

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

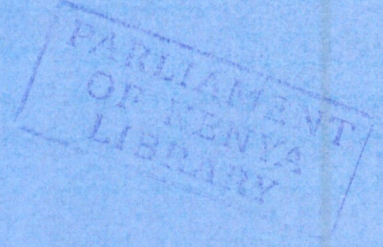
THE AUDITOR-GENERAL


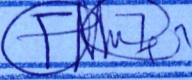
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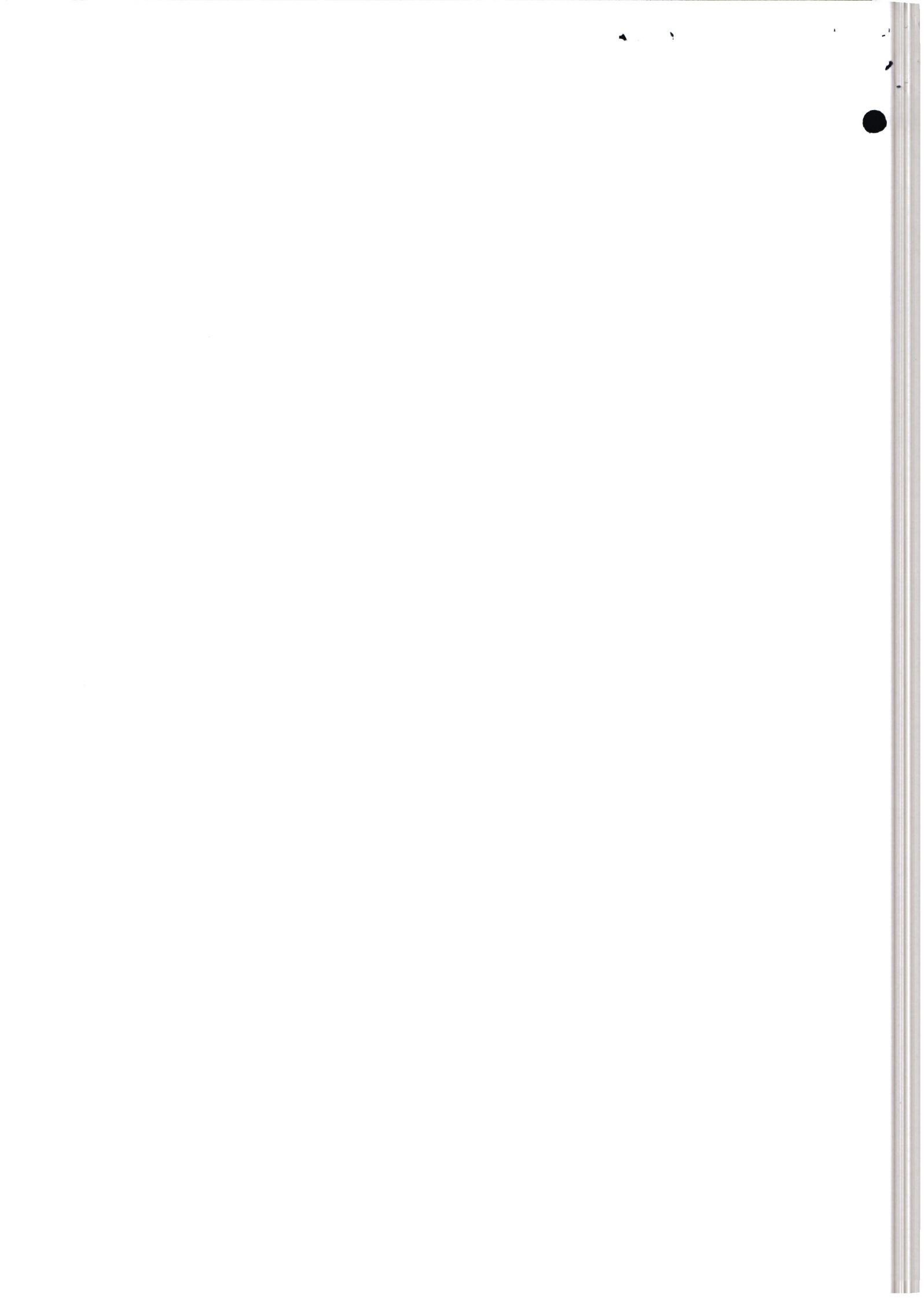
THE FINANCIAL STATEMENTS OF
KENYA LOCAL LOANS SUPPORT FUND

FOR THE YEAR
ENDED 30 JUNE 2018

THE NATIONAL TREASURY



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	02 APR 2019
	DAY. TUESDAY
TABLED BY:	MAJORITY LEADER
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THE NATIONAL TREASURY
KENYA LOCAL LOANS SUPPORT FUND
REPORTS AND FINANCIAL STATEMENTS

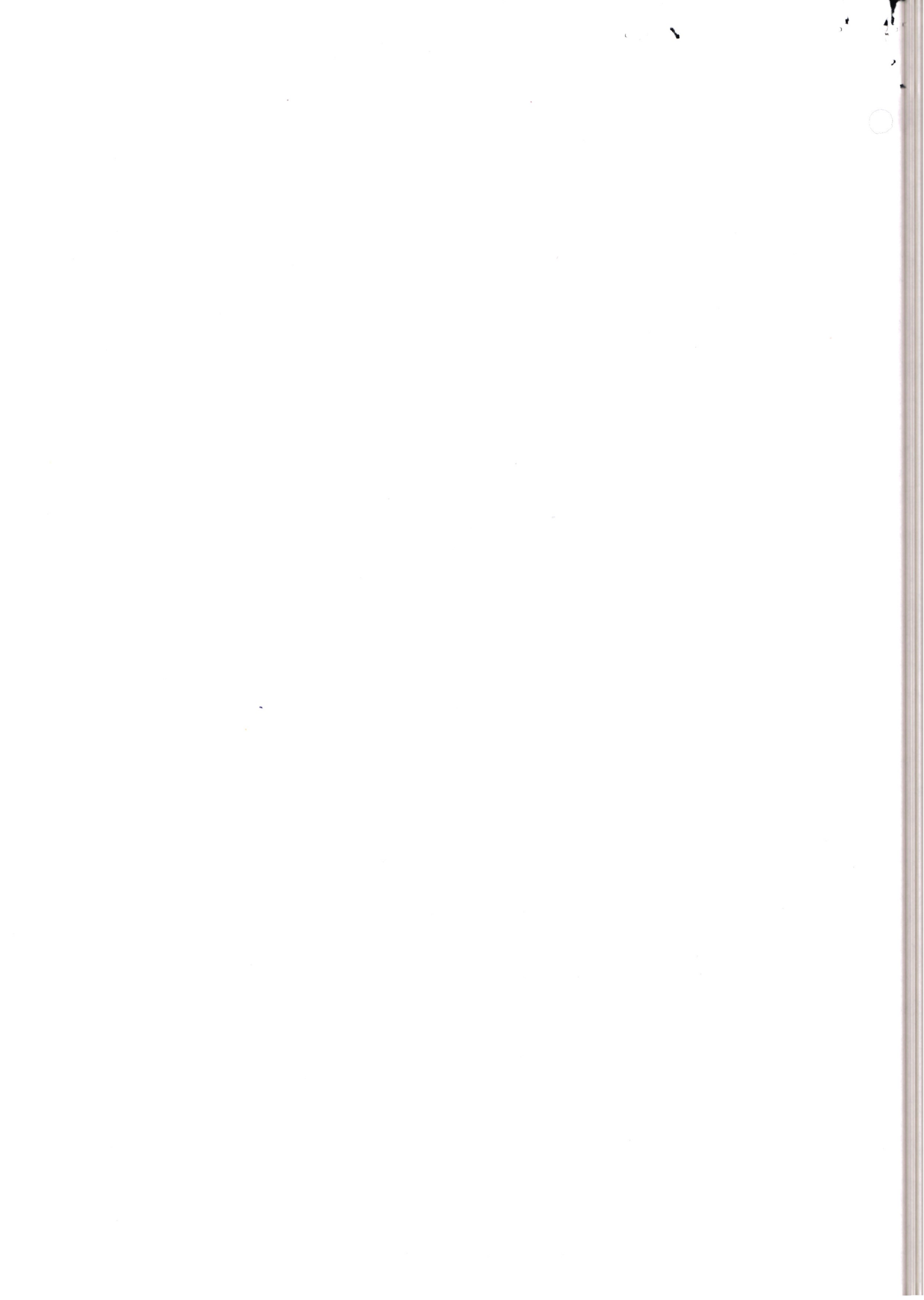
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

