

REPUBLIC OF KENYA



*Paper laid by the
Leader of Majority
on 06/06/2018
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OFFICE OF THE AUDITOR-GENERAL

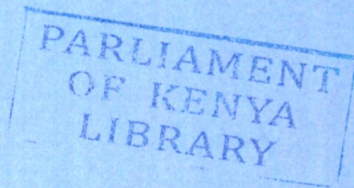


REPORT



OF

THE AUDITOR-GENERAL



ON

**THE FINANCIAL STATEMENTS OF
EUROPEAN WIDOWS AND ORPHANS
PENSION SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE 2017**

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

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EUROPEAN WIDOWS AND ORPHANS
PENSION SCHEME FUND**

**FOR THE YEAR ENDED
30 JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI

30 SEP 2017

RECEIVED



PENSION FUND NAME: EUROPEAN WIDOWS AND ORPHANS PENSION FUND

IMPLEMENTING ENTITY: NATIONAL TREASURY

FUND IDENTIFICATION NUMBER: 902

ANNUAL REPORT AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

European widows and orphans pension fund
Reports and Financial Statements

For the year ended June 30, 2017

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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 Finance, 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 and 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 Order No.2/2013. 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.

(b) Key Management

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

Office of the Principal Secretary

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

Organizational structure of the National Treasury

The 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:

- 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.

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

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,

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and Financial Statements
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Human Resource Management and Development,
Central Planning and Project Monitoring,
Supply Chain Management,
Legal,
Public Communications,
General Administration,
Records Management;
Internal Audit;
ICT
Government Clearing Agency

)) **Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

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Designation	Name
Principal Secretary	Dr. Kamau Thugge, EBS
Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
Director General, BFEA	Dr Geoffrey Mwau, EBS
Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
Director General, PIPM	Ms. Esther Koimett, CBS
Director General, PDMO	Mr. Wohoro Ndohho
Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
Director, Budget Department	Mr. Francis Anyona, OGW
Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
Ag Director, Public Procurement Department	Mr. Eric Korir
Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
Internal Auditor General	Mr. Alfayo Mogaka
Ag Director, Government Accounting Services Department	Mr. Jona Wala
Ag Director, National Sub County Treasuries	Mr. Tom Khakame
Ag Director, Financial Management Information System	Mr. Jerome Ochieng
Director, Public Private Partnership Unit	Eng. Stanley Kamau
Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
Director, Pensions Department	Mr Shem Nyakutu
Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
Ag Director, debt Recording and settlement Department	Mrs Felister Kivisi
Director of Administration	Mr David Oleshege, OGW
Head, Accounts Division	Mr. George Gichuru
Chief Finance Officer	Mr. Kimathi Mugambi, HSC
Head, SCM	Mr. Peter Momanyi
Director, Human Resource Management and Development	Ms. Susan Mucheru
Ag Director, Information Communication and Technology	Mr. George Kariuki
Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
Head, Public Communications	Mr. Maina Kigaga
Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
Head, Government Clearing Agency	Mr. Felix Ateng

fiduciary Oversight Arrangements

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

Internal Audit Unit

The National Treasury has a well resourced internal Audit Unit. The unit is charged with the responsibility of 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 officers on a regular basis.

Audit Committee

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the 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.

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

Senior Management Committee

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions of top management 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 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.

