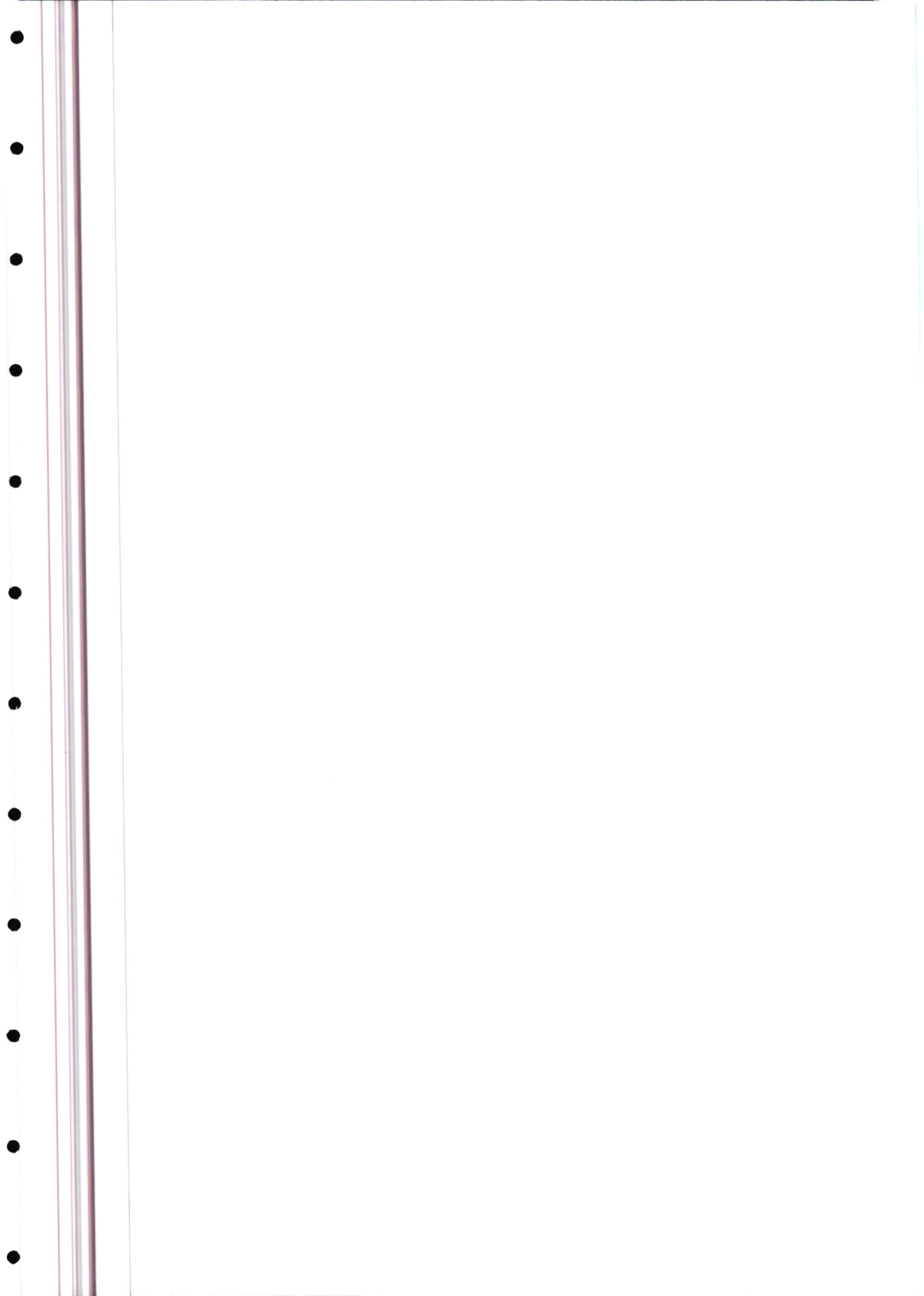


OFFICE OF THE AUDITOR-GENERAL
AUDITED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021



PARLIAMENT
OF KENYA
LIBRARY

**PREPARED IN ACCORDANCE WITH THE CASH BASIS OF ACCOUNTING METHOD
UNDER THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
(IPSAS)**



OFFICE OF THE AUDITOR-GENERAL
Annual Report and Financial Statements for the year ended 30 June, 2021

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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

The Office of the Auditor-General (OAG) is an Independent Office established by Article 229 of the Constitution of Kenya. The Office derives its mandate from the Constitution of Kenya 2010 and the Public Audit Act, 2015. The Auditor-General is mandated to audit the accounts of any entity that is funded from public funds and report to Parliament and the relevant County Assemblies within statutory time lines. In addition, Article 229 (6) requires the Auditor-General to confirm whether public funds are spent lawfully and effectively.

The Office was first established in 1955 as the Office of Controller and Auditor-General through the Exchequer and Audit Ordinance, which stipulated the duties and powers of the Office in undertaking public sector audit. Section 128 (1) of the Kenyan Constitution 1963, established the Office of the Controller and Auditor-General as an Office in the public service. The Office had dual functions as per the Constitution and under the Exchequer and Audit Act Cap 412; (1) to audit all public funds in the central government, local authorities and state corporations and (2) to authorize release of funds from the Exchequer Account. In 1985, the Exchequer and Audit Act was amended to provide for the appointment, duties and powers of the Auditor-General (Corporations) with the responsibility for auditing the accounts of the statutory boards, commissions or public bodies.

The Public Audit Act, 2003 merged both Audit Offices and established a more independent Office of the Controller and Auditor-General and renamed it, Kenya National Audit Office (KENAO). The Constitution of Kenya, 2010 separated the two functions previously under the Controller and Auditor-General and created two Independent Offices namely, the Office of the Auditor-General and the Office of the Controller of Budget.

The Auditor-General is the Accounting Officer and is also responsible for the general policy and strategic direction of the Office.

KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

Constitutional Mandate and Functions (Continued)

The mandate of the Auditor-General as stipulated in the Constitution of Kenya 2010 and the Public Audit Act, 2015 is to carry out audits of all entities funded by the Government and to report to Parliament and the relevant County Assemblies.

Specifically,

1. Article 229(4) of the Constitution of Kenya mandates the Auditor-General to audit all accounts of the Government including:
 - a) The accounts of the national and county governments;
 - b) The accounts of all funds and authorities of the national and county governments;
 - c) The accounts of all courts;
 - d) The accounts of every Commission and Independent Office established by the Constitution of Kenya;
 - e) The accounts of the National Assembly, the Senate and the County Assemblies;
 - f) The accounts of political parties funded from public funds;
 - g) The public debt; and
 - h) The accounts of any other entity that legislation requires the Auditor-General to audit.
2. Article 229(6) requires the Auditor-General to confirm whether or not public money has been applied lawfully and in an effective way. This requires the Auditor-General to:
 - a) conduct compliance audits;
 - b) perform work that addresses the economy, efficiency and effectiveness with which public resources have been applied and utilized; and
 - c) evaluate the impact of government funded programmes on the lives of citizens
3. The Public Audit Act, 2015 Section 7(1a-g) states that the Auditor-General shall:
 - a) give assurance on the effectiveness of internal controls, risk management and overall governance at national and county governments.
 - b) undertake audit activities in state organs and public entities to confirm

KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

Constitutional Mandate and Functions (Continued)

whether or not public money has been applied lawfully and in an effective way.

