

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL


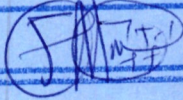
ON

CONTINGENCIES FUND

FOR THE YEAR
ENDED 30 JUNE 2018

THE NATIONAL TREASURY



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 25 MAR 2019	DAY: TUESDAY
TABLED BY: MAJORITY LEADER	
CLERK AT THE TABLE:	

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THE NATIONAL TREASURY

Financial Statements for Contingencies Fund Account

For the Financial Year ended 30th June 2018

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

The National Treasury
Financial Statements for the Contingencies Fund
For the Financial Year ended 30th June 2018

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1. THE NATIONAL TREASURY INFORMATION MANAGEMENT

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 National Treasury and Planning, who is responsible for the general policy and strategic direction of the Ministry.

Vision

An institution of excellence in economic and public financial management.

Mission

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

Core Values

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset, Equity, Fairness and Inclusion.

Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance Management Act 2012 and the Executive Orders No.2/2013 and No.1/2018. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal provisions include:

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;

- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting;
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments
- Assist county governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:-

- Strengthen financial and fiscal relations between the National Government and County Governments and encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

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 operations. In addition, the Principal Secretary is charged with the responsibility of providing advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility. The Principal Secretary is the Accounting Officer for Vote 1071 – NT.

Organizational structure of the National Treasury

The National Treasury is organized into four (4) technical Directorates headed by Directors General and one (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising of 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;
- Internal Audit Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

NO.	Designation	Name
1.	Chief Administrative Secretary	Hon. Nelson Gaichuhie
2.	Principal Secretary	Dr. Kamau Thugge, CBS
3.	Secretary Administration	Mr. Musyimi S.K, CBS
4.	Principal Administrative Secretary, CBS, SS	Mutua Kilaka, CBS,SS
5.	Director General, BFEA	Dr. Geoffrey Mwau, EBS
6.	Director General, Accounting Services & Quality Assurance	Mr. Bernard Ndung'u, MBS
7.	Director General, PIPM	Ms. Esther Koimett, CBS
8.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
9.	Director, Budget Department	Mr. Francis Anyona, OGW
10.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Ag. Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Internal Auditor General	Mr. Alfayo Mogaka
14.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
15.	Jane W N Macharia	Ms. Jane W N Macharia
16.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
17.	Director Government Digital Payments	Mr. Harry Mwangi
18.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
19.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
20.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
21.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
22.	Director, Pensions Department	Mr. Shem Nyakutu
23.	Ag. Director General Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
24.	Director, Debt Policy, Strategy & Risk Management Department	Mr. Daniel Ndolo
25.	Ag Director, Debt Recording and Settlement Department	Mrs. Felister Kivisi
26.	Head, Accounts Division	Mr. George Gichuru
27.	Head, Finance	Mr. Kimathi Mugambi, HSC
28.	Head, SCM	Mr. Peter Momanyi
29.	Head, Internal Audit Unit	Mr. John Kariuki
30.	Director, Human Resource Management & Development	Ms. Susan Mucheru
31.	Ag Director, Information Communication and Technology	Mr. George Kariuki
32.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
33.	Head, Public Communications	Mr. Maina Kigaga
34.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
35.	Ag. Director, Government Clearing Agency	Mr. Felix Ateng

Budget Implementation Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of 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.

