

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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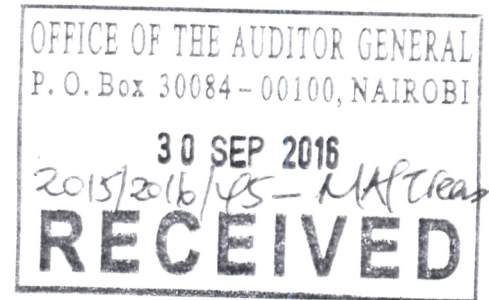
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
CONSOLIDATED FUND SERVICES- SALARIES,
ALLOWANCES AND MISCELLANEOUS
SERVICES**

**FOR THE YEAR ENDED
30 JUNE 2016**



THE NATIONAL TREASURY

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

CONSOLIDATED FUND SERVICES-R-52

**SALARIES, ALLOWANCES, MISCELLANEOUS SERVICES AND
GUARANTEED DEBT**

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

The National Treasury was established via the Executive Order No. 2 of May 2013. The basis for establishment of the National Treasury is found in Article 225 (i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act 2012.

At Cabinet Level, the National Treasury is represented by the Cabinet Secretary for Finance, who is responsible for the general policy and strategic direction of the Ministry.

(b) Key Management

The National Treasury day-to-day management is under the following key offices:-

Office of the Principal Secretary

This office is responsible for the administration of the National Treasury for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

Organizational structure of the National Treasury

The Ministry is organized into four (4) technical Directorates headed by Directors General and (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. The Directorates and Departments are as follows:

Directorate of Budget, Fiscal and Economic Affairs

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department;
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department.

Directorate of Accounting Services and Quality Assurance

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Accounting Services;

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For the year ended June 30, 2016 (Kshs)

- Internal Auditor Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

Directorate of Portfolio Management

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department.
- Public Private Partnership Unit

Directorate of Public Debt Management

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- Resource Mobilization (Front Office);
- Debt Policy, Strategy and Risk Management (Middle Office);
- Debt Recording and Settlement (Back Office).

Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into eleven (11) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury. The functions include:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT

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(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:-

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, AS&QA	Mr. Bernard Ndung'u
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
7.	Ag. Director, Macro & Fiscal Affairs Department	Mr. Wanyambura Mwambia, OGW
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Ag. Director, Financial and Sectoral Affairs Department	Mr. Nzomo Mutuku
10.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	Internal Auditor General	Mr. Alfayo Mogaka
12.	Ag. Director, Accounting Services Department	Mr. Wala Jona
13.	Ag. Director, National Sub County Treasuries	Mr. Tom Khakhame
14.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
15.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
16.	Ag. Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
17.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
18.	Secretary/Director, Pensions Department	Mr. Shem Nyakutu
19.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui
20.	Director of Administration	Mr David Oleshege, OGW
21.	Head, Accounts Division	Mr. George K. Gichuru
22.	Head Finance Division	Mr. Kimathi Mugambi
23.	Head, Supplies Chain Management	Mr. Peter Momanyi
24.	Director, Human Resource Management and Development	Mrs. Susan Mucheru
25.	Head, Information Communication and Technology	Mr. Edward Rutere
26.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
27.	Head, Public Communications	Mr. Maina Kigaga
28.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua

(d) Fiduciary Oversight Arrangements

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

Internal Audit Unit

The National Treasury has a well-resourced internal Audit Unit. The Unit is charged with the responsibility of conducting risk based, value for money and systems audit, providing assurance that appropriate institutional policies, procedures and business practices are being followed; verifying the existence of assets administered by the Ministry, and evaluating the adequacy and reliability of information available to the management. The Unit reports directly to the accounting officers on a regular basis.

Audit Committee

The Audit Committee forms a key element in the governance process and its principle role is that of providing oversight of financial reporting, risk management and internal controls. The National Treasury established an audit committee comprising officers from all departments of the Ministry. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee ensures that audit queries and external audit recommendations are fully addressed.

Budget Implementation Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

Monitoring and Evaluation

The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

(e) The National Treasury Headquarters

P.O. BOX 30007- 00100,
Treasury Building,
Harambee, Avenue
Nairobi Kenya

(f) The National Treasury Contacts

Telephone: (254)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

II. FORWARD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the Country. As a result of consistent implementation of the bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. This strong growth was supported by positive growth in agriculture, forestry and fishing (4.8 percent), mining and quarrying (6.9 percent), electricity and water supply (8.5 percent), wholesale and retail trade (7.3 percent), accommodation and restaurant (12.1 percent) and information and communication (9.7 percent). Growth in other sectors, particularly manufacturing, construction, finance and insurance and real estate remained robust.