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

29 SEP 2018

RECEIVED



KENYA LOCAL LOANS SUPPORT FUND
Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

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I. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

Vision

An institution of excellence in economic and public financial management

Mission

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

Core Values

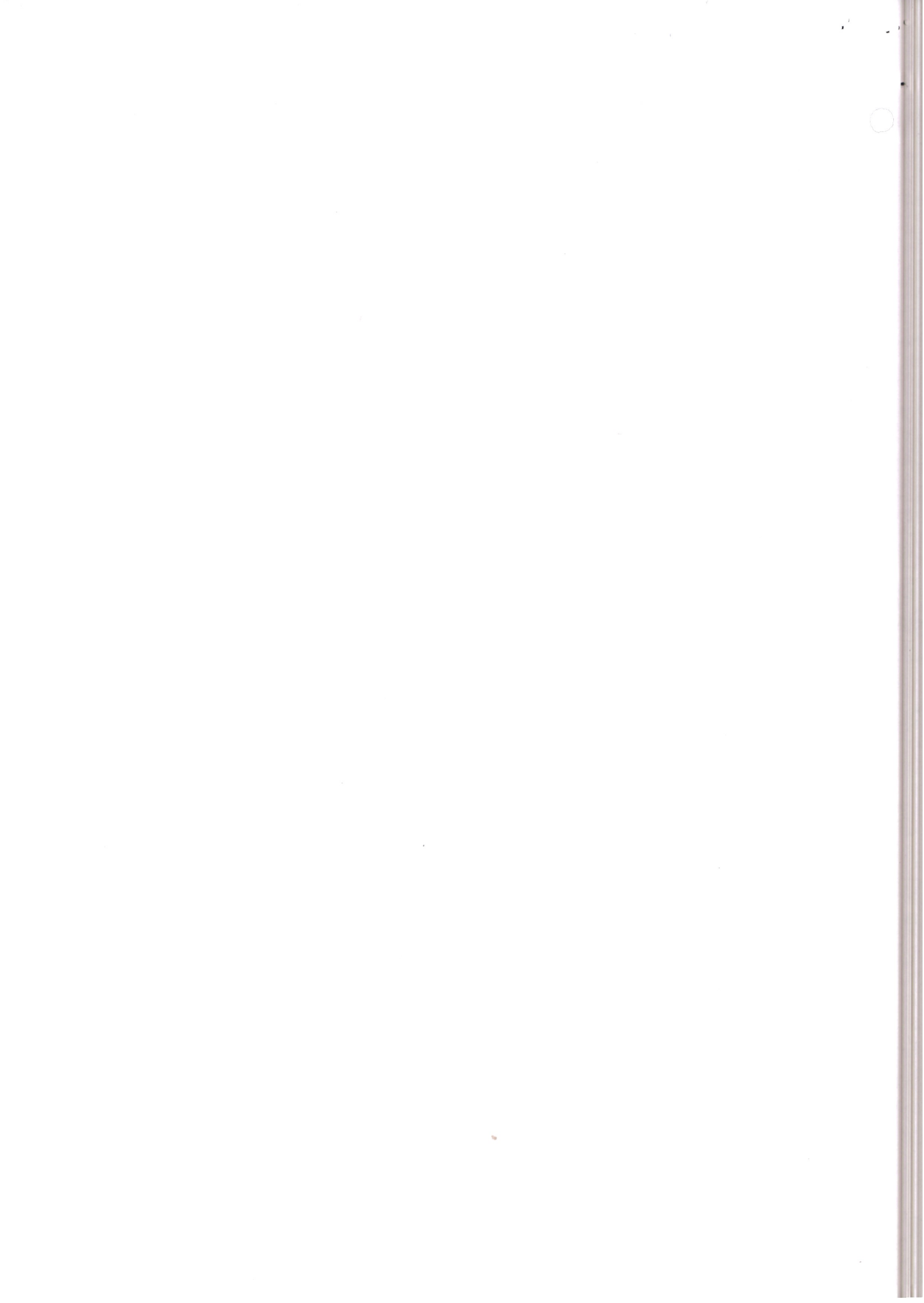
The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset, Equity, Fairness and Inclusion.

Mandate of the National Treasury

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

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

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting;



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- 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

