


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
<b>REPORT</b>	
DATE:	09 MAY 2019
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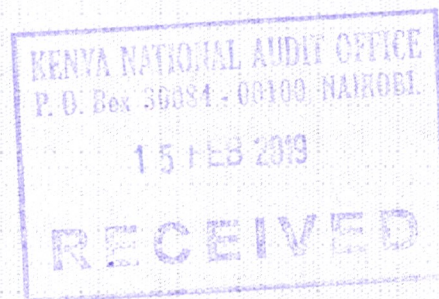
FINANCIAL STATEMENTS OF  
KENYA REVENUE AUTHORITY

FOR THE YEAR ENDED  
30 JUNE 2018



**KENYA REVENUE  
AUTHORITY**

**ANNUAL REPORT &  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2018**



**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS  
AT JUNE 2018**

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## KEY INFORMATION AND MANAGEMENT

### (a) Background Information

Kenya Revenue Authority (KRA) is a statutory body established by an Act of Parliament, KRA Act Cap 469 of 1995.

**MISSION** Building Trust through Facilitation so as to foster Compliance with Tax and Customs Legislation.

**VISION** A globally trusted revenue agency facilitating tax and customs compliance.

### CORE VALUES

- Trustworthy
- Ethical
- Competent
- Helpful

### (b) Principal Activities

The Authority's objectives are the assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the Act.

### (c) Key Management

The Authority's day-to-day management is under the following key organs;

- Office of the Commissioner General
- Domestic Taxes Department
- Customs & Border Control Department
- Corporate Support Services Department
- Investigations and Enforcement Department
- Strategy Innovation & Risk Management Department
- Legal Service & Board Coordination Department

### (d) Fiduciary Management

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

- |   |                         |
|---|-------------------------|
| - Commissioner General                              | <b>John K. Njiraini</b> |
| - Domestic Taxes Department                         | <b>Benson Korongo</b>   |
| - Customs Border Control Department                 | <b>Julius Musyoki</b>   |
| - Corporate Support Services Department             | <b>Ezekiel Saina</b>    |
| - Investigations and Enforcement Department         | <b>David Yego</b>       |
| - Strategy, Innovation & Risk Management Department | <b>Mohamed Omar</b>     |
| - Legal Services & Board Coordination Department    | <b>Wairimu Nganga</b>   |
| - Intelligence & Strategic Operations               | <b>James Mburu</b>      |

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS  
AT JUNE 2018**

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**(f) Contacts**

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Website [www.kra.go.ke](http://www.kra.go.ke)

**(g) Bankers**

National Bank of Kenya Ltd,  
Harambee Avenue Branch,  
P.O. Box 41862-00100 Nairobi, Kenya

**(h) Independent Auditors**

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

**(i) Principal Legal Advisor**

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

## BOARD OF DIRECTORS

### 1. **AMB. DR. FRANCIS MUTHAURA, MBS, EGH**

Amb. Dr. Muthaura was appointed as the Chairman of the Board with effect from 22nd May, 2018.

He holds a Bachelor of Arts Degree in Economics and Political Science and Post Graduate Diploma in International Relations from the University of Nairobi. He is also a holder of Honorary Doctorate Degrees from the Kenyatta University and Kenya Methodist University.

He has served as a career diplomat; Chairman of the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Development Authority; Britam Holdings Limited; Head of Public Service and Secretary to the Cabinet.

### 2. **HON. MS. ROSE WARUHIU**

Hon. Rose Waruhiu was appointed as a Member of the Board with effect from 21st October, 2016.

She holds a Bachelor of Arts (Economics) Degree, from Makerere University College, and a Certificate in Higher Education Administration from the University of Manchester.

She has worked as a consultant in the private and public sector, undertaking assignments in policy formulation and documentation; public management; strategy development; planning and advocacy.

She has served as a Board Member of the Kenya Post Bank Board and Council Member of the Jomo Kenyatta University of Science and Technology University Council. In 1990, she was offered a fellowship at the Harvard Institute of Politics.

She has held leadership positions as Chair/Convenor of several initiatives in the pro-democracy movement in Kenya and civil society. She served as a Member of Parliament in Kenya and East Africa Legislative Assembly.

She has been Chairperson and Member of the Audit and Risk and Strategy, Policy and Research Committees of the Authority's Board of Directors respectively.

### 3. **MR. PAUL ICHARIA**

Mr. Paul Icharia was appointed as a Member of the Board with effect from 11th November, 2016.

He holds a Bachelor of Science Degree in Finance, from the California State University and Master of Business Administration in Global Management, from the University of Phoenix. He is a professional with extensive experience in Financial Services, Business Development and Social Services Development.

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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He has served as a Financial Consultant and in senior positions at the Royal Bank of Canada (RBC) and Citigroup in the United States of America.

He has been the Chairman and Member of the Strategy, Policy and Research, and Audit and Risk Committees respectively.

### **4. ENG. LEONARD ITHAU**

Eng. Leonard Ithau was appointed as a Member of the Board with effect from 30th May, 2018.

He holds a Bachelor of Science Degree in Civil Engineering, from the University of Nairobi, and Master of Science Degree, in Construction Management, from University of Birmingham, England.

He has served in the public service at the Kenya Ports Authority and as Projects Management Consultant in various private bodies. He is currently the Executive Director of Quemec Limited.

He is a registered engineer (Engineers Board of Kenya) and a Member of the Association for Project Management (UK).

### **5. MR. CHARLES MAKORI OMANGA**

Mr. Charles Makori Omanga was appointed as a Member of the Board with effect from 30th May, 2018.

He holds a Bachelor of Science in Management Information Systems Degree from USIU – Africa and Master of Business Administration Degree from the University of Leicester, United Kingdom.

He has served in the private sector as Relationship and Product Manager at Citibank Kenya; Regional Head, Trade Finance (EA); Head, Public Sector at the Barclays Bank of Kenya; Head, Corporate Banking, CFC Stanbic Bank Limited and on Boards of several companies. He is currently co-Managing Principal, Horizon Africa Capital Limited.

He is a member of the Institute of Certified Investment and Financial Analysts (ICIFA).

### **6. MR. MUKESH K R SHAH**

Mr. Mukesh K. R. Shah was appointed as a Member of the Board with effect from 30th May, 2018.

He is a Director and founder of Strategic Consultants Limited, a practice which he established in 1992, providing specialised consultancy services in the areas of strategic planning, high level advisory to family owned business advisory, business revival and reconstruction, and mergers and acquisitions to national and international clients.

Previously, he worked for Price Waterhouse UK and Pricewaterhouse Kenya for eighteen (18) years and held a position of partner for over nine (9) years.

He holds directorships in private companies mainly in a professional capacity, and is a non-executive Director of Carbacid Investments Limited, a company listed on the Nairobi Stock Exchange and of Commercial Bank of Africa Limited, a leading bank in East Africa.

He is also a Fellow of the Chartered Association of Certified Accountants (UK), Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of the Certified Public Secretaries of Kenya (ICPSK).

**7. MS. SUSAN MUDHUNE, MBS**

Ms. Susan Mudhune was appointed as a Member of the Board with effect from 30th May, 2018.

She holds a Bachelor of Arts (Education) Degree from the University of Nairobi and Master of Business Administration Degree from the same University.

She has served in various management positions in the local banking industry for over twenty (20) years, from which she retired in 2001.

She has served as a non-executive director in various Boards, been Chairperson of the Board of Kenya Commercial Bank Group and past National Chairperson of the Kenya Girl Guides Association.

She is a Certified Corporate Governance trainer and Member of Women Corporate Directors (Kenya Chapter) and Institute of Directors (Kenya).

