

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 27 MAR 2019	DAY: Wed
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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE RECEIVER OF REVENUE – PENSION
DEPARTMENT**

**FOR THE YEAR ENDED
30 JUNE 2018**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
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**RECEIVER OF REVENUE
THE NATIONAL TREASURY
PENSIONS DEPARTMENT
STATEMENT OF REVENUE**

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

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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 macroeconomic 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 to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, executive/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 relation 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-t-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 One (1) Administrative and Support Service Directorate headed by the 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:-

(i) 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

(ii) 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 System (FMIS)
- National Sub-County Treasuries

(iii) Directorate of Portfolio Management

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

(iv) Directorate of Public Management Office

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. 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)

(v) Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. 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 officer critical support services to the National Treasury. The functions include:-

- Accounting;
- Finance;
- Human Resource Management and Development;
- Central Planning and Project Monitoring;
- Supply Chain Management;
- Legal;
- Public Communication;
- General Administration;
- Records Management;
- Internal Audit;
- ICT;
- Government Clearing Agency.

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 3th June, 2018 and who had direct fiduciary responsibility were:

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

(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:

(i) 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.

(ii) 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.

(iii) 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.

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

(iv) 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.

(v) Public Financial Management Sector Working Group

To facilitate the implementation of Financial Management Reform, the National Treasury had 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.

(vi) 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.

(vii) 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

P. O. Box 30007-00100,
Treasury Building,
Harambee Avenue
Nairobi, Kenya
Telephone: (54)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

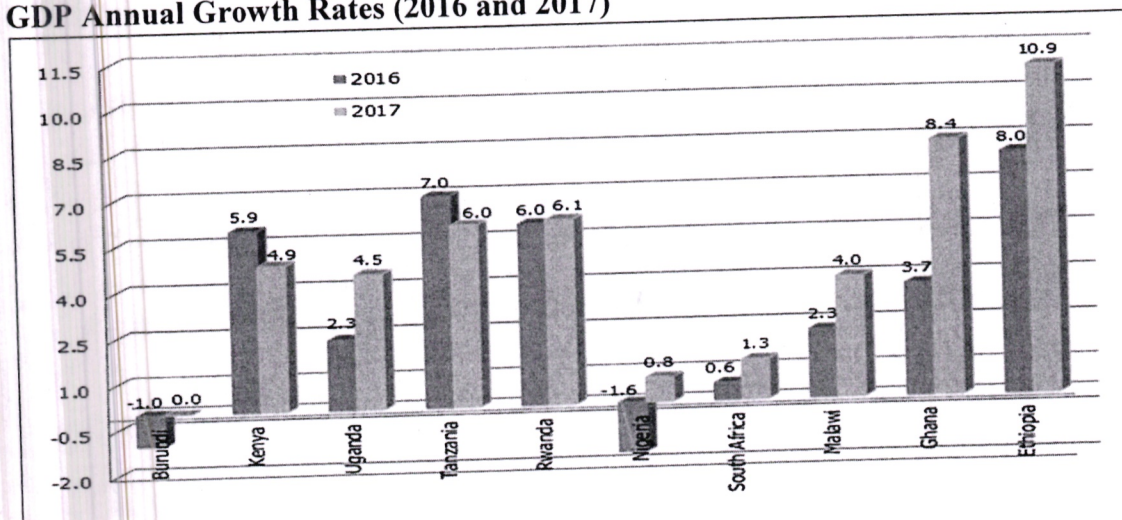
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P. O. Box 30084
GO 00100
Nairobi, Kenya

(d) Principal Legal Adviser
The Attorney General
State Law Office
Harambee Avenue
P. O. Box 0112
City square 00200
Nairobi, Kenya

2. FORWARDED BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-Saharan Africa.

GDP Annual Growth Rates (2016 and 2017)

