



---

# **Report on The Review of Financial Statements with Adverse & Disclaimer Opinions - FY 2021/2022**

---

**December 2023**

---

## Table of Contents

1. Executive Summary .....	1
2. Background .....	2
3. Objective of the Review .....	2
4. Methodology .....	2
5. Findings .....	3
5.1 Water Companies.....	5
5.2 National Government Constituencies Development Fund (NGCDF) .....	5
5.3 Technical and Vocational Education Training Institute .....	6
5.4 Public Universities. ....	6
5.5 County Governments Entities (County Assemblies and Executives).....	7
5.6 State Corporations and Semi-Autonomous Government Agencies.....	7
6. Recommended interventions by PSASB. ....	8
7. Appendix 1 .....	9

## 1. Executive Summary

The Public Sector Accounting Standards Board (PSASB) was established in 2014 under Sections 192 and 193 of the Public Finance Management Act 2012. The PFM Act confers PSASB a distinct mandate to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and public entities. In particular, the Board is required to set generally accepted accounting and financial standards as well as prescribe formats for financial statements and reporting, among other functions.

On a regular basis, the Board monitors the application and adherence to the set standards and prescribed financial reporting formats with a view to taking corrective measures. In its meeting held on 11<sup>th</sup> October 2023, the Board sanctioned the review of FY 2021-2022 audited financial statements with adverse and disclaimer opinions. A total of fifty-seven (57) financial statements were received from the National Treasury's registry for review. The table below illustrates the number of reports analyzed in the various categories.

No	Category	No of Reports Reviewed
1	County Executives	10
2	County Assemblies	3
3	Public Water Companies	14
4	National Government Constituencies Development Funds	12
5	Public Universities	4
6	Technical and Vocational Education Training Institutes	6
7	Other State Corporations and SAGAs	8
	<b>Total</b>	<b>57</b>

Below are the top ten (10) issues raised by the Office of the Auditor General:

1. Unsupported expenditure, payables, and receivables.
2. Inaccurate financial statements/Non-compliance with the PSASB templates
3. Ineffective budgetary control mechanisms.
4. Unsupported cash and cash equivalents.
5. Lack of updated asset registers.
6. Variances of figures in the financial statements with those in the ledgers and schedules.
7. Unresolved audit and accounting matters from the previous periods.
8. Unlawful, wasteful, and irregular expenditures.
9. Breach of procurement laws and procedures.
10. Non-remittance of statutory deductions.

The review findings point out the inability to present accurate financial statements in the prescribed formats and the inability to prepare complete audit files by public entities as critical capacity gaps, among others. It is imperative for PSASB, together with other relevant stakeholders, to prioritize feasible interventions to build the capacity of the affected entities in the various sectors.

## 2. Background

The Public Sector Accounting Standards Board (PSASB) is established under section 192 of the Public Finance Management (PFM) Act 2012. The Board is a Semi-Autonomous Government Agency under the National Treasury.

PFM Act Section 194 (1) (d) requires PSASB to prescribe financial statements and reporting formats by all state organs and public entities. In line with PFM Act Section 194 (4), PSASB monitors the application and adherence of all state organs and public entities to accounting standards and prescribed reporting formats. This is done through, among other modalities, field visits, surveys, and reviewing financial statements. As part of its principal activities, the Board examined fifty-seven (57) audited reports for FY 2021/22.

## 3. The objective of the Review

1. Identify key issues leading to adverse and disclaimer opinions in the public sector.
2. Identify accounting and financial reporting challenges and gaps that public sector entities face.
3. Inform critical interventions to address the issues identified.

## 4. Methodology

The Board obtained fifty-seven (57) FY2021/22 financial reports with adverse and disclaimer opinions from the National Treasury's Registry. A desktop review was conducted to identify the key issues that led to adverse or disclaimer opinions per entity. All issues raised by the auditor were tallied to pick the top ten issues raised in the 57 reports. Further, each category was analyzed to identify the critical issues in the sector.

