

REPUBLIC OF KENYA



*papers laid by the
leader of majority party
MPF
Tuesday 26/7/2018*

OFFICE OF THE AUDITOR-GENERAL

PARLIAMENT
OF KENYA
LIBRARY



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
CONSOLIDATED FUND SERVICES –
SALARIES, ALLOWANCES AND
MISCELLANEOUS SERVICES**

**FOR THE YEAR ENDED
30 JUNE 2017**

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

30 SEP 2017

RECEIVED



THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

**Reports and Financial Statements
For the year ended June 30, 2017**

Table of Content

Page

I. NATIONAL TREASURY INFORMATION AND MANAGEMENT	1
II. FORWARD BY THE CABINET SECRETARY	8
III. STATEMENT OF SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES MANAGEMENT RESPONSIBILITIES	16
IV. REPORT OF THE INDEPENDENT AUDITORS ON THE <i>NATIONAL TREASURY, SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES</i>	18
V. STATEMENT OF RECEIPTS AND PAYMENTS	19
VI. STATEMENT OF ASSETS AND LIABILITIES	20
VII. STATEMENT OF CASH FLOWS	21
VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT	22
IX. SIGNIFICANT ACCOUNTING POLICIES	23
X. NOTES TO THE FINANCIAL STATEMENTS	27

**Reports and Financial Statements
For the year ended June 30, 2017**

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 Finance, who is responsible for the general policy and strategic direction of the Ministry.

Vision

An institution of excellence in economic and public financial management.

Mission

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

Core Values

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

Mandate of the National Treasury

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

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

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments
- Assist county governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relations between the National Government and County Governments and encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

(b) Key Management

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

Office of the Principal Secretary

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

Organizational structure of the National Treasury

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

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

as follows:

Directorate of Budget, Fiscal and Economic Affairs

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department;
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department.

Directorate of Accounting Services and Quality Assurance

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

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

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

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

Directorate of Administrative and Support Services (Common Shared Services)

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

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

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

(c) Fiduciary Management

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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, EBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
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	Mr. Christopher Oisebe
10.	Ag 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. Tom Khakame
15.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
16.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
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 Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, debt Recording and settlement Department	Mrs Felister Kivisi
23.	Director of Administration	Mr David Oleshege, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Chief Finance Officer	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Momanyi
27.	Director, Human Resource Management and Development	Ms. Susan Mucheru
28.	Ag Director, Information Communication and Technology	Mr. George Kariuki
29.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
30.	Head, Public Communications	Mr. Maina Kigaga
31.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
32.	Head, Government Clearing Agency	Mr. Felix Ateg

Reports and Financial Statements

For the year ended June 30, 2017

(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 officers on a regular basis.

Audit Committee

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

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

Senior Management Committee

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

Public Financial Management Sector Working Group

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

Budget Implementation Committee

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

Monitoring and Evaluation

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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

**Reports and Financial Statements
For the year ended June 30, 2017**

(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

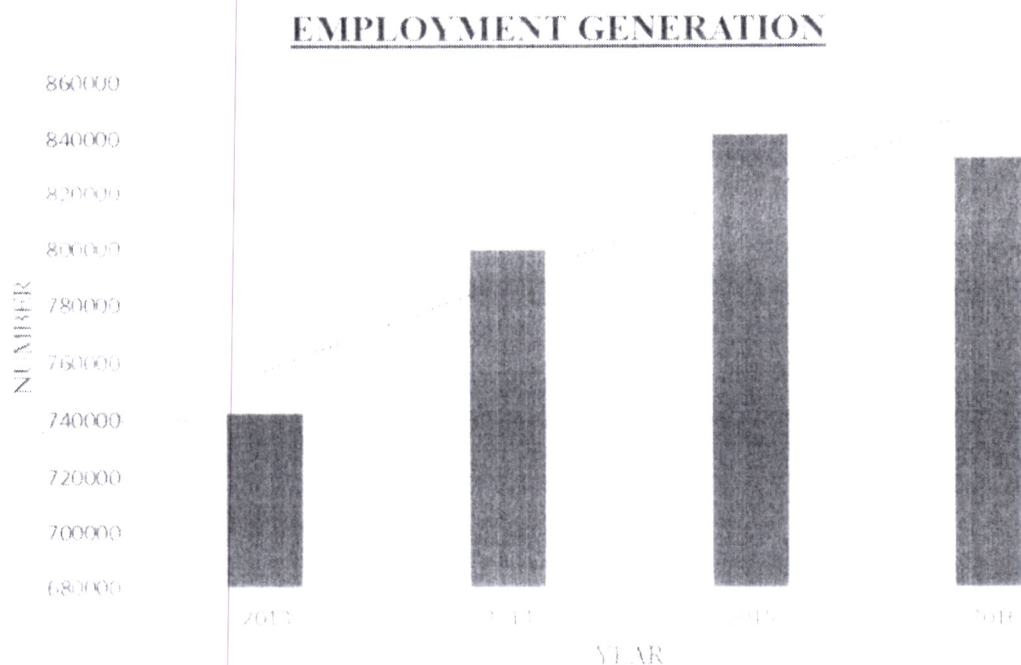
SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