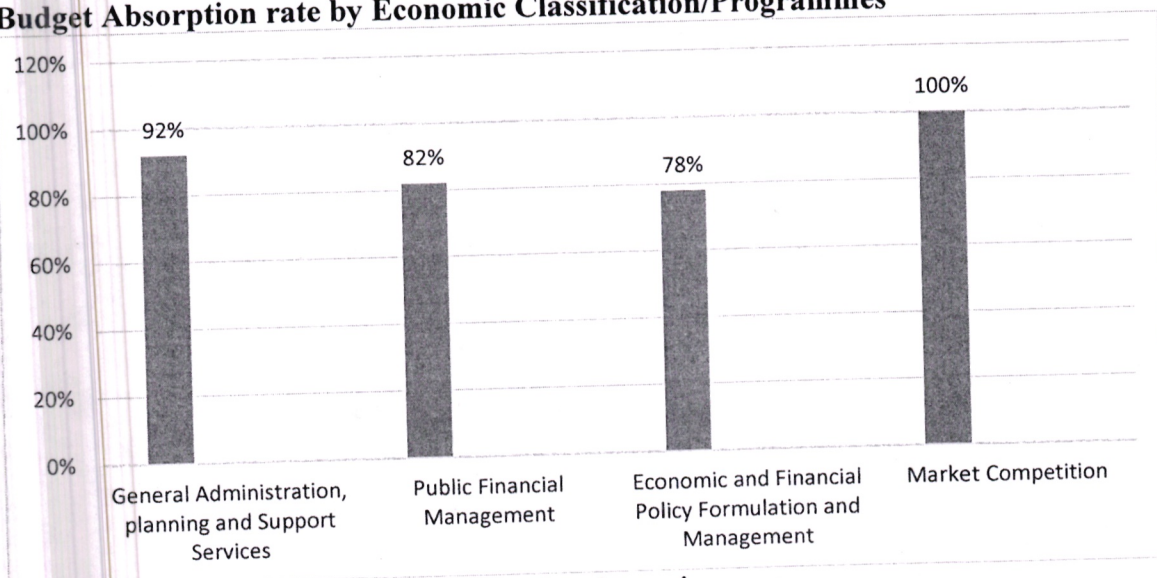


Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to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

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

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

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

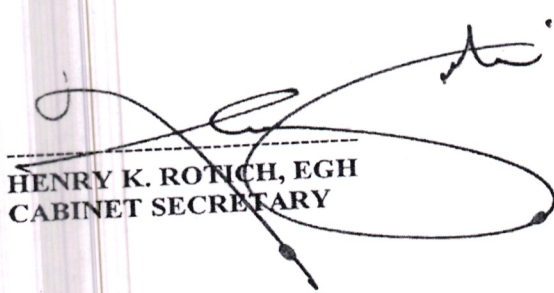
- The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of Kshs.327 billion in 2017/2018 up from Kshs.302.2 billion in 2016/2017. Since their establishment in March 2013, County Governments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

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

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

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and strengthen financial and fiscal relations between the national government and county governments.
6. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. RONCH, EGH
CABINET SECRETARY

3. STATEMENT OF RECEIVER OF REVENUE'S RESPONSIBILITIES

Section 82(1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, a receiver of revenue for the National Government shall prepare an account in respect received and collected by the receiver during that financial year.

The Principal Secretary in charge of the National Treasury is responsible for the presentation of the receiver of revenue report, which give a true and fair view of the state of affairs of the National Treasury for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management proper 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 status of the revenue collected by the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Principal Secretary in charge of the National Treasury accepts responsibility for the National Treasury's revenue report, which has been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that this revenue report give a true and fair view of the national treasury's revenue performance during the financial year ended June 30, 2018. The Principal Secretary in 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 this report as well as the adequacy of the systems of internal financial control.

The Principal Secretary in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and that the funds collected during the year were transferred to the Exchequer Account. Further the Principal Secretary confirms that his report has been prepared in a form that complies with relevant accounting standards prescribed by the public Sector Accounting Standards Board of Kenya.

Approval of the Revenue Statements

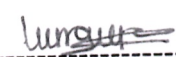
The revenue statement was approved and signed by the Principal Secretary on 30th Sept
2018



DR KAMAU THUGGE, CBS
Principal Secretary

Date

30th Sept. 2018



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

Date

30th September, 2018

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE RECEIVER OF REVENUE – PENSION DEPARTMENT STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE REVENUE STATEMENT

Qualified Opinion

I have audited the accompanying Revenue Statement - Pension Department set out on pages 15 to 23 which comprise the statement of revenue as at 30 June 2018 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 matter described in the Basis for Qualified Opinion section of my report, the statements present fairly, in all material respects, the financial position as at 30 June 2018 in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Misstatement of Revenue Balance

During the year under review, the statement of revenue reflects total revenue collected and transferred to the Exchequer as Kshs.308,019,086. The bank statements on the other hand shows the total receipts and transfers thereof to the Exchequer of Kshs.309,398,232.90 resulting to unexplained difference of Kshs.1,379,147 as tabulated below.

