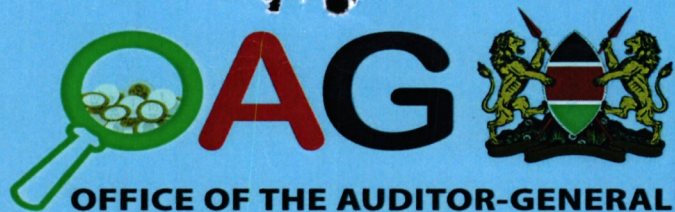


REPUBLIC OF KENYA



Enhancing Accountability

REPORT



OF

THE AUDITOR-GENERAL

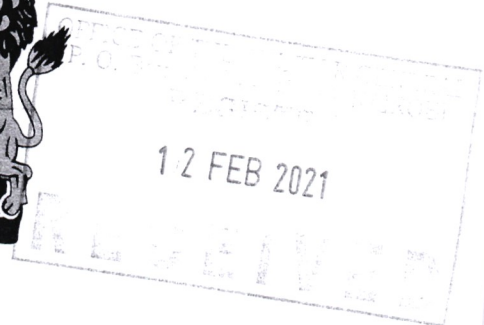
ON

**CONSOLIDATED FUND SERVICES – SALARIES,
ALLOWANCES AND MISCELLANEOUS
SERVICES**

**FOR THE YEAR ENDED
30 JUNE, 2020**

THE NATIONAL TREASURY

A



THE NATIONAL TREASURY
SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES
REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

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

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KEY ENTITY INFORMATION AND MANAGEMENT

1. NATIONAL TREASURY 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 National Treasury and Planning, who is responsible for the general policy and strategic direction of the Ministry with the assistance of the Chief Administrative Secretary.

Vision

“Excellence in economic and public financial management, and development planning”

Mission

“To provide leadership in economic and public financial management, and development planning for shared growth through formulation, implementation and monitoring of economic, financial and development policies”

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 and Teamwork.

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;

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- 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 support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- 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;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

(b) Key Entity Information and 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.

Organizational Structure of the National Treasury

The National Treasury 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:

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- 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.
- Government Digital Payments Unit.

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

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 twelve (12) 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,

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- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

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Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2020 and who had direct fiduciary responsibility were:

| S/No. | Designation | Name |
|--------------|-----------------------------------------------------------------------|---------------------------|
| 1. | Principal Secretary | Dr. Julius Muia, PhD, CBS |
| 2. | Principal Administrative Secretary | Mr. Amos Gathecha, EBS |
| 3. | Ag. Director General, BFEA | Mr. Albert Mwenda, HSC |
| 4. | Director General, Accounting Services | Mr. Bernard Ndung'u, MBS |
| 5. | Ag. Director General, PIPM | Eng. Stanley Kamau |
| 6. | Director General, PDMO | Dr. Haron Sirma, OGW |
| 7. | Director, Macro and Fiscal Affairs Department | Mr. Musa Gathanje |
| 8. | Director, Budget Department | Mr. Francis Anyona, OGW |
| 9. | Director, Financial and Sectoral Affairs Department | Prof. Galgalo Barako |
| 10. | Director, Public Procurement Department | Mr. Eric Korir |
| 11. | Director, Intergovernmental Fiscal Relations Department | Mr. Albert Mwenda, HSC |
| 12. | Internal Auditor General | Mr. Alfayo Mogaka |
| 13. | Ag Director, Government Accounting Services Department | Mr. Jona Wala |
| 14. | Ag Director, National Sub County Treasuries | Mr. Francis Kariuki |
| 15. | Director, Financial Management Information System | Mr. Stanley Kamunguya |
| 16. | Ag. Director, Public Private Partnership Unit | Mrs. Veronica Okoth |
| 17. | Director, National Assets and Liability Management | Mrs. Beatrice Gathirwa |
| 18. | Director, Government Investment and Public Enterprises | Mr. Kennedy Ondieki |
| 19. | Director, Pensions Department | Mr. Michel Kagika, EBS |
| 20. | Director, Resource Mobilization Department | Mr. Moses Kanagi |
| 21. | Director, Debt Policy, Strategy and Risk Management Department | Mr. Daniel Ndolo |
| 22. | Ag Director, Debt Recording and Settlement Department | Mr. George Kariuki |
| 23. | Senior Deputy Director of Administration | Mr. Boniface Simba, OGW |
| 24. | Head, Accounts Division | Mr. Nemwel M. Motanya |
| 25. | Head, Finance | Mr. Kimathi Mugambi, HSC |
| 26. | Head, SCM | Mr. Aggrey kituyi |
| 27. | Head, Internal Audit Unit | Mr. Esther Ngeru |
| 28. | Director, Human Resource Management and Development | Ms. Susan Mucheru |
| 29. | Ag Director, Information Communication and Technology | Mrs. Lynn Nyongesa |
| 30. | Head, Central Planning and Project Monitoring Unit | Mr. Antony Muriu |
| 31. | Head, Public Communications | Mr. Robert Chepkwony |
| 32. | Programme Coordinator, Public Financial Management Reform Secretariat | Mr. Julius Mutua |
| 33. | Director, Government Clearing Agency | Mr. Felix Ateng |

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(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 an internal Audit Unit charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officer on a regular basis.

Audit Committees

In line with the Public Finance Management Act, the National Treasury has established a Ministerial Audit Committee comprising five members, three of whom are independent. The Committee provides overall oversight and quality assurance including follow up on the effectiveness of implementation of audit recommendations.