The annual inflation rate was 6.4 percent by June 2016 compared 6.5 percent in June 2015, and was therefore, within the current allowable margin of 2.5 percent on either side of the target of 5.0 percent. The Kenya shilling continued to display relatively less volatility compared with the major regional currencies due to improved Diaspora remittances and the narrowing of the current account deficit while official foreign exchange reserves held by the Central Bank grew to US\$ 7,648 million (equivalent to 5.1 months of import cover) by June 2016 from US\$ 7,212 million (4.5 months of import cover) in June 2015.

In budget performance, the National Treasury expenditure stood at **Kshs.38,735,101,627.00** against an approved budget of **Kshs.40,667,213,863.00** in recurrent while Development expenditure stood at **Kshs.43,784,489,609.00** against an approved budget of **Kshs.45,836,475,797** giving an overall absorption rate of 95.4%.

Other key achievements during the year under review are:-

- The National Treasury mobilized external resources amounting to Kshs.366.67 billion. This included Kshs.320.23 billion in loans and Kshs.46.44billion in grants.
- The National Treasury continued to support Kenya Revenue Authority to achieve its target in revenue collection and simplification of the tax system. This included the implementation of the *i-tax* platform.
- In its commitment to deepen the Financial Markets, the Ministry finalized the Financial Services Authority bill and disseminated to stakeholders for comments and prepared the draft Nairobi International Financial Centre Bill.
- The National Treasury developed a pipeline of 65 bankable Public Private Partnership projects ready for investment. Other achievements in promoting PPP include continuous financial, technical and legal support to MDAs in the preparation of PPP projects, development of standardized documentation framework to support implementation of PPP and development of a template on PPP project submission.
- The National Treasury continued to build capacity on Public Financial Management in Ministries, Departments, Agencies as well as County Governments. 1,297 officers were trained over the financial year 2015/16 across the country.

Some of the challenges the National Treasury faced while implementing the budget 2015/16 include:-

1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulation and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.

To surmount the above challenges and ensure successful implementation of the National Treasury goals and objectives, the Ministry will:-

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
3. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
4. Ensure constant collaboration between the National Treasury and all the Stakeholders.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.



HENRY K. ROTICH, EGH
CABINET SECRETARY

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

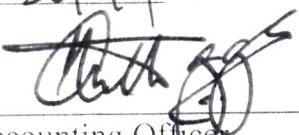
The Accounting Officer in charge of the CFS-Salaries, Allowances, Miscellaneous Services and Guaranteed Debt is responsible for the preparation and presentation of the financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (2015/2016) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the CFS- Salaries, Allowances, Miscellaneous Services and Guaranteed Debt, accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2016, and of the entity's financial position as at that date. The Accounting Officer in charge of the CFS- Constitutional Office Holders further confirms the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the CFS- Salaries, Allowances, Miscellaneous Services and Guaranteed Debt confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The Public Debt's financial statements were approved and signed by the Accounting Officer on 30/9/2016 2016.



Accounting Officer



Senior Assistant Accountant General



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED FUND SERVICES-SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES FOR THE YEAR ENDED 30 JUNE 2016-THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Consolidated Fund Services-Salaries, Allowances and Miscellaneous Services set out on pages 9 to 20, which comprise the statement of financial position as at 30 June 2016, and the statement of receipts and payments, budget execution statement and statement of cash flows for the year then ended, 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.

Management's Responsibility for the Financial Statements

The Accounting Officer, National Treasury is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Accounting Officer 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

Report of the Auditor-General on the Financial Statements of Consolidated Fund Services-Salaries, Allowances and Miscellaneous Services for the year ended 30 June 2016- National Treasury

the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1 Unexplained Differences in the Financial Statements

The statement of the receipts and payments reflects compensation of employees in form of salaries and allowances of Kshs.2,742,288,074.00 while the ledgers show payments totalling Kshs.2,867,959,567.00 for the same item for the year ended 30 June 2016. The difference of Kshs.125,671,493.00 between the two sets of records, which should ordinarily agree, has not been explained.

Further, the payroll summaries and off payroll payments for the period from July 2015 to June 2016 also reflect salaries and allowances expenditure totalling Kshs.2,612,293,003.90, which differs with the amount of Kshs.2,742,288,074.00 reflected in the statement of receipts and payments by Kshs.129,995,070.10. The difference has similarly not been explained.