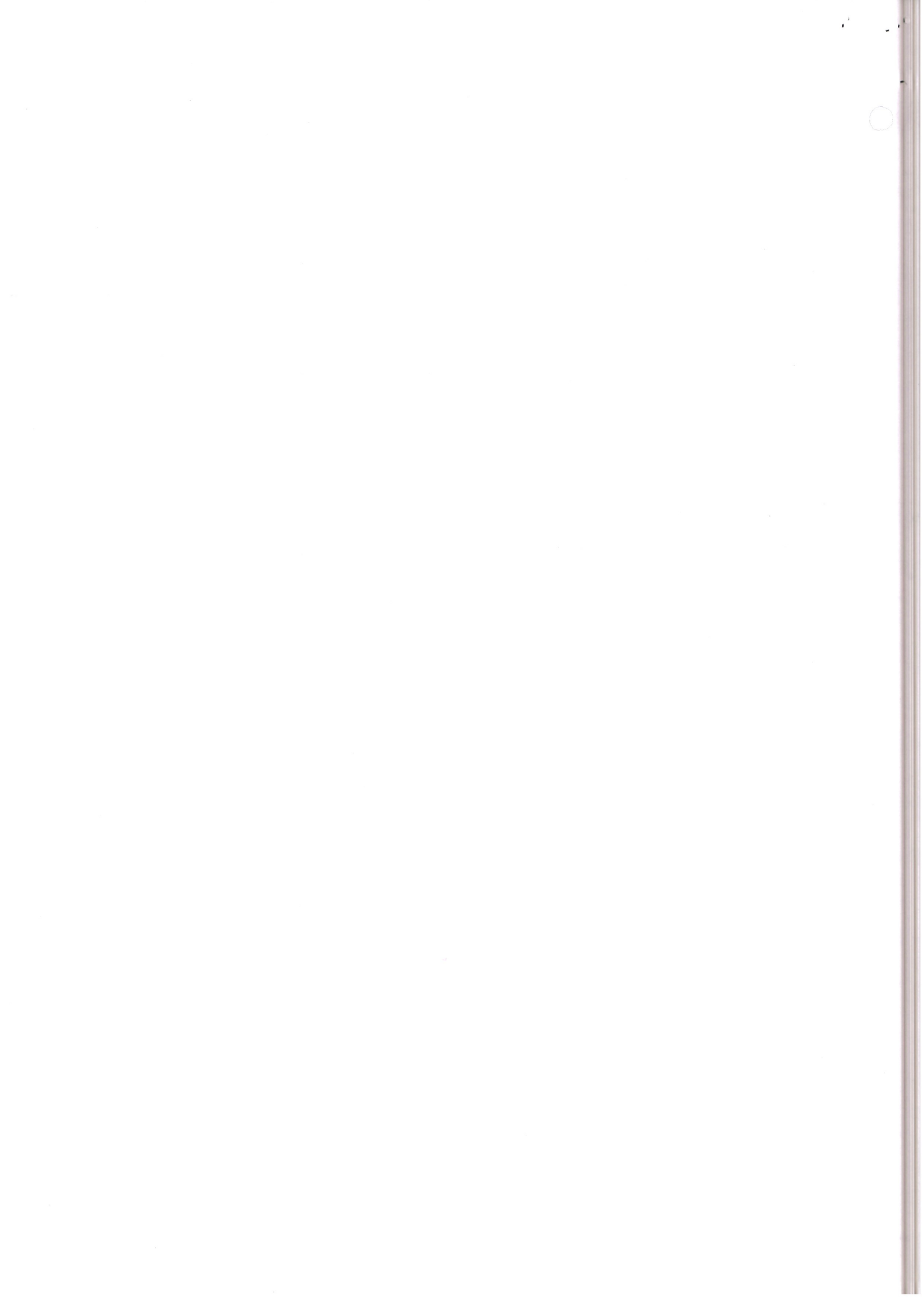
The National Treasury day-to-day management is under the following key offices;

Office of the Principal Secretary

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

Organizational structure of the National Treasury

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



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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

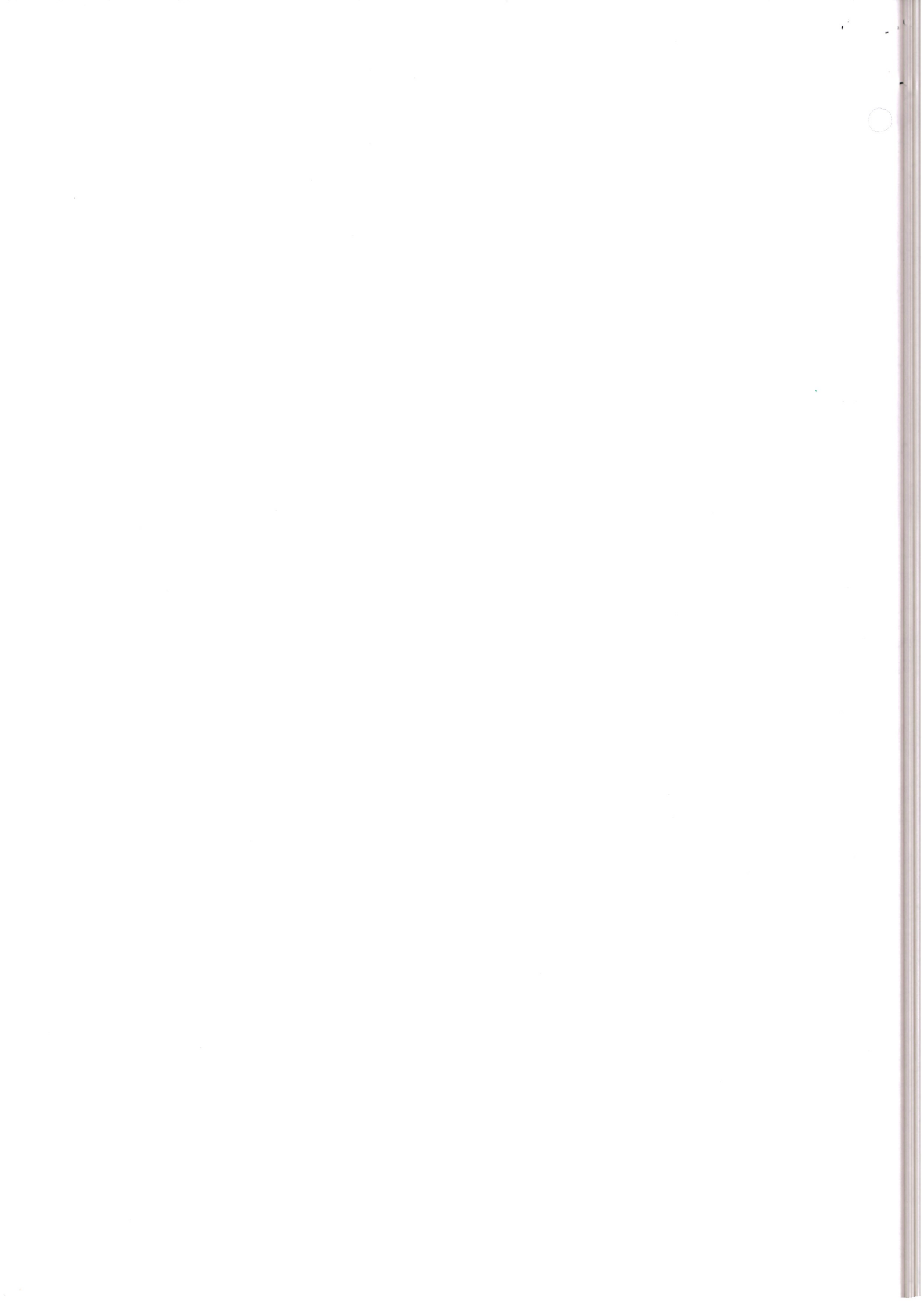
Directorate of Public Debt Management Office

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:



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



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(c) Fiduciary Management

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

NO.	Designation	Name
1.	Chief Administrative Secretary	Hon. Nelson Gaichuhie
2.	Principal Secretary	Dr. Kamau Thugge, CBS
3.	Secretary Administration	Mr. Musyimi S.K, CBS
4.	Principal Administrative Secretary, CBS, SS	Mutua Kilaka, CBS,SS
5.	Director General, BFEA	Dr. Geoffrey Mwau, EBS
6.	Director General, Accounting Services & Quality Assurance	Mr. Bernard Ndung'u, MBS
7.	Director General, PIPM	Ms. Esther Koimett, CBS
8.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
9.	Director, Budget Department	Mr. Francis Anyona, OGW
10.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Ag. Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Internal Auditor General	Mr. Alfayo Mogaka
14.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
15.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director Government Digital Payments	Mr. Harry Mwangi
17.	Ag Director, Financial Management Information System	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.	Ag. Director General Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
23.	Director, Debt Policy, Strategy & 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 & 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.	Ag. Director, Government Clearing Agency	Mr. Felix Ateng



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(d) Fiduciary Oversight Arrangements

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

Internal Audit Unit

The National Treasury has 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 officer 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 Senior Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Project Implementation Committee

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

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.

