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ON

OUTSTANDING OBLIGATIONS
GUARANTEED BY THE GOVERNMENT OF
KENYA

FOR THE YEAR
ENDED 30 JUNE, 2020


THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 11 MAY 2021
DAY.
TABLED
BY
CLERK TO
THE TABLE:

THE NATIONAL TREASURY



THE NATIONAL TREASURY
**STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY
GOVERNMENT**
REPORTS AND FINANCIAL STATEMENTS
**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020**

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

 THE NATIONAL ASSEMBLY PAPERS LAID	
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**THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
GOVERNMENT**

**Reports and Financial Statements
For the year ended June 30, 2020**

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KEY ENTITY INFORMATION AND MANAGEMENT

1. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

Vision

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

Mission

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

Core Values

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

Mandate of the National Treasury

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

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

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

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-
- 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 support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

(b) Key Entity Information and Management

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

Office of the Principal Secretary

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

Organizational Structure of the National Treasury

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

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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.
- Government Digital Payments Unit.

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- Resource Mobilization (Front Office);
- Debt Policy, Strategy and Risk Management (Middle Office);
- Debt Recording and Settlement (Back Office).

Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury.

The functions include:

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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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Fiduciary Management

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

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

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(d) Fiduciary Oversight Arrangements

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

Internal Audit Unit

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

Audit Committees

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

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

Project Implementation Committee

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

Parliamentary Activities

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

Development Partner Oversight

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

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development partner activities in the Country.

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

Top Management and Senior Management Committees

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

Public Financial Management Sector Working Group

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

Budget Implementation Steering Committee

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

Budget Implementation Technical Committee

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

Budget Implementation Ministerial Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

Monitoring and Evaluation

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

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(e) The National Treasury Headquarters

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

The National Treasury Contacts

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

(f) The National Treasury Bankers

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

(g) Independent Auditors

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

(h) Principal Legal Adviser

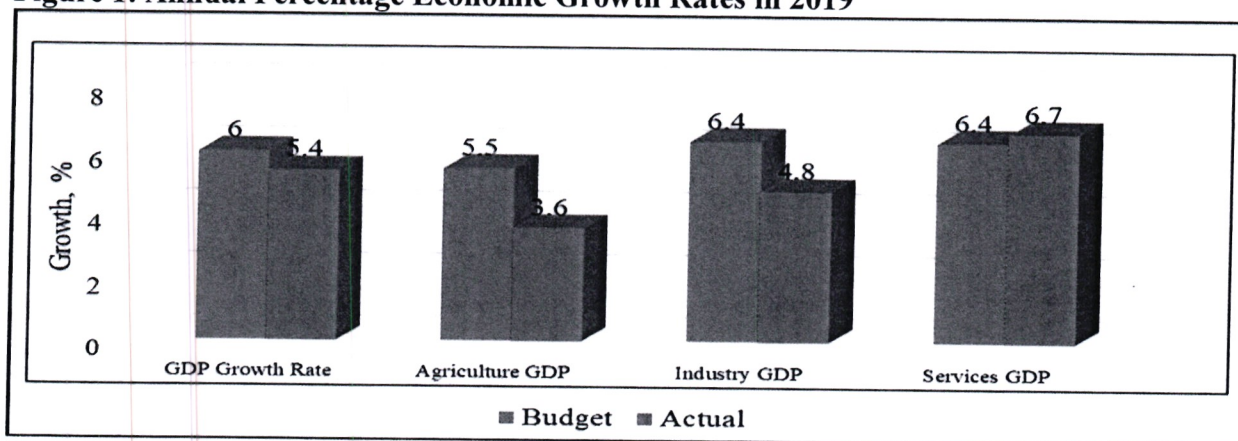
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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II. FOREWORD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy remained strong in 2019 expanding by 5.4 percent compared to a growth of 6.3 per cent in 2018. The growth was spread across all sectors of the economy but was more pronounced in service-oriented sectors including Financial and Insurance as well as in Real Estate sub-sectors. However, there was a slowdown in agricultural activities due to suppressed long rains in key agricultural zones. In the first quarter of 2020, economic performance in most sectors slowed down compared to the corresponding quarter of 2019. Real GDP grew by 4.9 per cent during the review period compared to 5.5 per cent growth in the first quarter of 2019. The economy was affected by the uncertainty surrounding the corona pandemic that was already slowing economic activity in most of the country’s major trading partners. Additionally, the economic slowdown in fourth quarter was aggravated by 9.3 per cent contraction in Accommodation and Food Service activities on account of Corona Virus containment measures instituted in our major tourist source markets.