II. FORWARD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub-Saharan Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

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



In terms of budget performance, the National Treasury expenditure stood at

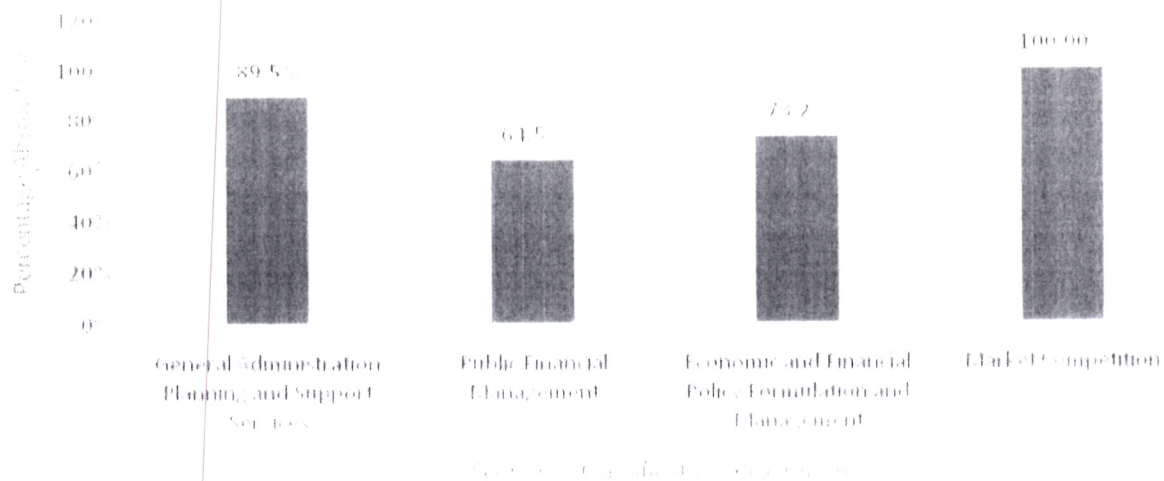
SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

Kshs.35,563,916,019.00 against an approved budget of **Kshs.37,527,564,690.00** in Recurrent while Development expenditure stood at **Kshs.16,668,950,121.00** against an approved budget of **Kshs.21,527,884,302.00** giving an overall absorption rate of 88.5%. The National Treasury implemented the 2016/17 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services (89.5%), Economic and Financial Policy Formulation and Management (73.2%) and Public Financial Management Programme at 64.5%.

Budget absorption rate by Economic Classification/Programme



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

	Approved Budget Allocation	Actual Payments	Variance
Payments	KShs	KShs	KShs
Compensation of Employees	2,393,400,581.00	2,177,407,291.15	215,993,289.85
Social Contributions	0.00	0.00	0.00
Goods and Services	16,204,555,515.00	13,898,644,098.30	2,305,911,416.70
Routine Maintenance	121,383,364.00	89,824,691.10	31,558,672.90
Subsidies to Public Corporations	1,050,000,000.00	1,050,000,000.00	0.00
Grants and Other Transfers to International Organisations	1,283,656,005.00	1,150,831,076.15	132,824,928.85
Grants & Transfer to other Govt. Units	25,267,659,516.00	25,060,536,140.65	207,123,375.35
Other Transfers and Emergency Relief	3,710,329,340.00	3,152,942,824.75	557,386,515.25
Social Security Benefits	1,805,634.00	0.00	1,805,634.00