2. Variances between ledger and the payroll

In addition, the ledger and the payroll expense for the year ended 30 June 2016 for the Heads indicated below are at variance and the National Treasury has not carried out reconciliation nor given any explanation.

Head	Institution	Ledger Amount as at 30.06.2016	Payroll Amount as at 30.06.2016	Variance
971	Office of the President	148,523,297.75	36,630,035.00	111,893,262.75
979	Former Presidents' Benefits	51,502,696.30	37,620,055.00	13,882,641.30
991	Commission on Implementation of Constitution	189,478,933.00	59,488,514.90	129,990,418.10

3. Unsupported Payments under Guaranteed Loans Act

The statement of receipts and payments reflects expenditure of Kshs.96,085,835.00 and Kshs.954,122,778.00 in respect of loan interest and redemption respectively, incurred during the year ended 30 June 2016, under Guaranteed Loans Act. The loans were guaranteed by the Government of Kenya on behalf of two parastatals and paid during the year under review as follows.

Organization	Principal Amount Kshs.	Interest Amount Kshs.	Total Kshs.
Tana Delta Irrigation	265,176,299.55	31,570,658.40	296,746,957.95
Kenya Broadcasting Corporation	<u>688,946,478.00</u>	64,516,526.45	<u>753,463,004.45</u>
Total	<u>954,122,777.55</u>	<u>96,087,184.85</u>	<u>1,050,209,962.40</u>

As similarly reported in 2014/2015, the terms and conditions under which the Government took over these loans have not been made available for audit review, and as a result, it has not been possible to establish whether or not the defaulting institutions were required to reimburse the Government, the principal and interest it paid on their behalf. It has not been possible in the circumstance to ascertain whether or not the repayment had complied with the terms and conditions of the take-over.

4. Prior Year Adjustments

The statement of financial Position as at 30 June 2016 reflects an amount of Kshs.8,883,205,334.00, which is referred to as prior year adjustments. Further, fund balance brought forward have been re-stated to Kshs.8,848,051,762 from Kshs.397,382,932.20 reflected in the financial statements as at 30 June 2015. The National Treasury has not explained or provided details of the said adjustments.

Consequently, the accuracy of the balances reflected in the financial statements cannot be ascertained.

5. Omitted Expenditure and Receipts

Some receipts and expenditure reflected in the ledger for June 2016 have not been captured in the financial statements as disclosed below:

Expenditure

520-971-0000-2110313 Kshs.80,195.00
520-971-0000-6780101 Kshs.43,277,422.00
520-971-8820-6780101 Kshs.51,171,250.15
520-976-0000-7320199 Kshs.181,800.00

Receipts

520-983-0000-6780101 Kshs.2,147,326.90

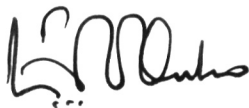
The National Treasury has also not provided the item descriptions for these accounts and as such, it has not been possible to establish what they relate to.

6. Unspent Appropriation/Cash Balance

The statement of financial position reflects bank balance under the comparative balances for the financial year 2014/2015 of Kshs.397,382,932.20 (re-stated Kshs.8,848,051,762.00). The balance was carried forward to the financial year 2015/2016 as shown in the statement of financial position as at 30 June 2016. The unspent appropriation in 2014/2015 ought to have been paid back to the National Exchequer Account as required under section 45 of the Public Finance Management Act, 2012. No explanation has been provided for failure to repay the unspent sum to the Exchequer.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Consolidated Fund Services-Salaries, Allowances and Miscellaneous Services as at 30 June 2016, and of its operations for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

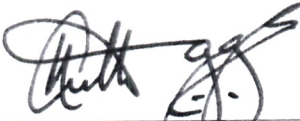
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 Reports and Financial Statements
 For the year ended June 30, 2016 (Kshs)

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2015-2016 Kshs	2014-2015 Kshs
RECEIPTS			
Exchequer releases	1	3,536,425,460	3,150,000,000
Transfer from Other Government Entities	2	409,672,149	-
TOTAL RECEIPTS		3,946,097,609	3,150,000,000
PAYMENTS			
Compensation of Employees	3	2,742,288,074	2,416,693,457
Finance Costs, including Loan Interest	4	96,085,835	115,664,481
Repayment of principal on Domestic and Foreign borrowing	5	954,122,778	899,285,640
Other Payments-Loan Management Expenses	6	1,800	3,150
TOTAL PAYMENTS		3,792,498,487	3,431,646,728
SURPLUS/DEFICIT		153,599,122	(281,646,728)

