




*Enhancing Accountability*

 THE NATIONAL ASSEMBLY PAPERS I AID	
<b>REPORT</b>	
DATE:	14 MAR 2023
	DAY: TUESDAY
TABLED BY:	DEVTY MASHRY PARTY LEADER
OF SERK-AT THE-TABLE:	INZOVU MWALE

**THE AUDITOR-GENERAL**

**ON**

**KENYA SOCIAL AND ECONOMIC  
INCLUSION PROJECT CREDIT NO.6348-KE**

**FOR THE YEAR ENDED  
30 JUNE, 2022**

**STATE DEPARTMENT FOR SOCIAL  
PROTECTION**







**KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT**

**MINISTRY OF PUBLIC SERVICE, GENDER,  
SENIOR CITIZENS AFFAIRS AND SPECIAL PROGRAMMES  
(STATE DEPARTMENT FOR SOCIAL PROTECTION,  
SENIOR CITIZENS AFFAIRS AND SPECIAL PROGRAMMES)**

**PROJECT CREDIT NUMBER NO. 6348-KE**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2022**

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**Prepared in accordance with the Cash Basis of Accounting Method under the International Public Sector  
Accounting Standards (IPSAS)**





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**1. Project Information and Overall Performance**

**1.1 Name and registered office**

**Name:** Kenya Social and Economic Inclusion Project

**Objective:** The key objective of the project is to strengthen delivery systems for enhanced access to social and economic inclusion services and shock-responsive safety nets for poor and vulnerable households.

**Address:** The project headquarters offices are in NSSF Building, Nairobi (city), and Nairobi County, Kenya. 0. Box 46205-00100 GPO, Nairobi.

**Contacts:** Telephone: (254) 722 319 186 E-mail: [ovc@gmail.com](mailto:ovc@gmail.com) OR [ovc@yahoo.com](mailto:ovc@yahoo.com)

**1.2 Project Information**

Project Start Date:	The project start date is 27-Nov-2018
Project End Date:	The project end date is 31-Dec-2023
Project Manager:	The project manager is Mrs Jane Muyanga
Project Sponsor:	The project sponsor is World Bank

**1.3 Project Overview**

Line Ministry/State Department of the project	The project is under the supervision of the Ministry of Labour and Social Protection(State Department for Social Protection)
Project number	<b>P164654</b>
Strategic goals of the project	The strategic goals of the project are as follows: (i) - Strengthening Social Protection Delivery Systems (ii) - Increasing Access to Social and Economic Inclusion Interventions (iii)- Improving the Shock Responsiveness of Safety Net System
Achievement of strategic goals	The project management aims to achieve the goals through the following means: i. Provision of social inclusion (nutrition-sensitive safety net and





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	<p>referrals to the NHIF) and economic inclusion (livelihoods enhancement support) services to the existing National Safety Net Programme beneficiaries, as well as other poor and vulnerable, to be identified through the use of an objective targeting system already being used in the country.</p> <p>ii. By expanding their coverage to additional households and the functionality of financing arrangements for timely response in the event of droughts.</p> <p>iii. Strengthening of Social Protection delivery systems by enhancing the scope and coverage of the Single Registry and support relevant program information systems, investments in the rollout of the improved payment system, and supporting greater integration and implementation of the Grievances &amp; Case Management mechanism for all interventions supported by the proposed KSEIP.</p>
Other important background information of the project	Social Protection has long been an important part of the Government strategy to fight poverty and promote equitable growth and social inclusion, as well as respond to emergencies such as natural disasters. The Government is committed to move beyond cash transfers to an integrated Social Protection system to enhance social and economic inclusion of the poor and vulnerable. Therefore, the underlying objective of KSEIP is to strengthen the delivery systems.
Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: (i) Strengthening Social Protection Delivery Systems (ii) Increasing Access to Social and Economic Inclusion Interventions (iii) Improving the Shock Responsiveness of Safety Net System
Project duration	The project started on 27 <sup>th</sup> November 2018 and is expected to run until 31 <sup>st</sup> December 2023

**1.4 Bankers**

The following are the bankers for the current year:

Central Bank of Kenya Limited - Account number: 1000425059

**1.5 Auditors**





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The project is audited by the Office of the Auditor General

**1.6 Roles and Responsibilities**

List of different people who will be working on the project. This list would include the project manager and all the key stakeholders who will be involved with the project. Also, record their role, their positions, and their contact information.

Names	Title designation	Key qualification	Responsibilities	Contacts
Jane Muyanga	Director Children Services	Masters	Project Coordinator	0722653187
Frankline Mahulu	Assistant Director Children Services	Degree	Lead-NICHE	0724510847
Risper Moruri	Director Social Development	Degree	Lead-Economic Inclusion Programme	
CPA Moses Muga	Principal Accountant	MSc-Commerce	Project Accountant	0722809933

**1.7 Funding summary**

The Project is for duration of 5 years from 2019 to 2023 with an approved budget of Euro 152,800,000 and USD 13,000,000 equivalent to KShs 6,060,758,130 and Ksh 19,496,501,100 respectively as highlighted in the table below:

Below is the funding summary:

Source of funds	Donor Commitment-		Amount received to date – (30-06-2022)		Undrawn balance to date – (30-06-2022)	
	(A)	(A')	(B)	(B')	(A)-(B)	(A')-(B')
(i) Loan	Euro	KShs	Euro	KShs	Euro	KShs
IDA Credit	47,500,000	6,060,758,130	6,256,817	752,204,772	41,243,183	5,308,553,358
IDA Credit(DLI'S)	105,300,000	13,435,742,970	9,995,000	1,169,415,000	95,305,000	12,266,327,970
	<b>152,800,000</b>	<b>19,496,501,100</b>	<b>16,251,817</b>	<b>1,921,619,772</b>	<b>136,548,183</b>	<b>17,574,881,328</b>



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(ii)Grant	USD	Ksh	USD	Ksh	USD	Ksh
DFID-Grant	13,000,000	1,406,600,637	10,264,482	1,148,101,814	2,735,518	258,498,823
<b>Total</b>	<b>13,000,000</b>	<b>1,406,600,637</b>	<b>10,264,482</b>	<b>1,148,101,814</b>	<b>2,735,518</b>	<b>258,498,823</b>

**1.8 Summary of Overall Project Performance:**

The Budget performance against actual amounts for current year and for cumulative to-date is as follows.