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

**Reports and Financial Statements
For the year ended June 30, 2017**

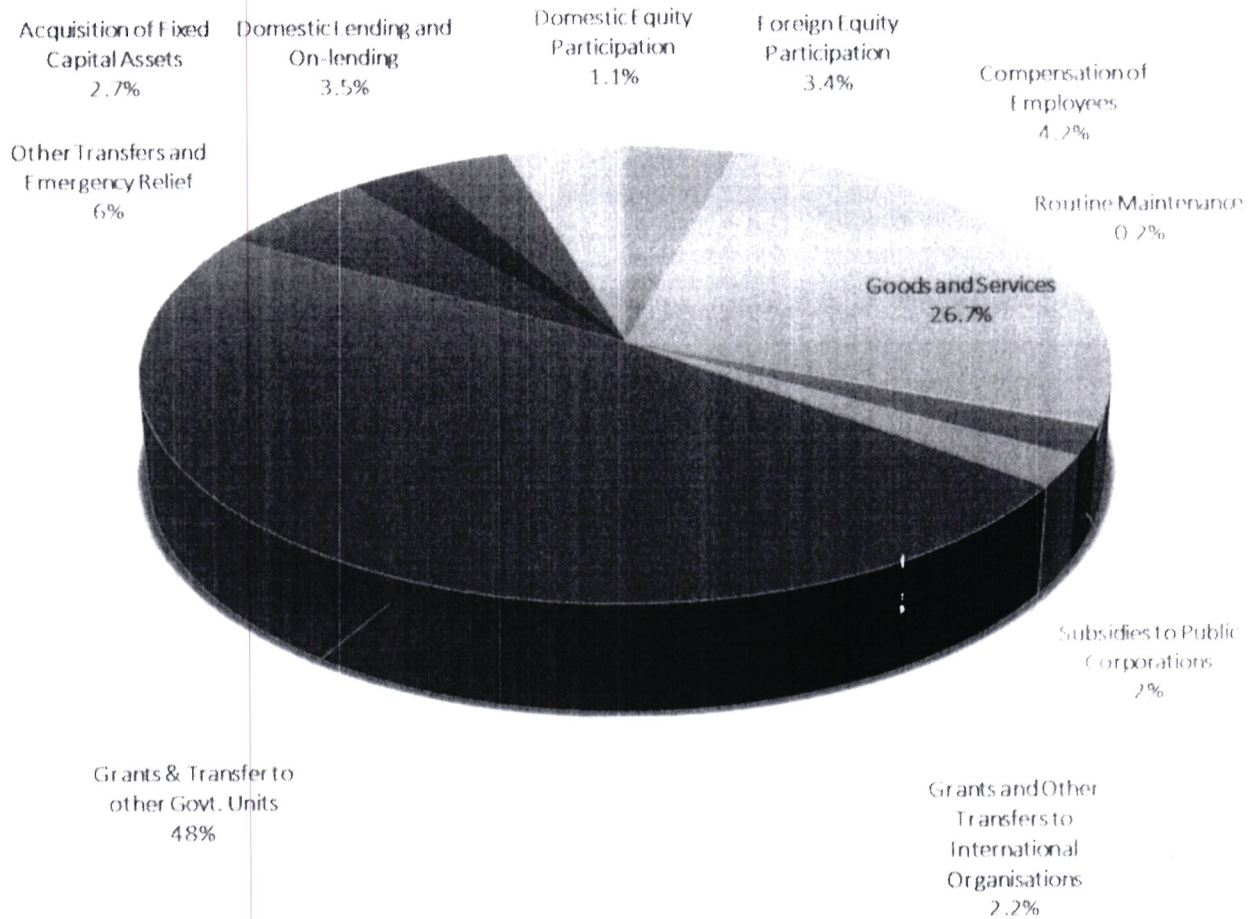
Budget contingency Reserve	0.00	0.00	0.00
Acquisition of Fixed Capital Assets	2,332,414,837.00	1,418,732,823.25	913,682,013.75
Domestic Lending and On-lending	2,015,000,000.00	1,850,000,000.00	165,000,000.00
Domestic Equity Participation	600,000,000.00	600,000,000.00	0.00
Foreign Equity Participation	4,075,244,200.00	1,782,536,438.00	2,292,707,762.00
Total Payments	59,055,448,992.00	52,231,455,383.35	6,823,993,608.65

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

Key Performance Highlights (Continued)

Percentage of Total payments



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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