In recognition of her outstanding achievements, she is a holder of the Moran of the Burning Spear (MBS), Fellow of the Institute of Bankers; Management; and Directors.

**8. COMMISSIONER GENERAL, MR. JOHN K. NJIRAINI, CBS**

He was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012. Previously, he had served as the Commissioner in charge of Large Taxpayers Office.

He holds a Bachelor of Commerce Degree and Master of Business Administration Degree, both from the University of Nairobi.

He served as the Chief Executive of the Institute of Certified Public Accountants of Kenya (ICPAK) between 1996 and 2006; Lecturer, Department of Accounting, University of Nairobi between 1984 to 1994 and in various audit capacities with Deloitte Haskins & Sells (now Deloitte) and Price Waterhouse (now PricewaterhouseCoopers).

He has also served in various Government Boards and Task Forces including the Permanent Public Service Remuneration Review Board, Local Authorities Transfer Fund Advisory Board, Registration of Accountants Board and Pending Bills Closing Committee, among others.

**EX OFFICIO MEMBERS**

**9. Cabinet Secretary, the National Treasury– Mr. Henry K. Rotich**

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds Masters and Bachelor degrees in Economics from the University of Nairobi. Prior to his appointment, he had worked at the Treasury, Ministry of Finance and the Central Bank of Kenya. He had been earlier attached to the International Monetary Fund (IMF) local office in Nairobi.

He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

**10. CPA Mr. Bernard Ndung'u, MBS**

He was appointed as a Member of Board with effect from 15th September 2014 as the alternate to the Cabinet Secretary National Treasury.

He holds a Bachelor's Degree in Commerce from Nairobi University and a Master's degree in Public Finance Management from the University of London. He is also a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

He is the Director General, Accounting Services and Quality Assurance at the National Treasury.

He is the Chairman of the Public Sector Accounting Standards Board (PSASB) of Kenya and represents the Cabinet Secretary, National Treasury in the boards of Kenya Revenue Authority (KRA), Kenya Accounting and Secretaries Examination Board (KASNEB) and Kenya Medical Supplies Authority (KEMSA).

He has worked on a wide range of public and private finance management specialties having worked with accounting firms PricewaterhouseCoopers (PwC) and Ernst & Young (EY) prior to joining National Treasury.

**11. Attorney General- Honorable Paul Kihara Kariuki**

He was admitted to the Bar in 1978 after completing his Post Graduate Diploma in Law at the Kenya School of Law Nairobi. He practiced law at Ndung'u, Njoroge and Kwach Advocates, Hamilton, Harrison and Mathews Advocates as well as other legal establishments.

In 2003 he was appointed to serve as Principal and Chief Executive Officer at the Kenya School of Law. In the same year, he was appointed Judge of the High Court of Kenya where he served in both the Civil and Commercial Divisions for several years. Between 2009 and 2013, he served as the first Director at the Judiciary Training Institute, where he established operational systems for the technical arm

of the Judiciary incorporating professional development for all Judges, Magistrates and Paralegal Staff of the Judiciary. He was appointed the President of the Court of Appeal in 2013 and as the Attorney General of the Republic of Kenya in March 2018.

As the President of the Court of Appeal he was instrumental in decentralization of the court to Malindi, Kisumu and Nyeri Counties. He also led the development of the blue print 10 point strategy for the transformation of the courts that culminated in the Court of Appeal Bill and the Strategic Plan of the Court of Appeal of Kenya.

He has served as the Chancellor or the Honorary Legal Advisor for the Anglican Church of Kenya, Member of the Kenya Anti-Corruption Authority Advisory Board and the Chairman of the Thomas Banados House and Rotary International.

He is an esteemed member of the Law Society of Kenya, Commonwealth Lawyers Association and International bar Association.

**12. Mary Ann Muthoni Njau-Kimani (Alternate director to the Attorney General).**

She is an advocate of the High Court of Kenya with thirty (30) years' post admission experience both in private and public law practice.

She also holds a Master's degree in Business and Administration from the University of Nairobi.

She a Senior Deputy Solicitor General and the Secretary Justice and Constitutional Affairs, the current Head of the State Department of Justice, Office of the Attorney General & Department of Justice.

She is an accredited mediator and a certified Justice Rapid Response UN- Women SGBV Justice Expert, with management, financial, research, consultancy and training experience and skills.

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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**DIRECTORS WHOSE TERMS TERMINATED DURING THE 2017/2018 FINANCIAL YEAR**

**1. DR. EDWARD SAMBILI, CBS**

Dr. Edward Sambili was appointed as the Chairman of the Board with effect from 21st October, 2016.

He holds a Doctor of Philosophy degree in Economics from the University of Lancaster. He has experience and expertise in sustainable development, national planning and poverty analysis; human security and governance; macroeconomic issues; Public Sector Reforms, Results Based Management; Policy formulation, implementation and Monitoring and Evaluation.

He has served in the public service as a Senior Lecturer in Economics at the Egerton University, Permanent Secretary - Ministry of State for Planning, National Development and Vision 2030 and Deputy Governor, Central Bank of Kenya.

He has also been a Consultant/Advisor for United Nations bodies.

**2. MR. EVANS KAKAI**

Mr. Evans Kakai was first appointed as a Member of the Board with effect from 3rd October, 2013. He was reappointed with effect from 21st October, 2016.

He holds a Business Administration Degree, from the Catholic University of East Africa, and Master of Business Administration (Strategic Management) Degree from the University of Eastern and Southern African Management Institute.

He is a Certified Public Accountant of Kenya (CPA-K) and Managing Director of EKV Consultants Limited, a consultancy firm offering consultancy services in Kenya, Uganda, Tanzania and South Sudan. He is a UN agency Certified Auditor, undertaking donor confirmation assignments in Kenya, Uganda and South Sudan for various international UN Agencies.

He was Chairman of the Support Services Committee, Vice Chairman of the Staff Committee, Member of the Strategy, Policy and Research and Trustee of the KRA Staff Pension Scheme.

**3. MS. CONSTANTINE KANDIE**

Ms. Constantine Kandie was first appointed as a Member of the Board with effect from 14th August, 2013. She was reappointed with effect from 21st October, 2016.

She holds an International Business Administration Degree and Master of Business Administration (Marketing) Degree, both from United States International University. She has wide experience in governance, strategic management and leadership; management of staff teams, across a broad spectrum of professionals, and specialises in enterprise development.

She has served as Council Member and Chairperson of the Disciplinary Committee, Management University of Africa (MUA); Board Member and Secretary, Professional Women Empowered (ILO); Board Member, Eastern Africa Regional Board – Practical Action International; Director, Eastern Africa Grain Council; Director - World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT).

She is a Member of the Kenya Institute of Management.

She served as the Chairperson and Vice Chair of the Board of Trustees, KRA Staff Pension Scheme and Audit and Risk Committee of the Authority's Board respectively.

#### **4. MR. ABDI BARE DUALE**

Mr. Abdi Bare Duale was first appointed as a Member of the Board with effect from 3rd June, 2014. He was reappointed with effect from 15th June, 2017.

He holds a Master of Business Administration Degree from Edith Cowan University in Australia.

He has served in both public and private service as a Board Member, Kenya Bureau of standards and Nerix Pharma Limited; General Manager, Medina Pharmacy Limited; Managing Director, Medina Chemicals Limited and Executive Chairman, Nomad Palace Hotel limited.

He was the Chairman and Member of the Staff and Support Services Committees of the Authority's Board of Directors respectively.

#### **5. AMB. DR. RASHID ALI, OGW, MBS, HSC**

Amb. Dr. Rashid Ali was appointed a Member of the Board with effect from 11th November, 2016.