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Monitoring and Evaluation

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

(e) The National Treasury Headquarters

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

(f) The National Treasury Contacts

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

(g) The National Treasury Bankers

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

(h) Independent Auditors

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

(i) Principal Legal Adviser

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



KENYA LOCAL LOANS SUPPORT FUND

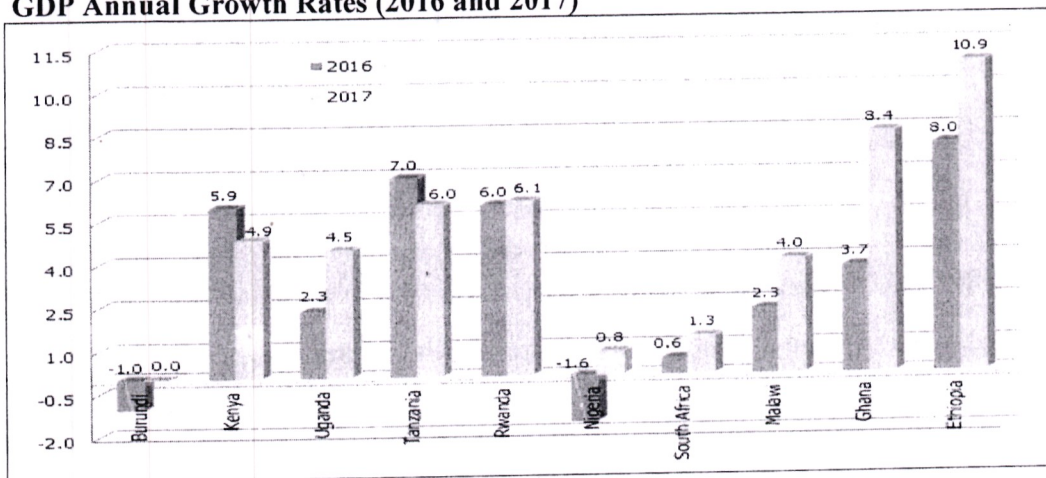
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For the year ended June 30, 2018 (Kshs)

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 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



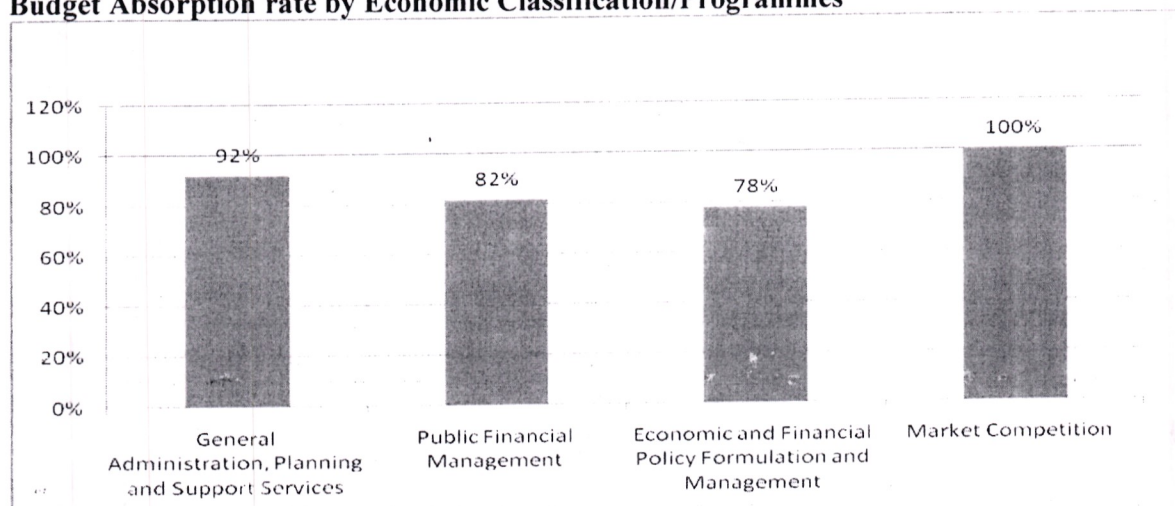
KENYA LOCAL LOANS SUPPORT FUND

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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.



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. ROTICH, EGH
CABINET SECRETARY

KENYA LOCAL LOANS SUPPORT FUND

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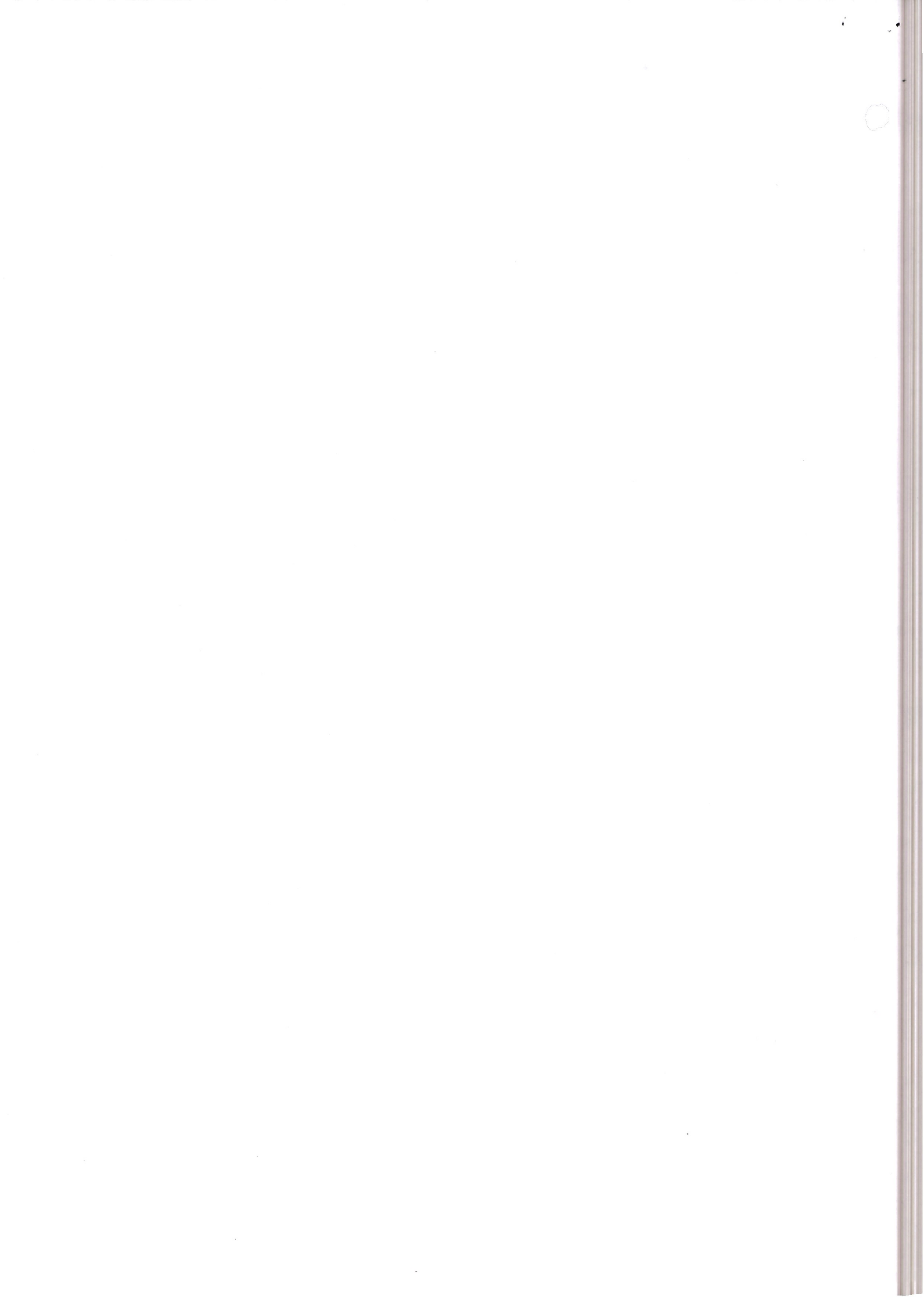
III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