Total Payment Breakdown

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

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

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

Financial Assets Summary

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

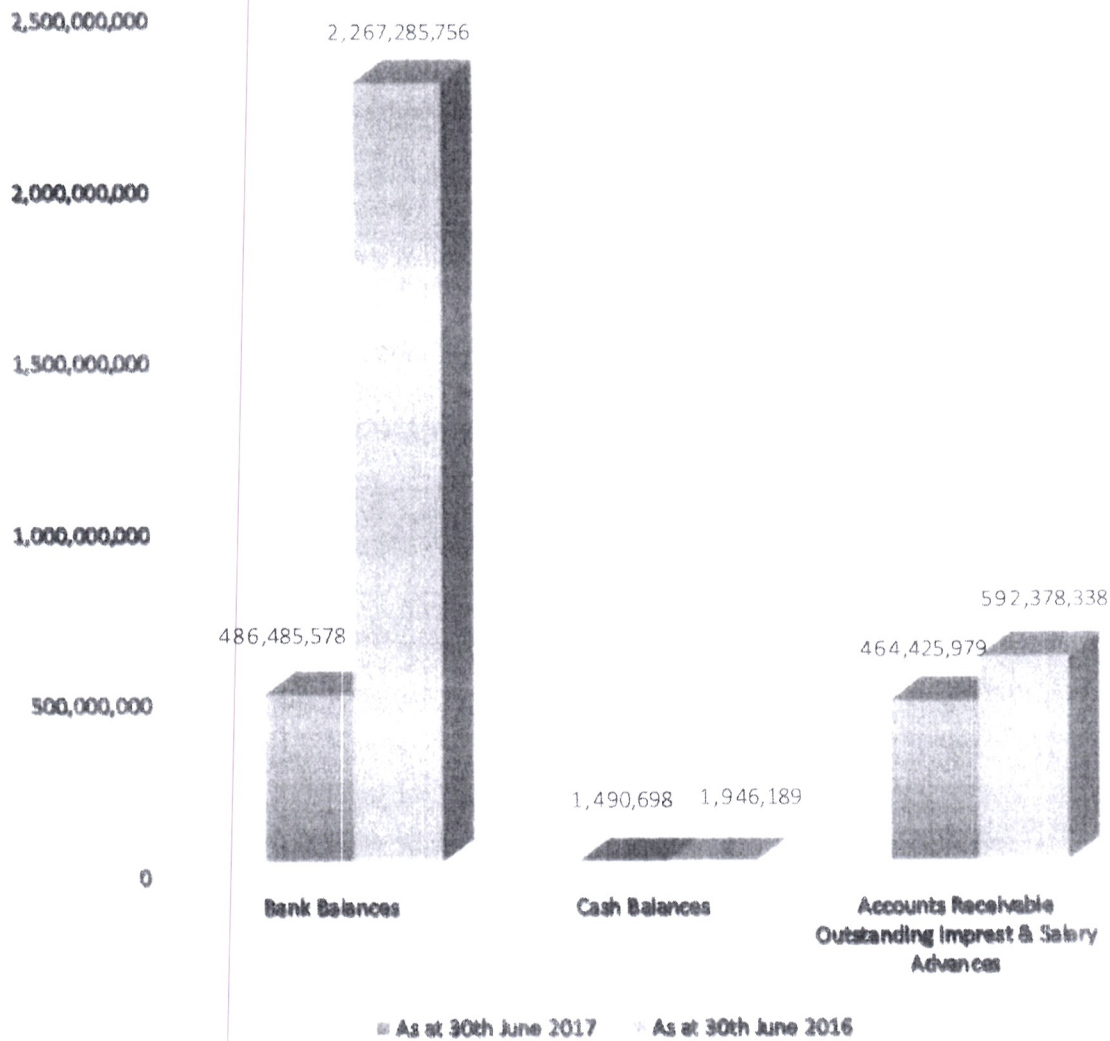
Bank balances decreased by 21.4% as a result of decreased deposits held in our Deposit Bank Account.

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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

Total Financial Assets in Kshs



Cash Flows and Cash Position

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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

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

Other key achievements during the period under review are;

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

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

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

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

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

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



HENRY K. ROTICH, EGH
CABINET SECRETARY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

III. STATEMENT OF SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES
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, Salaries, Allowances and Miscellaneous Services* 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, 2017. 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, Salaries, Allowances and Miscellaneous Services* 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, 2017, and of the entity's financial position as at that date. The Accounting Officer charge of *The National Treasury, Salaries, Allowances and Miscellaneous Services* 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, Salaries, Allowances and Miscellaneous Services* 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 _____ 2017.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017



Principal Secretary
Dr. Kamau Thugge, CBS



Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED FUND SERVICES-SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Consolidated Fund Services-Salaries Allowances and Miscellaneous Services set out on pages 19 to 31, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

Basis for Qualified Audit Opinion

1. Cash and Cash Equivalent

The statement of assets and liabilities reflects cash and cash equivalent of Kshs.62,189,652 as at the close of the financial year 2016/2017. Although the figure is correctly stated and supported by the bank reconciliation, the following anomalies that have not been explained satisfactorily were noted in the bank reconciliation:

a) Payments in the Cashbook not in Bank Statement

The Bank Reconciliation Statement includes payments in cashbook not in bank statement totalling Kshs.217,044,268 which includes Kshs.4,896,342 that have been outstanding

Report of the Auditor-General on the Financial Statements of Consolidated Fund Services-Salaries Allowances and Miscellaneous Services for the year ended 30 June 2017

since October 2014. It has not been explained why the payments have taken so long to reflect in the bank.

b) Receipts in the Bank Statement not in the Cashbook

The bank reconciliation statement also reflects receipts in bank statement not recorded in the Cashbook of Kshs.637,637.65 as at 30 June 2017. Some of the receipts have not been recorded in the cashbook since 2014.No explanation has been given as to why the Cashbook has not been updated.