Further, the National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Senior Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Project Implementation Committee

To monitor the implementation of the Government's Infrastructure Projects, the National Treasury has established a Project Steering Committee comprising Principal Secretaries from implementing Ministries and appointed a technical committee comprising officers from the technical departments of the Ministry. The Committees review and analyse the progress made by ministries in the implementation of domestically and externally funded projects and advises accordingly.

Parliamentary Activities

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has established a Committee and designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

Development Partner Oversight

To effectively manage Official Development Assistance to the Government, the National Treasury has under the Public Debt Management a Department responsible for all matters relating to Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

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Other fiduciary oversight arrangements include the following committees with specific objectives;

Top Management and Senior Management Committees

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed Top Management and Senior Management Committees comprising of Directors General and Heads of Departments respectively. The Committees receive reports from departments, build consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions made are implemented in a timely manner.

Public Financial Management Sector Working Group

To facilitate the implementation of financial management reforms, the National Treasury has appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

Budget Implementation Steering Committee

In order to effectively monitor the implementation of the National Government budget implementation, The National Treasury has established a steering Committee Chaired by the Cabinet Secretary, National Treasury and Planning. The Principal Secretaries for the National Treasury and State Department of Planning provide general oversight in the Budget implementation.

Budget Implementation Technical Committee

The Committee is chaired by the Principal Administrative Secretary and comprises the Directors General and various Heads of Department. The Committee is responsible for monitoring the actual implementation of the identified measures and programmes and reporting detailed progress on the same regularly.

Budget Implementation Ministerial 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.

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(e) The National Treasury Headquarters

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

The National Treasury Contacts

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

(f) The National Treasury Bankers

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

(g) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O Box 30084
GPO 00100
Nairobi, Kenya

(h) Principal Legal Adviser

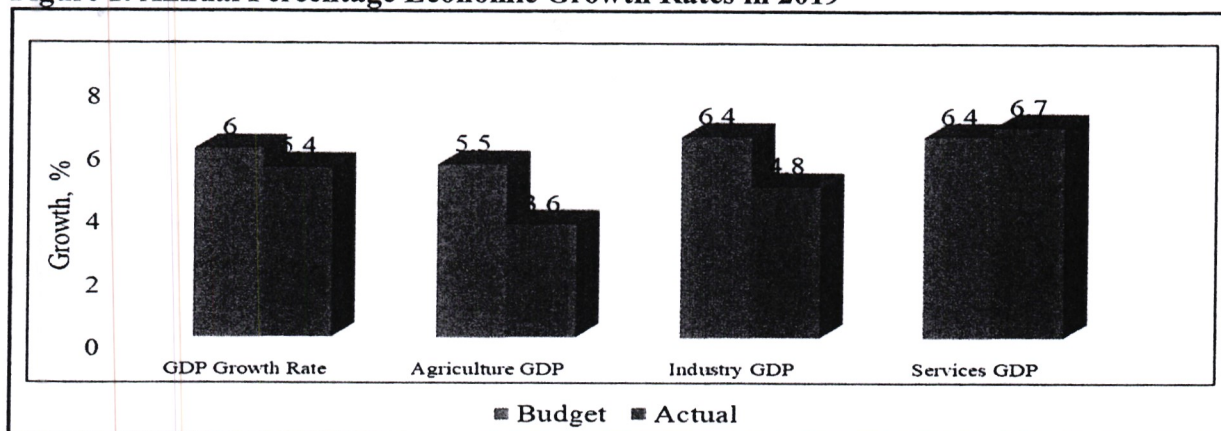
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. FOREWORD 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 strong in 2019 expanding by 5.4 percent compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors including Financial and Insurance as well as in Real Estate sub-sectors. However, there was a slowdown in agricultural activities due to suppressed long rains in key agricultural zones. In the first quarter of 2020, economic performance in most sectors slowed down compared to the corresponding quarter of 2019. Real GDP grew by 4.9 per cent during the review period compared to 5.5 per cent growth in the first quarter of 2019. The economy was affected by the uncertainty surrounding the corona pandemic that was already slowing economic activity in most of the country's major trading partners. Additionally, the economic slowdown in fourth quarter was aggravated by 9.3 per cent contraction in Accommodation and Food Service activities on account of Corona Virus containment measures instituted in our major tourist source markets.

Figure 1: Annual Percentage Economic Growth Rates in 2019



Data Source: Kenya National Bureau of Statistics, MTP III

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. Year-on-year overall inflation rate remained within the Government target range of 5+/-2.5 percent at 4.6 percent in June 2020 down from 5.7 percent in June 2019. This was supported by improving food supply leading to lower food prices due to favourable weather conditions and lower international oil prices. Similarly, overall annual average inflation remained within Government target range at 5.5 percent in June 2020 compared to the 5.2 percent recorded in June 2019.

By the end of June 2020, Total revenue collected, inclusive of the ministerial A-I-A, recorded an annual growth of 1.9 percent, a decline from a growth of 11.7 percent recorded in June 2019. The decline is attributed to the difficult operating environment due to the Covid-19 pandemic which adversely affected revenue performance especially in the fourth quarter.