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

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

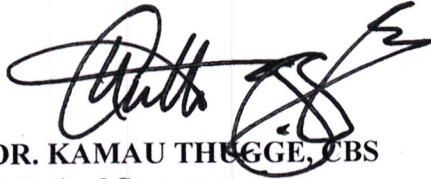
The Accounting Officer in charge of the Share Subscriptions and Capital Contribution to International Organizations confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received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



KENYA LOCAL LOANS SUPPORT FUND
Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

Approval of the financial statements

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 30th Sept 2018.



DR. KAMAU THUGGE, CBS
Principal Secretary



LILIAN W. DISHON
Principal Accountant
ICPAK Member Number: 10442



REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KENYA LOCAL LOANS SUPPORT FUND FOR THE YEAR ENDED 30 JUNE 2018 – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Kenya Local Loans Support Fund set out on pages 13 to 21 which comprise the statement of financial assets as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparative budget and Actual Amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Un-supported Balances

The balances reflected in the statement of financial assets under cash balances, investment at cost (CSFC) and accrued interest of Kshs.5, 000,000.00, Kshs. 10,410,373.50, and Kshs.71, 595,406.15 respectively have not been supported by notes, analyses and other documentary evidence. The accuracy of the balances cannot therefore be ascertained.

2. Failure to Redeem Stocks

In the audit reports for previous years, reference had been made to stocks valued at Kshs.10,430,700.00 which were past their redemption dates with the last redemption date for a sum of Kshs.17, 400.00 having been made on 6 February 2010. Although the National Treasury had explained in the past that the stocks were redeemed some years ago but erroneously accounted for as revenue, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been made available for audit review.

3. Winding Up of the Fund

According to information available, the Kenya Local Loans Support Fund is in the process of being wound up in line with recommendations of the Public Accounts Committee and

Report of the Auditor-General on the Financial Statements of Kenya Local Loans Support Fund for the Year Ended 30 June 2018

further instructions issued by the National Treasury that all dormant funds are to be wound up. However, the process had not been completed as at 30 June 2018.

Material Uncertainty Related to Going Concern/Sustainability of Services

The Fund has been recommended for winding up and the process is ongoing. The Fund will be wound after the Task Force responsible for the process has concluded the verification.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for [Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for [Conclusion of Internal Controls, Risk Management and Governance /Disclaimer of Opinion] section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for 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 going concern basis of accounting unless the

management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

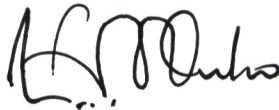
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 sustainability of services 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 as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or

conditions may cause the Fund to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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

27 December 2018

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

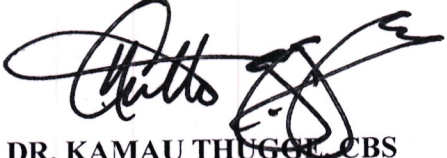
For the year ended June 30, 2018 (Kshs)


IV. STATEMENT OF RECEIPTS AND PAYMENTS

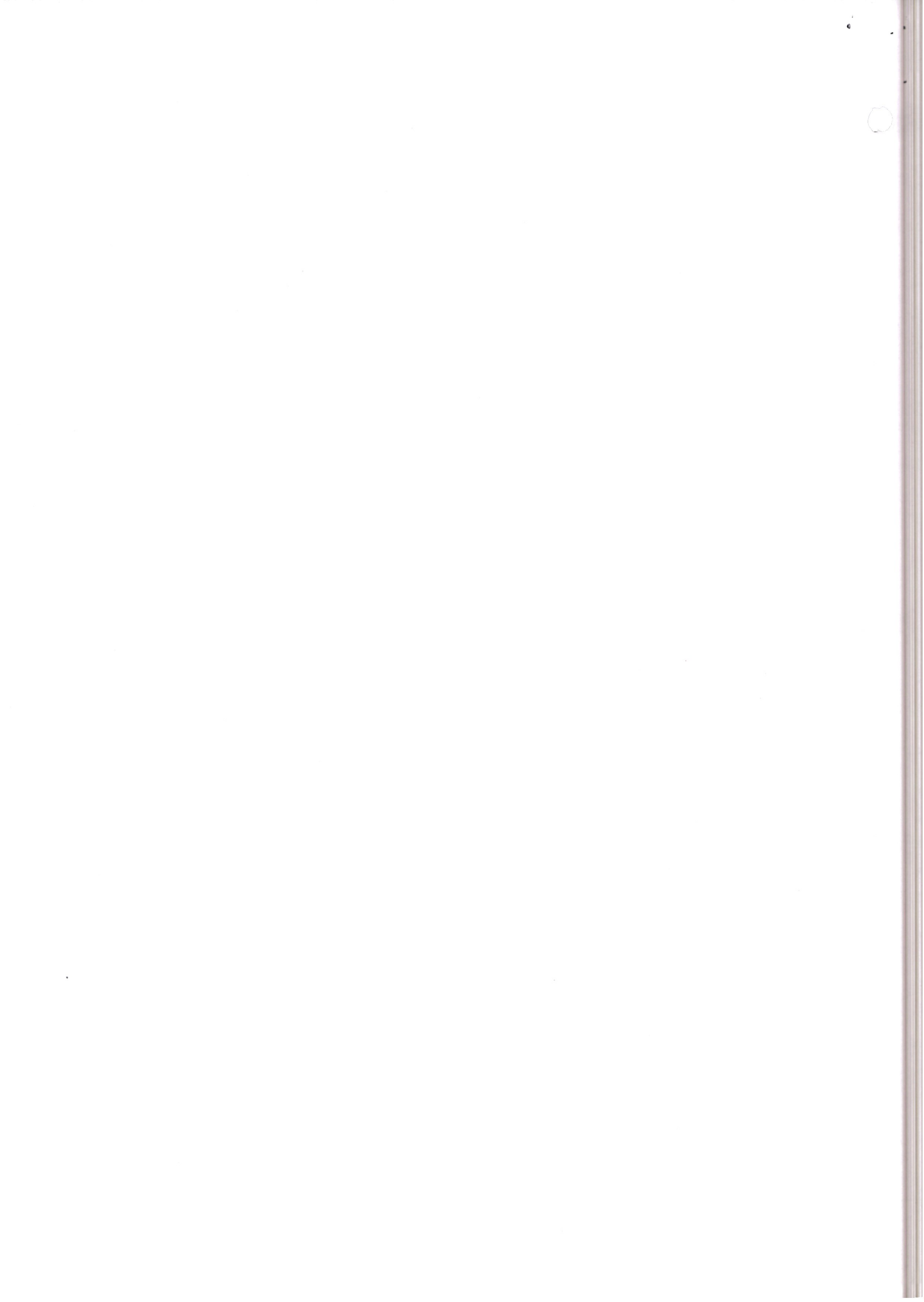
	Note	2017-2018 Kshs	2016-2017 Kshs
RECEIPTS			
Exchequer releases	1	0	0
TOTAL RECEIPTS		0	0
PAYMENTS			
Payments – Redemption of stocks	2	0	0
TOTAL PAYMENTS		0	0
SURPLUS/DEFICIT		0	0