Figure 1: Annual Percentage Economic Growth Rates in 2019



Data Source: Kenya National Bureau of Statistics, MTP III

Despite the difficult circumstances faced last year, the country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable. Year-on-year overall inflation rate remained within the Government target range of 5+/-2.5 percent at 4.6 percent in June 2020 down from 5.7 percent in June 2019. This was supported by improving food supply leading to lower food prices due to favourable weather conditions and lower international oil prices. Similarly, overall annual average inflation remained within Government target range at 5.5 percent in June 2020 compared to the 5.2 percent recorded in June 2019.

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

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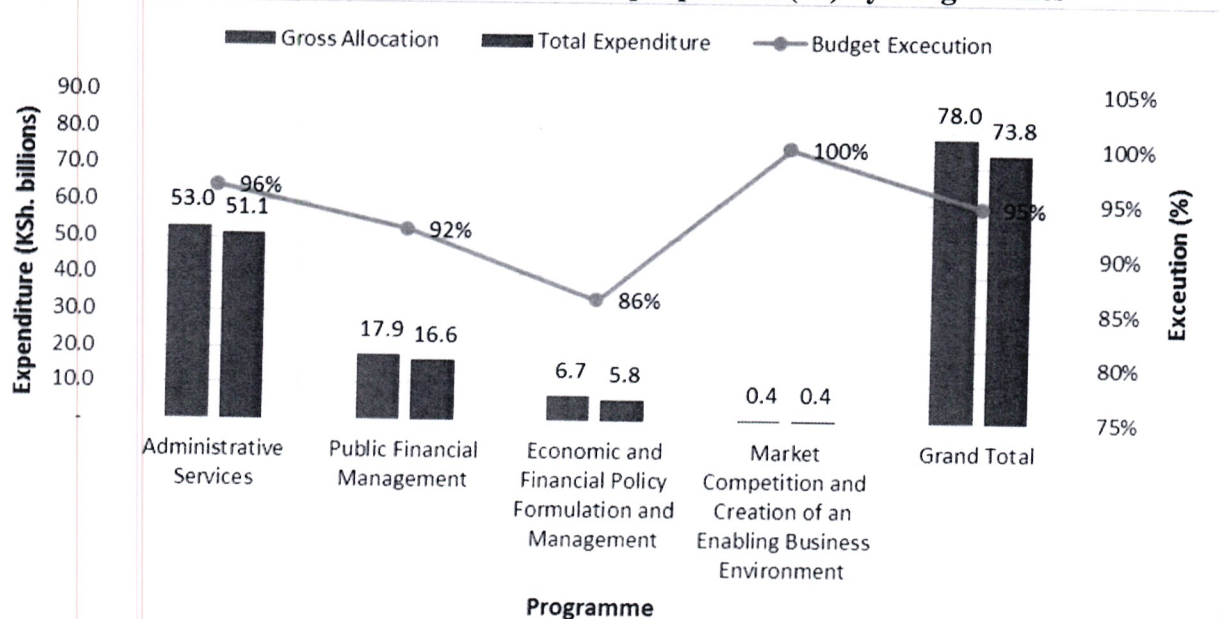
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adversely affected revenue performance especially in the fourth quarter.

In order to ensure increased efficiency, stability and access of the financial sector, the National Treasury published the Public Finance Management (amendments) Bill, 2020. The Bill which was assented to by H.E the President seeks to establish the Credit Guarantee Scheme for Micro, Small and Medium Enterprises (MSMEs) in Kenya. The Bill will enable the government to give its undertaking to participating financiers that in the event of a default on loans advanced to MSMEs, the government will pay part of the loan in default. Targeted credit support to MSMEs will lead to growth in output with the potential to uplift the lives of many Kenyans through job creation.