(a) 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

(b) The National Treasury Bankers

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

(c) Independent Auditors

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

(d) Principal Legal Adviser

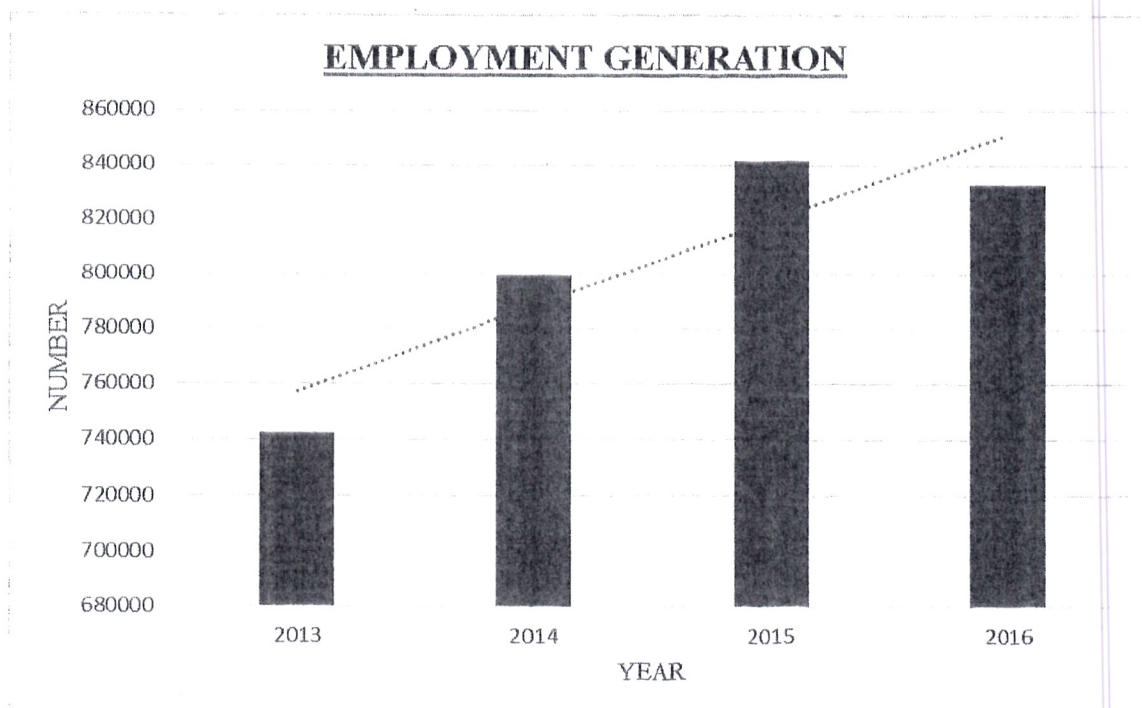
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. 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 grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub-Saharan Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

The annual inflation rate was 8.1% in June 2017 compared to 6.5% in the same period in June 2016. This was largely on account of high food prices following adverse weather conditions. The Kenya shilling exchange rate however continued to display relatively less volatility compared to the East African currencies while the official foreign exchange reserves held by the Central Bank grew to **US\$ 8,500 million** (5.7 month of import cover) in June 2017 from **US\$ 8,267 million** (5.4 months of import cover) in the same period in 2016. The economic growth and stable macroeconomic environment led to the creation of 832,900 new jobs in 2016 broken down into 85,600 jobs in the modern sector and 747,300 jobs in the informal sector. Cumulatively, the economy is estimated to have generated 3,217,200 new jobs between 2013-2016 as shown in the bar graph below:-

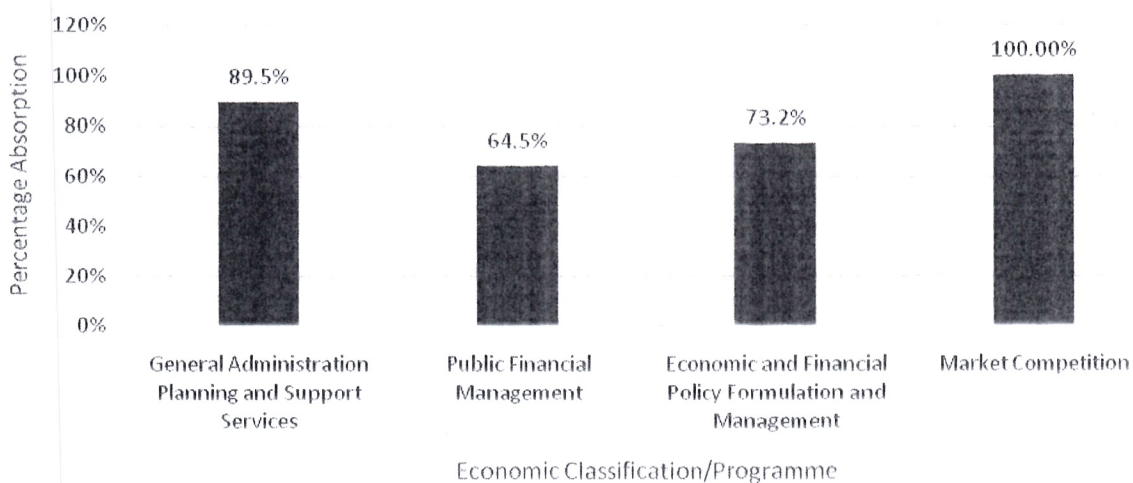


In terms of budget performance, the National Treasury expenditure stood at **Kshs.35,563,916,019.00** against an approved budget of **Kshs.37,527,564,690.00** in Recurrent while Development expenditure stood at **Kshs.16,668,950,121.00** against an approved budget of **Kshs.21,527,884,302.00** giving an