## 5. Findings

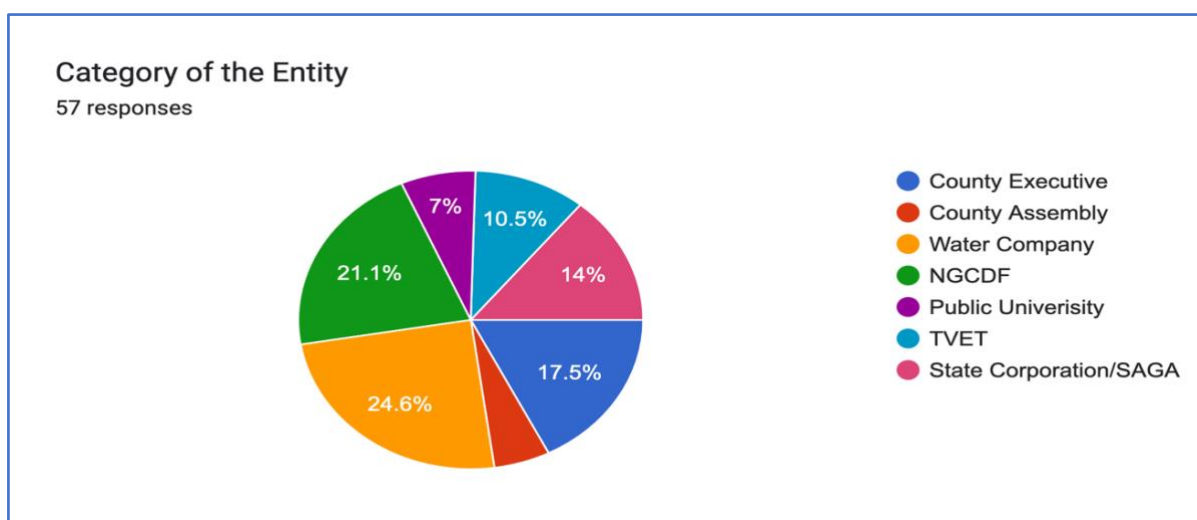
The findings are presented in two parts: a graphical presentation of overall findings and a summary of findings per category of entities.

### a) Graphical representation of overall findings

#### I. Distribution of entities per category

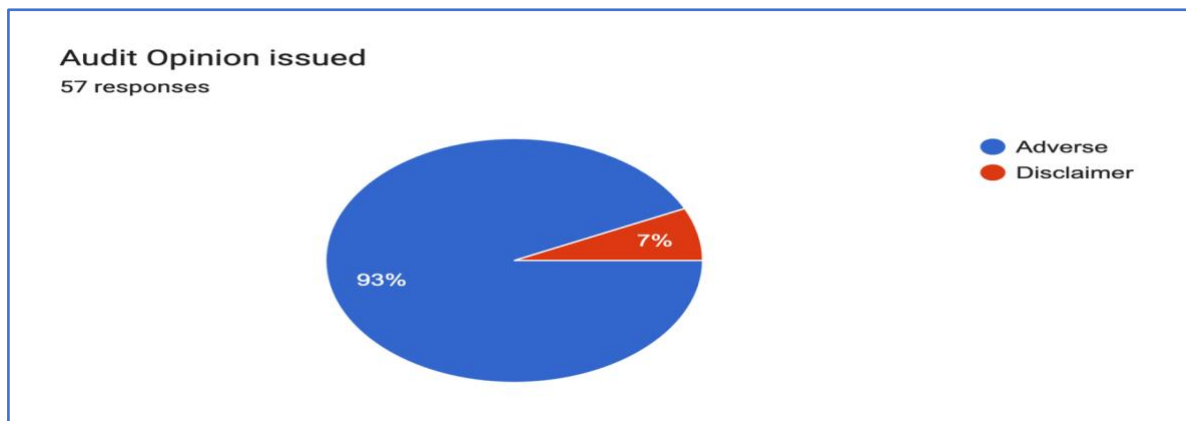
The report covered seven entity categories: Water companies, County executives and county assemblies, NGCDF, public universities, TVETs, and State corporations/Sagas.

Below is a graphical presentation of the proportions where Water companies were a majority, followed by NGCDF.