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 30/9/16 2016 and signed by:

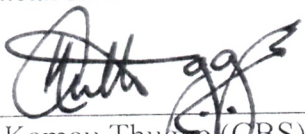

 Dr. Kamau Thugga (CBS)
 Accounting Officer



 George Kihara Gichuru
 Senior Assistant Accountant General

VI. STATEMENT OF FINANCIAL POSITION

	Note	2015-2016 Kshs	2014-2015 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7	118,445,551	172,450,397
Total Cash and cash equivalent		<u>118,445,551</u>	<u>172,450,397</u>
Accounts receivables	8	-	8,663,621,032
Outstanding Items for clearance	9	-	11,980,334
TOTAL FINANCIAL ASSETS		<u>118,445,551</u>	<u>8,848,051,762</u>
FINANCIAL LIABILITIES			
Accounts Payables		-	-
NET FINANCIAL ASSETS		118,445,551	8,848,051,762
REPRESENTED BY			
Fund balance b/fwd	10	8,848,051,762	8,566,405,035
Surplus/Deficit for the year		153,599,122	(281,646,728)
Prior Year adjustments		(8,883,205,334)	563,293,455
NET FINANCIAL POSITION		<u>118,445,551</u>	<u>8,848,051,762</u>

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 30/9/ 2016 and signed by:

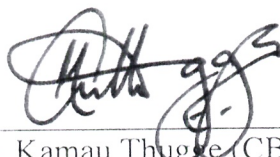

 Dr. Kamau Thugge (CBS)
 Accounting Officer


 George Kihara Gichuru
 Senior Assistant Accountant General

VII. STATEMENT OF CASHFLOW

		2015-2016 Kshs	2014-2015 Kshs
Receipts for operating income			
Exchequer Releases	1	3,536,425,460	3,150,000,000
Transfer from other Government Entities	2	409,672,149	-
Payments for operating expenses			
Compensation of Employees	3	2,742,288,074	2,416,693,457
Finance Costs, including Loan Interest	4	96,085,835	115,664,481
Other Expenses	6	1,800	3,150
Adjusted for:			
Change in Receivables		8,675,601,365	(721,092,262)
Change in payables		-	-
Adjustments during the year		(8,883,205,334)	563,293,455
Net cash flow from operating activities		900,117,932	459,840,106
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash flows from Investing Activities		-	-
CASHFLOW FROM BORROWING ACTIVITIES			
Repayment of principal on Domestic and Foreign borrowing	5	954,122,778	(899,285,640)
Net cash flow from financing activities		(954,122,778)	(899,285,640)
NET INCREASE IN CASH AND CASH EQUIVALENT		(54,004,847)	(439,445,534)
Cash and cash equivalent at BEGINNING of the year	7	172,450,397	611,895,931
Cash and cash equivalent at END of the year		118,445,551	172,450,397

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 30/9/ 2016 and signed by:



Dr. Kamau Thugge (CBS)
 Accounting Officer



George Kihara Gichuru
 Senior Assistant Accountant General

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS	-	-	-	-	-	-
Exchequer releases	5,510,457,719	13,200,000	5,523,657,719	3,946,097,609	1,577,560,110	71
PAYMENTS						
Compensation of Employees	4,437,766,236	13,200,000	4,450,966,236	2,742,288,074	1,708,678,162	62
Social Security Benefits	125,000,000	0	125,000,000	0	(125,000,000)	0
Finance Costs, including Loan Interest	107,329,837	0	107,329,837	96,085,835	11,244,202	90
Repayment of principal on Domestic and Foreign borrowing	837,361,646	0	837,361,646	954,122,778	(116,761,132)	114
Other Payments	3,000,000	0	3,000,000	1,800	2,998,200	0

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Notes

Compensation of Employees (62% utilisation)

The under Expenditure of Ksh. 1,698,373,451 is attributed to the Judiciary which has not been in the position to roll out courts across the country as envisaged. Similarly, the Office of Committee of Experts on Constitutional review was not operational during the year

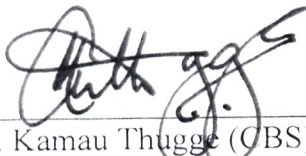
Social Security Benefits (0% utilisation)

This was meant to cater for contribution to National Social Security Fund by the employer. However, the law to regulate this contribution for the Constitutional offices is yet to be enacted, hence the provision remained unutilised.