- c) satisfy himself or herself that all public money has been used and applied to the purposes intended and that the expenditure conforms to the authority for such expenditure.
- d) confirm that-
 - i. all reasonable precautions have been taken to safeguard the collection of revenue and the acquisition, receipt, issuance and proper use of assets and liabilities; and
 - ii. collection of revenue and acquisition, receipt, issuance and proper use of assets and liabilities conforms to the authority.
- e) issue an audit report in accordance with Article 229 of the Constitution.
- f) provide any other reports as may be required under Article 254 of the Constitution.
- g) perform any other function as may be prescribed by any other written Legislation.

4. As an independent Office, the Office of the Auditor-General is expected to meet the objectives and goals of Commissions and the Independent Offices as stipulated in Article 249(1) of the Constitution of Kenya 2010, namely: -

- (a) protect the sovereignty of the people;
- (b) secure the observance by all State Organs of democratic values and principles; and
- (c) promote constitutionalism.

Vision

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

Mission

Audit services that impact on effective and sustainable service delivery.

KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

Constitutional Mandate and Functions (Continued)

Core values

Integrity: We are committed to honesty, reliability, and trustworthiness in our professional and personal conduct.

Credibility: Our work is based on appropriate professional knowledge, skills, standards, up-to-date techniques, and laws.

Relevance: We are a credible source of independent and objective insight and guidance to support beneficial change in the public sector.

Accountability: We shall ensure accountability, transparency, continuous improvement and sustained confidence in the use of public resources.

Independence: We act with impartiality, objectivity, and are free from control and influence of others.

(b) Key Management

The Office of the Auditor-General's day-to-day management is under the following key organs:

- Auditor-General.
- Executive Committee comprising of the Auditor-General and the Deputy Auditor Generals.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30 June, 2021 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Auditor-General/Accounting Officer	Nancy Gathungu
2.	Deputy Auditor-General-Corporate Services	Joyce Mbaabu
3.	Director Finance	Charles Mwitari
4.	Director, Supply Chain Management	Rosemary Ogwago

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KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

(d) Fiduciary Oversight Arrangements

The Executive Committee is responsible for oversight arrangements in the Office of the Auditor-General. The Committee comprises of;

No.	Designation	Name
1.	Auditor-General	Nancy Gathungu
2.	Deputy Auditor-General - Corporate Services	Joyce Mbaabu
3.	Deputy Auditor General - Financial Audit Services	Sylvester Kiini
4.	Deputy Auditor General - Financial Audit Services	William Agunda
5.	Deputy Auditor General - Financial Audit Services	Fredrick Odhiambo
6.	Deputy Auditor General - Financial Audit Services	David Njoka
7.	Deputy Auditor General -Specialized Audit Services	Edwin Kamar

KEY ENTITY INFORMATION AND MANAGEMENT (CONTINUED)

(e) OAG Headquarters

P.O. Box 30084-00100
Anniversary Towers'
University Way, Nairobi, KENYA
Telephone: (254) 020-3411904/342330
E-mail: info@oagkenya.go.ke
Website: www.oagkenyago.ke

(f) Entity Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

Kenya Commercial Bank
P.O Box 48400-00100
Nairobi, Kenya

(g) Independent Auditors

PKF Kenya LLP
Certified Public Accountants
Kalamu House Westlands
P. O. Box 14077 – 00800 Nairobi, Kenya

(h) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112- City Square 00200 Nairobi, Kenya.

2. STATEMENT OF GOVERNANCE

Key Leadership Structure

The Key Leadership of the Office of the Auditor-General comprises of;

	<p>FCPA Gathungu is the Auditor-General of the Republic of Kenya appointed to the position on July 17, 2020. She holds a Master of Business Administration (Strategic Management), a Bachelor of Commerce (Accounting), and is a Certified Public Accountant of Kenya (CPA-K). She is also a Certified Information Systems Auditor (CISA). CPA Gathungu is a member of ICPAK and Association of Women Accountants of Kenya (AWAK). She has vast experience in Public Sector auditing, Strategic Management and capacity building for Supreme Audit Institutions.</p>
<p>CPA Nancy Gathungu, CBS The Auditor-General</p>	
	<p>CPA Mbaabu is a Deputy Auditor General in charge of Corporate Services. She holds a Bachelor of Commerce (Business Administration) Degree and is a Certified Public Accountant (K). She has over 30 years' experience in Financial audit in the Public Sector. She is a member of the Association of Women Accountants of Kenya (AWAK) and the Institute of Certified Public Accountants (ICPAK).</p>
<p>CPA Joyce Mbaabu Deputy Auditor General - Corporate Services</p>	
	<p>CPA Kiini is a Deputy Auditor General under Financial Audit Services with vast experience in Public and Private Sector Accounting. He is a holder of Master of Business Administration (Strategic Management) and Bachelor of Commerce (Accounting). He is a Certified Public Accountant of Kenya (CPA-K) and a member of ICPAK.</p>
<p>CPA Sylvester Kiini - Deputy Auditor General – Financial audit services</p>	

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 <p>Mr. David Njoka Deputy Auditor General – Financial audit services</p>	<p>Mr. Njoka is a Deputy Auditor General under Financial Audit Services. He holds a Master of Business Administration (Strategic Management) from the University of Nairobi and a Bachelor in Business Administration from the United States International University (Africa)-USIU. Mr. Njoka is a Certified Public Accountant of Kenya (CPA-K) and a member of ICPAK and has more than 28 years' experience in the public sector.</p>
 <p>CPA William Agunda Deputy Auditor General - Financial Audit Services</p>	<p>CPA William is a Deputy Auditor General under Financial Services. He holds a Bachelor of Commerce Degree (Accounting) and is a Certified Public Accountant (K). He is a member of the Institute of Certified Public Accountants (ICPAK) with over 30 years' experience in Financial audit in the Public Sector.</p>
 <p>CPA Fredrick Odhiambo Deputy Auditor General - Financial Audit Services</p>	<p>CPA Odhiambo is a Deputy Auditor General under Financial Audit Services with vast experience in Public and Private Sector Accounting. He is a holder of Master of Business Administration, Master of public policy (MPPM) and Bachelor of Science degree (B.Sc.). He is a Certified Public Accountant of Kenya (CPA-K), Certified Fraud Examiner (CFE), Certified Financial Services Auditor (CFSA) and a member of ICPAK.</p>

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CPA Edwin Kamar
Deputy Auditor General - Financial
Audit Services

CPA Kamar is a Deputy Auditor General under Financial Audit Services with vast experience in Public and Private Sector Accounting. He is a holder of Bachelor of Commerce and is a Certified Public Accountant of Kenya (CPA-K). He is also a Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA) and a member of ICPAK.