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overall absorption rate of 88.5%. The National Treasury implemented the 2016/17 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 (89.5%), Economic and Financial Policy Formulation and Management (73.2%) and Public Financial Management Programme at 64.5%.

Budget absorption rate by Economic Classification/Programme

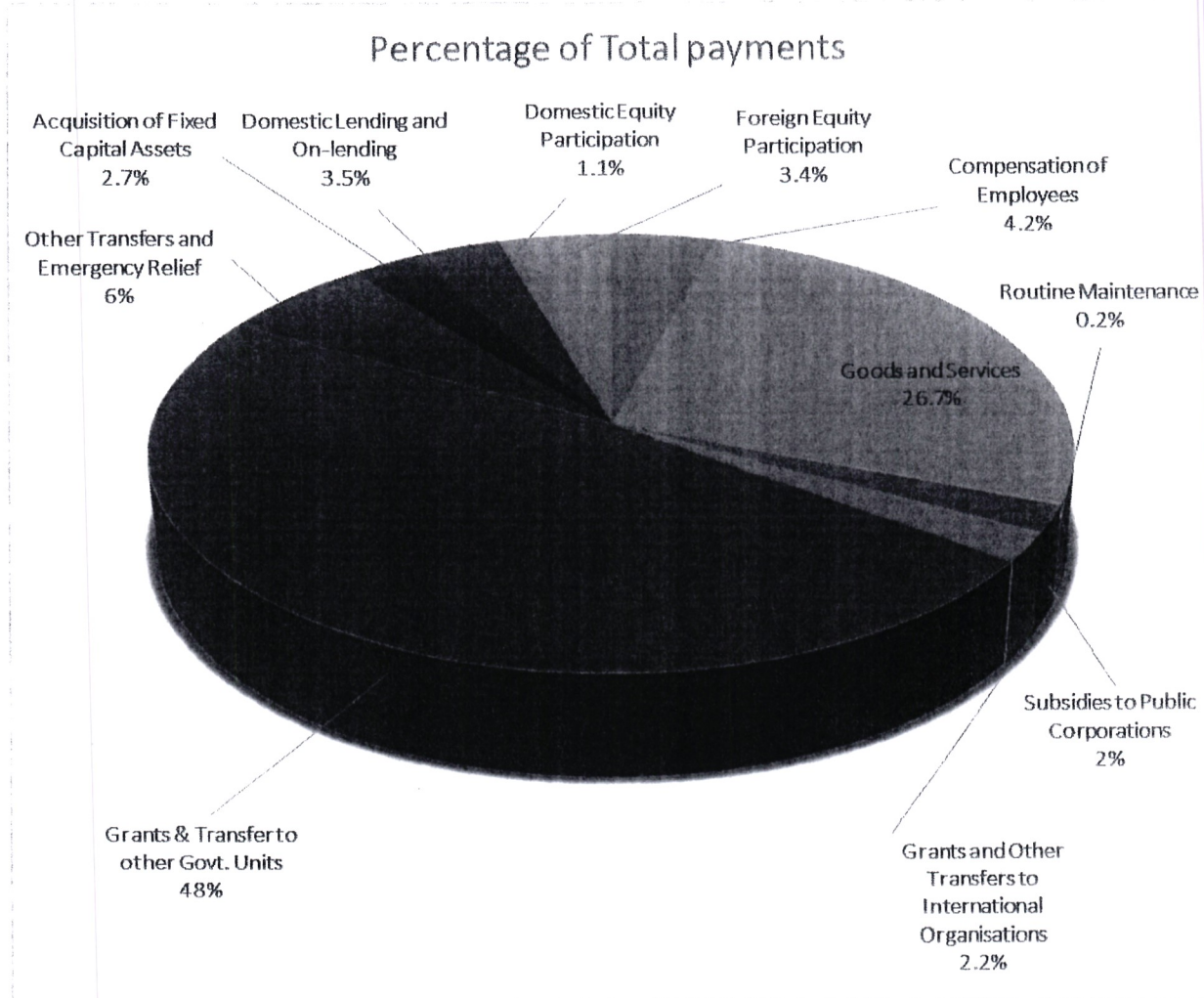


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Utilisation of the budget was carried out through various activities as shown in the table below:

	Approved Budget Allocation	Actual Payments	Variance
Payments	KShs	KShs	KShs
Compensation of Employees	2,393,400,581.00	2,177,407,291.15	215,993,289.85
Social Contributions	0.00	0.00	0.00
Goods and Services	16,204,555,515.00	13,898,644,098.30	2,305,911,416.70
Routine Maintenance	121,383,364.00	89,824,691.10	31,558,672.90
Subsidies to Public Corporations	1,050,000,000.00	1,050,000,000.00	0.00
Grants and Other Transfers to International Organisations	1,283,656,005.00	1,150,831,076.15	132,824,928.85
Grants & Transfer to other Govt. Units	25,267,659,516.00	25,060,536,140.65	207,123,375.35
Other Transfers and Emergency Relief	3,710,329,340.00	3,152,942,824.75	557,386,515.25
Social Security Benefits	1,805,634.00	0.00	1,805,634.00
Budget contingency Reserve	0.00	0.00	0.00
Acquisition of Fixed Capital Assets	2,332,414,837.00	1,418,732,823.25	913,682,013.75
Domestic Lending and On-lending	2,015,000,000.00	1,850,000,000.00	165,000,000.00
Domestic Equity Participation	600,000,000.00	600,000,000.00	0.00
Foreign Equity Participation	4,075,244,200.00	1,782,536,438.00	2,292,707,762.00
Total Payments	59,055,448,992.00	52,231,455,383.35	6,823,993,608.65

Key Performance Highlights (Continued)



The Ministry's payments mainly comprise of Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and employee compensation, subscriptions and acquisition of assets.

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Total Payment Breakdown

Payment	Year to 30 th June 2017	Year to 30 th June 2016	Change	%
	KShs	KShs	KShs	Change
Compensation of Employees	2,177,407,291.15	2,226,957,812.40	49,550,521.25	(2.2)
Social Contributions	0.00	0.00	0.00	0
Goods and Services	13,898,644,098.30	10,828,491,721.50	3,072,355,888.95	(28.4)
Routine Maintenance	89,824,691.10	217,510,677.30	127,685,986.20	58.7
Subsidies to Public Corporations	1,050,000,000.00	0.00	1,050,000,000.00	0
Grants and Other Transfers to International Organisations	1,150,831,076.15	154,303,947.45	996,527,128.70	645
Grants & Transfer To Other Govt. Units	25,060,536,140.65	25,341,007,430.65	280,471,290.00	(1.1)
Other Transfers and Emergency Relief	3,152,942,824.75	9,995,466,792.70	6,842,523,967.95	(68.4)
Social Security Benefits	0.00	0.00	0.00	0
Budget Contingency Reserve	0.00	5,000,000,000.00	5,000,000,000.00	(1000)
Acquisition of Fixed Capital Assets	1,418,732,823.25	2,333,505,123.40	914,772,300.15	(39.2)
Domestic Lending and On-lending	1,850,000,000.00	2,020,826,471.05	170,826,471.05	(8.4)
Domestic Equity Participation	600,000,000.00	375,000,000.00	225,000,000.00	60
Foreign Equity Participation	1,782,536,438.00	3,750,304,751.30	1,967,768,313.30	(52.4)
Total Payments	52,232,866,140.00	62,243,374,727.75	10,005,846,797.25	

The total payments for FY 2016/2017 stood at **Kshs.52,232,866,140.00** representing an decrease from **Kshs.62,243,374,727.75** for FY 2015/2016.

The decrease in payments is attributable to a significant decrease in Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and contingency reserves. Further, there was also a decrease in compensation of employees attributed to staff transferred from the Ministry and retirement.