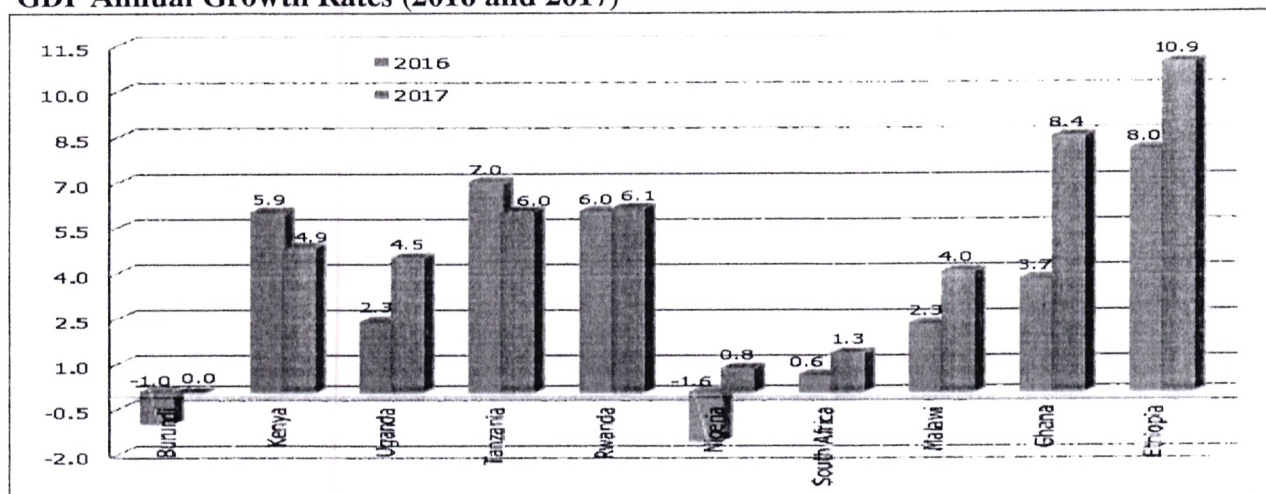
Monitoring and Evaluation

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.

2. 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 bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-Saharan Africa.

GDP Annual Growth Rates (2016 and 2017)

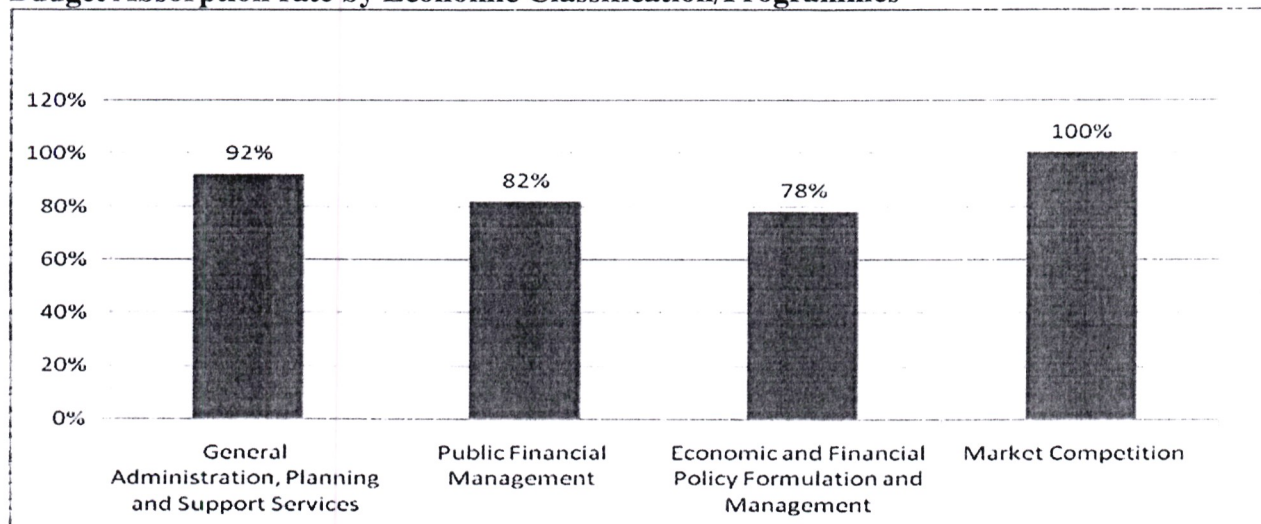


Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to maintain macro-economic stability, which is key in enhancing investor confidence. The Country made notable progress in 2017 in improving the ease of doing business, thereby providing a conducive business environment for both domestic and foreign investors. These reforms have seen Kenya being ranked favourably in the ease of doing business and as a top investment destination. For two consecutive years (2016 and 2017 World Bank's Doing Business Reports), Kenya emerged as the third most reformed country in the world, and in the 2018 Report, as the third best in sub-Saharan Africa and position 80 overall.

The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred investment destination in East Africa, with the majority of investors being attracted by the good infrastructure, ease of doing business, and strong economic growth and prospects.

In terms of budget performance, the National Treasury expenditure stood at Kshs.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs.9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%. The National Treasury implemented the 2017/18 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 81.7% and Economic and Financial Policy Formulation and Management (78%).

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

- The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of Kshs.327 billion in 2017/2018 up from Kshs.302.2 billion in 2016/2017. Since their establishment in March 2013, County Governments have received more than Kshs.1.3 trillion from the National Government.
- In line with its commitment to enhance the County Governments capacity, the National Treasury developed the County Governments (Revenue Raising Regulation Process) Bill. The Bill is geared towards addressing the challenges County Governments are encountering in revenue collection, mitigating their negative effects and assisting the Counties to optimize own-sources revenue.
- The National Treasury successfully priced a new \$2 billion Eurobond Transaction. This issue was 7 times oversubscribed thus making it one of the highest order book for an issue from Africa, and providing a dollar yield curve stretching out to 30 years. This made Kenya one of a handful of Governments to achieve this. Specifically with the 30 year yield, international investors demonstrated their long term belief that Kenya is a stable economy in which long-term investments are safe.

Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. 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.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthen financial and fiscal relations between the national government and county governments
5. 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.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY

3. CONTINGENCY FUND INFORMATION AND MANAGEMENT

3.1 Establishment of the Fund

The Contingencies Fund is established pursuant to Article 208 of the Constitution of Kenya and requires it to be operated in accordance with an Act of Parliament. The fund is set up for purposes of meeting an urgent and unforeseen need for expenditure for which there is no other authority.

Section 19 of the PFM Act, 2012, the Contingency Fund shall consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year. Section 20 (2) of the PFM Act, 2012, specifies that the permanent capital of the Contingencies Fund shall not exceed ten billion shillings (Kshs 10 billion) or such other amount as may be prescribed by the Cabinet Secretary with the approval of Parliament.

3.2 Administration and reporting arrangements of the Fund

The Cabinet Secretary, National Treasury has been designated to administer the Contingencies Fund pursuant to Section 20 of the PFM Act, 2012 and further requires the Cabinet Secretary, National Treasury to keep the Contingencies Fund in a separate account, maintained at the Central Bank of Kenya and to pay into that account all monies appropriated to the Contingencies Fund by an appropriation Act. The Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority pursuant to Section 21 of the PFM Act, 2012.

Further, Section 50 of the PFM regulations (National Government), 2015 requires an Accounting Officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

The National Treasury is required to prepare and submit to the Auditor-General financial statements for that year in respect of the Contingencies Fund not later than three months after the end of each financial year pursuant to Section 23 of PFM Act, 2012.

3.3 Key Management of the Fund

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

Designation	Name
Principal Secretary	Dr. Kamau Thugge, CBS
The Administrator	Bernard Ndungu, MBS

4. STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 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 by the Public Sector Accounting Standards Board of Kenya from time to time.

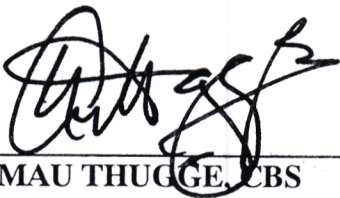
The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Contingencies Fund report, which give a true and fair view of the state of affairs of The National Treasury for and as at the end of the financial year (period) ended on 30th June, 2018. 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 status of the Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer accepts responsibility for the Contingency Fund report, which has been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that this Fund report gives a true and fair view of the Contingency Fund performance during the financial year ended 30th June, 2018. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for Contingency Fund, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Accounting Officer confirms that the Contingency Fund has complied fully with applicable Government Regulations. Further the Accounting Officer confirms that this report has 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 Contingencies Fund was approved and signed on 28/09. 2018 by the following:



DR. KAMAU THUGGE, CBS
Principal Secretary
The National Treasury



BERNARD NDUNGU, MBS
Director General Accounting Services
and Quality Assurance
The National treasury

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONTINGENCIES FUND FOR THE YEAR ENDED 30 JUNE 2018 – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Contingencies Fund set out on pages 1 to 7, which comprise the statement of assets and liabilities as at 30 June 2018, 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, the financial statements present fairly, in all material respects, the financial position of the Contingencies Fund as at 30 June 2018, and 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

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Contingencies Fund in accordance with ISSAI 30 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 opinion.

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 report in the year under review.

Report of the Auditor-General on the Financial Statements of Contingencies Fund for the year ended 30 June 2018 – The National Treasury

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 matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

COMPLIANCE WITH REQUIREMENTS OF PUBLIC FINANCE MANAGEMENT ACT, 2012

During the year under review an amount of Kshs.1,050,000,000 was paid out of the Contingencies fund on 29th May 2018 for the purposes of supporting countrywide flood response, supporting flood victims and cash release to families affected by landslides. However, it was noted that:

- i) There was no documentary evidence availed to show that the Cabinet Secretary –The National Treasury submitted to parliament a detailed report in respect of the above payments and to subsequently seek parliament to approve the payment(s). The lack of parliamentary approval for such payments is contrary to section 22 (1) of the PFM Act, 2012.
- ii) The fund management did not avail any evidence to show that the Cabinet Secretary – The National Treasury had presented an appropriation bill to parliament for the appropriation of the money paid and for the replenishment of the Contingencies Fund to the extent of the payment made from the fund. Lack of the Appropriation Bill/Act referred to above is contrary to section 22 (3) of the PFM Act, 2012.
- iii) Contrary to the provisions of the Public Finance Management Act, 2012, Section 23(d) and (e), the management did not include in the statements, information whether the funds so withdrawn were spent for the intended purpose or paid to persons who were supposed to be paid.