**BUDGET PERFORMANCE AGAINST ACTUAL AMOUNTS**

SOURCE OF FUNDS	July 2021-June 2022			CUMMULATIVE TO DATE		
	Budget	Actual	Absorption Rate	Budget	Actual	Absorption Rate
GOK (counterpart Funding)	924,805,000	613,741,055	66%	1,904,075,000	1,016,768,809	53%
IPF Credit	1,313,200,000	469,846,988	36%	3,069,200,000	577,732,604	19%
Grant(AIA)	431,600,000	431,600,000	100%	1,129,269,200	1,066,947,417	94%
Grant(Revenue)	73,400,000	17,693,300	24%	171,300,000	17,693,300	10%
EEP	14,901,804,557	13,470,474,500	90%	43,971,481,447	41,054,186,180	93%
<b>TOTAL</b>	<b>17,644,809,557</b>	<b>15,003,355,843</b>	<b>85%</b>	<b>50,245,325,647</b>	<b>43,733,328,310</b>	<b>87%</b>

However, the Disbursement Link indicators DLIS so far achieved and disbursed to the National Treasury Amounts Euro 9,995,000 equivalent to Ksh 1,169,415,000. while the accumulated Eligible Expenditure Programme to date amounts to Ksh **41,054,186,180**.





## **IMPLEMENTATION CHALLENGES**

1. **The one-year delay in signing** the technical agreement compounded by the COVID-19 pandemic meant that this sub-component was severely behind schedule, but since January this year it has been rapidly catching up.
2. **Delay in exchequer releases:** This has largely affected the implementation of GOK funded activities causing delays and crossover of activities meant for the previous financial year. This means that we have had to have less funds available to finance planned activities for the successive year as part of the allocation is applied to fund the previous year's activities.
3. **Limitations in flow of funds to the lower levels of implementation (Counties and Sub-counties) where we are not able to issue AIEs, against IPF funds:** The Financial Management Procedures Manual has not yet been updated. There are however ongoing discussions between SDSP, the World Bank and the National Treasury regarding proposed improvements to the Financial Management System. These limitations are highlighted in the bullet below.
4. **Inability to pay external stakeholders who participate /involved in KSEIP activities given procedures defined in the project FM Payments to non-government staff:** Several KSEIP activities involve payments to non-government staff such as the reimbursement of transport allowances, fees for enumerators or allowances for BWC members. At present this often requires SDSP staff to carry cash to implementation sites to facilitate payments resulting in an additional work burden and exposing the project to the risk of loss or misappropriation of funds. Furthermore, there are sometimes delays in counties sending back accountability returns affecting the completeness and timeliness of financial reporting.
5. **Lack of KSEIP Budget Lines and Budget Management system:** KSIEP is implemented by various units within the SDSP but the entire KSIEP budget is however lumped into one for the entire State Department making it difficult to monitor activities and spending at the individual unit's level.
6. **Project Reporting Requirements:** The project requires extensive reporting requirements to monitor the project progress and remain fully compliant with the financial reporting to the World Bank. IFMIS or VMS are currently not capable of run these reports with the details and formats that are required. The SDSP is currently considering using the data export capabilities of IFMIS, the data will be exported and a reporting application including a data analytical application with project reports using the original ledger data and adding additional data points to ensure 100% compatibility with the reporting requirements. Project dashboards will be developed to monitor project financial results and day-to-day progress and to support the



development of project reports.

## **RECOMMENDATION.**

1. IPF Loan and grant should be available for implementation of the programme to achieve the planned milestones.
2. Counterpart funding (GoK) should be availed to support NICHE operations

### **1.9 Summary of Project Compliance:**

The project has complied with applicable laws and regulations, and essential external financing agreements/covenants,

## **2. Statement of Performance Against Project's Predetermined Objectives**

### **Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives.

The objective of the KSEIP is "to strengthen delivery systems for enhanced access to social and economic inclusion services and shock-responsive safety nets for poor and vulnerable households". The Project supports the GoK to build upon the achievements made under the National Safety Net Program (NSNP) through putting in place credible delivery systems for social protection (SP) services. More specifically, the Project supports results in three areas: (i) enhancing institutional capacity and further strengthening of SP delivery systems, particularly the coverage and functionality of the existing single registry as well as to continue improving the efficiency of the payment and grievance management system; (ii) investing in scale-up of existing nutrition-sensitive safety net and testing of customized economic inclusion models as a complement to the sensitive safety net and testing of customized economic inclusion models as a complement to the regular cash transfers to improve human capital and self-sufficiency of the poor and vulnerable households; and (iii) improving shock responsiveness of the safety net system expanding its coverage as well as strengthening financing arrangements for timely support to the affected households to improve their resilience and coping with recurrent climate-induced droughts.

### **Progress on attainment of Strategic development objectives**



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For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

**STATUS OF KSEIP DLIs**

No	Disbursement Linked Indicator	Disbursement Linked Results	Progress in DLIs
1.	Scope, coverage, and functionality of Single Registry enhanced	1a (i) - Design and implementation arrangements for enhancements in SR finalized - WB IDA - EUR 5.2m (US\$ 6m) – <b>June 2019</b>	<b>Achieved</b> , pending review of evidence.
		1a (ii) - Roll out of enhanced SR covers at least 75% of targeted households in 2 non-HSNP counties WB IDA - EUR 4.3m (US\$ 5m) – <b>June 2021</b>	<b>Achieved</b> , pending third-party validation of data quality
		1a (iii) - Roll out of enhanced SR covers at least 75% of targeted households in 17 non-HSNP counties - WB IDA - EUR 12.9m (US\$ 15m) – <b>June 2023</b>	Not yet due.
		1a (iv) - Roll out of enhanced SR covers at least 75% of targeted households in 32 non-HSNP counties - WB IDA - EUR 12.9m (USD 15m) – <b>June 2023</b>	Not yet due.
		1a (v) - Roll out of enhanced SR covers at least 75% of targeted households in 39 non-HSNP counties - WB IDA - EUR 3.5m (US\$ 4m) – <b>December 2023</b>	Not yet due.
		1b (i) - Re-registration exercise in the four original HSNP counties completed and beneficiary list updated accordingly - WB IDA - EUR 3.5m - (US\$ 4m) DFID – US\$ 0.5m – <b>June 2020</b>	<b>Partially achieved</b> , pending submission of evidence
		1b (ii) - Registration of households in the four expansion HSNP counties complete WB IDA – EUR 4.3m (US\$ 5m) DFID – US\$ 0.5m – <b>June 2021</b>	<b>Partially achieved</b> , pending submission of evidence
		2	New Inua Jamii Payment Mechanism for three
2b - 100% of beneficiaries receiving payments through the new	<b>Partially</b>		