2. Account Balances not Recorded in Ledger

The Financial Statement reflects balances of individual items as indicated below that were not reflected in the ledger of the fund for the financial year 2016/2017.

Exchequer releases	3,905,744,684.00
Transfers from other government Entities	362,830,853.00
Other Receipts	18,420,097.00

The management have not explained the source of the balance and therefore the figures in the financial statement in respect to the specific items cannot be authenticated.

3. Prior year Adjustment

The Statement of Financial Assets and Liabilities shows a prior-year adjustment of Kshs.26,919,334 being part of the net financial position. The statement indicates that the prior-year adjustment is explained in Note 12 to the financial statements. However, Note 12 to the financial statement represents other important disclosures which do not include a prior-year adjustment of Kshs.26,919,334. The balance therefore has not been analyzed or a note provided to explain the adjustment.

4. Suspense Balance

The statement of Financial Assets and Liabilities reflects a balance of Kshs.4,456,673 referred to as a difference. The management have not explained what this difference is and therefore it is not possible to confirm the suspense account balance as presented in the financial statements.

5. Pending Issues for the Financial Year 2015/2016

In the audit report for 2015/2016, the following issues were raised among others and they have not been responded to satisfactorily by the management.

i) Prior Year Adjustments

The Statement of Financial Position as at 30 June 2016 reflects an amount of Kshs.8,883,205,334, which is referred to as a prior year adjustment. Further, the funds

balance brought forward, compensation of employees and account receivables have been re-stated to Kshs. 8,566,405,035, Kshs. 2,416,693,457 and nil balance, instead of Kshs. 397,382,932, Kshs. 2,418,352,317 and 8,663,621,032 respectively, reflected in the audited financial statements for 2014/2015. The statement of financial position also shows clearance of outstanding item of Kshs. 11,980,334. The National Treasury has not explained or provided details of the said adjustments. Consequently, the accuracy of the balances reflected in the financial statements cannot be continued.

ii) Unspent Appropriation/Cash Balance

The statement of financial position reflects bank balance under the comparative balances for the financial year 2014/2015 of Kshs. 397,382,932 (re-stated Kshs. 8,848,051,762). The balance was carried forward to the financial year 2015/2016 as shown in the statement of financial position as at 30 June 2016. The unspent appropriation in 2014/2015 ought to have been paid back to the National Exchequer Account as required under Section 45 of the Public Finance Management Act, 2012. No explanation has been provided for failure to return the unspent sum to the Exchequer.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated Fund Services-Salaries Allowances and Miscellaneous Services in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (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 applicable basis of accounting.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the 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 to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence

obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and 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

02 July 2018

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

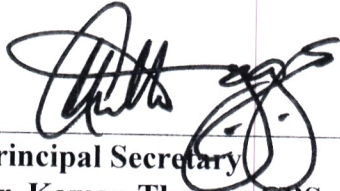
Reports and Financial Statements


For the year ended June 30, 2017

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017 Kshs	2015-2016 Kshs
RECEIPTS			
Exchequer releases	1	3,905,744,683	3,536,425,460
Transfers from Other Government Entities	2	362,830,853	409,672,149
Other Receipts	3	18,420,097	-
TOTAL RECEIPTS		4,286,995,633	3,946,097,609
PAYMENTS			
Compensation of Employees	4	2,891,492,532	2,742,288,074
Finance Costs, including Loan Interest	5	108,158,694	96,085,835
Repayment of principal on Domestic and Foreign borrowing	6	1,335,103,114	954,122,778
Other Payments- Loan Management Expenses	7	-	1,800
TOTAL PAYMENTS		4,334,752,295	3,792,498,487
SURPLUS/DEFICIT		(47,756,662)	153,599,122

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


Principal Secretary
Dr. Kamau Thugge, CBS


Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

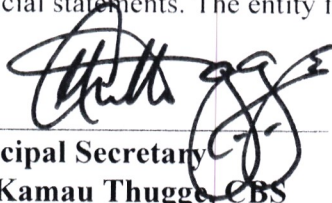
SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES


Reports and Financial Statements
For the year ended June 30, 2017

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2016-2017 Kshs	2015-2016 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8	62,189,652	118,445,551
Total Cash and cash equivalent		<u>62,189,652</u>	<u>118,445,551</u>
TOTAL FINANCIAL ASSETS		<u>62,189,652</u>	<u>118,445,551</u>
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions	10	18,420,097	-
NET FINANCIAL ASSETS		43,769,555	118,445,551
REPRESENTED BY			
Fund balance b/fwd	11	118,445,551	8,848,051,762
Prior year adjustment	12	(26,919,334)	(8,883,205,334)
Surplus/Deficit for the year		(47,756,662)	153,599,122
Difference		4,456,673	-
NET FINANCIAL POSITION		<u>43,769,555</u>	<u>118,445,551</u>