The non-compliance with the Public Financial Management Act, 2012 on this matter puts to risk the operations of the Contingencies Fund to the extent of monies paid out and not replenished. There is a danger therefore that in future the Fund may be exhausted thereby failing to meet its mandate.

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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, 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.

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 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/sustain services, disclosing, as applicable, matters related to going concern/ sustainability of services and using the applicable basis of accounting unless the National Government either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so. 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 financial reporting process, reviewing the effectiveness of how the entity 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 control 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 control would not necessarily disclose all matters in the internal control 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 control 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 policies and procedures may deteriorate.

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

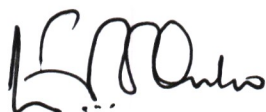
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 control.

- 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 the going concern 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 ability to continue as a going concern or 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 National Treasury to cease to continue as a going concern or 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 National Treasury 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 control 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.



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

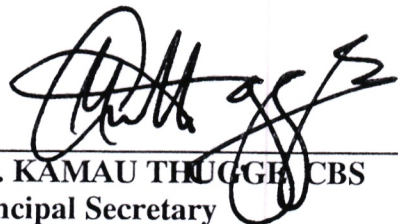
Nairobi

7 February 2019

**6. RECEIPTS AND PAYMENT STATEMENT FOR THE YEAR ENDED
 30TH JUNE 2018**

	Notes	FY 2017/2018 Kshs	FY 2016/2017 Kshs
Opening balance		7,000,000,000	7,000,000,000
Receipts			
Refund from MDAs	11.1	-	1,080,986,145
Total Receipts		-	1,080,986,145
Transfers from the Contingencies Fund			
Advance to MDAs	11.2	(1,050,000,000)	(1,080,986,145)
Total transfers		(1,050,000,000)	(1,080,986,145)
Closing balance	11.3	5,950,000,000	7,000,000,000

The notes on pages 5 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on... 28/09/2018 by the following:



DR. KAMAU THUGGE CBS
 Principal Secretary
 The National Treasury

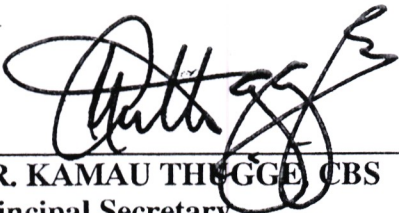



BERNARD NDUNGU, MBS
 Director General Accounting Services
 and Quality Assurance
 The National treasury

7. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE 2018

	Note	FY 2017/2018 Kshs	FY 2016/2017 Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	11.3	5,950,000,000	7,000,000,000
Total Cash and Cash Equivalents		5,950,000,000	7,000,000,000
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		5,950,000,000	7,000,000,000
Financial Liabilities			
Accounts Payables – Deposits And Retentions		-	-
Net Financial Assets		-	-
Represented By			
Fund Balance B/Fwd		7,000,000,000	7,000,000,000
Surplus/Deficit for the year		(1,050,000,000)	-
Net Financial Position		5,950,000,000	7,000,000,000

The notes on pages 5 to 7 form an integral part of these financial statements. This statement has been reviewed and approved on September 28, 2018 by the following:


 DR. KAMAU THUGGE, CBS
 Principal Secretary
 The National Treasury

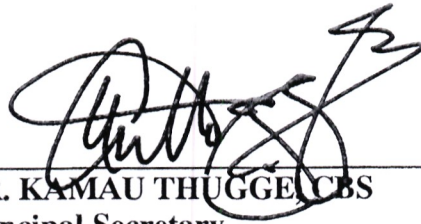

 BERNARD NDUNGU, MBS
 Director General Accounting Services
 and Quality Assurance
 The National treasury


8. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2018

		FY 2017/2018	FY 2016/2017
		Kshs	Kshs
Receipts for Operating Income			
Refund from MDAs	11.1	-	1,080,986,145
Payments and advances			
Advance to MDAs	11.2	(1,050,000,000)	(1,080,986,145)
Net Cash Flow from Operating Activities		-	-
Cash flow from Investing Activities		-	-
Cash flow from Borrowing Activities		-	-
Cash and cash equivalents at the beginning of the year		7,000,000,000	7,000,000,000
Net Increase in Cash and Cash Equivalents		(1,050,000,000)	-
Cash and Cash Equivalent at the end of the Year		5,950,000,000	7,000,000,000

An amount of Kshs. 1,050,000,000 was advanced to State Department for Interior during the financial year 2017/2018. However refund was not made because there was no supplementary budget. State Department for Interior is in the process of factoring the refund in the supplementary budget to be affected it 2018/2019 financial year.