Financial Assets Summary

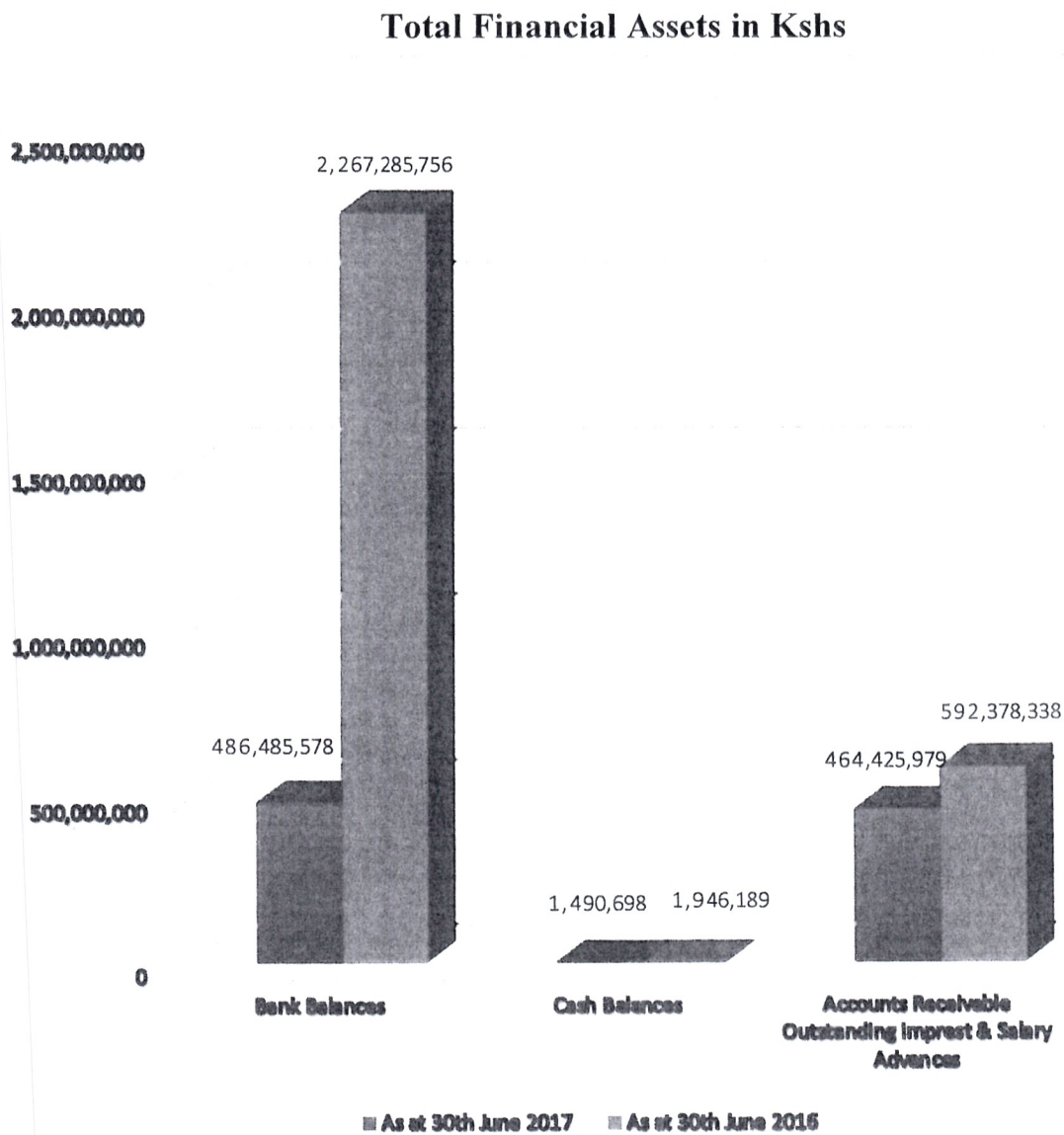
Financial Assets	As at 30 th June 2017	As at 30 th June 2016	Change	%
	KShs	KShs	KShs	Change
Bank Balances	1,781,246,794.00	2,267,285,756.00	486,038,962.00	(21.4)
Cash Balances	1,490,696.00	1,946,189.00	455,493.00	(23.4)
Accounts Receivables - Outstanding Imprest & Salary Advances	464,425,979	592,378,338.00	127,952,359	(21.6)
Total Financial Assets	2,247,163,469.00	2,861,610,283.00	614,446,446,814.00	

Bank balances decreased by 21.4% as a result of decreased deposits held in our Deposit Bank Account.