He holds a Doctor of Philosophy degree in Public Administration. He has expansive work experience in Private and Public Sectors.

He has served in the public service as an Ambassador of the Republic of Kenya to the Islamic Republic of Oman and Deputy Secretary, Administration (Ministry of Tourism, Trade and Industry; Ministry of Foreign Affairs and International Co-operation; Ministry of Environment and Natural Resources) and Assistant Secretary, Ministry of Lands and Settlement.

He has also served as Director, Kenya National Chamber of Commerce and Industry and Kenya Meat Commission.

He is a Fellow of the Institute of Directors (UK), The British Institute of Management; The Institute of Professional Manager and Administration and member of the Kenya Institute of Management.

He was a Vice Chairman and Member of the Support Services and Staff Committees of the Authority's Board of Directors respectively.

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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### **MANAGEMENT TEAM**

#### **1. John Njiraini, CBS**

He was appointed Commissioner General of Kenya Revenue Authority on 3<sup>rd</sup> March, 2012 for a period of three (3) years. The contract was renewed for a further term of 3 years and subsequently extended up to 30<sup>th</sup> June 2019.

#### **2. Julius Musyoki**

He was appointed Commissioner of Customs & Border Control with effect from 1<sup>st</sup> August 2015. He left the Authority's service upon contract expiry on 31<sup>st</sup> October 2018.

#### **3. Benson Korongo, HSC**

He was appointed on a 3-year contract as Commissioner of Domestic Taxes with effect from 1<sup>st</sup> June 2016. He left the Authority's service upon resignation on 30<sup>th</sup> September 2018.

#### **4. Ezekiel Saina, HSC**

He was appointed on a 3-year contract as Commissioner of Corporate Support Services with effect from 1<sup>st</sup> June, 2016 and is still in service.

#### **5. Mohamed Mohamud**

He was appointed Commissioner of Strategy Innovation & Risk Management from 1<sup>st</sup> October, 2015 with the contract being renewed for a further 3-year term with effect from 1<sup>st</sup> October 2018.

#### **6. Wairimu Ng'ang'a, OGW**

She was appointed on a 3-year contract as Commissioner of Legal Services & Board Coordination with effect from 1<sup>st</sup> July 2016 with the contract subsequently extended to expire upon her retirement on 28<sup>th</sup> February 2019.

#### **7. David Yego**

He was appointed Commissioner of Investigations from 22<sup>nd</sup> March, 2017 and is still in service.

#### **8. James Mburu**

He was appointed Commissioner of Intelligence & Strategic Operations from 3<sup>rd</sup> April, 2017 and is still in service.

## CHAIRMAN'S STATEMENT

### Foreword

It is my singular honour and pleasure to present the Annual Report and Financial Statements of the Kenya Revenue Authority (KRA) for the Financial Year 2017/18, covering the final implementation period of the **Sixth Corporate Plan (2015/2016 - 2017/2018)** and **KRA Vision 2018**, anchored on the theme **“Building Taxpayer Trust Through Facilitation for Enhanced Tax Compliance”**. The focus of the KRA Vision 2018 was to enhance revenue collection with a view to enabling the Government to achieve fiscal surplus by 2018. To give traction to this vision, KRA initiated an ambitious Transformation Agenda, supported by technology as a game changer for enhanced service delivery and intelligence driven revenue administration.

It is important to place KRA's revenue collections for the 2017/18 within global and national contexts so as to get a realistic picture of the factors that underpinned its performance during the year under review.

### Global Economy

For the first time in the post-2008 financial crisis, there was relative improvement in global economic and financial performance, leading to a growth rate of 3.6%. The improved performance was buoyed by a rebound in investments, improved international trade, favourable oil and commodity prices occasioned by increased capital spending in USA and Eurozone. The marginal gains in the Kenyan economy and tax revenues during the year under review were therefore, quite consistent with the global economic realities.

### Kenyan Economy

The Kenyan economy had mixed fortunes during the FY 2017/18. Notwithstanding the disruptions occasioned by prolonged electioneering period, adverse weather and constricted credit disbursements to the private sector, the Kenyan economy remained largely resilient during the year under review. Notable performance was realized in such sectors as: Accommodation and Food Services; Information and Communication Technology; Education; Wholesale and Retail Trade; Insurance and Public Administration, which recorded growth of between 6.5% and 14.7%. This was however, tampered by a relative poor performance in key sectors, including Manufacturing, Agriculture, Forestry, Fishing and Financial Services (except Insurance). The depressed economic outlook in the course of the year under review led to revised growth projection to 4.8% from 5.8%. It is instructive to note that tax collections grew by 5.1% over 2016/17 collections, thus outperforming both the global and Kenyan economic growth by 1.5% and 0.3%, respectively.

### Revenue Performance

During the FY 2017/18, the Authority collected **Kshs 1.435 trillion** against a target of **Kshs 1.541 trillion**. This represents a performance rate of **93.1%** and revenue growth of **5.1%** over **Kshs 1.365 trillion** collected in FY 2016/17. Revenue growth outperformed the economy by about 0.3%, an indication that the KRA Transformation Agenda has already

## KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

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began to shore up revenue administration efficiency. Revenues collected by KRA are broadly divided into Exchequer Revenue and Agency Revenue.

### Exchequer Revenue

Exchequer revenue comprises Income Tax, Value Added Tax, Customs Duty, and Excise Tax. During 2017/18, KRA collected Exchequer revenue totalling **Kshs 1.34 trillion** against a target of **Kshs 1.453 trillion**, translating to a performance rate of **92.2%**.

### Agency Revenue

KRA collects Agency revenue on behalf of a number of government departments, state corporations and agencies. During the year under review, a total of **Kshs 94,185 million** was collected in Agency revenue against a target of **Kshs 86,172 million**, translating to a performance rate of **109.3%**.

### Economic Outlook

#### Globally

The FY 2018/19 promises a positive outlook for the global economy, with a forecasted marginal growth of 3.9% compared to 3.7% realized in 2017/18. This is predicated primarily on improved domestic demand in advanced economies, and a marked improvement in performance of Emerging Market economies. Going forward, this positive economic growth is expected to shore up significant growth in economies with large export potential.

#### Kenya

Kenya's real GDP is projected to expand by 5.9% in FY 2018/2019. This growth will be supported mainly by investments in Manufacturing, Food Security, Universal Health, and Affordable Housing, which constitute strategic sectors of "The Big Four Agenda".

As the pre-eminent revenue collector for the Government, KRA is at the core of the implementation of "The Big 4 Agenda" as well as continue to improve the business climate of the country. Accordingly, the National Treasury has given KRA a revenue collection target of **KShs 1,809,999 million** for FY 2018/19, representing a growth of 26.1% over the revenue collection of FY 2017/18.

KRA is responding to this ambitious revenue target, by deepening the Transformation Agenda, which is expected to enhance its capacity for Domestic Revenue Mobilization. With the implementation of the Seventh Corporate Plan (2018/19 – 2020/21) underway, the focus shifts to key priorities of the country's development agenda as spelt out in the **Kenya Vision 2030**, the Third Medium Term Plan (MTP 2018 -2022), the Budget Policy Statement 2018, "**The Big Four Agenda**" as well as the country's commitment to the Sustainable Development Goals. To effectively discharge its mandate, KRA is transforming into an **intelligent tax administration** that efficiently utilises data and digital capabilities to revolutionize interactions with taxpayers, with the ultimate target of becoming "**simple at the front, smart at the back.**"

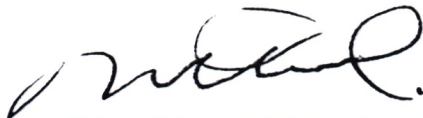
### **Appreciation**

On behalf of the KRA Board of Directors, I wish to thank Management and Staff for their continued hard work, commitment and dedication to duty, that helped realize improved revenue collection by **Kshs 69,969 million** over the 2016/17 collections. We thank all the compliant taxpayers for honourably discharging their civic duty to this country. Last but not least, we thank all stakeholders who have availed time and resources to support KRA revenue mobilization initiatives.