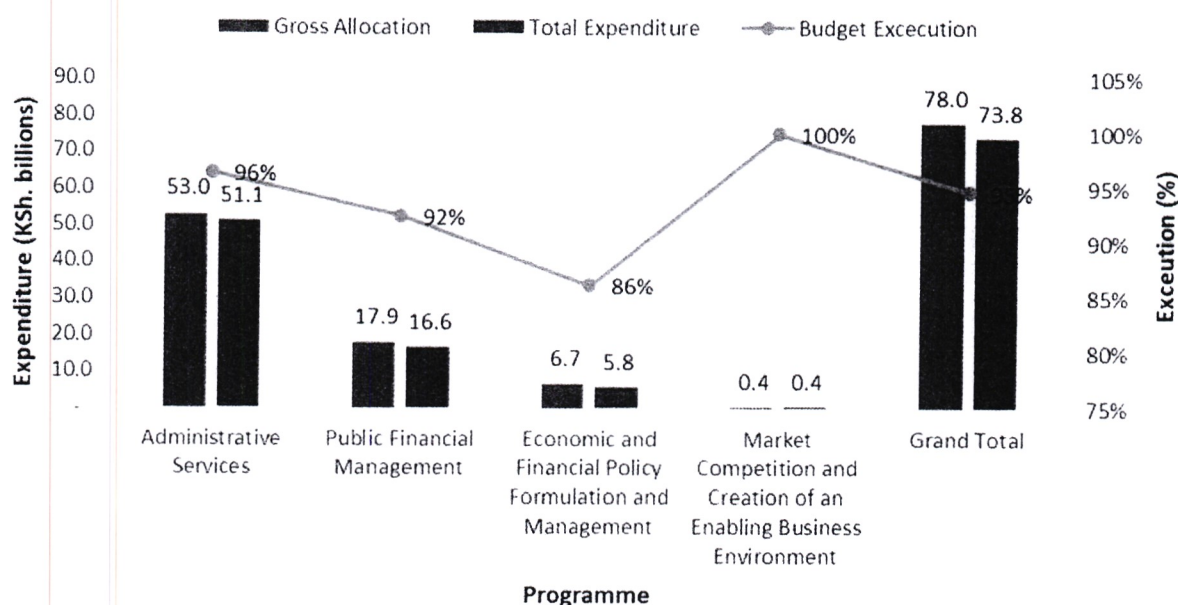
In order to ensure increased efficiency, stability and access of the financial sector, the National Treasury published the Public Finance Management (amendments) Bill, 2020. The Bill

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which was assented to by H.E the President seeks to establish the Credit Guarantee Scheme for Micro, Small and Medium Enterprises (MSMEs) in Kenya. The Bill will enable the government to give its undertaking to participating financiers that in the event of a default on loans advanced to MSMEs, the government will pay part of the loan in default. Targeted credit support to MSMEs will lead to growth in output with the potential to uplift the lives of many Kenyans through job creation.

In terms of budget performance, the National Treasury expenditure stood at Kshs.73.810m against an approved budget of Kshs.77.973m. translating to an overall absorption rate of 95%. The National Treasury implemented the 2019/20 budget within four economic classifications/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management, and Market Competition and Creation of an Enabling Business Environment. As demonstrated in the bar chart below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 96%, Economic and Financial Policy Formulation and Management (92%) and Public Financial Management Programme at 86%.

Figure 2: Budget Execution (KSh. Billions) and proportion (%) by Programmes



The 100% absorption rate in Market Competition and Creation of an Enabling Business Environment programme is attributed to transfers to Semi Autonomous Government Agencies (SAGAs) under the National Treasury which implemented this programme.

The lowest performing programme is Economic and Financial Policy Formulation and Management at 86%. This is attributed to underperformance in absorption in sub-classifications of Routine Maintenance (7%) and Acquisition of Capital Assets (4%) which was mainly due to scaled down activity as a result of COVID 19 related adjustments.

Other key achievements during the period under review are as follows;

- A framework for processing of tax exemptions and waivers was developed. The framework will help in managing the tax expenditures.
- A Draft Sovereign Wealth Fund Bill and Policy that establishes a framework for managing revenues from minerals, oil and gas was developed and submitted to the AG for legal drafting.
- To enhance revenue collection, the Finance Act, 2019 was developed and enacted by Parliament. In addition, the current Income Tax Act was reviewed and a new Income Tax Bill developed and submitted to parliament.
- The Tax Procedures Act, 2015 (TPA) was also amended through the Finance Act to simplify declaration and remittances by taxpayers.
- In order to promote financial inclusion and a culture of savings among the lower income groups/informal sector workers, the National Treasury issued a MAkiba bond tranche worth Ksh 500 million during the period under review. The tranche attracted subscriptions worth Ksh 263 million or approximately 52.6% success rate. In addition, the National Treasury formulated Kenya's Public Debt and Borrowing Policy which was approved by Cabinet. The Policy provides for guidance on debt management and contracting of new public debt, ensures value for money from debt funded programmes and safeguards debt sustainability.

The emerging issues that have impacted the operations of the National Treasury include;


- The outbreak of COVID-19 pandemic affected achievement of targets due to delay and disruption of the policy making process especially in public participation and change of priorities arising from the urgent need to contain the spread of COVID-19.
- The global political landscape such the Brexit affected attainment of some of the targets.

Some of the challenges the National Treasury faced while implementing the 2019/20 budget include:-

- Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
- Low absorption of Official Development Assistance (ODA).
- Inadequate staff capacity in some key technical Departments.

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects.
- Enhanced 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.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to finance government projects.