Management Committees and their Roles

	Committee	Role
1	Leadership and Strategy	Provide leadership and clarity in setting strategies, cross office planning processes and policies under the Auditor-General direction
2	Human Resource Management Advisory	Making recommendations on HR issues to the Auditor-General
3	Performance Management	Ensure linkage between institutional strategic goals and performance contracts
4	Learning and Development Advisory	Consider and approve training objectives, staff development strategies, training needs and projections and skills inventory.
5	Audit Risk and Compliance	Review the appropriateness of OAG's financial and performance reporting, systems of risks, oversight and management and systems of internal controls
6	Ethics and Integrity	Monitor the impact of ethics and corruption prevention initiatives and actions taken following breaches of the ethics policy framework
7	Staff Mortgage and Car Loan Scheme and Welfare	Responsible for administration of the scheme. Processes loan applications from staff members and makes financing recommendation to the service providers.

OFFICE OF THE AUDITOR-GENERAL

Annual Report and Financial Statements for the year ended 30 June, 2021

8	Professional Services and Relationship	Recommend for approval of OAG auditing standards, methodologies, tools and policies
9	Project Implementation	Prioritization of projects based on OAG's strategic plan and medium term of the vision 2030

Compliance with Law and Regulations

The Office has complied with the constitutional and legal provisions as it operates in line with the vision of making a difference in the lives and livelihoods of the Kenyan people. Specifically, the Office ensures that audit reports are provided to Parliament and the relevant County Assemblies. Besides ensuring the audit reports meet the internally accepted quality threshold, the Office has endeavoured to translate reports to Kiswahili and produce simplified versions as a deliberate measure to enhance access.

To comply with the Leadership and Integrity Act 2012, the Auditor-General has constituted the Ethics and Integrity Committee whose mandate is to monitor the impact of ethics and corruption prevention initiatives and actions taken in the event of breaches to the ethics policy framework.

The Office has also partnered with the EACC to enhance integrity amongst staff. During induction of newly recruited staff, EACC is invited to sensitize the employees on integrity.

At the end of each financial year, the Office prepares and submits annual financial statements to the National Treasury, as required by the Public Finance Management Act, 2012.

In compliance with Section 68 of the PFM Act 2012, the Auditor-General has ensured that resources are used in a way that is lawful, authorized, effective, efficient, economical and transparent. Consequently, the Office ensures appropriate keeping of books of accounts, preparation of strategic plans, annual financial reports and establishment of effective internal controls.

3. STATEMENT BY THE AUDITOR-GENERAL

As an Office charged with enhancing accountability in the use and management of public resources, under the provision of Article 229 of the Constitution, we continue to be innovative and professional in discharging our mandate. In an environment of increased public expectations on accountability, the Office is anchoring its operations on five pillars of Integrity, Credibility, Relevance, Accountability and Independence to adequately address the needs of the citizens.

These pillars respond to the legal framework that establishes the Office and outlines its mandate, and are therefore critical to our work. The pillars will be catalysts for revamped operations that will ensure we execute our work independently and produce credible audit reports that can stand the test of time. We will also continue to adhere to the principle of timeliness so that our reports remain relevant to stakeholders in addition to addressing issues that resonate to their needs. We hold the Office in public trust and we must equally be transparent and accountable.

The Office is also focusing on audit work that responds directly to the Bill of Rights and social rights of citizens that will be impacted by the development and implementation of programmes addressing issues of health, clean and safe water, education, housing and social security. It is our hope that these interventions will meet the expanding expectations of the citizens in the management of public resources.

It is in times of change and adversity when the character of individuals and organizations is tested and proven. An increasingly dynamic and complex audit environment, increased audit risks and emerging priorities, as well as continuously escalating stakeholder expectations, have become our new reality. We have to live with reduced physical proximity to our clients and staff, an influx of collaborative tools and the digitization of the global economy. These significant changes have affected our audit approach and routines and more importantly, have inspired new approaches to our work as we craft our response. Additionally, the devolved government structure and the inherent institutional as well as legal changes have revolutionized the conduct of audit. Being relevant to the people of Kenya remains our key priority.

STATEMENT BY THE AUDITOR-GENERAL (CONTINUED)

In 2020/2021, our priority was staff development and retention. In order to execute our mandate effectively and professionally, we continue to equip our staff with skills and knowledge through seminars and trainings, while tapping into the advancement of technology to automate our processes

In the coming year, the focus of the Office will be on implementation of the Strategic Plan to effectively deliver on our mandate. We cannot achieve this without support from our stakeholders. On this score, we appreciate the continued support from Parliament, The National Treasury and Development Partners for the financial and technical support accorded to the Office. We also appreciate the invaluable support from the National Government, Constitutional Commissions and Independent Offices, Parliament and affiliate Supreme Audit Institutions in achieving our goals in 2020/2021.

During the year 2020/2021, the Office of the Auditor-General had an approved recurrent budget allocation of **Kshs.5,328 Million** and a development budget allocation of **Kshs.197 Million** totalling to **Kshs.5,525 Million**. Actual Exchequer received in the year was **Kshs.5,345 Million**, comprising, **Kshs.5,148 Million** for Recurrent and **Kshs.197 Million** for Development. In addition, OAG had A.I.A budget of **Kshs.180 Million** and actual amount of **Kshs.187 Million** was realized which represents **104%** performance. The actual expenditures during the period under review was **Kshs.5,346 Million**, comprising, **Kshs.5,149 Million** under the Recurrent Vote and **Kshs.197 Million** for Development Vote translating to an overall **97%** absorption for the full year.

The Auditor-General, as mandated by the Constitution, continued to audit the National Government, 47 County Governments, the State Corporations, donor funded projects and all other entities funded by public funds. This required the Office to enhance human capital development, improve the working environment and mainstream ICT in the audit process. The Office continues to seek support from The National Treasury and Parliament to enhance its budget for recruitment of additional staff, decentralization of audit services in counties, out-sourcing of some of the audit services and improvement in staff welfare.

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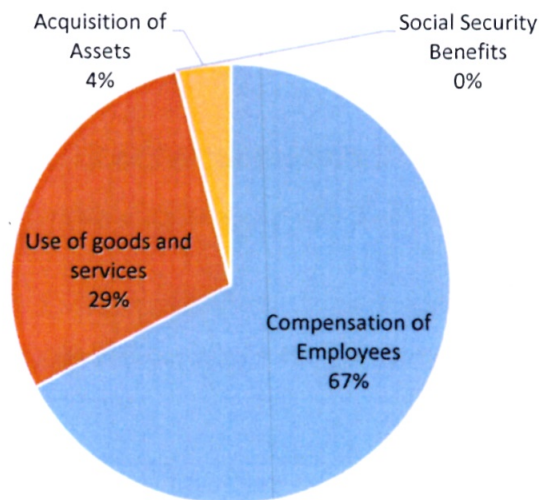
STATEMENT BY THE AUDITOR-GENERAL (CONTINUED)

BUDGET ALLOCATION BY PROGRAMMES

Programmes	Approved Budget KSHS.	Actual Payments KSHS.	Variance KSHS.
Programme: Audit Services	5,524,579,480	5,345,841,570	178,737,910

BUDGET UTILIZATION BY ECONOMIC ITEMS

PAYMENTS	AMOUNT KSHS.
Compensation of Employees	3,643,718,793
Use of goods and services	1,386,692,311
Social Security Benefits	2,868,465
Acquisition of Assets	312,562,001
TOTAL PAYMENTS	5,345,841,570



Risk Management

The activities of the Office of the Office of the Auditor-General expose it to a variety of operational and financial risks. Operational risks include political and environmental environment in which we operate while financial risks include the credit and liquidity issues. Operational risks are an inevitable consequence of being in business and

STATEMENT BY THE AUDITOR-GENERAL (CONTINUED)

Risk Management (Continued)

managing risk is core to the business of the Office. These risks are identified, managed and assessed within a risk management framework.