In a very special way, I thank H. E. The President, the National Treasury and Planning Ministry, County Governments, and Parliament for standing by KRA Board, Management and Staff in the discharge of their onerous mandate of revenue collection

Lastly, I wish to extend my gratitude to my fellow Board Members for demonstrating commitment, collegiality and hard work during the just ended Financial Year 2017/18. It's my prayer and belief that these wonderful attributes will be sustained to help realize improved revenue performance Financial Year 2018/19.

Thank You.



**AMB. DR. FRANCIS K. MUTHAURA, MBS, EGH  
CHAIRMAN**

# **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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## **COMMISSIONER GENERAL'S STATEMENT**

### **Introduction**

It gives me great pleasure to present to you the highlights of the Kenya Revenue Authority (KRA) performance for the FY 2017/18. This financial year was the third and last Plan Year in the 6<sup>th</sup> Corporate Plan under the theme "Building Taxpayer Trust through Facilitation for Enhanced Tax Compliance" and aimed at building trust-based relationships with the taxpayers to enhance voluntary compliance. Over the just concluded period, successes have been registered, challenges encountered and lessons learnt. These lessons and feedback from the implementation of the 6<sup>th</sup> Corporate Plan have been incorporated into the development of the 7<sup>th</sup> Corporate Plan running from FY 2018/19 to 2020/21.

### **Operating Environment**

Kenya's GDP growth rate was estimated at about 5.0% in FY 2017/18 compared to a forecast of 5.3%. The GDP growth is expected to rise to 5.9% in FY 2018/19.

The key elements of the macro-economic environment that directly impacted revenue collection in the FY 2017/18 included the following:

- The overall rate of inflation declined from 9.2 percent in June 2017 to 4.50 percent in December 2017 and further to 4.3 percent in June 2018.
- The foreign exchange market remained relatively stable throughout the year.
- The exchange rate of Kenya Shilling to US Dollar averaged at 102.4 during the Financial Year compared to 102.5 for the FY 2016/17.
- The value of total exports decreased from KSh 52.7 billion in May 2017 to KSh 49.3 billion in December 2017, but increased to KSh 52.9 billion in June 2018. On the other hand, the value of imports declined from KSh 151.4 billion in May 2017 to KSh 141.8 billion in December 2017, but rose to KSh 160.6 billion in June 2018.
- The average yield rate for 91-day Treasury bill rate declined from 8.4 percent in June 2017 to 8.0 percent in January 2018. This further declined to 7.2 percent in June 2018, indicating a general decline in interest rates in the economy.
- The Nairobi Securities Exchange (NSE) 20 share index increased from 3,607 points in June 2017 to 3,811 points in December 2017, but declined to 3,286 points in June 2018.

The macro-economic indicators above show that the Kenyan economy experienced depressed performance in the FY 2017/18. Despite this relatively poor economic performance, the actual revenue collection grew by over KShs 69 billion.

### **Revenue Performance**

Cumulative revenue collections (July 2017 - June 2018) stood at KShs 1,435.24 billion against a target of KShs 1,541.23 billion, representing a performance rate of 93.1 percent and growth of 5.1 percent.

**Table 1: Revenue Collections (Ksh. Billion)**

Department	Actual 2017/18	Target 2017/18	Performance Rate (%)	Actual 2016/17	Growth (%)
Customs Services	469.97	484.97	96.9	443.5	+6.0%
Domestic Taxes	961.91	1,051.82	91.5	917.6	+4.8%
Road Transport	3.37	4.44	75.7	4.1	-17.9%
<b>Total</b>	<b>1,435.24</b>	<b>1,541.23</b>	<b>93.1</b>	<b>1,365.3</b>	<b>+5.1%</b>

### Customs and Border Control Department

Customs collections during FY 2017/18 amounted to KShs 469.97 billion against a target of KShs 484.97 billion translating to a performance rate of 96.9% and a growth of 6.0% over FY 2016/17. Net import duty grew by 7.9% to KShs 93.7 billion while net excise duty grew by 5.3% to KShs 83.4 billion. Annual collections in Petroleum Taxes amounted to KSh. 147.7 billion while Trade Taxes amounted to KShs 318.0 billion recording a growth of 5.4% and 6.8% respectively over FY 2016/17.

The recorded performance was buoyed by the change in composition of dry imports. The share to total imports of the value of goods in the 10%, 25% and the >25% tariff bands grew in 2017/18 over 2016/17, while that of the 0% tariff band declined resulting to a positive revenue impact of KShs 7.6 billion on import duty. The share of value of VATable goods however decreased by 6.1 percentage points from 73.6% in 2016/17 to 67.5% in 2017/18 with a resultant adverse revenue impact of KShs 15.1 billion on import VAT.

### Domestic Taxes Department

Domestic taxes collections during FY 2017/18 amounted to KShs 961.9 billion against a target of KShs 1,051.8 billion, translating to a performance rate of 91.5% and a growth of 4.8% over FY 2016/17.

Direct domestic taxes collected during the financial year amounted to KShs 654.8 billion representing a 90.2% performance rate and growth of 4.2% over FY 2016/17. Direct domestic taxes included: PAYE-56%; Corporate Taxes-24%, withholding taxes-15%, and the remaining 5% comprised individual taxes, Turn-Over-Tax, Capital Gains Tax and Rental Income Tax.

Indirect taxes collected during the Financial Year amounted to Ksh. 302.4 billion representing 93.6 % performance and a growth rate of 5.5% over FY 2016/17. This growth in indirect taxes was mainly driven by a 6.2% growth in VAT from KShs 193.1 billion to KShs 205.1 billion, 35.7% growth in withholding VAT from KShs 72.0 billion to KShs 97.8 billion, and 26.4% growth in excise duty on money transfer from KShs 12.6 billion to KShs 15.9 billion.