Hon, Amb, Ukur Yatani, EGH
Cabinet Secretary, National Treasury and Planning

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I. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives. The key development objectives of the MDA's 2018-2022 plan are to:-

- (a) strengthen organization capacity for quality service delivery
- (b) enhance mobilization, allocation and utilization of public resources.
- (c) ensure stable and sustainable macro-economic environment.
- (d) ensure market structures that encourage competition and orderly conduct of business.

Progress on attainment of Strategic development objectives

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

| MDA Program | Objective | Outcome | Indicator | Performance |
|-------------------------------------------------------|-----------------------------------------------------------------------|------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|
| General Administration, Planning and Support Services | Strengthen organization capacity for quality service delivery | Efficient and effective service delivery | % improvement in service delivery | Fixed lifts for Bima House, Installed CCTVs, refurbished two floors, promoted staff and launched the PSSS Pension Scheme. |
| Public Financial Management | Enhance mobilization, allocation and utilization of public resources. | Transparent and accountable management of public resources | Public Procurement Regulations | Developed PPDA regulations |
| | | | Consolidated Annual Accounts | Annual accounts prepared |
| | | | Annual national budget presented to Parliament by 30th April | Budget presented to parliament |

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| | | | | |
|---------------------------------------------------------------------|--------------------------------------------------------------------------------------|------------------------------------------------------|------------------------------------------------------------|---------------------------------------------|
| Economic and Financial Policy Formulation and Management | Ensure stable and sustainable macro-economic environment. | Stable macroeconomic environment for economic growth | Real GDP growth rate (%) | 5.4 % |
| | | | Inflation rate (%) | 4.6% |
| | | | Months of import cover | 5.0 months of import cover |
| | | | % of fiscal deficit | 8.2% of GDP |
| Market Competition and Creation of an Enabling Business Environment | Ensure market structures that encourage competition and orderly conduct of business. | Sustained high productivity and competitive markets | Percentage of consumer complaints investigations concluded | 80% of the consumer complaints investigated |

CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The National Treasury exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on the following core values: customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar.

Sustainability strategy and profile –

To ensure economic sustainability, the National Treasury has put in place several measures geared towards protecting the economy and its citizens against major economic shocks. Some of them include; reduction of VAT and review of income tax to cushion citizens during the COVID 19 pandemic, reorganized the budget to reflect the realities of the current situation and to manage expenditure among others. Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in the Budget Policy Statement (BPS). This will ensure debt is maintained within sustainable levels. The fiscal deficit is expected to decline from 7.7 percent of GDP in FY 2018/19 to 3.3 percent by FY 2023/24. This deliberate fiscal consolidation plan also resonates well with the East African Monetary Union's (EAMU) protocol target ceiling of 3.0 percent of GDP. To achieve this target, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization. In the FY 2019/20, the Government implemented a raft of tax policy measures through the Budget Policy Statement, the Tax Amendment law and the Finance Act, 2019. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting the government's fiscal consolidation efforts. Further, the establishment of Public Investment Management (PIM) Unit at the National Treasury continues to play a great role in enhancing efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending. In particular, the implementation of PIM regulations under the Public Finance Act will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

Environmental performance

The National Treasury has constituted a Committee comprising officers from the key Departments of the Ministry to oversee all matters relating to environmental sustainability. The Committee has since developed a ministerial policy on the same in line with the National Policy on environmental management.

Employee welfare

Employee welfare is critical for effective implementation of the programmes and projects of an organization. Noting the importance of human resources, the National Treasury has a Department established to handle Human Resources Management and Development. The Ministry has also established a Human Resource Management Advisory Committee that process all the promotions, discipline, training, appraisal and general employee matters in line with the Public Service guidelines and procedures. In addition, a Committee on occupational safety and health has

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been established to follow up of the safety conditions in the work place. In order to ensure attracting and retaining competent officers, the National Treasury continued to conduct capacity and training needs assessments for 2019/2020 – 2020/2021 as well as development and implementation of the training projections plan to fill skills gaps. In addition, the National Treasury continued to implement succession management plan by declaring number of the posts to be filled under the delegated powers and continually implementing the provision of the guidelines on the policy on advancement to the next grade at the entry level in the scheme of service and implementation of the Authorised officers and the PSC decisions. Further, the importance of knowledge management was reinforced through: identification of data needs and data gaps; preparation of a database of sources of knowledge across all levels in the State Department, preparation of a comprehensive report on patterns, trends and attributes of the processed data and information in the State Department; preservation and sharing of knowledge as well as application of knowledge to policy and problem solving within the National Treasury.

Under the Youth Internship and Attachment programme, the National Treasury managed to place 106 students under attachment and 91 students under the internship programme spearheaded by the Public Service Commission during the period under review.

Market place practices

The National Treasury is responsible for promoting fair trade practices in the economy. To ensure effective implementation of this function assigned by the Constitution, one of the programmes implemented by the Treasury is ensuring that existing market structures encourage competition and orderly conduct of business in order to support high productivity and competitive markets. In addition, the National Treasury developed the Public Procurement and Asset Disposal Regulations to guide the procurement function in the public Sector.

Under the programme of Access to Government Procurement Opportunities (AGPO), the National Treasury allocated Ksh. 304 million worth of procurement opportunities to the vulnerable groups namely women, youth and people with disabilities during the period under review.

Community Engagements

To mitigate technological hazards, terrorism, fire and natural disasters, the National Treasury engaged a professional security services firm contracted for purposes of enhancing security in the Ministry. It also installed and commissioned CCTV cameras at the Treasury Building and maintained firefighting facilities maintained at the premises in collaboration with the State Department for Public Works.