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

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



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

The lowest performing programme is Economic and Financial Policy Formulation and Management at 86%. This is attributed to underperformance in absorption in sub-classifications of Routine Maintenance (7%) and Acquisition of Capital Assets (4%) which was mainly due to

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

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

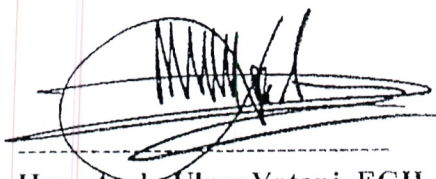
- The outbreak of COVID-19 pandemic affected achievement of targets due to delay and disruption of the policy making process especially in public participation and change of priorities arising from the urgent need to contain the spread of COVID-19.
- The global political landscape such the Brexit affected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

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

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

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects.
- Enhanced the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to finance government projects.



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

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I. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

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

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

Progress on attainment of Strategic development objectives

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

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

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			Annual national budget presented to Parliament by 30th April	Budget presented to parliament
Economic and Financial Policy Formulation and Management	Ensure stable and sustainable macro-economic environment.	Stable macroeconomic environment for economic growth	Real GDP growth rate (%)	5.4 %
			Inflation rate (%)	4.6%
			Months of import cover	5.0 months of import cover
			% of fiscal deficit	8.2% of GDP
Market Competition and Creation of an Enabling Business Environment	Ensure market structures that encourage competition and orderly conduct of business.	Sustained high productivity and competitive markets	Percentage of consumer complaints investigations concluded	80% of the consumer complaints investigated

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CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

Sustainability strategy and profile –

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

Environmental performance

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

Employee welfare

Employee welfare is critical for effective implementation of the programmes and projects of an organization. Noting the importance of human resources, the National Treasury has a Department established to handle Human Resources Management and Development. The Ministry has

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

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

Market place practices

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

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

Community Engagements

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

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STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

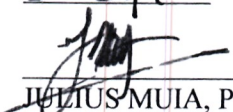
The Accounting Officer in charge of the National Treasury is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

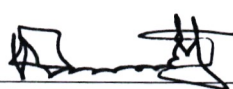
The Accounting Officer in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes 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.

Approval of the financial statements

The *entity's* financial statements were approved and signed by the Accounting Officer on 30th sept. 2020.



JULIUS MUIA, PHD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M. MOTANYA
ICPAK MEMBER NUMBER : 2367
HEAD OF ACCOUNTING UNIT

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



Enhancing Accountability

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

REPORT OF THE AUDITOR-GENERAL ON STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT OF KENYA FOR THE YEAR ENDED 30 JUNE, 2020 -THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of the Statement of Outstanding Obligations Guaranteed by Government of Kenya set out on pages 1 to 8, which comprise the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020, 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. Presentation and Disclosure

The statement of outstanding obligations guaranteed by the Government of Kenya reflects an outstanding balance of Kshs.152,317,825; (2019-Kshs.152,317,825) being capital and interest owed by the Cereals and Sugar Finance Company. However, the Consolidated National Government Investment Report for the year 2019/2020, prepared by The National Treasury in accordance with Section 89 of the Public Finance Management Act, 2012, indicates that the total outstanding Government guaranteed debt stood at Kshs.159,405,000,000 as detailed out below:

Agency	Outstanding Government Guaranteed Debt as at 30 June, 2020 (Kshs.)
Kenya Broadcasting Corporation (KBC)	357,000,000
Tana and Athi River Development Authority	279,000,000
East African Portland Cement PLC	346,000,000
Kenya Electricity Generating Company PLC	43,035,000,000
Kenya Ports Authority	34,061,000,000

Report of the Auditor-General on Statement of Outstanding Obligations Guaranteed by Government of Kenya for the year ended 30 June, 2020 – The National Treasury

Agency	Outstanding Government Guaranteed Debt as at 30 June, 2020 (Kshs.)
Kenya Railways Corporation	4,603,000,000
Kenya Airways	76,724,000,000
Total	159,405,000,000

The total outstanding Government guaranteed debt of Kshs.159,405,000,000 however, does not include the balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya prepared and submitted for audit by The National Treasury, which is indicated as relating to Capital and Interest owed by Cereals and Sugar Finance Corporation. Further, the parent Ministries for the respective Agencies mentioned above did not prepare and submit for audit their respective statements of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020. No explanations have been provided for the omissions.