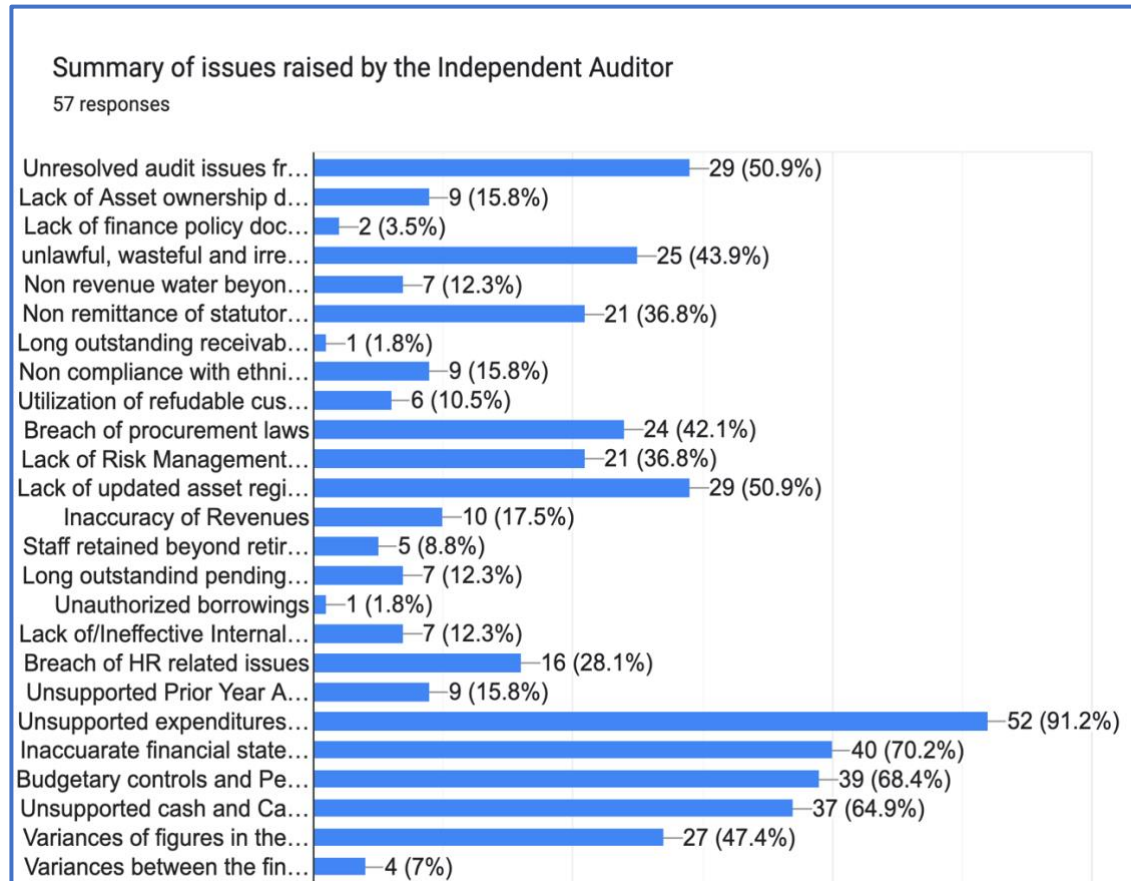
#### II. Distribution of Audit Opinions

Four entities (water companies) had disclaimer opinions, while fifty-three had adverse opinions, as shown below.



### III. Summary of issues raised in the audit reports.

The fifty-seven reports were analyzed to determine the key issues the independent auditor raised. The chart below highlights the key issues and the number of entities affected.



Below is a summary list of the ten common issues raised by the Auditor. The list is arranged in order of prevalence, with the most common item at the top.

1. Unsupported expenditure, payables, and receivables.
2. Inaccurate financial statements/Non-compliance with the PSASB templates
3. Ineffective budgetary control mechanisms.
4. Unsupported cash and cash equivalents.
5. Lack of updated asset registers
6. Variances of figures in the financial statements with those in the ledgers
7. Unresolved audit and accounting matters from the previous periods.
8. Unlawful, wasteful, and irregular expenditures
9. Breach of procurement laws and procedures
10. Non remittance of statutory deductions

---

## **b) Findings per Category of entities**

The financial reports were reviewed, and the following were the key issues raised by the auditor in each category of entities.

### **5.1 Water Companies.**

Fourteen (14) water company audit reports were reviewed. Ten (10) water companies had adverse reports, and four (4) had disclaimer opinions.

Top Issues raised:

1. Inaccuracies and errors in financial statements.
2. Unsupported items in the financial statements, e.g., trade and other payables, cash and cash equivalents.
3. Non-revenue water, which is beyond the allowable limit of 25%.
4. Unresolved prior-year matters.
5. Non-remittance of statutory deductions.
6. Lack of adequate Budgetary controls
7. Lack of policies, e.g., ICT, Risk management.
8. Long outstanding receivables with no provision and aging analysis.
9. Noncompliance with ethnic balance and 1/3 gender rule.
10. Utilization of refundable customer deposits to cater for expenses.