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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 National Treasury is responsible for the preparation and presentation of the entity's 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 (period) ended on June 30, 2020. 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.

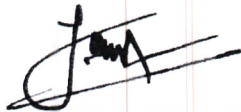
The Accounting Officer in charge of the National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the National Treasury's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2020, and of the entity's financial position as at that date. The Accounting Officer charge of the National Treasury further confirms the completeness of the accounting records maintained for the National Treasury, 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 National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing 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.

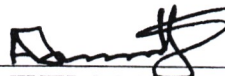
Approval of the financial statements

The *entity's* financial statements were approved and signed by the Accounting Officer on
4/2/ 2021

THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020



JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M. MOTANYA
HEAD OF ACCOUNTS
ICPAK MEMBER NUMBER: 2367

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
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OFFICE OF THE AUDITOR GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED FUND SERVICES - SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES FOR THE YEAR ENDED 30 JUNE, 2020 - THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services set out on pages 1 to 19, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development combined 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 Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 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, 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.

Basis for Conclusion

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 overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall 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 overall governance.

In preparing the financial statements, Management is responsible for assessing the Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services' ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Consolidated Fund Services - Salaries, Allowances and Miscellaneous Services or to cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services 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 overall 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 overall 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.

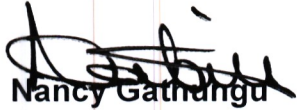
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services' ability to continue 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 Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Consolidated Fund Services – Salaries, Allowances and Miscellaneous Services 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.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

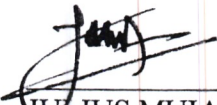
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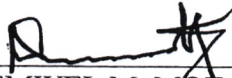
THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

STATEMENT OF RECEIPTS AND PAYMENTS

| | Note | 2019-2020 Kshs | 2018-2019 Kshs |
|----------------------------------------------------------|------|----------------------|----------------------|
| RECEIPTS | | | |
| Exchequer releases | 1 | 3,307,102,197 | 4,406,494,416 |
| TOTAL RECEIPTS | | 3,307,102,197 | 4,406,494,416 |
| PAYMENTS | | | |
| Compensation of Employees | 2 | 2,649,917,412 | 3,024,887,022 |
| Finance Costs, including Loan Interest | 3 | 12,474,902 | 41,243,445 |
| Repayment of principal on Domestic and Foreign borrowing | 4 | 645,018,301 | 1,319,950,403 |
| Other payments | 5 | - | 603,615 |
| TOTAL PAYMENTS | | 3,307,410,615 | 4,386,684,486 |
| SURPLUS/DEFICIT | | (308,418) | 19,809,931 |

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 4/21 2021 and signed by:


 JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY
 NATIONAL TREASURY


 NEMWEL M. MWANYA
 HEAD OF ACCOUNTS
 ICPAK MEMBER NUMBER: 2367

THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

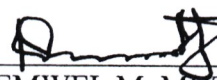
STATEMENT OF ASSETS AND LIABILITIES

| | No | 2019-2020 | 2018-2019 |
|------------------------------------------------------|----|--------------------------|--------------------------|
| | | Kshs | Kshs |
| FINANCIAL ASSETS | | | |
| Cash and Cash Equivalents | | | |
| Bank Balances | 6 | 17,237,371 | 21,998,907 |
| Total Cash and cash equivalent | | <u>17,237,371</u> | <u>21,998,907</u> |
| Accounts receivables – Salary Advance / Overpayments | 7 | 1,566,110 | - |
| TOTAL FINANCIAL ASSETS | | 18,803,481 | 21,998,907 |
| FINANCIAL LIABILITIES | | | |
| Accounts Payables – Deposits and retentions | 8 | (328,858) | 1,574,067 |
| NET FINANCIAL ASSETS | | 18,474,623 | 20,424,839 |
| REPRESENTED BY | | | |
| Fund balance b/fwd | 9 | 20,424,839 | 158,864,022 |
| Prior year adjustment | 10 | (1,641,799) | (158,249,113) |
| Surplus/Deficit for the year | | (308,418) | 19,809,931 |
| NET FINANCIAL POSITION | | 18,474,623 | 20,424,839 |

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 4/21 2021 and signed by:



JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY
 NATIONAL TREASURY



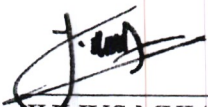
NEMWEL M. MOTANYA
 HEAD OF ACCOUNTS
 ICPAK MEMBER NUMBER: 2367

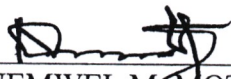
THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
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For the year ended June 30, 2020