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


Principal Secretary
Dr. Kamau Thugge, CBS


Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements


For the year ended June 30, 2017

VII. STATEMENT OF CASH FLOWS

	2016-2017 Kshs	2015-2016 Kshs
Receipts for operating income		
Exchequer Releases	1 3,905,744,683	3,536,425,460
Transfers from Other Government Entities	2 362,830,853	409,672,149
Other Revenues	3 18,420,097	-
Payments for operating expenses		
Compensation of Employees	4 2,891,492,532	2,742,288,074
Finance Costs, including Loan Interest – Guaranteed Debt	5 108,156,650	96,085,835
Other Expenses	7 -	1,800
Adjusted for:		
Change in Receivables – Salary Advance	(233,380)	8,675,601,365
Change in Payables	18,420,097	-
Adjustment during the year	(31,142,627)	(8,883,205,334)
Net Cash flow from operating activities	1,274,390,542	900,117,932
CASHFLOW FROM INVESTING ACTIVITIES		
Net cash flows from Investing Activities	-	-
CASHFLOW FROM BORROWING ACTIVITIES		
Repayment of principal on Foreign Guaranteed Debt	6 1,335,103,114	954,122,778
Net cash flow from financing activities	(1,335,103,114)	(954,122,778)
NET INCREASE IN CASH AND CASH EQUIVALENT	(60,712,571)	(54,004,847)
Cash and cash equivalent at BEGINNING of the year	118,445,551	172,450,397
Difference	4,456,673	-
Cash and cash equivalent at END of the year	62,189,652	118,445,551

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


Principal Secretary
Dr. Kamau Thugge, CBS


Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS						
Exchequer releases	5,101,154,316	514,678,541	5,615,832,857	3,905,744,683	1,710,088,174	70%
Transfers from Other Government Entities	-	-	-	362,830,853	(362,830,853)	-100%
Other Receipts	-	-	-	18,420,097	(18,420,097)	-100%
PAYMENTS						
Compensation of Employees	3,955,968,495	315,440,198	4,271,408,693	2,891,492,532	1,379,916,161	68%
Miscellaneous Services	128,000,000	0.00	128,000,000	0.00		
Finance Costs, including Loan Interest – Foreign Guaranteed Debt	71,653,139	18,248,220	89,901,359	108,156,650	(36,503,511)	120%
Repayment of principal on Foreign Guaranteed Debt	945,532,682	180,990,123	1,126,522,805	1,335,103,114	(389,570,432)	119%
Totals	5,101,154,316	514,678,541	5,615,832,857	4,334,752,295	953,842,218	82%
Surplus/Deficit	0.00	0.00	0.00	(47,756,662)	(588,178,208)	

Notes:

(a) Compensation to Employees

Out of the Approved CFS Budget of Ksh. 5,615,832,857.00 the actual Exchequer Issues amounted to Ksh. 3,905,744,683.00. Some of the Institutions did not realise optimum operations as envisaged at the time of budget preparation.

(b) Finance Costs

Budget utilisation difference is due to the rise in exchange rates and penalty interest.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES


Reports and Financial Statements
For the year ended June 30, 2017

(c) Repayment of Principal

Budget utilisation difference is due to the rise in exchange rates.

(d) *The changes between the original and final budget are as a result of additional funds required to settle a defaulted instalments on behalf of East African Portland Cement. The totals of actual on comparable basis under the recurrent and development statement is equal to the total on actual on comparable basis under the Combined Summary Statement of Appropriation.)*

The entity financial statements were approved on 29/9/ 2017 and signed by:


Principal Secretary
Dr. Kamau Thuggo (CBS)



Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

IX. 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 IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes 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 receivables and payables are disclosed in the Statement of Assets and Liabilities. The Statement of Assets and Liabilities is not mandatory statement under the IPSAS Cash basis but is encouraged in order to disclose information on assets and liabilities.

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. Reporting entity

The financial statements are for The National Treasury, Salaries, Allowances and Miscellaneous Services. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012. The entity did not implement any development Projects in the reporting period.

3. Recognition of receipts and payments

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.

Tax receipts

Tax Receipts is recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

**Reports and Financial Statements
For the year ended June 30, 2017**

SIGNIFICANT ACCOUNTING POLICIES

Transfers from the Exchequer

Transfer from Exchequer is 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.

Donations and grants

Grants and donations 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/donation 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.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds; sovereign bonds and external loans acquired by the entity or any other debt the Entity may take on will be treated on cash basis and recognized as receipts during the year of receipt.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for projects currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. During the year ended 30th June 2017, 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 expenses when the event occurs and the related cash has actually 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.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

SIGNIFICANT ACCOUNTING POLICIES

Use of goods and services

Goods and services are recognized as payments in the period when the goods/services are consumed and 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 incurred and paid for.