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Cash balances declined by 23.4% due to increased cash related transactions at the year-end. There is also a decline in accounts receivables by 21% as a result of prompt accounting for imprest advance by the imprest holders and funds released to projects.

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Cash Flows and Cash Position

The cash and bank balances held by the Ministry as at 30th June 2017 was **Kshs.1,782,737,490/=** compared to **Kshs.2,269,231,945.00** held as at 30th June 2016.

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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.302.2 billion** in 2016/2017 up from **Kshs.275.1 billion** in 2015/2016. Since their establishment in March 2013, County Governments have received more than **Kshs.1 trillion** from the National Government. The National Treasury submitted to Parliament the Equalization Fund Appropriations bill which has since been enacted and further conducted public participation to identify projects to be implemented under this fund. In addition the National Treasury trained over 800 officers from County Governments on Public Financial Management in 2016/17.

Other key achievements during the period under review are;

- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23rd March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre- Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.
- The National Treasury hosted the 2nd High Level Meeting on Global Partnership on Economic Development Conference in Nairobi from 28th November to 1st December 2016, where ministers and high level representatives of developing and developed countries as well as heads of multilateral and bilateral development agencies committed to effective development cooperation as a means to achieve the universal Sustainable Development Goals (SDGs).

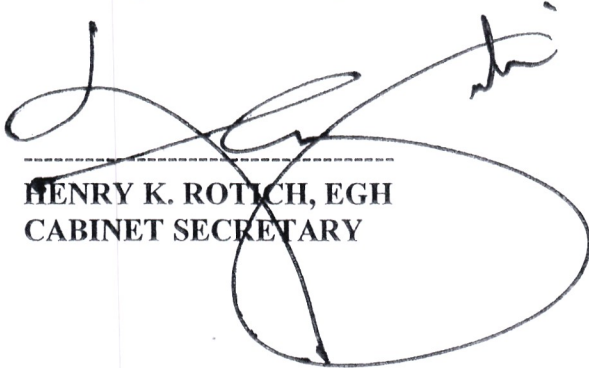
Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

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

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

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. 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.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY

1. STATEMENT OF THE PENSION FUND MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* for the National Treasury and the *Head of Accounting Unit, National Treasury* are responsible for the preparation and presentation of the Pension Fund's financial statements, which give a true and fair view of the state of affairs of the **European widows and orphans pension fund** and as at the end of the financial year ended on June 30, 2017.

This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Pension Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Pension Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

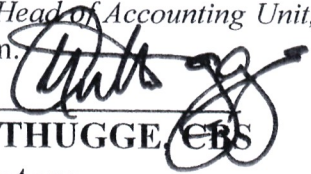
The *Principal Secretary* for the National Treasury and the *Head of Accounting Unit, National Treasury* accept responsibility for the Pension Fund's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the National Treasury and the *Head of Accounting Unit, National Treasury* are of the opinion that the Pension Fund's financial statements give a true and fair view of the state of Pension Fund's transactions during the financial year ended June 30, 2017, and of the Pension Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the *Head of Accounting Unit, National Treasury* further confirm the completeness of the accounting records maintained for the Pension Fund, which have been relied upon in the preparation of the Pension Fund financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the *Head of Accounting Unit, National Treasury* confirm that the Pension Fund has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Pension Fund funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.


Approval of the Pension Fund financial statements

The Pension Fund financial statements were approved by the *Principal Secretary* for the National Treasury and the *Head of Accounting Unit, National Treasury* on 29/9/ 2017 and signed by them.


DR. KAMAU THUGGE
Principal Secretary

Date

29/9/17


GEORGE K. GICHURU
Senior Deputy Accountant General
ICPAK 9262

Date

29/9/17

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EUROPEAN WIDOWS AND ORPHANS PENSION SCHEME FUND FOR THE YEAR ENDED 30 JUNE 2017 THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of European Windows and Orphans Pension Scheme Fund set out on pages 20 to 26 which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of European Windows and Orphans Pension Scheme Fund as at June 30, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Understatement of Expenditures for the year.

The statement of receipts and payments reflects expenditure of Kshs.100,680.00, being annual pension payments to two widows. The expenditure was not recorded in both the European Fund cashbook and the respective bank statement. The expenditure was however, said to have been erroneously charged to the Asian Fund bank account but there was no reimbursement as at 30th June 2017. The bank balances and the cashbook is therefore over stated by Kshs.100,680.00.