STATEMENT OF CASH FLOWS

| | | 2019-2020 | 2018-2019 |
|----------------------------------------------------------|----|----------------------|------------------------|
| | | KShs | KShs |
| Receipts for operating income | | | |
| Exchequer Releases | 1 | 3,307,102,197 | 4,406,494,416 |
| | | | |
| | | 3,307,102,197 | 4,406,494,416 |
| Payments for operating expenses | | | |
| Compensation of Employees | 2 | 2,649,917,412 | 3,024,887,022 |
| Finance Costs, including Loan Interest | 3 | 12,474,902 | 41,243,445 |
| Other Payments | 5 | - | 603,615 |
| | | 2,662,392,314 | 3,066,734,082 |
| Adjusted for: | | | |
| Adjustments during the year: | | | |
| Increase/ Decrease in Accounts receivable: | 11 | (1,566,110) | - |
| Increase/ Decrease in Accounts Payable: | 12 | (1,245,209) | 1,574,067 |
| Prior Year Adjustments | 10 | (1,641,799) | (158,249,113) |
| Net cash flow from operating activities | | 640,256,766 | 1,183,085,287 |
| CASHFLOW FROM BORROWING ACTIVITIES | | | |
| Repayment of principal on Domestic and Foreign borrowing | 4 | (645,018,301) | (1,319,950,403) |
| Net cash flow from financing activities | | (645,018,301) | (1,319,950,403) |
| NET INCREASE IN CASH AND CASH EQUIVALENT | | (4,761,535) | (136,865,115) |
| Cash and cash equivalent at BEGINNING of the year | | 21,998,907 | 158,864,022 |
| Cash and cash equivalent at END of the year | 6 | 17,237,371 | 21,998,907 |

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 4/21 2021 and signed by:


 JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY
 NATIONAL TREASURY


 NEMWEL M. MOTANYA
 HEAD OF ACCOUNTS
 ICPAK MEMBER NUMBER: 2367

CFS SALARIES, ALLOWANCES AND MISCELLANEOUS

Reports and Financial Statements

For the year ended June 30, 2020

SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

| | | | | | | |
|----------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|------|
| Exchequer releases | 4,736,237,060 | (92,500,000) | 4,643,737,060 | 3,307,102,197 | 1,336,634,863 | 72% |
| TOTAL RECEIPTS | 4,736,237,060 | (92,500,000) | 4,643,737,060 | 3,307,102,197 | 1,336,634,863 | |
| Compensation of Employees | 3,964,622,212 | 20,000,000 | 3,984,622,212 | 2,649,917,412 | 1,334,704,800 | 67% |
| Finance Costs, including Loan Interest | 11,869,341 | 0 | 11,869,341 | 12,474,902 | (605,561) | 105% |
| Miscellaneous Services | 128,000,000 | (112,500,000) | 15,500,000 | 0 | 15,500,000 | 0% |
| Repayment of principal on Domestic and Foreign borrowing | 631,745,507 | 0 | 631,745,507 | 645,018,301 | (13,272,794) | 102% |
| TOTAL PAYMENTS | 4,736,237,060 | | 4,643,737,060 | 3,307,410,615 | | |
| Surplus/ Deficit | 0 | | 0 | (308,418) | | |

Notes :

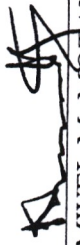
- i) There was an under expenditure of 33% on compensation of employees due to unfilled vacant posts for commissioners whose terms of service had expired, and the demise of the former president H. E Daniel Toroitich Arap Moi during the period.
- ii) There were over utilization of 5% and 2% on finance costs on guaranteed debt and Repayment respectively, due to fluctuations in foreign exchange rates.
- iii) The adjustment to the original budget was to enhance the provision for compensation to employees and a reduction on miscellaneous services through supplementary budget.
- iv) The provision for miscellaneous services caters for Government contribution to National Social Security Fund and loan management expenses. There was no claim for payment in the financial year ended 30th June, 2020.

THE ACCOUNTS SUB-COMMITTEE
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

The entity financial statements were approved on April 2021 and signed by:



JULIUS MUIJA, PhD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M. MOFYANYA
HEAD OF ACCOUNTS
ICPAK MEMBER NUMBER: 2367

REPUBLIC OF SUDAN
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

| RECEIPTS | | | | | | | | % of Utilization |
|----------------------------------------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|--|--|------------------|
| Exchequer releases | 4,736,237,060 | (92,500,000) | 4,643,737,060 | 3,307,102,197 | 1,336,634,863 | | | 72% |
| TOTAL RECEIPTS | 4,736,237,060 | (92,500,000) | 4,643,737,060 | 3,307,102,197 | 1,336,634,863 | | | |
| PAYMENTS | | | | | | | | |
| Compensation of Employees | 3,964,622,212 | 20,000,000 | 3,984,622,212 | 2,649,917,412 | 1,334,704,800 | | | 67% |
| Finance Costs, including Loan Interest | 11,869,341 | 0 | 11,869,341 | 12,474,902 | (605,561) | | | 105% |
| Miscellaneous Services | 128,000,000 | (112,500,000) | 15,500,000 | 0 | 15,500,000 | | | 0% |
| Repayment of principal on Domestic and Foreign borrowing | 631,745,507 | 0 | 631,745,507 | 645,018,301 | (13,272,794) | | | 102% |
| TOTAL PAYMENTS | 4,736,237,060 | | 4,643,737,060 | 3,307,410,615 | | | | |
| Surplus/ Deficit | 0 | | 0 | (308,418) | | | | |

Notes :

- i) There was an under expenditure of 33% on compensation of employees due to unfilled vacant posts for commissioners whose terms of service had expired, and the demise of the former president H. E Daniel Toroitich Arap Moi during the period.
- ii) There were over utilization of 5% and 2% on finance costs on guaranteed debt and Repayment respectively, due to fluctuations in foreign exchange rates.
- iii) The adjustment to the original budget was to enhance the provision for compensation to employees and a reduction on miscellaneous services through supplementary budget.
- .iv) The provision for miscellaneous services caters for Government contribution to National Social Security Fund and loan


U.S. DEPARTMENT OF JUSTICE
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
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For the year ended June 30, 2020

management expenses. There was no claim for payment of miscellaneous services in the financial year ended 30th June, 2020.