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 disclosure. This summary is disclosed as an annexure to the entity's financial statements.

4. 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 an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

5. 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.

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

SIGNIFICANT ACCOUNTING POLICIES

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 2017.

There were no other restrictions on cash during the year

6. 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.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

X. NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 EXCHEQUER RELEASES

Description	2016-2017	2015-2016
	Kshs	Kshs
Total Exchequer Releases for quarter 1	490,000,000	700,000,000
Total Exchequer Releases for quarter 2	1,220,951,414	1,373,000,000
Total Exchequer Releases for quarter 3	1,044,691,573	863,425,460
Total Exchequer Releases for quarter 4	1,150,101,696	600,000,000
Total	3,905,744,683	3,536,425,460

The budgeted exchequer was Ksh.5,615,832,857 against actual received exchequer amounting to Ksh. 3,905,744,683. Out of the budget of Ksh. 5.6b, only 70% was funded.

The increase in expenditure as compared to that of FY 2015/16 is due to additional obligation to pay a guaranteed debt on behalf of a third organization (East African Portland Cement).

2 TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Description	2016-2017	2015-2016
	Kshs	Kshs
Transfers from Central government entities (Transfer from public Debt)	362,830,853	409,672,149
TOTAL	362,830,853	409,672,149

The above transfers were received from CFS Public Debt self-reporting entity in the year. The Amount had been received in the account for CFS Public Debt instead of CFS Salaries, Allowances and Miscellaneous.

THE NATIONAL TREASURY**SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES****Reports and Financial Statements****For the year ended June 30, 2017****2a) TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Description	Recurrent Kshs	Development Kshs	Total Kshs	2015-2016 Kshs
Transfers from Central government entities				
Public Debt	362,830,853	-	362,830,853	409,672,149
TOTAL	362,830,853	-	362,830,853	409,672,149

We have confirmed the above amounts with the disbursing entities.

*NOTES TO THE FINANCIAL STATEMENTS (Continued)***3 OTHER REVENUES**

	2016-2017 Kshs	2015-2016 Kshs
Other Receipts Not Classified Elsewhere- The National Assembly	17,696,543	-
Other Receipts	723,555	-
Total	18,420,097	-

These are erroneous direct deposits into the entity's bank account relating to pension contributions by The National Assembly.

4 COMPENSATION OF EMPLOYEES

	2016-2017 Kshs	2015-2016 Kshs
Basic salaries of permanent employees	2,891,492,532	2,742,288,074
Basic wages of temporary employees	-	-
Personal allowances paid as part of salary	-	-
Total	2,891,492,532	2,742,288,074

THE NATIONAL TREASURY**SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES****Reports and Financial Statements****For the year ended June 30, 2017***NOTES TO THE FINANCIAL STATEMENTS (Continued)***5 FINANCE COSTS, INCLUDING LOAN INTEREST**

Explanation	2016-2017	2015-2016
	Kshs	Kshs
Interest Payments on Foreign Borrowings	-	-
Interest Payments on Guaranteed Debt Taken over by Govt	108,156,650	96,085,835
Interest on Domestic Borrowings (Non-Govt)	-	-
Interest on Borrowings from Other Government Units	-	-
Total	108,156,650	96,085,835

The increase in amount of interest paid as compared to previous year is due to additional debts taken up by The National Treasury.

6 REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

Explanation	2016-2017	2015-2016
	Kshs	Kshs
Principal repayments on domestic loans	-	-
Principal repayments on Guaranteed Debt taken over by Government	1,335,103,114	954,122,778
Repayments on borrowings from other domestic creditors	-	-
Repayment of Principal from Foreign Lending & On Lending	-	-
Total	1,335,103,114	954,122,778

The increase in amount of principal repayment paid as compared to previous year is due to additional debts taken up by The National Treasury.

7 OTHER EXPENSES

Explanation	2016-2017	2015-2016
	Kshs	Kshs
Budget Reserves	-	-
Civil Contingency Reserves	-	-
Other expenses- Loan Management Expenses	-	1,800
	-	1,800

Other expenses relate to charges levied by Central Bank of Kenya for transmission of external debt payment.

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

8: Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2016-2017 Kshs	2015-2016 Kshs
Central Bank of Kenya 1000204419 (Kes)		-	-	62,189,652	118,445,550.80
Total				62,189,652	118,445,550.80

9. ACCOUNTS PAYABLE

Description	2016-2017 Kshs	2015-2016 Kshs
The National Assembly	17,696,543	-
Other Deposits	723,555	-
Total	18,420,097	-

These are erroneous direct deposits into the entity's bank account relating to pension contributions by The National Assembly. The amount remains outstanding and payable to the Exchequer.