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

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 30th Sept. 2018.


DR. KAMAU THUGEL CBS
Principal Secretary


LILIAN W. DISHON
Principal Accountant
ICPAK Member Number: 10442

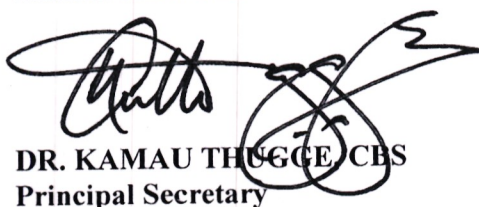



KENYA LOCAL LOANS SUPPORT FUND
Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

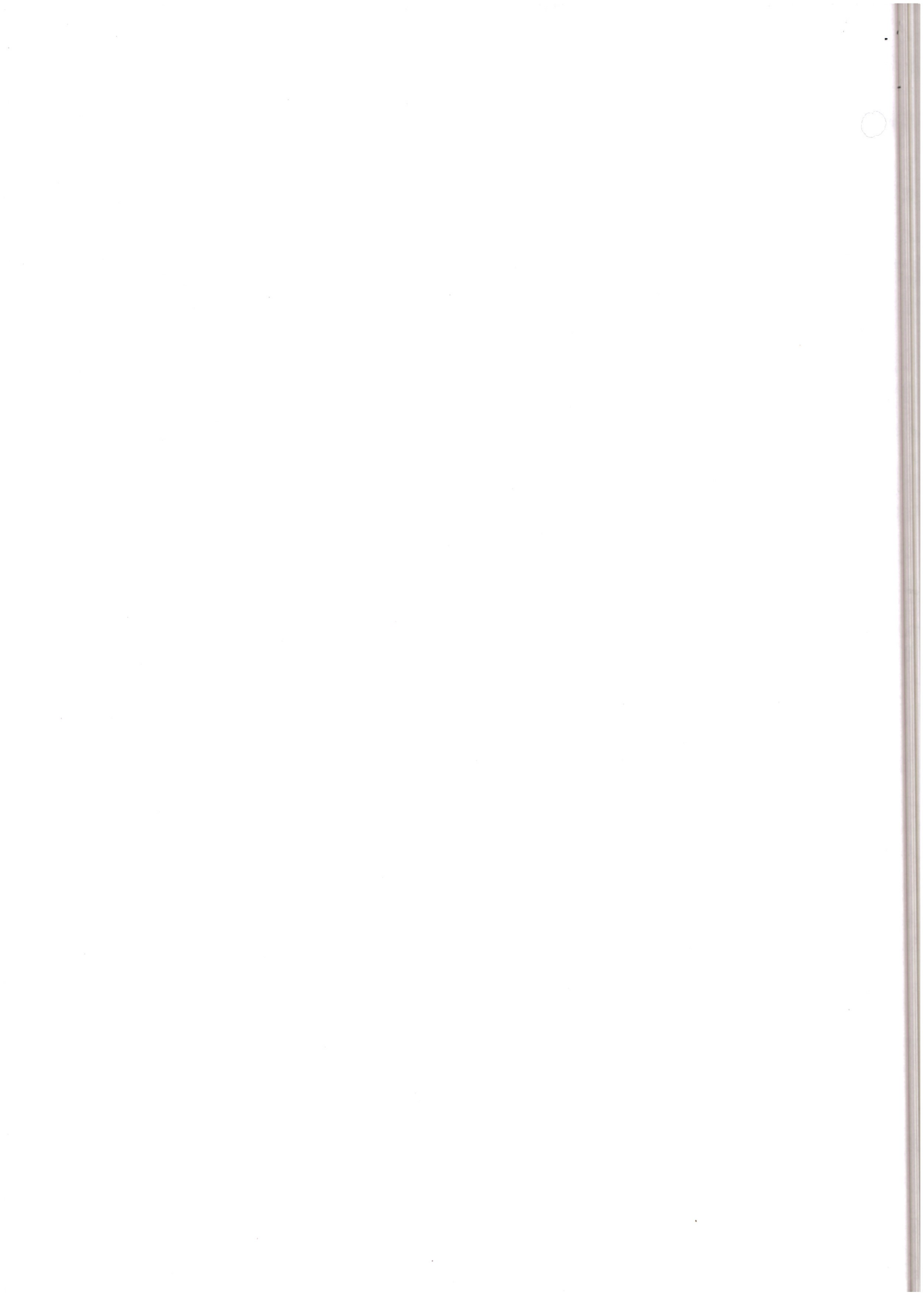
V. STATEMENT OF FINANCIAL ASSETS

	Note	2017-2018 Kshs	2016-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	4	5,000,000.00	5,000,000.00
Cash Balances		0	0
Total Cash and cash equivalent		5,000,000.00	5,000,000.00
Investment at cost (CSFC)	3(i)	10,410,373.50	10,410,373.50
Accrued interest yet to be received	3(ii)	71,595,406.15	71,595,406.15
TOTAL FINANCIAL ASSETS		87,005,779.65	87,005,779.65
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions		0	0
NET FINANCIAL ASSETS		87,005,779.65	87,005,779.65
REPRESENTED BY			
Fund balance b/fwd		87,005,779.65	87,005,779.65
Surplus/Deficit for the year		0	0
NET FINANCIAL POSITION		87,005,779.65	87,005,779.65