The entity financial statements were approved on 4/21 2021 and signed by:



JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M. MOTANYA
HEAD OF ACCOUNTS
ICPAK MEMBER NUMBER: 2367

THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

The financial statements are for the National Treasury. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

3. Reporting Currency

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

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Entity for all the years presented.

a) Recognition of Receipts

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

THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

• **Transfers from the Exchequer**

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

• **External Assistance**

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

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.

In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30th June 2020, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

• **Other receipts**

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

b) Recognition of payments

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

• **Compensation of Employees**

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

• **Use of Goods and Services**

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

• **Interest on Borrowing**

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

• **Repayment of Borrowing (Principal Amount)**

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

THE NATIONAL TREASURY
CFS SALARIES, ALLOWANCES AND MISCELLANEOUS
Reports and Financial Statements
For the year ended June 30, 2020

in which the repayment is made.

• **Acquisition of Fixed Assets**

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

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

5. In-kind contributions

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

6. Third Party Payments

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

7. Cash and Cash Equivalentents

Cash and cash equivalentents 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.

Restriction on Cash

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

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2020, this amounted to Kshs 0 compared to Kshs 0 in prior period.

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8. Accounts Receivable

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

9. Accounts Payable

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

10. Pending Bills

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

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2019 for the period 1st July 2019 to 30th June 2020 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

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

12. Comparative Figures

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

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13. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2020

14. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

During the year, errors that have been corrected are disclosed under note 9 explaining the nature and amounts.

15. Related Party Transactions

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

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NOTES TO THE FINANCIAL STATEMENTS

1 EXCHEQUER RELEASES

| Description | 2019-2020 | 2018-2019 |
|----------------------------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Total Exchequer Releases for quarter 1 | 986,493,975 | 781,700,000 |
| Total Exchequer Releases for quarter 2 | 696,688,935 | 1,232,397,036 |
| Total Exchequer Releases for quarter 3 | 976,101,275 | 934,423,990 |
| Total Exchequer Releases for quarter 4 | 647,818,012 | 1,457,973,390 |
| Total | 3,307,102,197 | 4,406,494,416 |

The budgeted Exchequer was Ksh. 4,643,737,060.00. However, only Kshs. 3,307,102,197 was received.

2 COMPENSATION OF EMPLOYEES

| Description | 2019-2020 | 2018-2019 |
|---------------------------------------|----------------------|----------------------|
| | Kshs | Kshs |
| Basic salaries of permanent employees | 2,649,917,412 | 3,024,887,022 |
| Total | 2,649,917,412 | 3,024,887,022 |

3 FINANCE COSTS, INCLUDING LOAN INTEREST

| Explanation | 2019-2020 | 2018-2019 |
|---------------------------------------------------------|-------------------|-------------------|
| | Kshs | Kshs |
| Interest Payments on Guaranteed Debt Taken over by Govt | 12,474,902 | 41,243,445 |
| Total | 12,474,902 | 41,243,445 |

The Finance cost is attributed to interest paid to Japan International corporation Agency in respect of guaranteed loans to Tana and Athi River Development Authority and East African Portland Cement.

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4 REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

| Explanation | 2019-2020 | 2018-2019 |
|------------------------------------------------------------------|--------------------|----------------------|
| Principal repayments on Guaranteed Debt taken over by Government | 645,018,301 | 1,319,950,403 |
| Total | 645,018,301 | 1,319,950,403 |

The Repayments were made to Japan International corporation Agency in respect of guaranteed loans to Tana and Athi River Development Authority and East African Portland Cement.

5 OTHER PAYMENTS

| Explanation | 2019-2020 | 2018-2019 |
|-----------------------|-----------|----------------|
| Transfer to Exchequer | - | 603,615 |
| Total | - | 603,615 |

The amount relate to returned cheque for FY 2017/2018 paid to Exchequer during the period

6: Bank Accounts

| Name of Bank Account No. & Currency | Amount in bank Account Currency | Indicate whether recurring Development or other | Ex-rate (if in foreign currency) | 2019-2020 | 2018-2019 |
|----------------------------------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------|-------------------------------------------|-------------------|-------------------|
| | | | | KSh | KSh |
| Central Bank of Kenya, CFS Salaries, Allowances & NSSF- A/C No. 1000204419 (Kes) | Kes. | Recurrent | - | 17,237,371 | 21,998,907 |
| Total | | | | 17,237,371 | 21,998,907 |

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7. ACCOUNT RECEIVABLE

| Explanation | 2019-2020 | 2018-2019 |
|-------------------------------------------------------|------------------|-----------|
| Salary Advance | 488,152 | 0 |
| Salary Overpayment Recoveries Receivable (See Annex) | 1,077,958 | |
| Total | 1,566,110 | 0 |

Note:

The amount of Kshs. 488,152 represent salary advance issued during the year. Respective recoveries have since commenced, while Ksh. 1,077,958 is in respect of overpayment recoveries receivable for the period under review.

8. ACCOUNTS PAYABLE

| Description | 2019-2020 | 2018-2019 |
|--------------|----------------|------------------|
| | Kshs | Kshs |
| Deposits | 328,858 | 1,574,067 |
| Total | 328,858 | 1,574,067 |

These are direct deposits into the entity's bank Account relating to 3% commissions from various entities. This was credited into CFS bank account instead of Deposit account. An amount of Ksh. 1,245,209.00 has been paid to the Exchequer.