The Office's financial risk management policies are designed to identify and analyse these risks, to set appropriate risk limits, controls, and to monitor the risks while at the same time ensuring adherence to set limits. This is achieved by means of reliable and up-to-date information systems. The Office of the Auditor-General regularly reviews its financial risk management policies and systems to reflect changes in markets and emerging best practices. In addition, the Office of the Auditor-General has an independent Internal Audit Directorate. This Directorate is responsible for assessing risks on an ongoing basis and evaluating and testing the design and effectiveness of the financial and operational controls that address these risks.

Liquidity Risk Management

This is the risk that the Office will encounter difficulties in meeting its financial commitments. Prudent liquidity risk management includes maintaining sufficient cash to meet obligations when they fall due, under both normal and demanding conditions, without incurring unacceptable losses or causing damage to the image and reputation of the Office. The responsibility for liquidity risk management has been delegated to the Deputy Auditor General (Corporate Services), who has customized and implemented an appropriate liquidity risk management framework for the management of the short and long-term funding and liquidity requirements of the Office.

The Office manages liquidity risk by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Code of Ethics

The Office is committed to the highest standards of integrity, behaviour and ethical conduct in dealing with all its stakeholders. The Office adheres to the principles of good governance and has its own stringent standards of governance and control. A formal Code of Ethics has been implemented to guide staff. Additionally, staff are expected to

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STATEMENT BY THE AUDITOR-GENERAL (CONTINUED)

comply with the ethical pronouncements as enshrined in the Public Audit Act, 2015, Public Officers Ethics Act, 2003 and Leadership and Integrity Act, 2012.

Programme Performance Review 2019/2020 – 2021/2022

Programme	Key Output	2019-2020		2020-2021		2021-2022	
		Target	Actual	Target	Actual	Target	Actual
National Government Audit	National Government Audit Reports	693	0	738	1323	841	
County Government Audit	County Government Audit Reports	253	0	411	605	447	
NGCDF Audit	NGCDF Audit Reports	290	0	290	580	290	
Specialized Audits	Specialized Audits Reports	40	0	40	29	37	
Total		1,276	0	1,479	2,537	1,615	

The Office of the Auditor-General has one programme, which is Audit Services, with four Sub-programmes which are; National Government Audit, County Governments Audit, National Government Constituencies Development Fund Audit and Specialised Audit.

In the 2020/2021 financial year, the Office had targeted to issue 1,479 reports but achieved a total of 2,537 reports which represents a positive variance of 1,058. The over achievement was due to the FY2019/2020 backlog which was finalized together with FY audit 2020/2021 Reports. The backlog was occasioned by the eleven (11) months delay in appointment of the Auditor-General after the end of tenure of the previous Auditor-General.

The Office shall continue to put it place the necessary audit interventions to ensure that we deliver on our mandate and meet the stakeholders' expectations.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

4. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Auditor-General, when preparing financial statements of the Office, in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board, includes a statement of performance against predetermined objectives.

The Strategic Plan 2018-2021 ushered in reform initiatives aimed at re-orienting the Office to respond to the constitutional mandate and improve service delivery to the citizens. During the period, the Office restructured by establishing new Regional Offices and leveraging on ICT to improve efficiency in operations.

Key Achievements and Challenges During 2018-2021 Strategic Period

The information below summarizes the key achievements realized as well as challenges faced, during the implementation of Strategic Plan 2018-2021.

Table 3: OAG Achievements in 2018-2021 strategic period

GOAL 1	KEY ACHIEVEMENTS	CHALLENGES
To enhance professional excellence in the delivery of OAG mandate	<ul style="list-style-type: none"> • The Risk-Based Audit Methodology (RAM) rolled out. • All audit staff trained and retrained on the methodology. • RAM manual customized to meet the needs of the OAG, thus making it more user friendly to the auditors. • Audit process reviewers trained on supervision and review. • The Quality Assurance (QA) function strengthened through training and additional staff. • The QA staff continued to play a key role in ensuring that audit documentation and reports meet international standards. • A technical support team constituted to strengthen the quality control during the audit process. 	<p>We were not able to meet the times lines as required by the constitution because of:</p> <ul style="list-style-type: none"> • Delay and inadequate funding for audit operations • Delay in availing documents and responding to audit queries by the audit clients. • Inadequate staffing • Limited decentralization to the counties • Limited use of CAATS • ineffective Performance Management System

OFFICE OF THE AUDITOR-GENERAL

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	KEY ACHIEVEMENTS	CHALLENGES
	<ul style="list-style-type: none"> • Participated in inter-agency forums and other initiatives for fighting corruption and promoting good governance and accountability. • Increased resources for forensic audit 	<ul style="list-style-type: none"> • Ethics and integrity committee not fully effective • Inadequate implementation of audit recommendations by the auditees. • Policy on follow up of our recommendations not yet developed
	<ul style="list-style-type: none"> • The Performance Audit Directorate strengthened through additional number of staffs. • Training on performance audit conducted. • A performance audit manual developed and is in use. • Performance audits carried out and reports issued. 	<ul style="list-style-type: none"> • Inadequate staffing • Inadequate training • Inadequate stakeholder interactions and consultations • Performance reports not yet tabled in parliament
GOAL 2:	KEY ACHIEVEMENTS	CHALLENGES
To continually transform OAG for efficient and effective delivery of audit services	<ul style="list-style-type: none"> • Enactment of the Public Audit Act, 2015. • Seven governance policy documents developed and are being implemented in Human Resource (HR), Information and Communication Technology (ICT), Internal Audit (IA), Fleet Management, Premises, Procurement and Communication. • A professional Communications Unit established. • Key support functions, namely, HR, internal audit, legal, procurement professionalized. • Communication strategy now in place. • Over 200 new staff recruited. • Eight Regional Offices established. • ICT staff deployed to the Regional Offices • Strategic Planning and External Liaison Directorate established. 	<ul style="list-style-type: none"> • Lack of financial independence • Inadequate office space, facilities and logistics • Inadequate audit staff

OFFICE OF THE AUDITOR-GENERAL

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	<ul style="list-style-type: none">• Various trainings conducted.• Land for construction of OAG headquarters and some Regional Offices acquired	
	KEY ACHIEVEMENTS	CHALLENGES
	<ul style="list-style-type: none">• ICT strategy developed and under implementation.• ICT support capacity and capability enhanced through hiring and training.• 90 % of staff issued with laptops.• The Wide Area Network expanded and all offices are now linked to the headquarters.• Operationalized ICT help desk.	<ul style="list-style-type: none">• ICT Infrastructure not adequate.• Insufficient IT skills and capacity building

5. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

1) Sustainability strategy and profile

Our strategic orientation will be driven by our vision of *'Making a difference in the lives and livelihoods of the Kenyan people'*, in an increasingly complex audit environment, increased audit risks and emerging priorities, as well as continuously escalating stakeholder expectations, which have become the new reality. The strategy takes into account that we had to immediately deal with radically reduced physical proximity to our clients and other staff due to COVID-19 pandemic, an influx of collaborative tools and the digitization of the global economy. These significant changes have affected our existing processes, systems and routines, but, more importantly, they have inspired new approaches to our work as we craft our way forward. One thing is certain, the Office of the Auditor-General will turn up and continue to deliver effectively.