Sub-item	Revenue Statement Balance	Bank Statement Balance	Difference
31% Contributions	193,408,326.00	212,592,761.20	(19,184,435.20)
2% WCPS Contributions	71,886,557.05	60,077,565.85	11,808,991.20
Abatement	34,769,053.05	30,422,753.90	4,346,299.15
CAP Deductions	7,955,149.55	6,305,151.95	1,649,997.60
Total	308,019,085.65	309,398,232.90	1,379,147.25

Further, total collection of Kshs.308,019,086.00 was also recorded under 31% contributions in the Ledger as opposed to the detailed classification reflected in the notes to the Revenue

Report of the Auditor-General on the Financial Statements of The Revenue-Pension Department Statement for the year ended 30 June 2018

statement. The statement of revenue is therefore misstated and does not reflect a true and fair view of its operations.

2. Previous Audit Issues - Revenue Balances

In the audit of the previous year, reference was made where various classes of revenue reflected in the statement of revenue and the cashbook then showed different amounts for the same item as analyzed below.

Revenue Class	Notes to the Revenue Statement	Electronic Cashbook Balance
31% Contributions	356,715,202.00	0
2% WCPS	0	65,265,348.10
Abatement	0	49,072,014.90
Cap Deductions	0	2,403,645.05

Consequently, the accuracy of the balances reflected in the statement of revenue could not therefore be ascertained. No reconciliation has been done to address the differences.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Revenue Statement - Pension Department 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 revenue statement 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 revenue statement. Except for the matters described in the Basis for Qualified Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Report on Lawfulness and Effectiveness in Use of Public Resources

1. Failure to Provide a Budget

The Pensions Department collected revenue totaling Kshs.309,398,233, during the year under review. The Department, however, failed to provide a budget for the amount estimated to be collected during the period. It is not possible therefore to evaluate the performance of the department based on the amount reported or determine whether all the revenue due was collected.

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described above and in the Basis for Qualified Opinion section of my report, I confirm that, nothing else 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 revenue statement is 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 Internal Controls Effectiveness, Governance and Risk Management Systems

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion section of my report, 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 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of the revenue statement 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 revenue statement that is free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the revenue statement, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government either intends to cease operations, or have no realistic alternative but to do so. Management is also responsible for the submission of the revenue statement 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 revenue statement described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the revenue statement is in compliance with the authorities which govern them, and that public resources are applied in an effective way. Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant

legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the revenue statement as a whole is 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 the revenue statement.

In addition to the audit of the revenue statement, 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 revenue statement is 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 revenue statement and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the revenue statement 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:

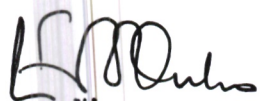
- Identify and assess the risks of material misstatement of the revenue statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the revenue statement or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the National Treasury to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the revenue statement, including the disclosures, and whether the revenue statement represents 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 entity to express an opinion on the revenue statement.
- 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

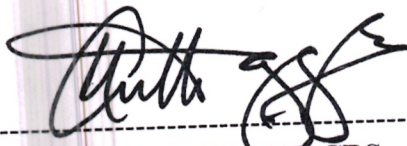
Nairobi

6 February 2019

5. STATEMENT OF RECEIPTS AND TRANSFERS

	Note	2017-2018	2016-2017
		Kshs	Kshs
NON-TAX RECEIPTS			
RECEIPTS	9.1	308,019,086	356,715,202
TOTAL NON-TAX RECEIPTS		308,019,086	356,715,202
TOTAL RECEIPTS COLLECTED		308,019,086	356,715,202
TRANSFERS TO EXCHEQUER ACCOUNT		308,019,086	356,715,202
BALANCE BROUGHT FORWARD		-	-
BALANCE CARRIED FORWARD		-	-


The accounting policies and explanatory notes to these revenue statements form an integral part of the revenue statements. These revenue statements were approved on 30th Sept., 2018 and signed by:



DR KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018

Date



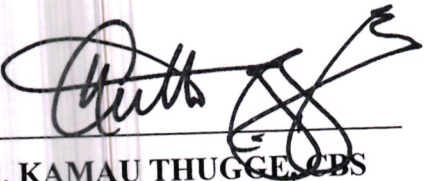
LILIAN W. DISHON
Principal Accountant
ICPAK 10442