10. FUND BALANCE BROUGHT FORWARD

Description	2016-2017 Kshs	2015-2016 Kshs
Bank accounts	118,445,551	172,450,397
Cash in hand	-	-
Accounts Receivables	-	8,663,621,032
Accounts Payables	-	-
Outstanding items awaiting clearance	-	11,980,334
Total	118,445,551	8,848,051,762.40

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements

For the year ended June 30, 2017

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. PRIOR YEAR ADJUSTMENTS

Description of the error	2016 – 2017	2015 – 2016
	Kshs	Kshs
Adjustments on bank account balances	(31,142,627)	-
Adjustments on cash in hand	-	-
Adjustments on payables	-	-
Adjustments on receivables	-	(8,883,205,334)
Others (<i>specify</i>)	-	-
	(31,142,627)	(8,883,205,334)

(The prior year adjustments made in FY 2016/17 relate to the under-cast of expenditure on Head 973).

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

12. OTHER IMPORTANT DISCLOSURES

12.1: PENDING STAFF PAYABLES

	2016 – 2017	2015 – 2016
	Kshs	Kshs
Senior management	-	-
Middle management	-	-
Unionisable employees	-	-
Others.	-	-
	-	-

12.2: OTHER PENDING PAYABLES (See Annex 3)

	2016 – 2017	2015 – 2016
	Kshs	Kshs
The National Assembly	17,696,543	-
Other Deposits	723,555	-
Amounts due to third parties	-	-
Others (<i>specify</i>)	-	-
Total	18,420,097	-

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

**Reports and Financial Statements
For the year ended June 30, 2017**

13. 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)
--	-----------------------------------	---------------------	--	-----------------------------------	--

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

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	Unexplained difference of Ksh. 125,671,493.00 between financial statement and the ledger	i. The ledger includes payments amounting to Ksh. 94,528,867.15 to clear erroneous deposits. The corresponding receipts had been omitted in the ledger and have now been captured. ii. The ledger also includes Ksh. 31,142,626.90 that was erroneously omitted from the financial statements. The appropriate prior year adjustment has been made in the subsequent period.	L. Bumbo and H. Anyanga	Not resolved	31.12.2017
2	Variances between ledger and the payroll	The two sets of records have been reconciled and variances eliminated.		Resolved	

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

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)
3	Unsupported Payments under Guarantee Loans Act.	<p>i. Kenya Broadcasting Corporation and Tana and Athi Rivers Development Authority have continued to accumulate losses and therefore unable to meet their debt service obligations.</p> <p>ii. The organizations requested the Government to settle the defaulted instalments on their behalf.</p> <p>iii. The Government made the payments as a guarantor in line with terms and conditions set out in the PFM Act, 2012.</p>		Resolved	

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

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)
4	Prior Year Adjustments	<p>i. Prior year adjustment of Ksh. -8,883,205,334.00 is the reversal of accumulated exchequer under issues that had been reported as receivables. Budgets expire at the end of June every year and the accounts are prepared on cash basis.</p> <p>ii. Analysis of fund balance brought forward of Ksh. 8,848,051,762.00 was provided for audit .</p> <p>iii. The statement for financial year 2014/15 reflected bank certificate balance of Ksh. - 397,382,932.00. The amount was re-stated to the cash book balance of Ksh.- 8,566,405,036.00.</p>		Not resolved	31.12.2017

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES


Reports and Financial Statements
For the year ended June 30, 2017

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)
5	Omitted expenditure and receipts.	<p>i. Receipts amounting to Ksh.94,528,867.15 which had been omitted in the ledger have been captured to net off the corresponding payments.</p> <p>ii. Payments amounting to Ksh.181,800.00 had been misposted to Head 976 in the ledger and have been captured under Head 973.</p> <p>iii. The receipts amounting to Ksh. 2,147,326.90 have been analysed and adjusted to Ksh. 1,974,518.75. The net receipts are outstanding as payables.</p>			

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

Reports and Financial Statements
For the year ended June 30, 2017

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)
6	Un-spent Appropriation	<p>i. The bank certificate balance of Ksh.58,832,636.00 was restated to cash book balance of Ksh.172,450,397.00 as at 30th June, 2015. The un-spent balance was carried forward and spent in financial year 2015/16.</p> <p>ii. Similarly, the comparative bank certificate balance of Ksh.-397,382,932.00 was restated to the corresponding cash book balance of Ksh.-8,566,405,036.00</p>			


Principal Secretary
Dr. Kamau Thugge, CBS



Senior Deputy Accountant General
George Kihara Gichuru
ICPAK Member Number: 9262