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


DR. KAMAU THUGGE CBS
Principal Secretary


LILIAN W. DISHON
Principal Accountant
ICPAK Member Number: 10442

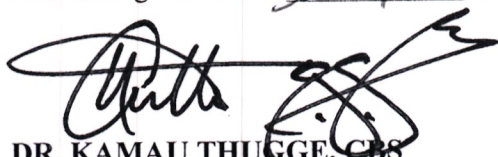


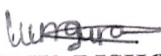
KENYA LOCAL LOANS SUPPORT FUND
Reports and Financial Statements
For the year ended June 30, 2018 (Kshs)

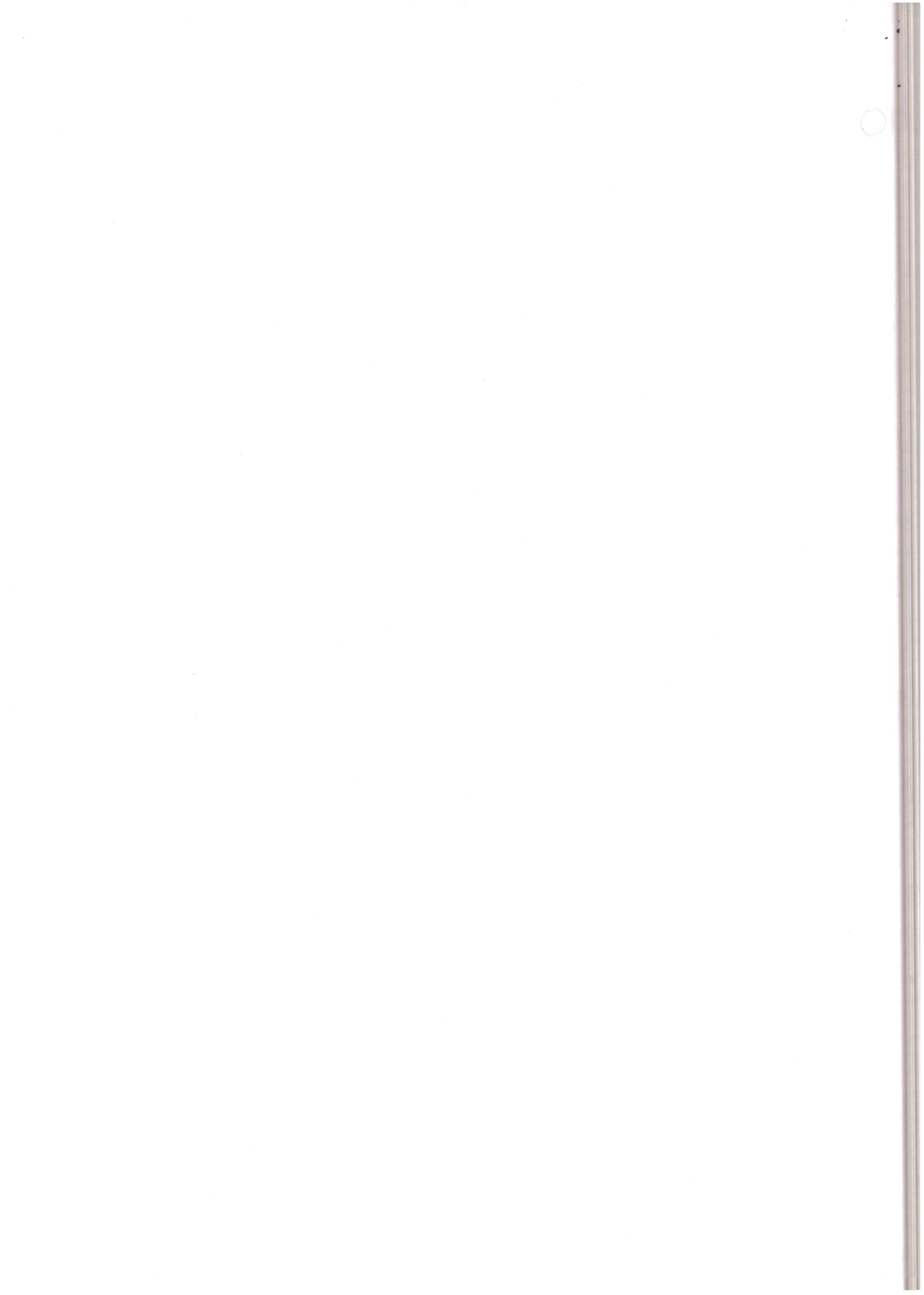
VI. STATEMENT OF CASHFLOW

	Note	2017-2018 Kshs	2016-2017 RESTATED Kshs
Receipts for operating income			
Exchequer Releases	1	0	0
Payments	2	0	0
Adjusted for:			
Net cash flow from operating activities		0	0
Cash flow from Borrowing activities		0	0
Net cash flow from financing activities		0	0
NET INCREASE IN CASH AND CASH EQUIVALENT		0	0
Cash and cash equivalent at BEGINNING of the year	5	5,000,000.00	5,000,000.00
Cash and cash equivalent at END of the year		5,000,000.00	5,000,000.00

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 3rd Sept. 2018.


DR. KAMAU THUGGE, CBS
Principal Secretary


LILIAN W. DISHON
Principal Accountant
ICPAK Member Number: 10442



VII. SUMMARY STATEMENT OF APPROPRIATION:

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilisation Difference e=c-d	% of Utilisation f=d/c %
RECEIPTS						
Exchequer releases	0	0	0	0	0	
PAYMENTS						
Other Payments	0	0	0	0	0	
NET TOTAL	0	0	0	0	0	

(a) [The entity is dormant.]

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 30th Sept-2018.



DR. KAMAU THUGGE, CBS
 Principal Secretary



LILIAN W. DISHON
 Principal Accountant
 ICPAK Member Number: 10442

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

For the year ended June 30, 2018 (Kshs)

VIII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

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

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

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

2. Recognition of revenue and expenses

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

3. In-kind contributions

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

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.



KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

For the year ended June 30, 2018 (Kshs)