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	NSNP cash transfer programs is rolled out	payment mechanism - IDA EUR 4.3m (US\$ 5m) – <b>June 2021</b>	<b>achieved.</b>
3	Integrated G&CM mechanism is strengthened and rolled out at decentralized level	3a - G&CM mechanism is functional at all levels for four NSNP programs in 47 counties - IDA EUR 8.65m (US\$ 10m) – <b>June 2020</b>	<b>Achieved,</b> pending verification and submission of evidence
		3b - Enhanced G&CM mechanism functional in all KSEIP counties as per revised design and implementation arrangements - IDA EUR 8.65m (US\$ 10m) – <b>June 2022</b>	Not yet due.
4	Increased access to social inclusion interventions	4a (i) - 1,700 households receiving nutrition-sensitive cash transfer IDA EUR 1.2m (US\$ 1.4m) – <b>June 2020</b>	<b>Achieved,</b> pending submission of evidence
		4a (ii) - 8,300 households receiving nutrition-sensitive cash transfer - IDA EUR 4.6m (US\$ 5.3m) – <b>June 2021</b>	<b>Achieved,</b> pending submission of evidence
		4a (iii) - 13,800 households receiving nutrition-sensitive cash transfer - IDA EUR 3.8m (US\$ 4.4m) – <b>June 2022</b>	<b>Partially achieved,</b> pending submission of evidence
		4a (iv) 19,400 households receiving nutrition-sensitive cash transfer - IDA EUR 3.9m (US\$ 4.5m) – <b>June 2023</b>	Not yet due.
		4a (v) 23,500 households receiving nutrition-sensitive cash transfer - IDA EUR 2.9m (US\$ 3.4m) – <b>December 2023</b>	Not yet due.
		4b (i) - Tools designed and formal agreement between the SDSP, MoH and NHIF in place to operationalize systematic enrolment of NSNP beneficiaries into the NHIF - IDA EUR 3.4m (US\$ 4m) – <b>June 2020</b>	<b>Achieved.</b>
		4b (ii) - 40% of NSNP beneficiaries enrolled in the NHIF with enrolment information available in the SR - IDA EUR 4.3m (US\$ 5m) – <b>June 2021</b>	<b>Achieved,</b> pending submission of evidence
		4b (iii) - 75% of NSNP beneficiaries enrolled in the NHIF with enrolment information available in the SR - IDA EUR 5.2m (US\$ 6m) – <b>June 2023</b>	Not yet due.
5	Increased	5a (i) - 10,000 new HSNP households enrolled and paid for	Not yet due.



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	coverage and GoK financing of HSNP	through the GoK's budget in 2 expansion counties - IDA EUR 12m (US\$ 14m) – <b>June 2023</b>	
		5a (ii) - 22,000 new HSNP households enrolled and paid for through the GoK's budget in 4 expansion counties - IDA EUR 13m (US\$ 15m) – <b>June 2023</b>	Not yet due.
		5b - 100% of existing HSNP households in the original four counties financed by the GoK by July 2019 - IDA EUR 13m (US\$ 15m) - DFID US\$ 9.6m – <b>July 2019</b>	<b>Achieved.</b>
6	HSNP scalability and financing arrangements enhanced	6a (i) - Financing plan for HSNP scalability for FY19/20 adopted and financed - IDA EUR 0.865m (US\$ 1m) – <b>June 2019</b>	<b>Achieved.</b>
		6a (ii) Emergency payments made in FY18/19 for 100% of the total number of households triggered in 4 counties where HSNP is functional IDA EUR 3.5m (US\$ 4m) DFID US\$ 6.9m – <b>June 2019</b>	<b>Achieved.</b>
		6a (iii) Emergency payments made in FY19/20 for 100% of the total number of households triggered in 4 counties where HSNP is functional and financing plan for FY20/21 updated - IDA EUR 1.7m (US\$ 2m) - DFID US\$ 11.5m) – <b>June 2020</b>	<b>Achieved.</b>
		6a (iv) Emergency payments made in FY20/21 for 100% of the total number of households triggered in 4 counties where HSNP is functional and financing plan for FY21/22 updated - IDA EUR 1.7m (US\$ 2m) - DFID US\$ 11m – <b>June 2021</b>	<b>Achieved,</b> pending confirmation of allocation of budget in FY21/22.
		6a (v) Emergency payments made in FY21/22 for 100% of the total number of households triggered in 6 counties where HSNP is functional and financing plan for FY22/23 updated - IDA EUR 7.8m (US\$ 9m) - DFID US\$ 2.3m) – <b>June 2023</b>	Not yet due.
		6a (vi) Emergency payments made in FY22/23 for 100% of the total number of households triggered in 8 counties where HSNP is functional and financing plan for FY23/24 updated and financed - IDA EUR 5.2m (US\$ 6m) - DFID US\$ 5.9m – <b>June 2023</b>	Not yet due.
		6b (i) - HSNP scalability strategy reviewed, updated, and adopted - IDA EUR 0.865 m (US\$ 1m) – <b>June 2020</b>	<b>Achieved.</b>
		6b (ii) - Midterm review of HSNP scalability strategy completed and recommendations adopted - IDA EUR 0.87m (US\$ 1m) – <b>June 2023</b>	Not yet due.



### **3. Environment and Sustainability Reporting**

#### **1. Sustainability strategy and profile -**

The GoK commitment to the proposed interventions and the alignment with its policy commitment for SP and the 'Big Four' is a prerequisite for sustainability beyond the life of the project. First, the GoK expanded the NSNP at a larger scale than originally expected (under the NSNP P for R operation), demonstrating its commitment. The proportion of NSNP cash transfers financed by the GoK has more than doubled in the past five years: almost 90 % of program beneficiaries are currently financed by the GoK (compared to 38% in FY13). It has further committed to take over 74% of the HSNP cash transfer costs by FY21, such that the GoK would finance about 96% (about KSh 25 billion) of the total NSNP cost. Second, the GoK continues to invest in SP delivery systems, including consolidation of the MIS, improved payment system, citizen's engagement and shock-responsiveness. Third, the proposed KSEIP is the culmination of nearly two years of in-depth consultations and consensus building within the GoK on the need for integrated SP services to strengthen resilience and enable self-sufficiency of poor and vulnerable households. A technical working group prepared a 'Comprehensive and Integrated SP Program,' which enjoyed high-level political backing of the Permanent Secretary, as well as the Cabinet Secretary for the MLSP

#### **2. Environmental performance**

The project has been screened for short and long-term climate change and disaster risks. The climate vulnerability of the project was identified, and climate adaptation measures considered in the project design. The proposed project would improve the shock-responsiveness of the safety net system in the ASAL areas, which are most affected by droughts occasioned by climate change. The enhanced SR would contribute to a system more responsive to shocks through better identification and categorization of beneficiaries. The expanded coverage of potential beneficiaries would also enable identification for other SP programs beyond the NSNP, including social and economic inclusion services, contributing to improved resilience of poor and vulnerable households. Institutional capacity for project implementation, coordination, and M&E, as well as enhancement of capacity and implementation of the BOS can all be considered to contribute to climate change adaptation. Particularly, Component 3 of proposed KSEIP would address some of the climate related challenges in the project areas to reduce the impact and vulnerability of drought and food insecurity in counties and communities. The project would monitor progress toward shock-responsiveness and resilience to counter climate change through the outcome indicator on risk financing strategy for HSNP scalability. An assessment of the project activities was undertaken by the World Bank's Climate Change Group, which estimated the total climate co-benefits in this project to amount to US\$ 59.75 million (or 24% of the IDA contribution). The assessment found that adaptation co-benefits can be assigned for: (i) enhancing the scope and coverage of the single registry, since it will enable timely identification of households affected by climate-related emergencies; (ii) expanding the nutrition-sensitive safety net, since food insecurity has been linked to droughts and (iii) improving the shock responsiveness of the safety net system, since it will enhance the resilience of beneficiaries to the droughts induced by climate change.