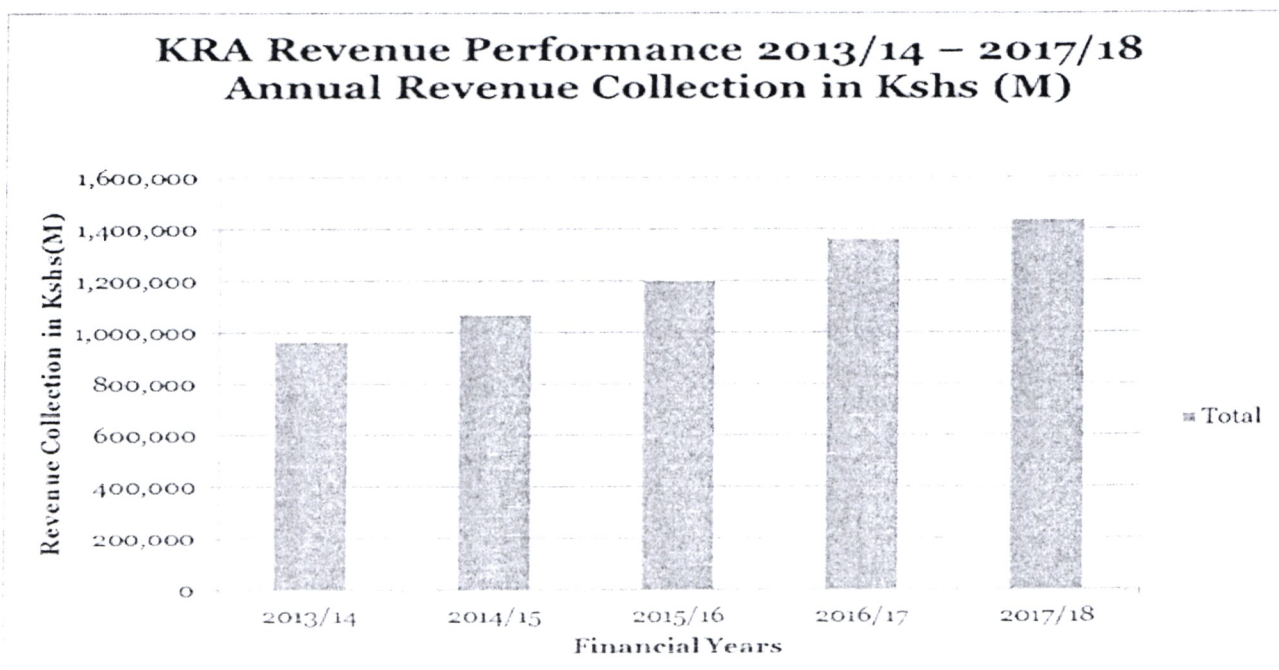
**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

**Road Transport Department**

Transport revenue accounted for 0.23% of the total collections in FY 2017/18 recording a decline in growth of -17.9 % compared to FY 2016/17. This department has since been transferred to the National Transport and Safety Authority (NTSA).

**COLLECTIONS TREND FOR THE FINANCIAL YEARS 2013/14 TO 2017/18 (KSHS MILLIONS)**

	2013/14	2014/15	2015/16	2016/17	2017/18
<b>C&amp;BC</b>					
Exchequer	289,689	313,291	325,272	352,939	375,888
Agency	42,142	45,132	60,731	90,585	94,180
<b>Total C&amp;BC</b>	<b>331,831</b>	<b>358,424</b>	<b>386,002</b>	<b>443,524</b>	<b>470,068</b>
<b>DTD</b>					
Exchequer	626,335	705,718	808,702	917,061	961,399
Agency	1,966	1,508	1,543	581	506
<b>Total DTD</b>	<b>628,301</b>	<b>707,227</b>	<b>810,245</b>	<b>917,643</b>	<b>961,905</b>
<b>TRD</b>					
Exchequer	2,959	2,964	2,859	3,060	2,961
Agency	732	982	1,052	1,042	405
<b>Total DTD</b>	<b>3,691</b>	<b>3,947</b>	<b>3,911</b>	<b>4,102</b>	<b>3,366</b>
<b>Total</b>					
Exchequer	918,982	1,021,974	1,136,833	1,273,060	1,340,248
Agency	44,841	47,623	63,326	92,209	95,091
<b>Total</b>	<b>963,823</b>	<b>1,069,597</b>	<b>1,200,159</b>	<b>1,365,269</b>	<b>1,435,339</b>



Notwithstanding the challenges enumerated above, revenue collections have consistently grown by an average of 14.3% while maintaining cost of collection consistently below 1.5%.

### **Revenue Administration Transformation**

KRA continued to scale up its Transformation Agenda aimed at leveraging technology for enhanced service delivery and intelligence driven compliance. The transformation initiatives implemented during the year included:

#### **iTax**

This is a web-based system that provides tax administration services including electronic registration of taxpayers, electronic filing, self-service ledger accounts, electronic receipting of tax payments and back office functions for Domestic Taxes Department. During this financial year, key achievements included:

- Delivery of Debt module.
- Invoice auto reconciliation module under the last stage of Quality Assurance.
- Discussions on transition management given the huge impact to many stakeholders (ongoing).
- Implementation of online customer support framework (ongoing).
- Personal Identification Number, Business Process Reengineering (PIN BPR) completed and development discussions initiated.

#### **New Data Centre (NDC)**

This project aims at implementing an enterprise risk management framework that will help KRA build resilience for business processes recovery and resumption in case of a disaster. The project will also improve IT operational efficiency and reliability. The New Data Centre facility, which is about 98% operational, will enhance availability, continuity and response times of business systems. Progress made so far include:

- Systems migration, testing and changeover.
- Integration with iTax and payment gateway in progress.
- Prioritization of systems migration order completed and Migrations include iSupport, Corporate Website and Integrated Customs Management System (iCMS).

#### **Integrated Customs Management System (iCMS)**

The increasing trade volumes across Kenya's boundaries and the attendant risks call for a versatile Customs Management System in which stand-alone modules, systems, smart gates, and other security installations are integrated. The aim of the iCMS project is to automate all Customs processes while adopting best technology practices for trade facilitation by integrating the different systems used for Customs processes in the KRA. The progress made so far in implementation of iCMS include:

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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- 50% completion of the development work. (Full iCMS suite expected delivery date revised to September 2018).
- Completion and use of direct assessments.
- Quality assurance for warehousing module complete and due for pilot at Jomo Kenyatta International Airport (JKIA).
- Sea and Land Cargo for dry imports completed and pending integration with KPA system.
- Air Cargo module pilot and roll out is in progress at all airports.

### **iSupport System**

To help enhance efficiency in its processes, KRA implemented a core technology application based on the SAP enterprise resource planning (ERP) platform, which is aimed at scaling and accelerating organizational decision-making and enhancing business management. This platform will assist KRA transform business operations and to meet the demands of a Digital Economy.

This project aims at;

- Providing timely and accurate information to support efficient tax administration operations, planning and reporting for the Authority;
- Stimulating integration of financial and operational activities through streamlined and efficient workflows and documents management;
- Building centralised service capability;
- Providing better business insight and
- Tracking key operational performance indicators on a real time basis, for prompt management decision making.

The iSupport system rollout rate is 90% and modules so far rolled out include Travel Management, Payroll, Performance Management, Medical Management, e-Recruitment, and Assets Disposal modules. Learning Management Solution is undergoing testing.

### **Tax Invoice Management System (TIMS)**

Under the VAT enhancement strategy, the need for ensuring simplicity and accuracy in input, output, credit VAT information and reconciliation between filed returns and payments is paramount. In this regard, the Authority sought to implement a Tax Invoice Management System which is aimed at ensuring:

- Real time validation of invoices at the trader tills prior to issuance to the customer and KRA tax system.
- Standardization of tax invoices and receipts.

- Simplification of return filing in order to enhance voluntary compliance.
- Improve accuracy of VAT data for transactional purchases and sales information

### **Regional Electronic Cargo Tracking System (RECTS)**

The Regional Electronic Cargo Tracking System (RECTS) was launched in March 2017 with the aim of boosting security by curbing diversion of transit cargo along the Northern Corridor, among other malpractices. The concept was anchored on the 2014 Northern Corridor directive to countries such as Kenya, Rwanda and Uganda to embrace electronic monitoring of cargo across the region. Besides securing the cargo, RECTS saves on time and cost of doing business. Less time is spent at border points disarming and arming of seals as the system allows for seals to be armed at starting point and disarmed upon reaching the final destination. RECTS and iCMS are set to be integrated to ensure high efficiency in cargo clearance as well as profiling of importers.

### **Integrated Scanner Management Solution (iSMS)**

The objective of this project is to provide a centralized integrated scanner management solution with real time processing, inspection information collection, inspection data management and advanced analysis capability. Key achievements in this project include:

- Completion of network analysis to enhance bandwidth.
- Relocation of Inland Container Depot Embakasi scanners to Malaba.
- First version of the iSMS software was deployed for testing.
- Integration scoping with other systems is ongoing.