30th September 2018

Date

6. STATEMENT OF ARREARS OF REVENUE AS AT 30TH JUNE 2018

Classification of Revenue	Accumulated amount in arrears from prior periods to June 2016 (a)	Amount in arrears for the immediate previous year to 30 June 2017 (b)	Amount in arrears for the current year to June 30 2018 (c)	Total arrears as at 30 June 2018 (a+b+c)	Measures taken to recover the arrears	Assessment to the recoverability of arrears
Non Tax Revenues						
31% Contribution	-	-	-	-		
2% WCPS	-	-	-	-		
Abatement	-	-	-	-		
Cap Deductions	-	-	-	-		
Total arrears	-	-	-	-		


 DR. KAMAU THUGGE, CBS
 Principal Secretary
 30th Sept. 2018
 Date


 LILIAN W. DISHON
 Principal Accountant
 ICPAK 10442
 30th September 2018
 Date

7. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE, 2018

	Original Budget	Adjustments	Final Budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
Non tax receipts	-	-	-	-	-
31% Contributions	-	-	-	193,408,326	193,408,326
2% WCPS	-	-	-	71,886,557	71,886,557
Abatement	-	-	-	34,769,053	34,769,053
Cap Deductions	-	-	-	7,955,150	7,955,150
Total Non tax receipts	-	-	-	308,019,086	308,019,086
Total receipts	-	-	-	308,019,086	308,019,086

Note

There was no Revenue budget collection for the department.

8. SIGNIFICANT ACCOUNTING POLICIES

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

8.1 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.

8.2 Recognition of revenue

The National Treasury recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the National Treasury.

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

8.3 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.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

8.4 Revenue in Arrears

This relates to revenue due and is yet to be received or collected by the receiver of revenue. The revenue in arrears is as disclosed in the Statement of Revenue in Arrears under section 6 of these financial statements.

8.5 Comparative Figures

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

8.6 Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the revenue statements for the year ended June 30, 2018.

8.7 Statement of Arrears of Revenue

The statement of arrears of revenue is not a requirement as per the IPSAS Cash Standard. The IPSAS Cash Standard encourages disclosure of accrual based balances since it's a transitional standard to accrual basis of accounting. The PFM Act, 2012 section 82,2b and section 69(c) of the PFM Regulations 2015 requires a Receiver of Revenue to prepare a statement on revenue of arrears due but not yet collected at the end of the period. This statement has been disclosed under section 6 of these financial statements.

9. NOTES TO THE REVENUE STATEMENT

9.1 OTHER REVENUE (NOT ELSEWHERE CLASSIFIED)

	2017/2018	2016/2017	Comments
General Deposit - PMG	-	-	-
Revenue			-
2% Contribution	71,886,557	-	-
31% Contribution	193,408,326	356,715,202	Failure by the parastatals to submit the contributed money on time
Suspense			-
Abatement	34,769,053	-	-
Cap Deductions	7,955,150	-	-
Other Suspense	-	-	-
P. Increase AWOPF	-	-	-
Totals	308,019,086	356,715,202	

10. BALANCES CARRIED FORWARD

Balances brought forward subsequently transferred		
Amount		Date transferred
1.	-	On daily basis
Balances brought forward yet to be transferred		
1.	-	On daily basis

We surrendered all the revenue collected to the exchequer within the financial year (2017/2018)


11. A REPORT OF WAIVERS AND VARIATIONS OF TAXES, FEES OR CHARGES GRANTED BY THE RECEIVER OF RING THE YEAR

Name of person / organisation benefitting from waiver/ variation	Year in which waiver/ variation relates	Amount of variation/ waiver	Reasons for waiver/ variation	The law in terms of which the variation was granted
NONE				


12. PROGRESS REPORT 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 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)
48.1	Revenue collected Kshs 356,715,202.05	The analysis for the amount has been provided for audit review	Shem Nyakutu Director Pensions	Not Resolved	
48.2	Revenue balance – Nil balance	The bank reconciliation statement and certificates of bank balances have been availed for audit review	Shem Nyakutu Director Pensions	Resolved	
49.1	Unsupported balance of Kshs 1,051,602,039.19 of 2014/2015 F/Y	This figure has been analyzed and supported by the ledger and the trial balance and the same has been availed for audit review	Shem Nyakutu Director Pensions	Resolved	
49.1	Other suspense balance of Kshs 1,971,533.15 of 2014/2015 F/Y	This figure was cleared off during the 2014/2015 financial year.	Shem Nyakutu Director Pensions	Resolved	
49.3	Accumulated Revenue balance Kshs 2,125,593,875.47	The accumulated amount of Kshs.2,125,593,875.47 was collection of two financial years and the amount was transferred to the Exchequer	Shem Nyakutu Director Pensions	Resolved	


DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018
 Date


LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018
 Date

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