### **3. Community Engagements**

KSEIP design incorporates Kenya-specific gender considerations. First, the project builds on the NSNP cash transfer programs which have demonstrated positive impact on gender outcomes. Program targeting of both the CT-OVC and HSNP recognizes the vulnerability of female-headed households: most recipients are women, although they are not explicitly targeted as the main beneficiaries. This has been reported to enable women to increase control of household budgets and participation in income-generating activities. Analysis of the HSNP has indicated spill over effects on more balanced household decision-making. Evaluations have found that the cash transfer programs reduced the likelihood of young women becoming pregnant and improved mental health outcomes, such as lower rates of depression, greater belief in self-agency and self-efficacy, and more positive views of the future. Second, the KSEIP would support positive gender outcomes through interventions specifically targeted to women. NICHE would support PLW and mothers to make better dietary decisions for their children and enhance existing impacts on household decision making through the provision of a top-up transfer. The KSEIP M&E framework includes gender-disaggregated indicators on proposed project beneficiaries. Project surveys would collect data on gender dimensions of program implementation and outcomes. Lastly, the SR would be leveraged to collect and monitor gender specific data.

KSEIP would use the citizen's engagement mechanism already in place for the NSNP, namely the G&CM mechanism. This mechanism has been established at the national level with adequate staff and established procedures for receiving, recording, and acting on complaints along with a feedback mechanism to close the loop. It includes service charters to guide program engagement with beneficiaries, as well as MIS modules for tracking complaints and hotlines for receiving them. Community-level structures, such as the Constituency Social Assistance Committees and Beneficiary Welfare Committees (BWCs), have been established to raise awareness of the rights and entitlements of the beneficiaries, as well as to complement program officers and serve as an additional conduit for engaging with the beneficiaries and stakeholders. Work is ongoing to further strengthen this system by fully automating and decentralizing the G&CM mechanism as well as by rolling out a recently endorsed BOS to increase beneficiary awareness of their rights and entitlements as well as the procedures for G&CM. The proposed project would further enhance the G&CM mechanism and beneficiary outreach to ensure that a consolidated and coherent citizen's engagement system is established to address complaints and grievances and facilitate community feedback on proposed KSEIP activities in a structured manner.





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**4. Statement of Project Management Responsibilities.**

The Principal Secretary for State Department for Social Protection and the Project Coordinator for Kenya Social and Economic Inclusion Project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2022. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

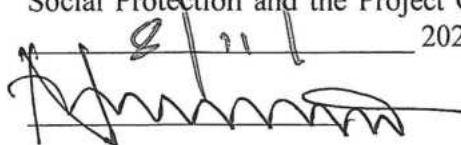
The Principal Secretary for State Department for Social Protection and the Project Coordinator Kenya Social and Economic Inclusion Project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for State Department for Social Protection and the Project Coordinator for Kenya Social and Economic Inclusion Project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2022, and of the Project's financial position as at that date. The Principal Secretary for State Department for Social Protection and the Project Coordinator for Kenya Social and Economic Inclusion Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

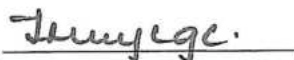
The Principal Secretary for State Department for Social Protection and the Project Coordinator for Kenya Social and Economic Inclusion Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

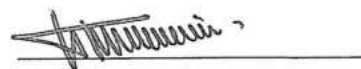
The Project financial statements were approved by the Principal Secretary for State Department for Social Protection and the Project Coordinator for Kenya Social and Economic Inclusion Project on \_\_\_\_\_ 2022 and signed by them.



Principal Secretary  
Nelson Marwa Sospeter, CBS



Project Coordinator  
Jane Muyanga



Project Accountant:  
Moses O. Muga  
ICPAK Member No. 14266





# REPUBLIC OF KENYA

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## **REPORT OF THE AUDITOR-GENERAL ON KENYA SOCIAL AND ECONOMIC INCLUSION PROJECT CREDIT NO.6348-KE FOR THE YEAR ENDED 30 JUNE, 2022 - STATE DEPARTMENT FOR SOCIAL PROTECTION**

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### **PREAMBLE**

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Qualified Opinion**

I have audited the accompanying financial statements of Kenya Social and Economic Inclusion Project set out on pages 1 to 21, which comprise the statement of financial



assets as at 30 June, 2022, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Social and Economic Inclusion Project as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Financing Agreement Credit No. 6348-KE dated 31 January, 2019 between the International Development Association (IDA) and the Government of the Republic of Kenya.

## **Basis for Qualified Opinion**

### **1. Unsupported Payments**

The statement of receipts and payment reflects purchase of goods and services expenditure of Kshs.849,856,604 as disclosed in Note 5 to the financial statements which further includes domestic travel, subsistence and other transportation costs of Kshs.461,297,970. However, the following anomalies were noted during the audit:

- i. Included in the expenditure is an amount of Kshs.14,573,400 incurred on formation and training of consolidated beneficiary's welfare committees in twenty (20) Counties which was not adequately supported with relevant documents such as training programmes, attendance registers, work tickets and back to office report.
- ii. In addition, the expenditure includes an amount of Kshs.3,600,000 paid to field officers which was not supported with signed payment details.
- iii. Included in that balance is an amount totalling to Kshs.65,402,480 for claims to various Government employees in five counties of West Pokot, Kitui, Kilifi, Marsabit and Turkana to undertake training on baby friendly initiative strategy for Nutrition to support Nutrition Improvement through cash and Health Education (NICHE) deliverable. The officers were drawn from the State Department of Social Protection and the Ministry of Health. However, invitation letters and training programmes were not provided for audit.
- iv. Further transport claims amounting to Kshs.10,490,180 was paid to facilitate movement of the persons to be trained which was not supported with bus tickets attached to the payment vouchers or signed schedules by the beneficiaries.
- v. In addition, the no objection by the donor indicated that the fuel and airtime costs would be covered by the GOK counterpart funding. However, Kshs.850,000 was



paid for fuel and Kshs.250,000 was paid for airtime resulting to an ineligible expenditure of Kshs.1,100,000.