### **Key Achievements during the 6<sup>th</sup> Corporate Plan Period**

FY 2017/18 marked the final year for the implementation of the 6<sup>th</sup> Corporate Plan (2015/16-2017/18). The Plan represented a shift in KRA's focus from enforcement to taxpayer facilitation in line with the vision to "Facilitate Kenya's Transformation through Innovative, Professional and Customer Focused Tax Administration." In pursuit of this ambitious vision, KRA implemented the following four (4) key strategic objectives;

- i. Enhancing revenue mobilization by broadening the taxpayer base using smart intelligence and risk-based compliance strategies;
- ii. Strengthening administrative capacity and enhancing transparency and fairness through organizational change and business process optimization;
- iii. Creating a staff establishment that is professional, courteous, accessible and pro-active in responding to customer problems; and
- iv. Enabling business by leveraging technology to achieve full electronic customer service leading to enhanced operational efficiency and high customer satisfaction.

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### Key Outcomes Achieved during the Plan Period

**Revenue Enhancement Perspective:** The cumulative revenue collection during the period under review amounted to KShs 4.0 trillion rising from Ksh. 1.069 trillion in FY 2014/15 to Ksh. 1.435 trillion in FY 2017/18. Active taxpayers grew from 1.6 million in FY 2014/15 to 3.94 million by June, 2018. Through the Alternative Disputes Resolution (ADR) initiatives, KShs 6.745 billion held up in tax disputes was freed up. The Authority continues to build capacity in ADR as this mechanism is speedy, non-adversarial and more effective. Further, the real estate sector contributed KShs 12.09 billion in revenue collected from 58,934 additional land lords recruited into the tax net. In addition, KRA has continued engagements with County Governments for collaborations in revenue collection. As at June, 2018, engagements with Kisii and Kericho County Governments were at an advanced stage.

**Customer Perspective:** To deliver customer focused services and raise customer satisfaction levels, KRA services were availed in 24 service centres and 52 Huduma Centres across the country. At least 78% of all complaints received were conclusively resolved and 276 stakeholder groupings were engaged by KRA. In addition, a taxpayer education strategy, tax curriculum proposal, tools for needs assessment and sector programme were implemented to enhance voluntary compliance. In line with this, KRA-wide customer service standards aimed at cultivating an all-inclusive and collaborative customer service environment were developed and implemented. An exit survey for FY 2016/17 established a customer satisfaction level of 71.9%.

**People Perspective:** KRA continued its endeavours to entrench its core values Trustworthy, Ethical, Competent and Helpful (*Kuwa* TECH) amongst the staff. This has been conducted through a review of sub-cultures, culture change assessment and communication, revamping of KRA's training, promoting innovation, knowledge management, enhancing integrity amongst staff and establishing KESRA as a choice institution for training in fiscal management. An exit survey for FY 2016/17 determined that the employee satisfaction level is 67%.

**Internal Processes Perspective:** Automation is key in enhancing transparency and fairness in government-to-business interactions. As at the end of FY 2017/18, KRA had been appointed the lead border agency in all land borders as well as custodian of One Stop Border Points. In a bid to become a fully automated single collector, the following KRA systems were implemented: iTax (100%), iCMS (80%), iSupport (90%), Customer Relationship Management (CRM) system (95% implemented), CCMS (100%) and New Data Centre (NDC) 98%. Over the same period, 86% of KRA's business units have implemented the five (5) enterprise Risk Management (ERM) framework tools. These tools are; Risk and Control Self-Assessment Tool; Control Compliance Tool; Key Risk Indicator Tool; Action Tracking Tool; and Incident Recording Management Tool. KRA was re-certified to ISO 9001:2015 Standard over the period.

## **Key Achievements in the Financial Year 2017/18**

The key achievements during the FY 2017/18 include:

### **Expansion of the Tax Base**

During the plan period, KRA sought to adopt a business classification, structure and tax rates similar to those being applied by the County Governments. This was so as to leverage the reach and closeness of local governments and taxpayers. This would be achieved through twinning of PIN to business licensing at the Counties and actively engaging the County Governments for collaborations. As at Quarter three of FY 2017/18, engagements with both Kisii and Kericho Counties were at an advanced stage.

During the FY 2017/18, 461,743 new active taxpayers were recruited resulting to 3,940,000 active taxpayers, cumulatively. The recorded recruitment of taxpayers was enhanced by KRA's deliberate effort to progressively contact non-compliant taxpayers and use of data to drive taxpayer recruitment. In addition, the taxpayer education programme was revamped to target non-compliance. To this end, four sector-based trainings targeting Architects, Engineers, School heads, Accountants, Withholding rental income agents, and Federation of Kenya Employers were held.

The Authority continued to leverage on government automation where various third-party systems (NTSA-TIMS, e-ProMIS, NHIF, NSSF and IFMIS) were identified to further drive recruitment. KRAs integration with these systems is at different levels of implementation.

### **Revamped Debt Management Programme**

During the Financial Year, a full-time team under Strategy, Innovation and Risk Management (SIRM) was formed to implement the Data Cleaning strategy. To do this, data cleaning business rules and a debt strategy were prepared to guide implementation of the initiative. As part of data cleaning, debt division staff were trained, backlog relating to returns were cleared and clearance of payments, waivers, and set-offs is underway.

Further, user acceptance testing was conducted on the debt module on the iTax system in March, 2018. Full roll out of the module will facilitate single view of all taxpayer transactions and improve debt collection.

In total, KShs 28.4 Billion was collected as debt revenue. Delays in forwarding mature debts (30 days) to Account Management Units from stations/divisions including the head office has had a negative effect on fast-tracking debt recovery.

### **Implementation of Alternative Dispute Resolution (ADR)**

During the FY 2017/18, ADR workflows and staff structure were reviewed and approved and job descriptions developed, 33 officers were recruited to fill the ADR structure. At least 38% of disputes were settled through ADR out of which, KShs 3,011.9 million was collected as revenue.

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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### **VAT Enhancement Strategy**

VAT's contribution to total revenue was envisaged to improve from 25% to 35% between FY 2014/15 and FY 2017/18. Amongst the measures proposed was implementation of the tax invoice management system (TIMS) to improve VAT data management and to ensure accuracy in input, output and credit VAT information and reconciliation between filed returns and payments.

To improve VAT data management and ensure accuracy in input, output and credit VAT information and reconciliation between filed returns and payments, iTax enhancements were proposed, TIMS implementation strategy documented and Public Key Infrastructure (PKI) for TIMS implemented. The Revenue Enhancement Initiatives aimed at improving VAT performance and reducing non-filing & non-payment led to the implementation of an aggressive stop filer and nil filer programme to reverse the non-filing and non-payment trend. Under this, unclaimed withholding VAT certificates worth KShs 1,903.7 million and unmatched invoices worth KShs 1,643.3 million were assessed. Collections out of these amounted to KShs 477.7 million and Ksh. 437.4 million respectively.

### **Customer Satisfaction with KRA Services**

KRA services were offered in 24 service centres and 52 Huduma Centres across the country. Using the Corporate Complaints Management Framework, 78% of complaints were conclusively resolved. This framework is planned for regional roll-out in 2018/19 and additional staff for the centres have been recruited.

As at June, 2018, electronic filing rate stood at 76%, 60% and 44% for VAT, PAYE and Corporate Taxes respectively. Electronic payment rates also stood at 97%, 93%, and 93% for VAT, PAYE and Corporate Taxes respectively.