The Office acknowledges that the implementation of the Strategic Plan will require a large outlay of resources. Hence, we require the support of Parliament, the National Treasury and our Development Partners to succeed. In our effort to promote accountability in the public sector we will focus on strategic goal areas.

2) Environmental performance

All our practises focused on a clean and friendly environment. In addition, the Office of the Auditor-General has leveraged on Information Technology through adoption of Audit Management System which has greatly reduced audit paperwork.

3) Employee welfare

The Office of the Auditor-General has implemented measures to ensure staff welfare is documented in policies and regulations.

1. The policy of the Office on hiring provides as follows:

- i) The Office of the Auditor -General is an equal opportunity employer and candidates will be selected on merit through fair and open competition from a wide range of eligible candidates.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (CONTINUED)

- ii) In making appointments, the Office shall not exclude applicants from being considered for appointment on the basis of gender, race, religion, ethnicity, disability, sex, marital status, health status, age, birth or any other form of discrimination.
 - iii) The principles of affirmative action, gender and persons with disability is considered. The Auditor-General shall as far as possible observe gender mainstreaming/balance on appointments and promotions and ensure as far as possible that a minimum of 30% of either gender is considered.
 - iv) These policies are reviewed whenever there is a significant change in legislation.
2. Efforts made in improving skills and managing careers, appraisal, and reward systems.
- The Office recognizes staff training and development as a strategic investment. It is the policy of the Office to train and develop individual employees and teams to equip them with the skills, knowledge and competences that they require for undertaking current and future tasks.
- 3) The scope of learning and development activities include the following:
- (i) Induction
 - (ii) Mentorship Programme
 - (iii) Conferences, Seminars and Workshops
 - (iv) On the Job Training
 - (v) In house Training
 - (vi) Exchange Programs
- 4) Performance Management
- The Office recognizes that in order to achieve organizational effectiveness and to effectively deliver on its mandate, it must pursue a management policy that enables it to establish a high-performance culture in the employees. This is a culture in which individuals and teams take responsibility for their individual and corporate performance.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (CONTINUED)

The Annual Performance Management Cycle involves a Three Stage Annual Review process which includes Planning, Monitoring Progress and Reviewing Performance. Employees whose performance is exceptional are rewarded in such manner as the Office may deem fit. Where appraisal results indicate low performance, the employee shall be assisted through training and counselling with a view to improving performance.

4) Market Place Practices

The Office of the Auditor-General's market place practice efforts are as outlined below:

a) Responsible Competition

The Office upholds transparent processes in the sourcing and selection of all suppliers and service providers. This open competition, in addition to observance of integrity and ethical practices at every level of procurement, has enabled the Office to realize fair competition amongst players and ensure compliance with Article 227 of the Constitution.

b) Responsible Supplier Chain and Supplier Relations

The performance of our suppliers is considered key to our business. In this regard, the Office has strived to put in place various measures to improve supplier relations, including but not limited to, drawing up Service Level Agreements (SLAs) with the service providers which clearly spell out responsibilities for each party, prompt payments to contractors and service providers, provision of consistent feedback on our processes among other measures. Similarly, we intend to have supplier training sessions and other interactive forums where we shall engage effectively, share our strategic goals and discuss ways of reducing overall stockholding costs through timings of orders.

c) Product Stewardship

To enable the staff, realize full benefits from the goods and services acquired, the Office has consistently ensured that sourcing and selection is based on high Quality

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING (CONTINUED)

products with warranties where applicable to guard against losses which may arise from manufacturers defects.

d) Community Engagements

Members of Staff of the Office contributed a total of Ksh1.1 Million voluntarily to Covid-19 Emergency Fund Board to cushion the economically vulnerable groups during the pandemic. Further, the Office participated in a tree planting exercise in Garissa and also contributed 1,000 tree seedlings and joined the Ministry of Environment in planting of trees to increase forest cover.

6. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Auditor-General prepares financial statements in respect of that Office. Section 81(3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Auditor-General is responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the Office as at the end of the financial year ended on 30 June, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose, with reasonable accuracy at any time, the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Office; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Auditor-General accepts responsibility for the Office's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Auditor-General is of the opinion that the financial statements give a true and fair view of the state of the Office's transactions during the financial year ended 30 June, 2021, and of the its financial position as at that date. The Auditor-General further confirms the completeness of the accounting records maintained for the Office, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

STATEMENT OF MANAGEMENT RESPONSIBILITIES (CONTINUED)

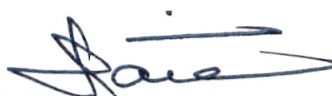
The Auditor-General confirms that the Office has complied fully with applicable Government Regulations and the terms of external financing covenants and that the funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Auditor-General confirms that the financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The Office of the Auditor-General's financial statements were approved and signed by the Auditor General on 25 June 2024.



Auditor - General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893



Deputy Auditor-General, Corporate Services
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

7. REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE OFFICE OF THE AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2021

Opinion

We have audited the financial statements of the Office of the Auditor-General (OAG), set out on pages 1 to 20, which comprise the statement of receipts and payments, statement of cash flows for the year from 1 July 2020 to 30 June 2021, statement of assets and liabilities as at 30 June 2021 and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly in all material respects the assets and liabilities of the Office of the Auditor-General as at 30 June 2021 and of its receipts and payments and cash flows for the year then ended in accordance with the cash basis of accounting described in Note 1 – statement of compliance and basis of preparation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Office of the Auditor-General in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have not determined any matter to be a key audit matter to be communicated in our report.

Other information

The Auditor-General is responsible for the other information. The other information comprises key Office of the Auditor-General information and management, foreword by the Auditor-General, management discussion and analysis, statement of the Auditor-General management responsibilities and Annex 1 to Annex 5 that comprise the annual report but does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE OFFICE OF THE AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2021 (CONTINUED)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Auditor-General and those charged with governance of the Office of the Auditor-General

Auditor-General is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances and under the requirements of the Government Regulations, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Auditor-General is responsible for assessing the Office's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Auditor-General is aware of the intention to terminate the Office or to cease operations.

Those charged with governance are responsible for overseeing the office's financial reporting process.

Auditor's Responsibilities for the Audit of the Office of the Auditor-General Financial Statements

Our objectives are to obtain reasonable assurance about whether the Office of the Auditor-General financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Office of the Auditor-General's financial statements.

As part of an audit in accordance with International standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE OFFICE OF THE AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2021 (CONTINUED)

Auditor's Responsibilities for the Audit of the Office of the Auditor-General Financial Statements (continued)

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the office's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the auditor general.
- Conclude on the appropriateness of the Auditor General's use of the applicable basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Office's ability to continue to sustain its services. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Office to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS OF THE OFFICE OF THE AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 2021 (CONTINUED)

Report on other legal requirements

As required by the Public Audit Act, 2015 we report to you that:

- a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- b. In our opinion proper books have been kept by the Office, so far as it appears from our examination of those books;
- c. The Office's financial statements are in agreement with the accounting records.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Mohamed Asif Chaudhry, Practising Certificate No. 2059.