### **5.2 National Government Constituencies Development Fund (NGCDF)**

Twelve (12) National Government Constituencies Development Funds' reports had adverse opinions.

Key issues raised:

1. Unsupported and unauthorized expenditure.
2. Underfunding and underperformance.
3. Breach of law on management of bursary and emergency projects.
4. Lack of fixed/updated asset register.
5. Inaccuracies in the financial statements.
6. Irregular road projects.
7. Non-closure of project management committee bank accounts.
8. Lack of risk management policy.
9. Lack of ownership documents.
10. Unresolved prior-year audit matters.
11. Unapproved reallocation of funds.

### 5.3 Technical and Vocational Education Training Institute

Six (6) TVET institutions had adverse opinions. The Independent Auditor raised the following issues:

- 1) Inaccuracies in Cash and Bank Balances.
- 2) Failure to Deduct Statutory Deductions.
- 3) Lack of Budgetary Controls.
- 4) Inaccuracy in Revenue from Exchange Transactions.
- 5) Non-Disclosure of Institutes' Property, Plant and Equipment
- 6) Unsupported Valuation of Assets, lack of ownership document, and Incomplete Asset Register
- 7) Non-Compliance with PSASB Reporting Template
- 8) Lack of Assets Register.
- 9) Non-remittance of Statutory Deductions.
- 10) Unresolved Prior Year Matters.

### 5.4 Public Universities.

Four (4) Public Universities' audited reports were reviewed. Below are the key issues that the Independent Auditor pointed out.

- 1) Unsupported expenditure.
- 2) Unsupported receivables.
- 3) Failure to remit statutory deductions.
- 4) Non-compliance with the law on staff regional diversity
- 5) Lack of ICT policy.
- 6) Procurement irregularities.
- 7) Lack of budgetary control and performance.
- 8) Unsupported cash and cash equivalents.
- 9) Unsupported property, plant, and equipment figures.
- 10) Officers retained beyond retirement age



### 5.5 County government entities (County Assemblies and Executives)

Ten (10) County executive reports and three (3) County Assemblies reports had adverse opinions. The Office of the Auditor General raised the following issues:

1. Unsupported and unauthorized expenditures.
2. Unsupported cash and cash equivalent.
3. Unresolved prior-year adjustments.
4. Long outstanding and unsupported pending bills.
5. Irregular acquisition of assets.
6. Delay in submission of statutory deductions.
7. Inaccuracies in financial statements.
8. Unresolved prior-year audit issues.
9. Financial statements do not match the IFMIS financial data.
10. Unauthorized borrowings.

### 5.6 State Corporations and Semi-Autonomous Government Agencies

Eight Audited reports had adverse opinions. The auditor raised the following issues:

1. Inaccurate financial statements.
2. Lack of supporting policies and procedures.
3. Unsupported expenditures.
4. Lack of proper budgetary controls.
5. Long outstanding receivables.
6. Unsupported receivables and payables.
7. Procurement irregularities.
8. Unresolved previous years.
9. Incorrect treatment of Property Plant and Equipment and Inventories.
10. Lack of ownership document of assets.

### **Comparison with FY2021 Audit Opinion**

Based on the available data, a look at what opinions the reviewed entities received in FY 2020/21 indicated that many entities still had unfavorable opinions. It was also noted that a remarkable number of entities had a better-audited opinion in the previous year than in the financial year under review. One entity had an unqualified opinion in FY2020/21 and received an adverse opinion in the subsequent year. (*See Appendix 1.*)

### **Challenges and Gaps faced by entities.**

The findings above point out several challenges and gaps the entities face. Some challenges fall within the scope of PSASB's mandate, while others fall elsewhere.

Below is a summary of key challenges and gaps facing the entities within the board's scope:

1. Inability to present financial statements in the prescribed formats.
2. Failure to prepare audit files.
3. Inability to apply basic accounting standards such as IPSAS 2 on cash flows and IPSAS 24 on Budget information.
4. Lack of finance policies customized to the organizations' requirements.
5. Inability to keep proper accounting records.
6. Inability to resolve previous years' audit queries.