### **Strengthening Taxpayer Service and Marketing and Communication**

During the past financial year, KRA fully engaged a media consultancy to offer strategic guidance on creative advertising, public relations and stakeholder engagement. The communication strategy, which aims at achieving effective communication to drive brand loyalty, promote customer centricism, knowledge sharing and KRA brand acceptance, was implemented. KRA has adopted a strategic approach towards International Affairs that facilitates continuous learning of industry best practices, and promotes experience and knowledge sharing. During 2017/18, KRA participated in eight (8) international engagements (in-bound and out-bound). The engagements were with South African Revenue Service (SARS), Rwanda Revenue Authority (RRA), Ghana Revenue Authority (GRA) and African Tax Administration Forum (ATAF), Authorised Economic Operators - Uganda, TMEA - China, Busia OSBP, 7<sup>th</sup> ATAF Country Correspondents Meeting, Co-hosted the ATAF Tax for Development Course with KESRA; and M&C outward benchmark to Netherlands Tax Administration.

### **Corporate Social Responsibility (CSR)**

During the Financial Year, the CSR Policy was reviewed to guide measurement of CSR effectiveness. A total of 29 CSR activities and 33 publicity campaigns were undertaken to

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

develop and enhance the brand value of KRA. A total of 969 out of 4,853 KRA staff were involved in Corporate Social Responsibility activities.

**Promoting innovation**

To better meet its customers' needs, KRA set out to introduce new ideas, workflows, methodologies, services and products in pursuit of its core business revenue mobilization for the Government. KRA embarked on an ambitious strategy to institutionalize innovation management, facilitate effective citizen participation, and to grow and innovate information technology to support, enable and optimise business operations. In line with these aspirations, Live Chats, Story za Ushuru Videos and USSD code campaigns were conducted among other sensitization campaigns.

**Enhancing Integrity in Revenue Administration**

KRA aspired to attain a "Zero-tolerance to Corruption" status by 2018 through a number of interventions including constant review of internal controls to mitigate corruption and a deliberate corporate effort to inculcate transparent, accountable and ethical culture amongst staff and customers. During the financial year under review, the vetting unit was operationalized, a draft lifestyle audit and background checks policy was developed. In line with this, a total of 4,286 staff and 4,893 stakeholders were sensitised on integrity, 2,073 staff sensitized on whistle blowing policy and 32 senior managers trained on corruption related audits.

**Human Resource Review**

**Senior Staff Changes**

Dr. Fred Mugambi Mwirigi was appointed on acting capacity as Head of Kenya School of Revenue Administration (KESRA) with effect from 5<sup>th</sup> March 2018.

**Staff Compliment as at 30th June 2018**

	<b>Department</b>	<b>Count</b>	<b>Percentage (%)</b>
1	Corporate Support Services	1,043	21.5
2	Customs & Border Control	1,562	32.2
3	Domestic Taxes Department	1,554	32.0
4	Intelligence & Strategic Operation	77	1.6
5	Internal Audit Department	31	0.6
6	Investigation & Enforcement	176	3.6
7	Kenya School of Revenue Administration	54	1.1
8	Legal Services & Board Coordination	75	1.5
9	Marketing & Communication	88	1.8
10	CG / Strategic Operation Office	23	0.5
11	Strategy Innovation & Risk Management	170	3.5
	<b>TOTAL</b>	<b>4,853</b>	<b>100.0</b>

*The staff numbers do not include short term contract staff*

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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### **Staff Motivational and Welfare Programs**

In the financial year 2017/18, KRA continued to implement various welfare activities that include wellness programs, health talks, health hikes as well as alcohol and drug abuse prevention programs. The Authority also provided motivational benefits including mortgages, car and laptop loans for staff.

### **Competency Development**

KRA facilitated delivery of 51 technical and cross cutting programs for 1,839 staff and 50 Continuous Professional Development programmes for 296 staff. 317 staff attended phase one training on leadership development (Discovering Leadership Effectiveness) and 227 attended phase two of the same training (Leading at the Speed of Trust).

### **Automation of Human Resources Management Systems**

KRA continued the process of automating Human Resource Division and functions automated during the FY 2017/18 include;

- Organization Management;
- Leave Management;
- Payroll;
- E-Recruitment and
- Medical Scheme Management.

### **Future Outlook**

The Treasury revenue target for the financial year 2018/19 is KShs 1.81 trillion, of which KShs 1.72 trillion (94.9%) is Exchequer revenues and KShs 92.9 billion (5.1%) being the agency revenues that KRA collects. The Treasury target represents a growth of 26.1% over the revenue collection in FY 2017/18 (KShs 1.4 trillion). The revenue performance is expected to be influenced by the improving operating economic environment and the continued implementation of the Revenue Enhancement Initiatives (REI) programme.

During FY 2018/19, Kenya's GDP is projected to expand by 5.9 % from the estimated performance of 5.0% in FY 2017/18. The 2018 Budget Policy Statement indicates that this growth will be supported mainly by the implementation of "The Big Four" Agenda, sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant service sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability. Inflation is expected to remain within the Government's target range underpinned by prudent monetary and fiscal policies, favourable weather outlook, relatively lower international oil prices, and a stable exchange rate. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

FY 2018/19 marks the beginning of the implementation of the 7<sup>th</sup> Corporate Plan due to be implemented during the period the FY2018/19 to 2020/21. Our overarching goal in the plan period is 'Revenue mobilization through innovative use of the opportunities created by the reforms, change programme and transformation that the Authority has undertaken during the past plans'. To this end, we have identified four strategic outcomes in the corporate plan, that is: enhanced revenue through improved compliance; improved business climate with

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS  
AT JUNE 2018**

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respect to taxation and trading across borders; public confidence in the integrity, professional competence and customer focus of our staff; and being data and intelligence driven organization.

**Conclusion**

In conclusion, I would like to thank the Board of Directors, Management and Staff for their support, hard work, and for embracing the Transformation Agenda that has enabled KRA to effectively discharge its mandate as the pre-eminent revenue collector for the Government of Kenya. The staff's dedication and commitment to duty led to the revenue growth of 5.1% over FY 2017/18. I also thank the National Treasury for according KRA the much needed goodwill and strong support that facilitated revenue administration in a tranquil environment. Lastly, I extend our gratitude to all our valued taxpayers, partners and stakeholders for their patriotism and unwavering support, without which KRA would not have achieved its strategic goals during the financial year under review.

I am confident that together, and guided by the vision "To Facilitate Kenya's Transformation through Innovative, Professional and Customer-Focused, Tax Administration", KRA is headed for greater heights.



**J. K. Njiraini, CBS**  
**COMMISSIONER GENERAL**

## **KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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### **CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the structure and process used to direct and manage the business affairs of the Authority to enhance prosperity, corporate performance and accounting. The Board of Directors is the governing body of the Authority. It formulates policy and charts out the road map for goal attainment, including plans of action.

The Board of Directors is responsible for the governance of the Authority and is accountable to the Cabinet Secretary, National Treasury to ensure compliance with the Kenya Revenue Authority Act, best practice and business ethics. The Directors attach great importance to the need to conduct business and operations of the Authority with integrity, professionalism and in accordance with generally accepted international corporate governance practice.

The Board's responsibilities are broadly set out in Section 6 (6) of the Kenya Revenue Act CAP 469 of the Laws of Kenya, and include:

- a) Review and approval of the policy of the Authority;
- b) Monitoring of the performance of the Authority in carrying out its functions; and
- c) Discipline and control of all members of staff of the Authority, appointed under the Act.