In the circumstances, the completeness, accuracy and propriety of the expenditure of Kshs.95,166,060, could not be confirmed.

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

The statement of financial assets reflects bank balances of Kshs.230,178,868 as disclosed in Note 9 to the financial statements . However, the balance was not supported with monthly bank reconciliation statements, bank statements, bank confirmation certificates for two bank accounts out of three bank accounts being operated by the project.

In addition, one bank account with a balance of Kshs.8,505,200 had not been disclosed in the financial statements. Further authority for opening and operating the bank account was not provided for audit.

In the circumstances, the accuracy and completeness of the bank balances of Kshs.230,178,868 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Social Economic Inclusion Project Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Other Matter**

#### **Budgetary Control and Performance**

The statement of comparison budget and actual amounts reflects final receipts budget of Kshs.17,208,944,501 against actual receipts of Kshs.14,934,713,928 resulting to underfunding of Kshs.2,274,230,573 or 13% of the budget.

Similarly, the project had budgeted to spend a total of Kshs.17,176,549,501 against actual expenditure of Kshs.14,940,372,344 leading to an under expenditure of Kshs.2,236,177,157 or 13% of the budget.

The underfunding and under expenditure might have affected the planned activities and programmes which may have impacted negatively on effective service delivery to the citizens.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to communicate in the year under review.

# REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

## **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Irregular Recruitment of Project Co-ordination Assistant**

The statement of receipts and payments reflects Kshs.849,856,604 under purchase of goods and services as disclosed in Note 5 to the financial statements. The expenditure which includes an amount of Kshs.94,797,444 relating to other operating expenses which further includes an amount is Kshs.1,620,000 which was paid to an individual Consultant whose contract sum was Kshs.7,920,000 on a one-year time-based contract. However, review of the procurement documents revealed the following anomalies:

- i. The recruited Consultant was awarded the contract based on the strength of having worked on social protection activities in Kenya. However, there was also another bidder who had extensive work experience on social protection activities both in Kenya and outside the county and was rejected.
- ii. Further, the recruited Consultant had indicated one of the members of the evaluation committee as a referee in the curriculum vitae resulting in a conflict of interest situation.
- iii. In addition, it was indicated that the recruited Consultant had worked at the National Social Protection Secretariat as a Program Support Assistant for a period of ten (10) months. No documents were provided for audit verification.
- iv. Contract agreement documents were also not provided for audit verification.

In the circumstances, the regularity of the recruitment of the individual Consultant could not be confirmed.

### **2. Non-Payment to Beneficiaries in the Economic Inclusion Programme**

The statement of receipts and payment reflects other grants and transfers and payments of Kshs.13,902,759,000 as disclosed in Note 8 of the financial statement. The expenditure includes an amount of Kshs.63,668,000 which was paid out to beneficiaries through the Economic Inclusion Programme Cash Transfer. However, the audit revealed that the payment was made out to four thousand seven hundred fifteen (4,715) beneficiaries only as opposed to the seven thousand five hundred (7,500) as outlined in section 1.1.3 of the Operations Manual. No reconciliation was provided to explain the failure to pay two thousand seven hundred eighty-five (2,785) beneficiaries.



In the circumstances, the value for money and regularity of the expenditure of Kshs.63,668,000 could not be confirmed.

### **3. Irregular Payments**

The statement of receipts and payment reflects purchase of goods and services expenditure of Kshs.849,856,604 as disclosed in Note 5 to the financial statements which includes domestic travel, subsistence and other transportation costs of Kshs.461,297,970. However, included in the expenditure is an overpayment of Kshs.2,076,200 resulting from the use of County rates instead of sub-county rates where actual trainings were undertaken.

In the circumstances, the regularity of the expenditure of Kshs.2,076,200 could not be confirmed.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **Lack of Internal Audit Function and an Audit Committee**

The Project does not have in place an Internal Audit Function and Audit Committee contrary to the provisions of Section 73(1) and (5) of the Public Finance Management Act, 2012 which requires every public entity to have arrangements in place for internal audit function for the purpose of carrying out in depth reviews of Management operations and internal controls. As such the Project did not benefit from the assurance and advisory services from the internal audit function as well as oversight from the Audit Committee.

Consequently, the effectiveness of the internal controls could not be confirmed.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by Financing Agreement between the International Development Association (IDA) and the Government of the Republic of Kenya, I report based on my audit, that:

- i. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- ii. In my opinion, adequate accounting records have been kept by the Project, so far as appears from the examination of those records; and,
- iii. The Project's financial statements agree with the accounting records and returns.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the Project's financial reporting process, reviewing the effectiveness of how the Project monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the 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 my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness 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 financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal controls may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Project's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- 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 my 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of 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 Project's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease 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.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Project to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

I also provide Management with a statement that I 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 my independence, and where applicable, related safeguards.

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

**Nairobi**

**24 November, 2022**

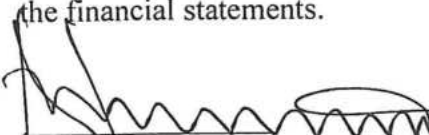


*Kenya Social and Economic Inclusion Project  
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For the financial year ended June 30, 2022*


**6. Statement of Receipts and Payments for The Year Ended 30 June 2022.**

	Note	2021/2022			2020/2021		Cumulative to-date (From inception)
		Receipts and payments controlled by the entity	Receipts and Payments made by third parties	Total Receipts and Payments	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs	KShs
<b>RECEIPTS</b>							
Loan from external development partners(World Bank)	3	408,481,872	-	408,481,872	-	-	752,204,772
Grant from external development partners(World Bank-DFID)	2	73,400,000	431,600,000	505,000,000		299,778,217	1,140,347,417
Government of Kenya	1	14,021,232,055		14,021,232,055	14,195,579,650		28,216,811,705
<b>TOTAL RECEIPTS</b>		14,503,113,928	431,600,000	14,934,713,928	14,195,579,650	299,778,217	30,109,363,895
<b>PAYMENTS</b>							
Compensation of employees	4	42,000	-	42,000	6,497,400	-	6,539,400
Purchase of goods and services	5&6	849,856,604	0	849,856,604	376,588,507	299,778,217	1,880,083,615
Acquisition of non-financial assets	7	187,714,740	-	187,714,740	17,365,592	-	205,080,332
Other grants and transfers payments(EEP)	8	13,471,159,000	431,600,000	13,902,759,000	13,884,722,680	-	27,787,481,680
<b>TOTAL PAYMENTS</b>		14,508,772,344	431,600,000	14,940,372,344	14,285,174,179	299,778,217	29,879,185,027
<b>SURPLUS/(DEFICIT)</b>		-5,658,416	0	- 5,658,416	-89,594,529	-	230,178,868