Finance Costs Including Loan Interest (90% utilisation)

The underutilisation was occasioned by variations in the Exchange rate during budgeting and at repayment

The entity financial statements were approved on 30/9/ 2016 and signed by:



Dr. Kamau Thugge (OBS)
Accounting Officer



George Kihara Gichuru
Senior Assistant Accountant General

IX. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the National Government. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

The National Treasury recognises all revenues from the various sources when the event occurs and the related cash has actually been received by The National Treasury. In addition, The National Treasury recognises all expenses when the event occurs and the related cash has actually been paid out by The National Treasury.

3. In-kind contributions

In-kind contributions are donations that are made to The National Treasury 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 National Treasury includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. 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.

5. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government

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practice where the imprest payments are recognized as expenditure 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.

6. Accounts Payable

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

7. Non current assets

Non current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. 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 are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of The National Treasury at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The National Treasury's budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of The National Treasury's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

10. Comparative figures

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

11. Subsequent events

Events subsequent to submission of the financial year end financial statements to The National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of The National Treasury.

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X. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2015-2016	2014-2015
	Kshs	Kshs
Total Exchequer Releases for quarter 1	700,000,000	650,000,000
Total Exchequer Releases for quarter 2	1,373,000,000	1,000,000,000
Total Exchequer Releases for quarter 3	863,425,460	500,000,000
Total Exchequer Releases for quarter 4	600,000,000	1,000,000,000
Total	3,536,425,460	3,150,000,000

2 TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Description	2015-2016	2014-2015
	Kshs	Kshs
Transfers from Central government entities		
Transfer from Public Debt	409,672,149	-
TOTAL	409,672,149	-

3 COMPENSATION OF EMPLOYEES

	2015-2016	2014-2015
	Kshs	Kshs
Basic salaries of permanent employees	2,742,288,074	1,690,237,235
Basic wages of temporary employees	-	-
Personal allowances paid as part of salary	-	726,456,222.05
Personal allowances paid as reimbursements	-	-
Personal allowances provided in kind	-	-
Pension and other social security contributions	-	-
Total	2,742,288,074	2,416,693,457.05

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 FINANCE COSTS, INCLUDING LOAN INTEREST

	2015-2016	2014-2015
	Kshs	Kshs
Interest Payments on Foreign Borrowings	-	-
Interest Payments on Guaranteed Debt paid by Govt	96,085,835	115,664,481
Interest on Domestic Borrowings (Non-Govt)	-	-
Interest on Borrowings from Other Government Units	-	-
Total	96,085,835	115,664,481

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

	2015-2016 Kshs	2014-2015 Kshs
Principal repayments on domestic loans	-	-
Principal repayments on Guaranteed Debt paid by Government	954,122,778	899,285,639.80
Repayments on borrowings from other domestic creditors	-	-
Repayment of Principal from Foreign Lending & On – Lending	-	-
Total	954,122,778	899,285,639.80

6 OTHER EXPENSES

	2015-2016 Kshs	2014-2015 Kshs
Budget Reserves	-	-
Civil Contingency Reserves	-	-
Other expenses-Loan Management Expenses	1,800	3,150
	1,800	3,150

7 Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2015-2016	2014-2015
				Kshs	Kshs
Central Bank of Kenya (KES)				Kshs	Kshs
<i>Salaries, Allowances, Miscellaneous & Guaranteed Debt- Rec. 1000204419</i>	-	Reccurent	-	118,445,550.80	172,450,397.35
Total				118,445,550.80	172,450,397.35

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. ACCOUNTS RECEIVABLE

<i>Description</i>	2015-2016	2014-2015
	Kshs	Kshs
GAV Provisioning Account Balance	-	-
Exchequer Provisioning Balance	-	-
Net Exchequer under issues	-	8,663,621,031.55
Total	0	<u>8,663,621,031.55</u>

9. Outstanding Items

<i>Description</i>	2015-2016	2014-2015
	Kshs	Kshs
Clearance accounts- Suspense Account Items Awaiting Clearance	-	11,980,333.50
Total	-	<u>11,980,334</u>

10. FUND BALANCE BROUGHT FORWARD

	2015-2016	2014-2015
	Kshs	Kshs
Bank accounts	172,450,397	611,895,931
Cash in hand	-	-
Accounts Receivables	8,663,621,032	7,954,509,103
Outstanding Items awaiting Clearance	11,980,334	-
Accounts Payables	-	-
Total	<u>8,848,051,762.40</u>	<u>8,566,405,035</u>

[Provide short appropriate explanations as necessary]

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11. RESTATEMENT OF 2014-2015 BALANCES