Chaudhry

For and on behalf of PKF Kenya LLP
Certified Public Accountants
Nairobi, Kenya

28-06-2024

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OFFICE OF THE AUDITOR-GENERAL


Annual Report and Financial Statements for the year ended 30 June, 2021

**8. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE
2021**

	Note	2020-2021	2019-2020
		Kshs	Kshs
RECEIPTS			
Exchequer releases	1	5,344,579,480	5,295,379,217
Proceeds from Sale of Assets	2	-	600,000
Other Receipts	3	187,415,144	145,566,662
TOTAL RECEIPTS		5,531,994,624	5,441,545,879
PAYMENTS			
Compensation of Employees	4	3,643,718,793	3,536,794,554
Use of goods and services	5	1,386,692,311	1,453,678,917
Social Security Benefits	6	2,868,465	5,718,552
Acquisition of Assets	7	312,562,001	407,034,731
TOTAL PAYMENTS		5,345,841,570	5,403,226,754
SURPLUS/DEFICIT		186,153,054	38,319,125

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 25 June 2024 and signed by:


Auditor – General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893


Deputy Auditor General
(Corporate Services)
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

OFFICE OF THE AUDITOR-GENERAL


Annual Report and Financial Statements for the year ended 30 June, 2021

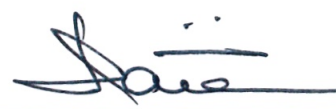
9. STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2021

	Note	2020-2021	2019-2020
		Kshs	Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8A	404,464,263	131,002,390
Cash Balances	8B	1,186,550	971,982
Total Cash and cash equivalent		<u>405,650,813</u>	<u>131,974,372</u>
Accounts Receivables	9	17,545,850	61,783,525
TOTAL FINANCIAL ASSETS		423,196,663	193,757,897
FINANCIAL LIABILITIES			
Accounts Payables	10	220,497,100	126,556,444
NET FINANCIAL ASSETS		202,699,563	67,201,453
REPRESENTED BY			
Fund balance b/fwd	11	67,201,453	28,882,328
Prior year adjustment*	12	(46,349,051)	-
Due to exchequer	13	(4,305,893)	-
Surplus/Deficit for the year		186,153,054	38,319,125
NET FINANCIAL POSITION		202,699,563	67,201,453

*Refer to Note 12

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 25 June 2024 and signed by:


Auditor – General
FCPA Nancy Gathungu, CBS
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Deputy Auditor General
(Corporate Services)
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OFFICE OF THE AUDITOR-GENERAL

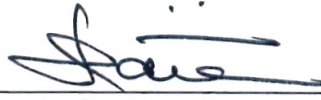
Annual Report and Financial Statements for the year ended 30 June, 2021

10. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

		2020-2021	2019 -2020
		Kshs	Kshs
Receipts for operating income			
Exchequer Releases	1	5,344,579,480	5,295,379,217
Other Receipts	2	187,415,144	145,566,662
		5,531,994,624	5,440,945,879
Payments for operating expenses			
Compensation of Employees	4	3,643,718,793	3,536,794,554
Use of goods and services	5	1,386,692,311	1,453,678,917
Social Security Benefits	6	2,868,465	5,718,552
		5,033,279,569	4,996,192,024
Adjusted for:			
Adjustments during the year			
Decrease/(Increase) in Accounts Receivable	14	44,237,675	(23,664,965)
Increase/(Decrease) in Accounts Payable	15	93,940,656	12,597,823
Prior Year Adjustments	12	(46,349,051)	-
Due to exchequer	13	(4,305,893)	-
Net cash flow from operating activities		586,238,443	433,686,714
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	2	-	600,000
Acquisition of Assets	7	(312,562,001)	(407,034,731)
Net cash flows from Investing Activities		(312,562,001)	(406,434,731)
Net Increase in Cash and Cash Equivalent		273,676,441	27,251,983
Cash and cash equivalent at START of the year	8	131,974,372	104,722,388
Cash and cash equivalent at END of the year	8	405,650,813	131,974,372

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 25 June 2024 and signed by:


Auditor – General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893


Deputy Auditor General
(Corporate Services)
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

11. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
RECEIPTS						
Exchequer releases	5,074,635,380	269,944,100	5,344,579,480	5,344,579,480	-	100%
Other Receipts (AIA)	150,000,000	30,000,000	180,000,000	187,415,144	(7,415,144)	104%
TOTAL RECEIPTS	5,224,635,380	299,944,100	5,524,579,480	5,531,994,624	(7,415,144)	100%
PAYMENTS						
Compensation of Employees	3,614,910,000	69,944,100	3,684,854,100	3,643,718,793	41,135,307	99%
Use of goods and services	1,274,907,380	236,000,000	1,510,907,380	1,386,692,311	124,215,069	92%
Social Security Benefits	3,042,100	-	3,042,100	2,868,465	173,635	94%
Acquisition of Assets	331,775,900	(6,000,000)	325,775,900	312,562,001	13,213,899	96%
TOTAL PAYMENTS	5,224,635,380	299,944,100	5,524,579,480	5,345,841,570	178,737,910	97%
Surplus/ Deficit	-	-	-	186,153,054	186,153,054	

The changes between the original and final budget are as a result of supplementary budgets approved within the year.

The financial statements were approved on 25 June 2024 and signed by:



Auditor – General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893




Deputy Auditor General
(Corporate Services)
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

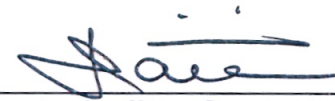
12. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
RECEIPTS						
Exchequer releases	4,927,965,380	219,944,100	5,147,909,480	5,147,909,480	-	100%
Other Receipts -AIA	150,000,000	30,000,000	180,000,000	187,415,144	(7,415,144)	-103%
TOTAL RECEIPTS	5,077,965,380	249,944,100	5,327,909,480	5,335,324,624	(7,415,144)	101%
PAYMENTS						
Compensation of Employees	3,614,910,000	69,944,100	3,684,854,100	3,643,718,793	41,135,307	99%
Use of goods and services	1,274,907,380	236,000,000	1,510,907,380	1,386,692,311	124,215,069	92%
Social Security Benefits	3,042,100	-	3,042,100	2,868,465	173,635	94%
Acquisition of Assets	185,105,900	(56,000,000)	129,105,900	116,008,565	13,097,335	90%
TOTAL PAYMENTS	5,077,965,380	249,944,100	5,327,909,480	5,149,288,134	178,621,346	97%
Surplus/Deficit	-	-	-	186,036,491	186,036,491	

The changes between the original and final budget are as a result of supplementary budgets approved within the year.

The financial statements were approved on 25 June 2024 and signed by:


 Auditor – General
 FCPA Nancy Gathungu, CBS
 ICPAK NO: 4893


 Deputy Auditor General
 (Corporate Services)
 CPA Isaac K. Ng'ang'a
 ICPAK NO: 8292

13. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

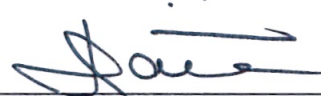
Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
	Kshs.	Kshs.	Kshs.	Kshs.	Kshs.	
RECEIPTS						
Exchequer releases	146,670,000	50,000,000	196,670,000	196,670,000		
TOTAL RECEIPTS	146,670,000	50,000,000	196,670,000	196,670,000	-	100%
PAYMENTS						
Acquisition of Assets	146,670,000	50,000,000	196,670,000	196,553,436	116,564	99.94%
Surplus/Deficit	-	-	-	116,564	116,564	

The changes between the original and final budget are as a result of supplementary budgets approved within the year.