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

  
Principal Secretary  
Nelson Marwa Sospeter, CBS

  
Project Coordinator  
Jane Muyanga

  
Project Accountant:  
Moses O. Muga  
ICPAK Member No. 14266

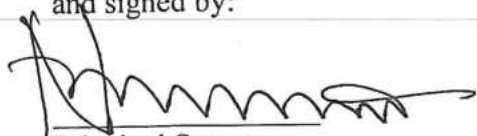


**Kenya Social and Economic Inclusion Project**  
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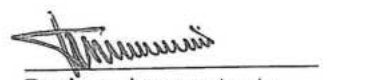
**7. Statement of Financial Assets as at 30 June 2022**

	Note	2021/2022	2020/2021
		KShs	KShs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	9	230,178,868	235,837,284
Cash Balances			-
<b>Cash Equivalents (short-term deposits)</b>		<b>230,178,868</b>	<b>235,837,284</b>
Total Cash and Cash Equivalents		230,178,868	235,837,284
Accounts receivables – Imprest and Advances			-
<b>TOTAL FINANCIAL ASSETS</b>		<b>230,178,868</b>	<b>235,837,284</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd.	10	235,837,284	325,431,813
Prior year adjustments		-	-
Surplus/(Deficit) for the year		-5,658,416	-89,594,529
<b>NET FINANCIAL POSITION</b>		<b>230,178,868</b>	<b>235,837,284</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 8/11/2022 and signed by:

  
Principal Secretary  
Nelson Marwa Sospeter, CBS

  
Project Coordinator  
Jane Muyanga

  
Project Accountant:  
Moses O. Muga  
ICPAK Member No. 14266





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**8. Statement of Cashflow for the Year Ended 30 June 2022**

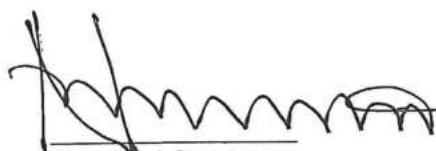
		2021-2022	2020-2021
	Note	KShs	KShs
<b>Receipts from operating activities</b>			
Transfer from Government entities	1	14,021,232,055	14,195,579,650
Loan from external development partners(World Bank)	3	408481872.2	-
Grant from external development partners(World Bank-DFID)	2	505,000,000	299,778,217
		<b>14,934,713,928</b>	<b>14,495,357,867</b>
<b>Payments from operating activities</b>			
Compensation of employees	4	42,000	6,497,400
Purchase of goods and services	5&6	849,856,604	676,366,724
Social security benefits			0
Transfers to other government entities			0
Other grants and transfers	8	13,902,759,000	13,884,722,680
		14,752,657,604	14,567,586,804
<b>Adjustments during the year</b>			
Decrease/(Increase) in Accounts receivable: (outstanding imprest)			-
Increase/(Decrease) in Accounts Payable: (deposits and retention)			-
Prior Year Adjustments			-
Net cash flow from operating activities		<b>182,056,324</b>	<b>-72,228,937</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Acquisition of Assets	7	187,714,740	17,365,592
Net cash flows from Investing Activities		-187,714,740	-17,365,592
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Proceeds from Foreign Borrowings			-
Net cash flow from financing activities			-

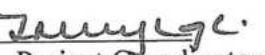



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NET INCREASE IN CASH AND CASH EQUIVALENT		-5,658,416	-89,594,529
Cash and cash equivalent at BEGINNING of the year	10	235,837,284	325,431,813
Cash and cash equivalent at END of the year		230,178,868	235,837,284

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 8/11/2022 and signed by:

  
Principal Secretary  
Nelson Marwa Sospeter, CBS

  
Project Coordinator  
Jane Muyanga

  
Project Accountant:  
Moses O. Muga  
ICPAK Member No. 14266

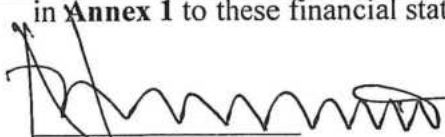


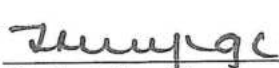
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**9. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 June 2022**

Receipts/Payments 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 %
<b>Receipts</b>						
Loan from external development partners(World Bank)	1,389,500,000	-76,300,000	1,313,200,000	408,481,872	904,718,128	31%
Grant from external development partners(World Bank-DFID)	505,000,000	0	505,000,000	505,000,000	0.00	100%
Government of Kenya	15,390,744,501.	0	15,390,744,501	14,021,232,055	1,369,512,446	91%
<b>Total Receipts</b>	<b>17,285,244,501</b>	<b>-76,300,000</b>	<b>17,208,944,501</b>	<b>14,934,713,928</b>	<b>2,274,230,574</b>	
<b>Payments</b>						
Compensation of employees	190,119,500	0	190,119,500	42,000	190,077,500	0%
Purchase of goods and services	1,156,429,658	222,411,982	1,378,841,640	849,856,604	528,985,036	62%
Acquisition of non-financial assets	515,555,842	208,977,037	306,578,805	187,714,740	118,864,065	61%
Other grants and transfers	15,390,744,501	-89,734,945	15,301,009,556	13,902,759,000	1,398,250,556	91%
<b>Total Payments</b>	<b>17,252,849,501</b>	<b>-76,300,000</b>	<b>17,176,549,501</b>	<b>14,940,372,344</b>	<b>2,236,177,157</b>	

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex I** to these financial statements.

  
Principal Secretary  
Nelson Marwa Sospeter, CBS

  
Project Coordinator  
Jane Muyanga

  
Project Accountant:  
Moses O. Muga  
ICPAK Member No. 14266





## **10. Significant Accounting Policies**

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

### **5.1 Basis of Preparation**

#### **5.1.1 Statement of compliance and basis of preparation**

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the 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.

#### **5.1.2 Reporting entity**

The financial statements are for the Kenya Social and Economic Inclusion Project under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

#### **5.1.3 Reporting currency**

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

## **5.2 Significant Accounting Policies**

### **a) Recognition of receipts**

The Project recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the Government.

#### **• Transfers from the Exchequer**

Transfer from Exchequer is be 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 receiving entity.

#### **• External Assistance**



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External assistance is received through grants and loans from multilateral and bilateral development partners.



**Donations and grants**

Grants and donations 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 recipient entity or by the beneficiary. In case of grant/donation 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.

**Proceeds from borrowing**

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

**Undrawn external assistance**

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

• **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 Project recognises all payments when the event occurs, and the related cash has actually been paid out by the Project.