5. Accounts Receivable

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

6. Accounts Payable

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

7. Non-current assets

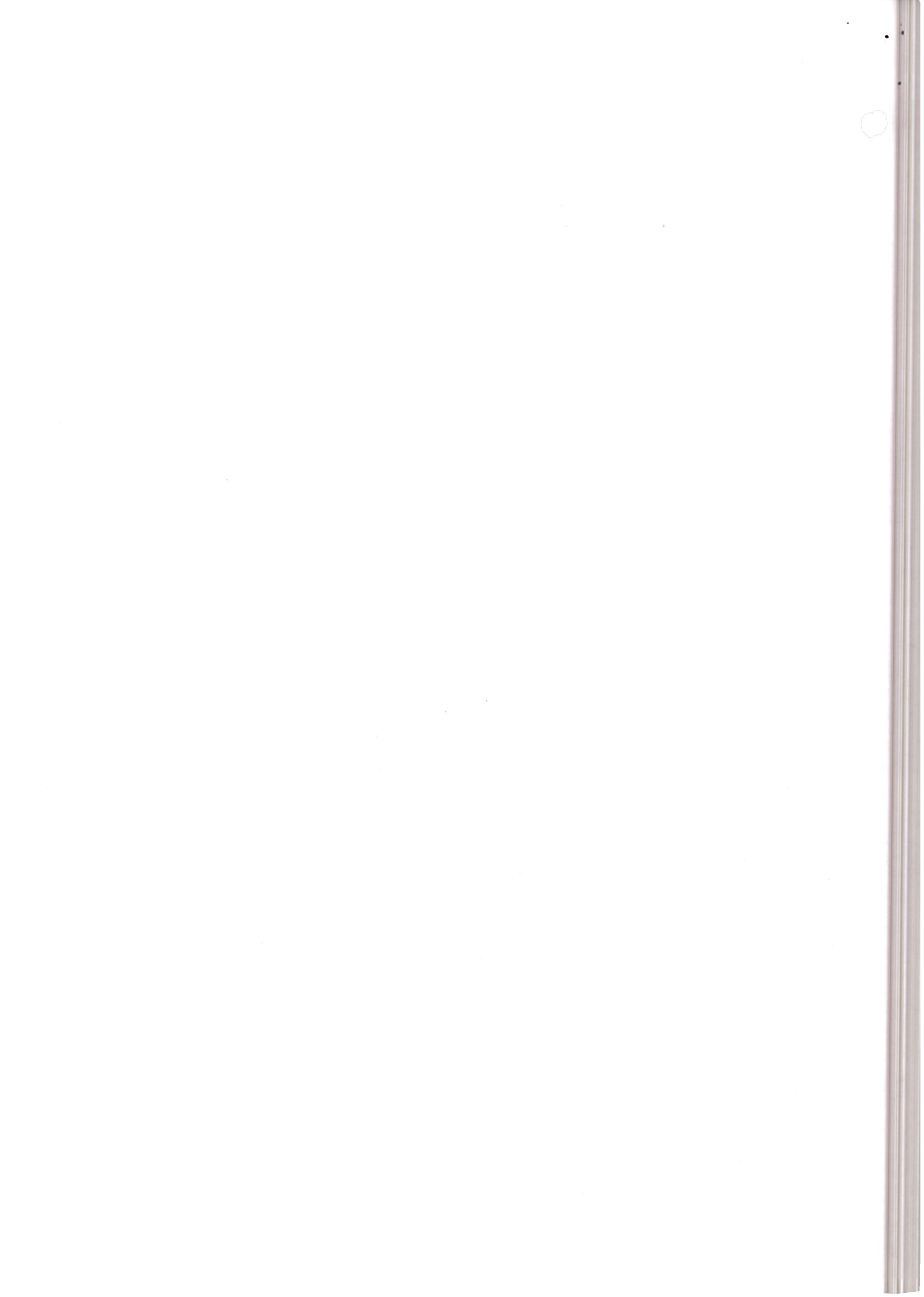
Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they are recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the entity at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

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



KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

For the year ended June 30, 2018 (Kshs)

10. Comparative figures

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

11. Subsequent events

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



KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

For the year ended June 30, 2018 (Kshs)

IX. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2017 - 2018	2016 - 2017
	Kshs	Kshs
Total Exchequer Releases for quarter 1	0	0
Total Exchequer Releases for quarter 2	0	0
Total Exchequer Releases for quarter 3	0	0
Total Exchequer Releases for quarter 4	0	0
Total	0	0

2 Payments

	2017 - 2018 Ksh.	2016 - 2017 Ksh.
Payments for Redemption of stocks	0	0
	0	0

3 Account Receivables

	2017 - 2018 Kshs	2016 - 2017 Kshs
(i) Investment at cost (CSFC)	10,410,373.55	10,410,373.55
(ii) Accrued Interest	71,595,406.15	71,595,406.15
Total	82,005,779.65	82,005,779.65

4 Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent	Exch. rate (if in foreign currency)	2017 - 2018	2016 - 2017
				Kshs	Kshs
Central Bank of Kenya, Account No. 1000182137		Deposit	N/A	5,000,000.00	5,000,000.00
Total				5,000,000.00	5,000,000.00



KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements

For the year ended June 30, 2018 (Kshs)

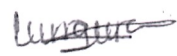
X. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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 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)
1	Un-supported Balances	The balances reflected in the statement are old balances that have been carried in the books pending completion of the winding up process of the fund. The only available record is prior year ledgers and statements.		Not resolved	On going
2	Failure to Redeem Stocks	Redemption proceeds for stocks amounting to Ksh. 4,045,400.00 are with Central Bank of Kenya. Balance of Ksh. 6,385,300.00 not yet traced.		Not resolved since redemption of Ksh. 6,385,300.00 has not been confirmed	On going
3	Winding up of the Fund.	Progress report on winding up of the fund was provided for audit.		Resolved	



DR. KAMAU THUGGE, CBS
Principal Secretary



LILIAN W. DISHON
Principal Accountant
ICPAK Member Number: 10442



PUBLIC DEBT MANAGEMENT OFFICE

BRIEF ON KENYA LOCAL LOANS SUPPORT FUND

Establishment of the Fund

The Kenya Local Loans Support Fund was established in 1948 under The Local Loans Act Cap 248 of 1948 and repealed and applied under Internal Loans Act Cap 420 of 1955.

Objective of the Fund were:

1. To facilitate registration of Kenya Stocks
2. To facilitate issue, transfer, conversion and replacement of Bonds and Stocks.
3. To facilitate payment of interest and redemption of Stocks.

Administration of the Fund

The Administrator of fund is the Cabinet Secretary, The National Treasury who has delegated the responsibility to the Principal Secretary.

Money would be transferred from the Consolidated Fund to Local Loans Support Fund and utilized on the fund objectives highlighted above.

Status of the Fund

- The bank balance as at 30th June, 2017 is Kshs. 5,000,000
- Investment at cost is Kshs. 10,410,373.50

Investment at cost is Kshs. 10,410,373.50 of which Kshs 4,045,400 is still held in the sundry creditors account in C.B.K. as confirmed vide C.B.K. Letter referenced MO & DM – Settlements dated 15th April, 2016. The National Treasury wrote to C.B.K. vide letter referenced DMD 4/46"L" dated 3rd May, 2018 seeking payment of Kshs. 4,045,400.00. A reminder referenced DMD 4/46"L" dated 14th August, 2018 was delivered to the bank.

Kenya Stocks amounting to Kshs. 6,364,973.50 have nil balances in C.B.K. books indicating that they were redeemed and paid in full. The bank was requested to provide information on the redemption dates to facilitate tracing and accounting for the redemption proceeds.

- The reported accrued interest is Kshs. 71,595,406.15.

Recommendation.

The fund was operated since independence alongside the Sinking Fund for redemption of Kenya stocks upto financial year 1994/95. The fund balance of Kshs. 87,005,779.65 as at 30th June, 2010 has remained unchanged to-date. It is therefore recommend that the Task force committee may consider and initiate winding up of the fund since it is dormant.