The financial statements were approved on 25 June 2024 and signed by:



Auditor – General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893



Deputy Auditor General
(Corporate Services)
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

14. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Budget utilization difference
	2021		2021	2021	2021
	Kshs	Kshs	Kshs	Kshs	Kshs
Programme					
Audit Services	5,224,635,380	299,944,100	5,524,579,480	5,345,841,570	178,737,910
Total	5,224,635,380	299,944,100	5,524,579,480	5,345,841,570	178,737,910

15. SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting Entity

The financial statements are for the Office of the Auditor-General. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012.

3. Reporting Currency

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Office of the Auditor-General for all the years presented.

a) Recognition of Receipts

The Office of the Auditor-General recognises all receipts from the various sources when the event occurs and the related cash has actually been received.

i) Transfers from the Exchequer

Transfers from the Exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the Office.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii) External Assistance

External assistance is received through grants and loans from multilateral and bilateral development partners. Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the Office or by the beneficiary. In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30 June, 2021, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

iii) Other Receipts

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

b) Recognition of Payments

The Office recognises all payments when the event occurs, and the related cash has been paid out.

i) Compensation of Employees

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

ii) Use of Goods and Services

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

iii) Interest on Borrowing

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

iv) Repayment of Borrowing (Principal Amount)

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Acquisition of Fixed Assets

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by the Office of the Auditor-General and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

5. In-kind Contributions

In-kind contributions are donations that are made to the Office in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

6. Third Party Payments

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

7. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in the Central Bank deposit bank account are restricted for use in refunding third party deposits. As at 30 June 2021, this amounted to **Kshs.19,821,634** compared to **Kshs.14,911,672** in prior period as indicated on Note 8A. There were no other restrictions on cash during the year.

8. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

9. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

10. Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Office at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament in June, 2020 for the period 1 July, 2020 to 30 June, 2021 as required by Law and there were two supplementary adjustments to the original budget during the year. A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

12. Comparative Figures

Where necessary, comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

13. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30 June, 2021.

14. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: (i) restating the comparative amounts for prior period(s) presented in which the error occurred; or (ii) If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented. During the year, errors that have been corrected are disclosed under Note 12 as prior year adjustments explaining the nature and amounts.

15. Related Party Transactions

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

16. Contingent Liabilities

Regulation 148 (9) of the PFM Act Regulations 2015 requires the Accounting Officer of a National Government entity to report on the payments made, or losses incurred, by the National Government entity to meet contingent liabilities as a result of loans during the financial year.

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
 - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - ii) The amount of the obligation cannot be measured with sufficient reliability.

14. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingent Liabilities (Continued)

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships, The Office of the Auditor-General does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. *Annex 4* of this financial statement is a register of the contingent liabilities in the year.

17. Due to Exchequer

At the end of each financial year, the unutilized funds that were issued to the Office through the Exchequer are swept back by the National Treasury.

16. NOTES TO THE FINANCIAL STATEMENTS

1 Exchequer Releases

Description	2020-2021	2019-2020
	Kshs	Kshs
Total Exchequer Releases for quarter 1	1,109,643,483	1,360,568,162
Total Exchequer Releases for quarter 2	1,322,255,115	1,229,606,316
Total Exchequer Releases for quarter 3	1,207,698,166	1,124,629,909
Total Exchequer Releases for quarter 4	1,704,982,716	1,580,574,830
Total	5,344,579,480	5,295,379,217

2 Proceeds from Sale of Assets

Description	2020-2021	2019-2020
	Kshs	Kshs
Receipts from the Sale of Other Inventories,	-	600,000
Total	-	600,000

3 Other Receipts

Description	2020-2021	2019-2020
	Kshs	Kshs
Receipts from Audit Fees	187,415,144	145,566,662
Total	187,415,144	145,566,662

4 Compensation of Employees.

Description	2020-2021	2019-2020
	Kshs	Kshs
Basic salaries of permanent employees	2,020,492,167	1,992,691,528
Basic wages of temporary employees	1,637,356	34,971,846
Personal allowances paid as part of salary	1,255,100,130	1,183,065,780
Employer Contributions to Compulsory national social security schemes	366,489,140	326,065,400
Total	3,643,718,793	3,536,794,554

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Use of Goods and Services

	2020-2021	2019-2020
Description	Kshs	Kshs
Utilities, supplies and services	4,674,413	4,492,044
Communication, supplies and services	76,329,242	89,944,499
Domestic travel and subsistence	485,355,493	511,439,217
Foreign travel and subsistence	2,444,506	24,826,514
Printing, advertising and information supplies & services	16,602,467	15,713,517
Rentals of produced assets	218,433,641	218,331,993
Training expenses	15,118,575	28,538,079
Hospitality supplies and services	39,607,414	24,298,864
Insurance costs	304,366,458	291,110,544
Specialized materials and services	2,059,400	4,699,880
Office and general supplies and services	34,235,233	38,477,450
Fuel Oil and Lubricants	28,427,412	24,833,024
Other operating expenses	18,558,359	97,756,965
Routine maintenance – vehicles and other transport equipment	25,445,169	28,850,100
Routine maintenance – other assets	115,034,530	50,366,227
Total	1,386,692,311	1,453,678,917

6 Social Security Benefits

Explanation	2020-2021	2019-2020
	Kshs	Kshs
Government pension and retirement benefits	2,868,465	5,718,552
Total	2,868,465	5,718,552

(This relate to pension for staff paid to N.S.S.F.)

7 Acquisition of Assets

Description	2020-2021	2019-2020
Non -Financial Assets	Kshs	Kshs
Construction of Buildings	184,669,269	142,876,470
Purchase of Vehicles and Other Transport Equipment	39,029,200	81,903,686
Purchase of Office Furniture and General Equipment	10,873,065	10,148,375
Research, Studies, Project Preparation, Design & Supervision	11,884,167	-
Financial Assets		
Domestic lending and On-lending	66,106,300	172,106,200

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Description	2020-2021	2019-2020
Non -Financial Assets	Kshs	Kshs
Total	312,562,001	407,034,731

*(The Financial Assets relate to staff mortgage and car loan schemes made to Housing Finance)***8A Bank Accounts**

Name of Bank, Account No. & currency	Nature	2020-2021	2019-2020
		Kshs	Kshs
Central Bank of Kenya, 1000181327	RECURRENT	196,101,624	4,445,946
Central Bank of Kenya, 1000182218	DEV'T	231	-
Central Bank of Kenya, 1000182358	DEPOSIT	19,821,634	14,911,672
Central Bank of Kenya, 1000182598	CBK 165	-	-
Kenya Commercial Bank, 1107839173	CURRENT	188,540,774	111,644,772
Total		404,464,263	131,002,390

8B: Cash in hand

Description	2020-2021	2019-2020
	Kshs	Kshs
Cash in Hand – Held in domestic currency	1,186,550	971,981
Total	1,186,550	971,981

Cash in hand should also be analyzed as follows:

Description	2020-2021	2019-2020
	Kshs	Kshs
Location 1: Anniversary Towers	1,186,550	971,981
Total	1,186,550	971,981

9: Accounts Receivable

Description	2020-2021	2019-2020
	Kshs	Kshs
Government Imprests	4,802,494	43,570,065
Salary advances	246,250	7,970,425
Medical recoveries	12,497,106	10,243,035
Total	17,545,850	61,783,525

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Accounts Payable

Description	2020-2021	2019-2020
	Kshs	Kshs
Deposits	208,362,408	126,556,444
Other Payables	12,134,692	0
Total	220,497,100	126,556,444

(Deposits relate to retentions and other monies held at Kenya Commercial Bank).