## **6. Recommended interventions by PSASB.**

6.1 PSASB will offer capacity building and guidelines on matters relating to its mandate which include financial reporting, finance policy formulation, and preparation of audit files, among others.

6.2 PSASB will provide technical support by taking a sectoral approach where sectors with a relatively high number of disclaimer and adverse opinions are prioritized.

6.3 Where necessary, PSASB to collaborate with relevant stakeholders to build the various entities.

6.4 PSASB will reach out to individual entities under the universities and SAGAs with disclaimer and adverse opinions to understand their reporting challenges and offer assistance.

## 7. Appendix 1

### Audit opinions Trend for FY 2021/2022 AND 2020/2021

County Executives			
Sn	Entity	Fy 2021/2022	Fy 2020/2021
1.	Baringo	Adverse	Adverse
2.	Homa Bay	Adverse	Qualified
3.	Kisumu	Adverse	Adverse
4.	Mandera	Adverse	Qualified
5.	Migori	Adverse	Qualified
6.	Nakuru	Adverse	Qualified
7.	Narok	Adverse	Adverse
8.	Siaya	Adverse	Qualified
9.	Tana River	Adverse	Qualified
10.	Wajir	Adverse	Qualified
County Assemblies			
1.	Busia	Adverse	Qualified
2.	Nairobi City	Adverse	Adverse
3.	West Pokot	Adverse	Disclaimer
Ngcdf			
1.	Bomet East NGCDF	Adverse	Qualified
2.	Chepalungu NGCDF	Adverse	Report not obtained
3.	Emurua Dikirr NGCDF	Adverse	Qualified
4.	Igembe North NGCDF	Adverse	Qualified
5.	Kaiti NGCDF	Adverse	Qualified
6.	Kilgoris NGCDF	Adverse	Qualified
7.	Kuria West NGCDF	Adverse	Qualified
8.	Malindi NGCDF	Adverse	Qualified
9.	Mwingi Central NGCDF	Adverse	Adverse
10.	Naivasha NGCDF	Adverse	Qualified
11.	Nakuru Town East NGCDF	Adverse	Adverse
12.	Rarieda NGCDF	Adverse	Report not obtained

<b>Water Companies</b>			
		<b>FY2021/22</b>	<b>FY2020/21</b>
1.	Amatsi Water Services	Adverse	
2.	Embe Water And Sanitation Company	Adverse	Adverse
3.	Embu Water And Sanitation Company	Adverse	Adverse
4.	Garissa Water And Sewerage Company	Adverse	Adverse
5.	Kapenguria Water A Services Company	Disclaimer	
6.	Kirandich Water Company	Adverse	Disclaimer
7.	Kyeni Water And Sewerage Company	Disclaimer	Disclaimer
8.	Lamu Water And Sanitation Company	Adverse	Qualified
9.	Lodwar Water And Sanitation Company	Adverse	
10.	Nairobi City Water And Sewerage Company	Adverse	Qualified
11.	Narok City Water And Sewerage Company	Adverse	Qualified
12.	Samburu Water And Sanitation Company	Adverse	Adverse
13.	Tana Water And Sanitation Company	Disclaimer	
14.	Wajir Water And Sewerage Company.	Disclaimer	
<b>Universities</b>			
1.	Koitalel Samoei University College	Adverse	Adverse
2.	Maasai Mara University	Adverse	Adverse
3.	Moi University	Adverse	
4.	The Technical University Of Kenya	Adverse	
<b>Tvets</b>			
1	Fayya Technical And Vocational College	Adverse	
2	Lafey Technical And Vocational College	Adverse	Qualified
3	Mandera Technical Training Institute	Adverse	
4	Masinga Technical And Vocational Training College	Adverse	
5	Mitunguu Technical Training Institute	Adverse	
6	Ramogi Institute Of Advanced Technology	Adverse	
<b>State Corporations and SAGAs</b>			
1	Chemilil Sugar Company	Adverse	Qualified
2	Kenya Wildlife Service	Adverse	Qualified
3	NHIF	Adverse	Qualified
4	Agricultural Development Corporation	Adverse	Adverse
5	Agricultural Food Authority	Adverse	Adverse
6	Coast Institute Of Technology	Adverse	Adverse
7	HELB	Adverse	Unqualified
8	KENHA	Adverse	Qualified