• **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

• **Use of goods and services**

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

• **Interest on borrowing**

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



- **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. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **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 each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the consolidated financial statements.

**c) In-kind donations**

In-kind contributions are donations that are made to the Project 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 Project 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.

**d) 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. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**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 deposit bank accounts are restricted for use in refunding third part deposits





**e) Accounts receivable**

For the purposes of these financial statements, imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is 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.

**f) Contingent Liabilities**

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.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities. Letters of comfort/ support, insurance, Public Private Partnerships,

The Entity 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.

Section 89 (2) (i) of the PFM Act requires the National Government to report on the payments made, or losses incurred, by the county government to meet contingent liabilities as a result of loans during the financial year, including payments made in respect of loan write-offs or waiver of interest on loans

**g) Contingent Assets**

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**h) 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 Project 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.

**i) Budget**

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognized as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

**j) Third party payments**

Included in the receipts and payments, are payments made on its behalf by 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 column in the statement of receipts and payments.

During the year no loan disbursements were received in form of direct payments from third parties.

**k) Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.





**Comparative figures**

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

**l) Subsequent events**

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

**m) 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.



**NOTES TO THE FINANCIAL STATEMENTS**

**1. RECEIPTS FROM GOVERNMENT OF KENYA**

These represent counterpart funding and other receipts from government as follows:

<i>Counterpart funding through Ministry</i>			TOTAL(FY 2021/22)	FY 2020/21	Cumulative to Date
Cash Transfer-NICHE			51,731,000	26,386,000	78,117,000
Cash Transfer-OVC			6,666,520,000	7,050,044,000	13,716,564,000
Cash Transfer-Older Persons			5,824,768,000	5,992,704,680	11,817,472,680
Cash Transfer-PWSD			864,472,000	815,588,000	1,680,060,000
Exchequers Receipts-Operations			613,741,055	310,856,970	924,598,025
<b>Total</b>			<b>14,021,232,055</b>	<b>14,195,579,650</b>	<b>28,216,811,705</b>

*Note: counterpart funding is the government's share of contribution towards the implementation of the project as mandated by the Project Agreement.*



## 2. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2022, we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received as direct payment*	Total amount in KShs	Column1
				2021/22	2020/21
		USD	KShs	KShs	KShs
DFID	30/06/2022	3,673,007	431,600,000	431,600,000	299,778,217
	31/03/2022	647,838		73,400,000	
Total		4,320,845	431,600,000	505,000,000	299,778,217

*Note: \* The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project.*

## 3. LOAN FROM EXTERNAL DEVELOPMENT PARTNERS.

			KShs	2021/22	2020/21
		EURO	KShs	KShs	KShs
IDA Credit(World Bank)	10-Feb-22	1,617,281		206,869,751	
			206,869,751		
IDA Credit(World Bank)	24-Jun-22	1,639,536		201,612,121	
			201,612,121		
IDA Credit(World Bank)	Opening Balance	3,000,000	343,722,900	-	343,722,900
Total		6,256,817	752,204,772	408,481,872	343,722,900



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**4. COMPENSATION OF EMPLOYEES**

	IDA Credit	DFID Grant	GOK	TOTAL(FY 2020/21)	FY 2020/21
Basic Salaries - Civil Service				-	-
Basic Wages - Temporary - Other	0	0	42,000	42,000	6497400
Leave Allowance				-	-
Total	0	0	42,000	42,000	6497400

**5. PURCHASE OF GOODS AND SERVICES**

	IDA Credit	DFID Grant	GOK	TOTAL(FY 2021/22)	TOTAL(FY 2020/21)
Utilities, Supplies and Services				0	-
Communication, Supplies and Services			41,836,662	41,836,662	6,576,260
Domestic Travel and Subsistence, and Other Transportation Costs	130,602,464	17,693,300	313,002,207	461,297,970	177,069,731
Foreign Travel and Subsistence, and other transportation costs	1,677,643		7,740,527	9,418,170	1,648,424
Printing , Advertising and Information Supplies and Services			26,506,464	26,506,464	24,922,700
Courier & Postal Services				-	-
Rentals of Produced Assets				-	-
Training Expenses	1,297,800		39,434,537	40,732,337	29,948,100
Hospitality Supplies and Services	17,089,304		110,077,009	127,166,313	49,129,011





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Specialized Materials and Supplies				-	-
Office and General Supplies and Services			22,414,313	22,414,313	9,231,413
Fuel Oil and Lubricants			11,900,000	11,900,000	-
Other Operating Expenses	83,665,620		11,131,824	94,797,444	47,447,638
Routine Maintenance - Vehicles	1,028,000		8,423,619	9,451,619	2,064,020
Routine Maintenance - Other Assets			4,335,311	4,335,311	28,551,210
<b>TOTAL</b>	<b>235,360,830</b>	<b>17,693,300</b>	<b>596,802,473</b>	<b>849,856,604</b>	<b>376,588,507</b>

**6. TRANSFERS TO OTHER INTERNATIONAL ORGANIZATIONS(DIRECT PAYMENTS)**

	<b>IDA Credit</b>	<b>DFID Grant</b>	<b>GOK</b>	<b>TOTAL(FY 202122)</b>	<b>Amount</b>
Other Operating Expenses		431,600,000		431,600,000	299778217
	<b>0</b>	<b>431,600,000</b>	<b>0</b>	<b>431,600,000</b>	<b>299,778,217</b>



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**7. ACQUISITION OF NON-FINANCIAL ASSETS**

	IDA Credit	DFID Grant	GOK	TOTAL(FY 202122)	Amount
Construction of Building				0	-
Refurbishment of Buildings				0	-
Purchase of MV	74,756,976.00			74,756,976	-
Purchase of Household Furniture and Institutional Equipment		0	0	0	942,400
Purchase of Office Furniture and General Equipment	96,061,182.20		14,595,358	110,656,540	14,439,012
Purchase of Specialized Plant, Equipment and Machinery				0	-
Purchase of ICT Equipment's			2,301,224	2,301,224	1,984,180
<b>Total</b>	<b>170,818,158</b>	<b>-</b>	<b>16,896,582</b>	<b>187,714,740</b>	<b>17,365,592</b>

**8. OTHER GRANTS AND TRANSFERS AND PAYMENTS.**

	IDA Credit	DFID Grant	GOK	TOTAL(FY 202122)	Amount
Cash Transfer-NICHE			51,731,000	51,731,000	26,386,000
Cash Transfer-Economic Inclusion	63,668,000.00			63,668,000	-
Cash Transfer-OVC			6,666,520,000	6,666,520,000	7,050,044,000
Cash Transfer-Older Persons			5,824,768,000	5,824,768,000	5,992,704,680
Cash Transfer-PWSD			864,472,000	864,472,000	815,588,000
	63,668,000	0	13,407,491,000	13,471,159,000	13,884,722,680