STATEMENT OF RECEIPTS AND PAYMENTS

	2014-2015 (AUDITED) KSHS.	ADJUSTMENT KSHS.	2014 - 2015 (RESTATED) KSHS.
Compensation of Employees-salaries and allowances	2,418,352,317	(1,658,859)	2,416,693,457
Interest payment on Guaranteed Debt	115,667,631	(3,150)	115,664,481
Principal Payments on Guaranteed Debts	899,285,640	-	899,285,640
Other Expenses- Loan Management Expenses	3,150	-	3,150
TOTALS	3,433,308,738	(1,662,009)	3,431,646,728

STATEMENT OF FINANCIAL POSITION

	2014-2015 (AUDITED) KSHS.	ADJUSTMENT KSHS.	2014 - 2015 (RESTATED) KSHS.
Bank Balance	58,832,636	113,617,761	172,450,397
Accounts receivables	-	8,663,621,032	8,663,621,032
Outstanding Items for clearance	-	11,980,334	11,980,334
Fund balance b/fwd	(397,382,932)	(8,169,022,104)	(8,566,405,036)
Surplus/Deficit for the year	283,308,738	(1,662,010)	281,646,728
Prior year Adjustments	55,241,558	(618,535,013)	(563,293,455)
TOTALS	-	-	-

Restatement Footnotes

- . Compensation to employees was re-stated to reflect returned amount.
- . Interest on guaranteed debt had been over – stated and has now been rectified.
- . Bank balance as per bank certificate was restated to reflect the cash book position.
- . Accounts receivable was re-stated to recognize cumulative exchequer under issues in order to write them off.
- . Items awaiting clearance was re-stated because it was over-stated.
- . Fund balance brought forward was re-stated to reflect omission of cumulative exchequer under – issues in the prior year.
- . The deficit/surplus was re-stated to reflect the changes in receipts and payments
- . Prior year adjustments was as a result of cashbook adjustments

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12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Referen ce No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
73	Non-disclosure of Accounting policies adopted in the preparation and presentation of Financial statements	The omission has since been corrected			
74	Failure to provide a Trial Balance	The Trial Balance has since been provided			
75.1	Difference in amounts reported in the Statement of Receipts & payments and the Ledger, regarding the expenditure on Salaries and allowances	The difference relates to payments made off-payroll which had not been posted to the ledger. The same have since been posted and availed for audit review, and statement of receipts and payments revised accordingly			
75.2	Difference in expenditure amounts as reported in the statement of receipts and payments and the payroll summaries	The difference relates to payments made off-payroll which had not been posted to the ledger. The same have since been posted and availed for audit review, and statement of receipts and payments revised accordingly			

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Referen ce No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
76	Payments under Guaranteed Loans Act	The institutions were faced with financial constraints and could not meet their loan service obligations. The organizations requested the National Treasury to settle the loan obligations on their behalf (correspondences on the same availed.			
77	No analysis provided to support the figures in the Statement of Financial position on prior year adjustments	By the time of audit the statement reflected prior year adjustment of Kshs. 55,241,558.25. The statement of financial position was revised to reflect cash book balances instead of bank balances.			
78	Non remittance of 2013/2014 Unspent appropriation to the National Exchequer as required by PFM Act 2012	The un-spent balance of Kshs 397,382,932.20 for 2013/14 financial year was used to finance part of the budget of 2014/15 financial year.			
79.1	Omission of Expenditure and Receipts in the Financial Statements	The omission has since been corrected			
79.2	Ledger amounts on Loan management expenditure item omitted in the Financial statements	The omission has since been corrected			

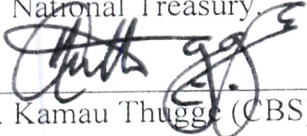
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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
80	Variations between the Ledger and payroll balances in respect of the Judiciary, Kenya National Commission on Human Rights and National Cohesion and Integration	The variances were due to over/under casts in the ledger. The accounts were later amended. The ledger and the pay roll figures are in agreement and have since been availed for audit review.			
81	Unexplained source of funding	The deficit of Kshs 281,646,727.85 and not Kshs 283,308,738.00 was financed from the exchequer amounting to Kshs 397,382,932.20 brought forward from 2013/14 financial year.			
82	Difference on the cashbook balance in the Statement of Financial position and bank reconciliation statement				

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to

National Treasury


 Dr. Kamau Thugge (CBS)
 Accounting Officer


 George Kihara Gichuru
 Senior Assistant Accountant General

WILLIAM W. WOOD
1877