9. FUND BALANCE BROUGHT FORWARD

| Description | 2019-2020 | 2018-2019 |
|-------------------|-------------------|--------------------|
| | Kshs | Kshs |
| Bank accounts | 21,998,907 | 158,864,022 |
| Accounts Payables | (1,574,067) | 0 |
| Total | 20,424,840 | 158,864,022 |

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. PRIOR YEAR ADJUSTMENTS

| Description of the error | Balance b/f | Adjustments | Adjusted |
|--------------------------------|------------------------------------------|--------------------|--------------------------|
| | FY 2018/2019 as per financial statements | | Balance b/f FY 2018/2019 |
| | Kshs | Kshs | Kshs |
| Bank account Balances | 20,424,840 | (1,217,092.05) | 19,207,748 |
| Others – Payments to Exchequer | 0 | (424,667) | (424,667) |
| Amount under review | | (40) | 0 |
| TOTAL | 20,424,840 | (1,641,799) | 18,783,081 |

Prior year adjustments relate to the adjustment to the fund balance brought forward as follows:

- i) Reversal of long outstanding reconciliation items relating to previous periods adjusted during the year
- ii) Transfers of Ksh. 424,667 made to the Exchequer during the period.

11. CHANGES IN RECEIVABLE

| Description of the error | 2019 - 2020 | 2018 - 2019 |
|-------------------------------------------------------------|------------------|-------------|
| | KShs | KShs |
| Outstanding salary advances as at 1 st July 2019 | 0 | 0 |
| Salary advance during the year | 488,152 | 0 |
| Salary Overpayment Recoveries Receivable | 1,077,958 | |
| Net changes in account receivables | 1,566,110 | 0 |

The amount of Kshs. 488,152 represent salary advance issued during the year. Respective recoveries have since commenced, while Ksh. 1,077,958 is in respect of overpayment recoveries receivable for the period under review.

12. CHANGES IN ACCOUNTS PAYABLE – DEPOSITS AND RETENTIONS

| Description of the error | 2019 - 2020 | 2018 - 2019 |
|------------------------------------------------------------|----------------|------------------|
| | KShs | KShs |
| Deposit and Retentions as at 1 st July 2019 (A) | 1,574,067 | 1,574,067 |
| Deposit and Retentions held during the year (B) | 0 | |
| Deposit and Retentions paid during the Year (C) | (1,245,209) | 0 |
| Net changes in account receivables D= A+B-C | 328,858 | 1,574,067 |

The changes in the accounts payable balance is as a result of direct deposits amounting to Kshs. 1,245,209 made to R 52 bank account in the previous periods, paid out during the year.

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

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

| 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) |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|---------------------------------|-----------------------------------------------------------------|
| Para. 105 (i) | Variance between comparative prior year adjustment of ksh.31,142,627.00 and Ksh. 26,919,334.00 in the statement of Assets and Liabilities as at 30.06.2018 | Prior year adjustment was reflected in the note as Kshs.31,142,627 instead of Kshs.26,919,334.00. The note has since been amended | Ms.Kitonyi/ Makumi | Resolved | |
| (ii) | Variance in expenditure on compensation of employees between statement of receipts and payments, Trial balance and payroll. expenditure on compensation of employees | The figures in the three sets of records were reconciled and they all agree | Ms.Kitonyi/ Makumi | Resolved | |


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| Reference No. on the external audit Report | Issue/Observation from Auditor | Management comments | Point person to resolve the issue (Name and designation) | Status (Resolved/Not Resolved) | Time-frame (Put a date when you expect the issue to be resolved) |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|--------------------------------|------------------------------------------------------------------|
| (iii) | Variation of off payroll payments as reported in financial statements and the vouchers provided. | The off payroll expenditure amounting to Ksh. 256,036,689 was supported with a detailed schedule and all vouchers availed for audit | Ms.Kitonyi/ Makumi | Resolved | |
| (iv) | Difference in expenditure for TSC between statement of receipts and payments and IFMIS supporting schedules. | Expenditure for IEBC was erroneously described in IFMIS as TSC. The error has been corrected | Ms.Kitonyi/ Makumi | Resolved | |
| (v) | Incomplete trial balance | Detailed trial balance submitted for audit reflected values of transactions of payments and receipts | Ms.Kitonyi/ Makumi | Resolved | |
| Para 106 | Unsupported prior year adjustments of Ksh.8,883,205,534 | The amount relates to accumulated exchequer under issues that had been reported as receivables in error. The amount was later reversed | Ms.Kitonyi/ Makumi | Not Resolved | Upon review by Auditor |
| Para 107 | Lack of Bank reconciliation | The Bank reconciliation statements were later provided for review. | Ms.Kitonyi/ Makumi | Resolved | |

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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 / No Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|--------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------|----------------------------------|------------------------------------------------------------------|
| 108 | Unsupported restatement of balances | The fund balance was restated to exclude accumulated exchequer under issues since the accounts were prepared on cash basis | Ms.Kitonyi/ Makumi | Unresolved | Upon review by Auditor |
| | | | | | |

 JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY
 NATIONAL TREASURY



 NEMWEL M. MOTANYA
 HEAD OF ACCOUNTS
 ICPAK MEMBER NUMBER: 2367

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ANNEX - REPORTS GENERATED FROM IFMIS

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

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