**9. CASH AND CASH EQUIVALENTS CARRIED FORWARD.**

	2021/22	2020/21
	KShs	KShs
Bank accounts (Note.4.1)	230,178,868	235,837,284
Cash in hand	0	0
Cash equivalents (short-term deposits)	0	0
<b>Total</b>	<b>230,178,868</b>	<b>235,837,284</b>

The project has one project accounts spread within the project implementation area and one currency designated accounts managed by the National Treasury as listed below:

**Bank Accounts**

**Project Bank Accounts.**

	2021/22	2020/21
	EURO	EURO
<u>Foreign Currency Accounts</u>		
Central Bank of Kenya [A/c No 1000411295]	1211722.72	159,649.88
Total Foreign Currency balances	1,211,722.72	159,649.88
<u>Local Currency Accounts</u>	Kshs	Kshs
Central Bank of Kenya [A/c No 1000425059]	174,472,168	235,837,284
Central Bank of Kenya [A/c No 1000488395]	55,706,700	
Total local currency balances	230,178,868	235,837,284





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<b>Total bank account balances</b>	<b>230,178,868</b>	<b>235,837,284</b>
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**10. FUND BALANCE BROUGHT FORWARD**

	<b>2021/22</b>	<b>2020/21</b>
	<b>KShs</b>	<b>KShs</b>
Bank accounts	235,837,284	325,431,813
Cash in hand	0	0
Cash equivalents (short-term deposits)	0	0
Outstanding imprests and advances	0	0
<b>Total</b>	<b>235,837,284</b>	<b>325,431,813</b>

**11. CHANGES IN RECEIVABLE**

	<b>2021/22</b>	<b>2020/21</b>
	<b>KShs</b>	<b>KShs</b>
Outstanding Imprest as at 1 <sup>st</sup> July 2019 (A)	0	0
Imp rest issued during the year (B)	0	0
Imp rest surrendered during the Year (C)	0	0
Net changes in account receivables D= A+B-C	<b>0</b>	<b>0</b>

**11. Progress on follow up of Prior Year Auditors Recommendations**

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status:
1510	Inaccuracies of the Financial Statements because of missing prio year comparative figures	The financial year ending 30 June 2020 was the first year of financial operations for KSEIP and could not have comparable for the previous year figures.	Resolved
1511	Unmatched Contract Deliverables with Payment because the County work plans and annual report submitted to the implementation committee were not submitted for audit review	The Documents were availed for audits review.	Resolved



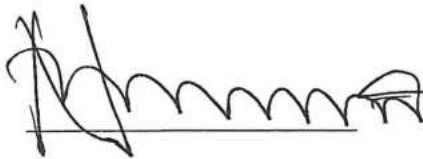
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1512	Budgetary Control and Performance-Under absorption of budget	Management has attributed the under absorption to Covid-19 pandemic, slow procurement process due to Covid-19 and data collection done on two Counties instead of three as initially planned	Resolved
1513	Slow Project Implementation Status	Management has attributed the delay to the slow project start	Resolved
1514	Wasteful Expenditure on Training. As to such, documents attached revealed that officers from the Counties did not attend the training and no justification was given why the trainers proceeded to stay on for five (5) days	The expenditures was fully supported and the training was important for facilitation of the first registration of NICHE beneficiaries.	Resolved
1515	Slow Project Implementation	The department has put up measure to scale up the activities to meet the objectives of the project as earlier envisaged	Resolved
1516	Payment of Contract without Provision of Bank Guarantee	The management demonstrated that the bank guarantee was not necessary in this contract since payment was based on the actual deliverables	Resolved
1517	Training without Approved Training Plan	The DPHR&D developed a training programme for the KSEIP (copy attached) however, when the plan was submitted to the World Bank, a "No Objection" was not granted and the team was guided to first have a training needs assessment (TNA) undertaken which would then be used to guide the trainings under the KSEIP. With support from the World Bank, a TNA was undertaken (Report attached) and a development of a training plan is now is developed.	Resolved
1518	Lack of Internal Audit Reports and Ineffective Internal Controls	While the audit might have identified the gaps in the internal Audit function, the gaps were brought by low staff level in the unit. However the staff level has been enhanced with a substantive head of internal audit at the level of Director.	




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1519	Lack of Audit Committee and Audit Charter	The Ministerial Audit Committee is in place; however, they have not been inducted to enable them discharge its mandate effectively. This has been occasioned by budgetary constraints. Efforts towards the same have been made, awaiting approval and facilitation	Resolved
1520	Lack of Monthly Bank Reconciliations	Even though Periodic Bank reconciliation is automated in IFMIS and the reporting overwrite itself as the transactions continues in the system until the Final year end. This has been configured and monthly bank reconciliation is being done henceforth	Resolved



Principal Secretary  
 Nelson Marwa Sospeter, CBS



Project Coordinator  
 Jane Muyanga



Project Accountant:  
 Moses O. Muga



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**12. Annexes  
ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS**

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Explanation
	a	b	c=a+b	d	e=c-d	f=d/c %	
<b>Receipts</b>							
Loan from external development partners(World Bank)	1,389,500,000	-76,300,000	1,313,200,000	408,481,872	904,718,128	31%	slow on implementation of programme backlogs
Grant from external development partners(World Bank-DFID)	505,000,000	0	505,000,000	505,000,000	0.00	100%	
Government of Kenya	15,390,744,501	0	15,390,744,501	14,021,232,055	1,369,512,446	91%	Lack of excheque
<b>Total Receipts</b>	<b>17,285,244,501</b>	<b>-76,300,000</b>	<b>17,208,944,501</b>	<b>14,934,713,928</b>	<b>2,274,230,574</b>		
<b>Payments</b>							
Compensation of employees	190,119,500	0	190,119,500	42,000	190,077,500	0%	Lack of excheque
Purchase of goods and services	1,156,429,658	222,411,982	1,378,841,640	849,856,604	528,985,036	62%	slow procurement process
Acquisition of non-financial assets	515,555,842	208,977,037	306,578,805	187,714,740	118,864,065	61%	slow procurement process
Other grants and transfers	15,390,744,501	-89,734,945	15,301,009,556	13,902,759,000	1,398,250,556	91%	slow Implementation of EI Programme
<b>Total Payments</b>	<b>17,252,849,501</b>	<b>-76,300,000</b>	<b>17,176,549,501</b>	<b>14,940,372,344</b>	<b>2,236,177,157</b>		





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ANNEX 2

- i. Bank Reconciliations
- ii. Cash Count Certificate



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