Report of the Auditor-General on Financial Statements of European Widows and Orphans Pension Fund for the Year ended 30 June 2017

2. Understatement of Income and Surplus

The Statement of receipts and payments reflects income of Kshs.1,728,686.00 as at 30th June 2017 while the receipts recorded in the bank statement for the year is Kshs.6,029,461.80. The difference of Ksh.4,300,775.80 has not been reported. The surplus for the year has consequently been understated by Kshs.4,300,776.00. No explanation has been given for failing to record the revenue receipts.

3. Investment insolvent Cereal and Sugar Finance Corporation

As in in the previous years, the statement of assets and liabilities reflects a receivables balance of Kshs.16,900,000.00 relating to a cash investment held in Cereals and Sugar Finance Corporation. The Corporation is technically insolvent and Government has approved its winding up, with a further requirement that National Treasury takes over its assets and liabilities. The recoverability of the amount of Kshs.16,900,000.00 is therefore doubtful.

4. Understatement of Investment

As reported in the previous year, the Financial Statement reflects investment balance of Kshs.25,516.933.00 as at 30.6.2017. The share certificate provided for audit revealed that 8,643,429 shares with a book value of Kshs.8,415,420.00 were held at the same date. The resulting difference of Kshs.12,898,307.00 has not been reconciled.

5. Failure to Invest Funds Kshs.9,000,000.00

As highlighted in the report for 2015/2016 and earlier years, The National Treasury holds cash proceeds from the redemption of 11% Kenya Stock 2000 of Kshs.9,000,000.00. The Stocks were redeemed in July 2001 and the proceeds were expected to be re-invested immediately but are still being held in Deposit Account to date. Failure to re-invest the funds for the last sixteen years has denied the Fund income that would finance the payment of pensions due to its beneficiaries.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of European Widows and Orphans Pension Scheme 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 qualified 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. Except for the matters

Report of the Auditor-General on Financial Statements of European Widows and Orphans Pension Fund for the Year ended 30 June 2017

described in the Basis for Qualified Opinion section of my report, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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.

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

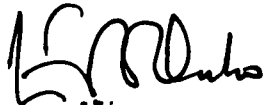
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's 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 Fund's 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 Fund 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 Fund 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

25 April 2018

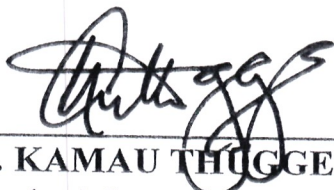
European widows and orphans pension fund
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3. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2017

	Note	2017 Kshs	2016 Kshs
RECEIPTS			
Dividend Income	7.1	1,728,686	6,920,900
PAYMENTS			
Payment of pensions	7.2	<u>100,680</u>	<u>76,680</u>
SURPLUS/DEFICIT FOR THE YEAR		<u>1,628,006</u>	<u>6,844,220</u>

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



DR. KAMAU THUGGE, CBS
Principal Secretary

Date

29/9/17



GEORGE K. GICHURU
Senior Deputy Accountant General
ICPAK 9262

Date

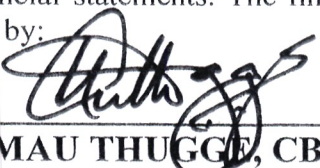
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European widows and orphans pension fund
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4. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE 2017

	Note	2017 Kshs	2016 Kshs
NON-CURRENT ASSETS			
FINANCIAL ASSETS			
Investments	7.3	25,516,932	25,516,933
CURRENT ASSETS			
Receivables	7.4	16,900,000	16,900,000
Cash Balances	7.5	175,589,895	173,961,888
		<u>192,489,895</u>	<u>190,861,889</u>
TOTAL FINANCIAL ASSETS		<u>218,006,827</u>	<u>216,378,821</u>
FINANCED BY:			
Capital Account	7.6.	125,506,423	125,506,423
Accumulated surplus, B/forward		90,872,398	84,028,178
Net Surplus for the year		1,628,006	6,844,220
Net Financial position		<u>218,006,827</u>	<u>216,378,821</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 29/9/17 2017 and signed by:


DR. KAMAU THUGGE, CBS
Principal Secretary

29/9/17
Date


GEORGE K. GICHURU
Senior Deputy Accountant General
ICPAK 9262

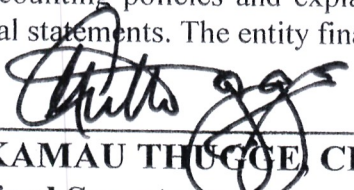
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Date

European widows and orphans pension fund
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5. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2017

	Notes	2017 Kshs	2016 Kshs
Receipts for operating income			
Dividend Income	7.1	1,728,686	6,920,900
Payments for operating expenses	7.2	<u>100,680</u>	<u>76,680</u>
Net cash flow from operating activities		<u>1,628,006</u>	<u>6,844,220</u>
CASHFLOW FROM INVESTING ACTIVITIES			
Receipt from other activities		<u>Nil</u>	<u>Nil</u>
Net cash flows from Investing Activities		<u>1,628,006</u>	<u>6,844,220</u>
NET INCREASE IN CASH AND CASH EQUIVALENT			
		<u>1,628,006</u>	<u>6,844,220</u>
Cash and cash equivalent at BEGINNING of the year		173,961,888	167,117,668
Cash and cash equivalent at END of the year	7.5	<u>175,589,894</u>	<u>173,961,888</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 29/9 2017 and signed by:


DR. KAMAU THUGGE, CBS
Principal Secretary

29/9/17
Date


GEORGE K. GICHURU
Senior Deputy Accountant General
ICPAK 9262

29/9/17
Date

SIGNIFICANT ACCOUNTING POLICIES

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

5.1 Statement of compliance and basis of preparation

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Pension Fund and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid out by the Pension Fund.

i. Recognition of revenue and expenses

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

ii. In-kind donations

In-kind donations are contributions made to the Pension Fund 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 of in-kind donations can be reliably determined, the Pension Fund includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

iii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year/period. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

European widows and orphans pension fund
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iv. **Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year/period or in past years. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. 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.

v. **Budget**

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

vi. **Exchange rate differences**

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

vii. **Comparative figures**

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

viii. **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 June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS

7.1 DIVIDEND INCOME

	2017 Kshs.	2016 Kshs.
Dividend Income	1,728,686	6,920,900

The dividend Income relates to dividend on the KPLC Ordinary shares

7.2 PAYMENT OF PENSIONS

	2017 Kshs	2016 Kshs
Government pension and retirement benefits	<u>100,680</u>	<u>76,680</u>

7.3 INVESTMENTS

	2017 Kshs	2016 Kshs
Investments in shares	<u>25,516,933</u>	<u>25,516,933</u>

7.4 RECEIVABLES

	2017 Kshs	2016 Kshs
Cash owed by Cereals and Sugar Finance Corporation(CSFC)	<u>16,900,000</u>	<u>16,900,000</u>

7.5 CASH AND CASH EQUIVALENTS

	2017 Kshs	2016 Kshs
Cash (PMG)	<u>175,589,895</u>	<u>173,961,888</u>


7.6 CAPITAL ACCOUNT

	2017 Ksh	2016 Kshs
Initial Contribution from the members of the Fund	<u>125,506,423</u>	<u>125,506,423</u>

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Unsupported Dividend Income-Ksh.2,599,186.00	Ministry has written to Laikipia County Government inquiring about the deposits	Shem O. Nyakutu Director Pensions	Not Resolved	
2	Understatement of Investment-Ksh. 25,516,933.00	The Investment has remained as Ksh.25,516,933.00 since 2011	Shem O. Nyakutu Director Pensions	Not Resolved	
3	Investments held in Cereals and Sugar Finance Corporation-Kshs 16,900,000.00	The receivables of Kshs 16,900,000.00 is expected to be realised when issue of Cereals and Sugar is finalised.	Shem Nyakutu Director Pensions	Not Resolved	
4	Un-Invested proceeds from Redeemed Stock-Ksh.9,000,000.00	Process of reinvestment of the amount has been initiated	Shem O. Nyakutu Director Pensions	Not Resolved	


DR. KAMAU THUGGE, CBS
Principal Secretary


GEORGE K. GICHURU
Senior Deputy Accountant General
ICPAK 9262

29/9/17
Date

29/9/17
Date