11. Fund Balance Brought Forward

Description	2020-2021	2019-2020
	Kshs	Kshs
Bank accounts	131,002,390	116,011,639
Cash in hand	971,981	1,494,809
Accounts Receivables	61,783,525	25,334,500
Accounts Payables	(126,556,444)	(113,958,621)
Total	67,201,452	28,882,327

12. Prior Year Adjustments

	Balance B/F FY 2019/2020 as per audited financial statements	Adjustments during the year relating to prior periods	Adjusted ** Balance B/F FY 2020/2021
Description of the Error	Kshs	Kshs	Kshs
Adjustments on receivables	61,783,525	(46,349,051)*	15,434,474
TOTAL	61,783,525	(46,349,051)	15,434,474

(These relate to imprest for prior years surrendered in the current year and thereby affecting the fund balance of the Office).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Due to Exchequer

	Balance b/f FY 2020/2021 as per audited financial statements	Adjustments during the year relating to prior periods	Adjusted ** Balance b/f FY 2021/2022
Description of the error	Kshs	Kshs	Kshs
Bank Balance	131,002,390	(4,305,893)	126,696,497
TOTAL	131,002,390	(4,305,893)	126,696,497

(Due to Exchequer represents the unutilized funds as at the end of the year. This amount is swept back by The National Treasury).

14. (Increase)/ Decrease in Receivable

Description	2020-2021	2019/2020
	KShs	KShs
Receivables as at 1 st July (a)	61,783,525	38,118,560
Receivables as at 30 th June (b)	17,545,850	61,783,525
(Increase)/ Decrease in Receivables (c=(a-b))	44,237,675	(23,664,965)

15. Increase/ (Decrease) in Accounts Payable

Description	2020-2021	2019/2020
	Kshs	KShs
Payables as at 1 st July	126,556,444	113,958,621
Payables as at 30 th June	220,497,100	126,556,444
Increase/ (Decrease) in payables	93,940,656	12,597,823

16. Related Party Disclosures

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS. The following comprise of related parties to the Office of the Auditor-General;

- i) Key management personnel;
- ii) Other Ministries Departments and Agencies;
- iii) State Corporations; and
- iv) Semi-Autonomous Government Agencies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Related party transactions:

	2020-2021	2019-2020
	Kshs	Kshs
Key Management Compensation	45,850,989	44,101,414
Total Transfers to related parties	45,850,989	44,101,414
<u>Purchase of Goods and Services</u>		
Purchase of electricity from KPLC	4,073,534	4,111,698
Rent charges paid to govt. agencies	185,531,719	191,602,625
Training fees paid to govt agencies	3,908,655	9,734,316
Conference facilities hired from govt. agencies	8,663,592	825,600
Consultancy fees paid to govt agencies	3,445,805	74,061,846
Total goods and services paid to govt. agencies	204,388,704	278,041,115
<u>Transfers from related parties</u>		
Transfers from the Exchequer	5,344,579,480	5,295,379,217
Receipt of Audit fees from Govt agencies	187,415,144	145,566,662
Total Transfers from related parties	5,531,994,624	5,440,945,879

17. Other Important Disclosures

17.1: Pending Accounts Payable (See Annex 1)

	Balance b/f FY 2019/2020	Additions for the period	Paid during the year	Balance c/f FY 2020/2021
Description	Kshs	Kshs	Kshs	Kshs
Supply of goods	31,059,373	4,810,294	31,059,373	4,810,294
Total	31,059,373	4,810,294	31,059,373	4,810,294


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**17. PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S
RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Discrepancies between financial statements and IFMIS	The discrepancies have been resolved.	Resolved	N/A


Auditor – General
FCPA Nancy Gathungu, CBS
ICPAK NO: 4893


Deputy Auditor-General, Corporate Services
CPA Isaac K. Ng'ang'a
ICPAK NO: 8292

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ANNEXES

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

No.	Details	Amount
1	Medical Insurance	3,720,582
2	Domestic - Travel Costs	148,950
3	Domestic - Sundry Items	153,751
4	Daily Subsistence Refund	787,012
	Total	4,810,295

ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost b/f (Kshs) 2019/2020	Additions during the year (Kshs)	Disposals during the year (Kshs)	Transfers in/(out) during the year	Historical Cost c/f (Kshs) 2020/21
Land	695,000,000	-	-	-	695,000,000
Buildings and structures	620,038,977	184,669,269	-	-	804,708,246
Transport equipment	421,927,179	39,029,200	-	-	460,956,379
Office equipment, furniture and fittings	356,595,353	10,873,065	-	-	367,468,418
ICT Equipment	492,363,824	0.00	-	-	492,363,824
Financial assets	970,700,000	66,106,300	-	-	1,036,806,300
Research, studies, project preparation, Design & Supervision	-	11,884,167	-	-	11,884,167
Intangible assets	-	-	-	-	-
Total	3,556,625,333	312,562,001	-	-	3,869,187,334

ANNEX 3 – STAFF MORTGAGE AND CAR LOAN FUND

Description	Loan Category	Amount (Kshs)
Opening Balance		970,700,000
Transfers during the year 2021-2022	Housing loans to public servants	44,106,200
	Car loans to Public Servants	22,000,100
Closing Balance -June 2022		1,036,806,300

ANNEX 4 – CONTINGENT LIABILITIES REGISTER

	Nature of contingent liability	Payable to	Currency	Estimated Amount Kshs	Expected date of payment	Remarks
1	N/A					
2	N/A					
3	N/A					

During the year the office had rent and VAT additional assessment that was payable contingent to an objection it had raised on the same with KRA. Subsequent to the reporting date OAG received a favourable objection decision and therefore the amounts are not payable.

ANNEX 5- REPORTS GENERATED FROM IFMIS

The following financial Reports Generated from IFMIS should be generated and attached as appendices to these financial statements.

- i. GOK IFMIS Comparison Trial Balance
- ii. FO30 (Bank reconciliations) for all bank accounts
- iii. GOK IFMIS Receipts and Payments Statement
- iv. GOK IFMIS Statement of Financial Position
- v. GOK IFMIS Statement of Cash Flows
- vi. GOK IFMIS Notes to the Financial Statements
- vii. GOK IFMIS Statement of Budget Execution
- viii. GOK IFMIS Statement of Deposits
- ix. GOK IFMIS Budget Execution by Programme and Economic Classification
- x. GOK IFMIS Budget Execution by Heads and Programmes
- xi. GOK IFMIS Budget Execution by Programmes and Sub-programmes

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