The notes on pages 5 to 7 form an integral part of these financial statements. This statement has been reviewed and approved on...28/09...2018 by the following:


 DR. KAMAU THUGGE, CBS
 Principal Secretary
 The National Treasury


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9. COMPARISON OF BUDGET VERSUS ACTUAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2018

The following statement summarizes the outturn against budget:

	Original Estimates	Adjustments	Revised Estimates	2017/2018	Deviations
	Kshs	Kshs	Kshs	Kshs	Kshs
Receipts					
Refund from MDAs			-	-	-
Sub-total			-	-	-
Transfers					
Transfer to MDAs	-	-	-	1,050,000,000	-
Total Transfers	-	-	-	1,050,000,000	-

The Fund did not receive any amount during the financial year 2017/2018 by way of a budgetary provision under the National Treasury development budget. An amount of Kshs 1,050,000,000 was advanced to State Department for Interior which was not refunded by the Year end. The amount will be refunded to contingency fund account in the FY 2018/2019.

10. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of the Contingencies Fund has been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) Cash based standard as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

b) Reporting entity

The Cabinet Secretary, National Treasury has been designated as the Administrator of the Contingencies Fund, pursuant to Section 20 of the PFM Act, 2012. Accordingly, the reporting entity is the National Treasury.

c) Receipts

Receipts consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year. Receipts are recognized when cash is received in the Contingencies Fund.

d) Payments and transfers

Pursuant to Section 21 of the PFM Act, 2012, the Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority. Section 50 of the PFM (National Government) regulations, 2015 requires an accounting officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

Payment is recognized when actual cash is paid out of the Contingencies Fund.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, un-surrendered imprests and short term deposits in money market instruments.

f) Presentation Currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

11. NOTES TO THE ACCOUNTS

11.1 Receipts

The Contingency Fund did not receive any funds during the year.

11.2 Advances from the Contingency Fund to MDAs

An amount of Kshs. 1,050,000,000.00 was advanced from the Fund during the 2017/2018 financial year to State Department for Interior. The State Department for Interior confirmed having received the funds and spent the funds for the intended purpose with a detailed analysis on the person whom the payment was made and the purpose intended as follows:

Date	Payee	Purpose	2017/2018 Amount KShs	2016/2017 Amount KShs
State Department for Special Programmes				
31.01.2017	Relief Food Suppliers	Relief Food	-	981,901,383.15
31.01.2017	Transport Suppliers	Transport and logistics	-	99,097,859.05
State Department for Interior				
31.05.2018	Kenya Red cross	Country Wide Flood Response	1,000,000,000.00	-
11.06.2018	Flood Victims	Support of Flood Victims	18,070,000.00	-
28.06.2018	Murang'a County Commissioner	Cash Release to Families affected by Landslide	31,930,000.00	-
	Total Payments		1,050,000,000.00	1,080,986,145.20

11.3 Closing Balance

The closing balance as at 30th June 2018 amounted to Kshs 5.9 Billion while the closing balance as at 30th June 2017 amounted to Kshs 7.0 Billion as reflected in the bank account of the Fund. Considering that the advance was made on 29th May 2018, there was no enough time within the 2017/2018 financial year for approval by parliament to facilitate the appropriation of the paid amount for the replenishment of the Contingencies Fund to the extent of the amount of the payment as per PFM Act 22(1)-(3).

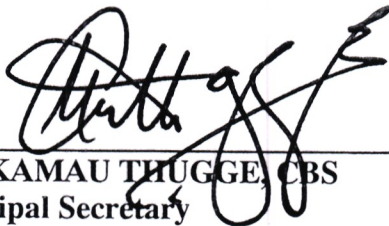
Description	2017/2018 Kshs	o2016/2017 Kshs
Bank Account No. 1000183233	5,950,000,000	7,000,000,000
Total Receipts	5,950,000,000	7,000,000,000



12. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS

There were no noted and outstanding audit matters issues during the previous audits as indicated on the table below.

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)
Unqualified opinion	N/A	N/A	N/A	N/A	N/A



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