Under the circumstances, the completeness and accuracy of the outstanding balance of Kshs.152,317,825 reflected in the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020 could not be ascertained.

2. Unsupported Decrease in Guaranteed Obligations

As previously reported, the statement of outstanding obligations guaranteed by the Government of Kenya as at 30 June, 2020 reflects an outstanding balance of Kshs.152,317,825 which decreased by Kshs.11,814,920 from the reported balance of Kshs.164,132,745 as at 30 June, 2018. Management did not avail documentary evidence to support the decrease of Kshs.11,814,920 in the 2018/2019 financial year.

Consequently, the accuracy of the outstanding balance of Kshs.152,317,825 could not be confirmed.

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 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 overall 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 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 maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing The National Treasury's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to terminate The National Treasury or to cease operations.

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

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

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how The National Treasury monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and overall governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and overall governance 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of The National Treasury Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

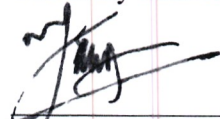
22 April, 2021

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
GOVERNMENT
Reports and Financial Statements
For the year ended June 30, 2020

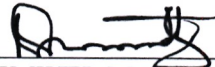
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
GOVERNMENT OF KENYA

Organization to which guarantee is given	Obligation guaranteed	Note	2019/2020	2018/2019
Lender 2	Capital and Interest owed by cereals and Sugar Finance Corporation	1	152,317,825	152,317,825
TOTAL			152,317,825	152,317,825

The entity financial statements were approved on 30th Sept. 2020 and signed by:



JULIUS MUIA, PHD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M.MOTANYA
ICPAK MEMBER NUMBER: 2367
HEAD OF ACCOUNTING UNIT

**THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
GOVERNMENT**

Reports and Financial Statements

For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

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

3. Reporting Currency

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

4. Significant Accounting Policies

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

a) Recognition of Receipts

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

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

- **Transfers from the Exchequer**

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

- **External Assistance**

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

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

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

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

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of Employees**

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

- **Use of Goods and Services**

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

- **Interest on Borrowing**

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

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STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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SIGNIFICANT ACCOUNTING POLICIES

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

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

• **Acquisition of Fixed Assets**

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

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

5. In-kind contributions

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

6. Third Party Payments

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

7. Cash and Cash Equivalentents

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

Restriction on Cash

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

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

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

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

9. Accounts Payable

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

10. Pending Bills

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

11. Budget

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

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

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

12. Comparative Figures

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

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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Reports and Financial Statements
For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

13. Subsequent Events

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

14. Errors

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

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

15. Related Party Transactions

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

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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Reports and Financial Statements
For the year ended June 30, 2020

NOTES TO THE FINANCIAL STATEMENTS

1 OTHER DISCLOSURE- CONTINGENT LIABILITY

	2019-2020	2018-2019
	Kshs	Kshs
Capital and interest	152,317,825	152,317,825
Total	152,317,825	152,317,825

The amount relates to obligation guaranteed by Government of Kenya in respect of borrowing by Cereals and Sugar Finance Corporation

THE NATIONAL TREASURY
STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE
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Reports and Financial Statements
For the year ended June 30, 2020

PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
Para. 112	Long outstanding balances-Cereals and Sugar Finance Corporation	Cereals and Sugar Finance Corporation is dormant and is in the process of being wound up. The obligation guaranteed is a contingent liability	Ms.Kitonyi/ Makumi	Not Resolved	At time of review by Auditor



JULIUS MUIA, PHD, CBS
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