absorb the funds. The budget balances are therefore advisable to report the pending Exchequer requests instead of budget balances since some of the MDAs did not request for the funding after obtaining budget allocation	in order to get to the root of the under absorption including reasons why MDAs are not absorbing the allocated budget.	
Par 4.20	The Cash Management function is charged with the implementation of the overall government budget as appropriated by the parliament. The overall exchequer figures are as per the fiscal framework categorized as the recurrent, consolidated fund service, development and county government allocation. The 30% threshold on development may not be applicable to exchequer issues. In addition, CFS and County government allocations are neither development nor recurrent but carries with them components of both. The 30% is applicable to individual MDAs and Individual Counties.	The Figures are based on allocation of budgets (Revised) and not actual releases. However, the comments to exclude county allocation and CFS is accepted.	The finding can be done away for now. But this will be assessed in detail during Audits of Budget.
Par 4.20	We concur with paragraph i) That the Exchequer release automation is not fully rolled our but its final stage of piloting. Paragraph ii) there is a mis alignment of the systems integrations since the automation of Exchequer process is independent of the systems used by debt department. Debt recording and settlement is not within the workflow of exchequer process. Public debt is a vote and its therefore funded from	**The audit concurs. The findings on Automation of Exchequer Release and Cash and Debt Integration now separated. However, it is worth noting that the** Cash Management Principles in Regulation	The findings on **Automation of Exchequer Release and Cash and Debt Integration** separately aligned.

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
	exchequer just like any other voted entity. The National Treasury Cash Management and Exchequer operations unit is willing to take you through the Exchequer Automation work flow in order to appreciate its use and functions.	83 of the PFM (National Government) Regulations, 2015 and the Cash Management Framework 2020, the National Treasury is mandated to ensure efficient execution of the budget through effective aggregate control over government cash resources by ensuring timely: information sharing between The National Treasury; revenue collecting agencies and spending MDAs, and integration of debt and cash management among others	
4.21-4.32	**c. To Assess whether sourcing and usage of Bank Overdraft Facility Undertaken is as by Legislation and Adheres to the Principles of Economy** **(i) Failure by the National Treasury to Fully Repay the Overdraft Loan Facility at the End of Each Financial Year** It is true that Section 83(3) of PFM (National Government) Regulations 2015 states that the National Government overdraft at the Central Bank of Kenya shall be retired by the end of the financial year. It is also true that the facility is limited to five per cent of the gross ordinary revenue of the government's previous years audited accounts. However, it is worth noting that the overdraft facility is a temporary facility to cater for shortfalls when a given domestic borrowing	**Paragraph 4.21: Section** 83 (3) of PFM (National Government) Regulations, 2015 states that the National Government overdraft at the Central Bank of Kenya shall be retired by the end of the financial year. The overdraft facility is a temporary source of cash to cater for priority payments and emergencies used by Treasury when revenue streams such as tax receipts and debt do not flow into government accounts at a pace that matches	Retained the finding but amended Paragraph 4.21 to read as above

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
	auction fails to generate enough proceeds to offset T/Bill or T/Bonds interest or redemptions of a given week. The overdraft is not utilized for payments of salaries and other priority recurrent expenditures as indicated in the report. This statement should therefore be dropped from the report since it is not factual. The overdraft is purely used for management of market shocks in government securities.	expenditure cash demands. The facility is limited to five per cent of the gross recurrent revenue of the government's previous years' audited accounts.	
		Paragraph 4.23: During the audit, it was observed that Treasury Bills and the bank overdraft are short-term borrowings to cover temporary cash shortfalls and are repayable within twelve months. The surplus Treasury Bills are used to settle the bank overdraft and increase its limit while shortfalls increase the overdraft facility. The overdraft facility for the period under review was observed to have not been settled at year end due to insufficient funds. As a result, the long outstanding overdraft balances lead to increased interest as cost of borrowing.	Retained the finding but amended Paragraph to read as above
5.4 and 5.6	The conclusion on **Paragraph 5.4** on **page 45** is not entirely factual since the National Treasury does make use of the overdraft within the allowable 5% of the last audited ordinary revenue. Again, outstanding bank overdraft is not secured by treasury bills as	**Paragraph 5.4:** The National Treasury has not been able to utilize overdraft facility accordingly. Short-term borrowing instruments	Retained the audit conclusion but amended Paragraph to read as above

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
	indicated. In addition, it's important to clarify that the overdraft is composed of specific items of T/Bill shortfalls and it's not a static figure. The figure fluctuates every week whereby the old items in the overdraft are paid up and fresh items onboarded. It is therefore not factual to conclude that overdraft is converted into long-term debt. This should therefore be dropped from the report since it is not factual. **(See attached overdraft movement schedule –Appendix III).** We, however, concur with the audit finding that the National Treasury was not able to retire the overdraft at the close of the Financial Years due to insufficient revenue to meet the obligation. The National Treasury had made attempts to retire the overdraft in July 2023 by paying 31 billion in the FY 2023/2024 but due to the market shocks beyond their control, the space created in the overdraft was immediately utilized by the fresh shortfalls. **(See attached overdraft movement schedule –Appendix III).**	i.e. Treasury Bills and Bank Overdrafts are employed for the purpose of cash management. While all short-term securities should be settled within a year, this does not apply to Bank Overdrafts as these balances are rolled over to subsequent financial years. The long outstanding overdraft balances attract high interest hence have negative impact on the overall cash flow position due to increased cost of debt.	
6.5		**Paragraph 6.5:** To ensure prudent management of overdraft facility, The National Treasury should strengthen revenue performance, cap expenditure and develop market for government securities, to ensure cash inflows are adequate and timely in meeting government short term obligations (including redemption and interest payment for the	Retained the audit recommendation but amended Paragraph 6.5 to read as above **NOTED**: The attached Overdraft Movement Schedule:

Par.	Auditee Response	Audit Team Response	Action Taken in the Report
		maturing government securities). This will minimize use of the overdraft facility and accumulation of unpaid balances.	**Appendix-II**I demonstrates the overdraft movement for period outside the audit scope hence schedule cannot be relied on. In any case, the National Treasury closed the day 31st July 2023 with an overdraft balance of over Kshs.60B even after receipts of exchequer of Kshs.31B.

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