### **Board Meetings**

The Board meets on a monthly basis to review Management performance including revenue collection, operational issues and future planning. The Directors are given appropriate and timely information to enable them maintain full and effective control over strategic, financial, operational, revenue and compliance issues. All the Directors are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgment. The Board held sixteen (16) Meetings during the period under review.

### **Board Committees**

The Board had four (4) standing Committees during the year, which met regularly under the Terms of Reference set out by the Board.

### **Staff Committee (Now Human Resources Committee)**

The Committee is responsible for monitoring and appraising the performance of Senior Management, reviewing of human resource policies, approval of remuneration policy for employees and making recommendations on Senior Management appointments to the Board. The Committee met quarterly and its Members were:

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

	<b>Previous Membership</b>		<b>Current Membership</b>
1.	Mr. Abdi Duale (Retired).	1.	Ms. Susan Mudhune.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Leonard Ithau.
3.	Dr. Rashid Ali (Retired).	3.	Mr. Paul Icharia.
4.	Ms. Mary Ann Muthoni Njau–Kimani.	4.	Mr. John K. Njiraini.
5.	Mr. John K. Njiraini.		

**Support Services Committee (Now Finance, Administration and Procurement Committee)**

The Committee is responsible for review of the Authority’s annual budget; Procurement and Disposal Plans, and related policies, among others. The Committee met monthly and its Members were:

	<b>Previous Membership</b>		<b>Current Membership</b>
1.	Mr. Evans Kakai (Retired).	1.	Ms. Rose Waruhiu.
2.	Dr. Rashid Ali (Retired).	2.	Mr. Charles Omanga.
3.	Mr. Abdi Duale (Retired).	3.	Mr. Bernard Ndung’u.
4.	Mr. Bernard Ndung’u	4.	Mr. John K. Njiraini.
5.	Mr. John K. Njiraini.		

**Audit and Risk Committee**

The Committee is responsible for review of audit reports, compliance with relevant laws, procedure and standards, quality of financial reporting and oversight on internal control and risk, among others. The Committee assists the Board in discharging its supervisory and good corporate governance responsibilities. The Committee met quarterly and its Members were:

	<b>Previous Membership</b>		<b>Current Membership</b>
1.	Ms. Rose Waruhiu.	1.	Mr. Mukesh Shah.
2.	Ms. Constantine Kandie (Retired).	2.	Ms. Rose Waruhiu.
3.	Mr. Paul Icharia.	3.	Ms. Mary Ann Muthoni Njau–Kimani.
4.	Mr. Bernard Ndung’u.	4.	Mr. Bernard Ndung’u.

**Strategy, Policy and Research Committee (Now Revenue, Strategy and Technology Committee)**

The Committee is responsible for review of the Authority’s strategic implementation of the Corporate Plan and Reform Programme. It also serves as a forum to encourage continuous research and review of tax policy proposals; regulatory framework and revenue collection. The Committee met quarterly and the Members were:

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

	<b>Previous Membership</b>		<b>Current Membership</b>
1.	Mr. Paul Icharia.	1.	Mr. Leonard Ithau.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Mukesh Shah.
3.	Ms. Rose Waruhiu.	3.	Ms. Rose Waruhiu.
4.	Dr. Rashid Ali (Retired).	4.	Ms. Susan Mudhune.
5.	Ms. Mary Ann Muthoni Njau–Kimani.	5.	Mr. Paul Icharia.
6.	Mr. Bernard Ndung’u.	6.	Ms. Mary Ann Muthoni Njau–Kimani.
7.	Mr. John K. Njiraini.	7.	Mr. Bernard Ndung’u.
		8.	Mr. John K. Njiraini.

**Board of Trustees**

The Authority has a Staff Pension Scheme which is supervised, managed and administered by a Board of Trustees. The Authority, as sponsor of the Scheme, is represented by the following Board Members:

	<b>Previous KRA Board Representation</b>		<b>KRA Board Representation after Reconstitution of the Board</b>
1.	Ms. Constantine Kandie (Retired).	1.	Mr. Paul Icharia.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Charles Omanga.
3.	Mr. Paul Icharia (Retired).	3.	Ms. Susan Mudhune.
4.	Mr. John K. Njiraini.	4.	Mr. John K. Njiraini.

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON FINANCIAL STATEMENTS OF KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS FOR KENYA REVENUE AUTHORITY

I have audited the accompanying financial statements as set out on pages 30 to 55, which comprise the statement of financial performance, statement of financial position as at 30 June 2018, and the statement of changes in Net Assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended 30 June 2018, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Revenue Authority as at 30 June 2018, and (of) its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Revenue Authority Act.

#### **Basis for Unqualified Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Revenue Authority 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 opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. These matters were addressed in the context of the audit of the financial statement as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter there were no key audit matters to report in the year under review.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

#### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else

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*Report of the Auditor-General on the Financial Statements of Kenya Revenue Authority for the year ended 30 June 2018*

has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

## **Basis for Conclusion**

### **1. Work in Progress included in Property, Plant and Equipment Balance**

The Board of Directors approved revaluations of property, plants and equipment to Kshs.26,738,586,890. Included in the revaluation is work in progress assets amounting to Kshs.2,121,778,000 out of the total work in progress of Kshs.10,171,869,000 reflected at note 8 (iv). The work in progress of Kshs.2,121,778,000 inclusion was not supported with certificates of completion and capitalization of works.

Similarly, Note 8. (iv) of the financial statements reflects Work in Progress closing balance of Kshs.10,171,869,000 that includes work in progress closing balance totalling Kshs.3,877,052,000 relating to costs of One Stop Border Posts. However, the Authority has not submitted either interim or final certificate of works and certificate of completion for audit verification.

### **2. Failure to Adhere to the Employment Act Section 19(3)**

Sec 19(3) of the employment Act requires that an employees' salary take home must not fall below a third (1/3) of the basic salary. However, audit review of the Authority's payroll for the period July 2017 to January 2018 reflect instances where employees' drew salary falling below a third of their basic salary. This is a contravenes Section 19(3) of the Employment Act, 2007

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE**

### **Conclusion**

As required by Section 7(1) (a) of the Public Audit Act, 2015, except for the matters described in the Basis for Unqualified Opinion and Basis for Conclusions on Lawfulness and Effectiveness in Use of Public Resources and Effectiveness of Internal Controls, Risk Management and Governance sections of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

## **Basis for Conclusion**

### **Fencing of Land without Title**

The Authority acquired land in Northern region through allocation vide Kenya Gazette notices and awarded tenders during the year under review for the purposes of securing the following parcels of land:

- i. Fencing Elwak site 30 acres at a total cost of Kshs.16,004,640
- ii. Fencing Gerille site 280 metres long at a total cost of Kshs.3,998,400
- iii. Fencing Amuma 750 metres long at a total cost of Kshs.7,746,000
- iv. Fencing Diffu covering 635 metres long at a total cost of Kshs.5,928,980 and
- v. Hulugho site at a total cost of Kshs.4,544,350

Our audit review established that the Authority paid Kshs.12,290,250 for the fencing of Amuma and Hulugho sites without having obtained ownership documents either from Ministry of Lands and Physical Planning, legal documents from County Governments or any written agreements from the transferor communities.

In the absence of documentation of proof of ownership, the Authority could stand to lose the amounts of Kshs.12,290,250 already spent if ownership documents are not obtained.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

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

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the National Government either intends to liquidate or to cease operations, or have no realistic alternative but to do so.

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

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

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

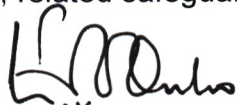
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the 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;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue as a going concern or to sustain its services;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of Kenya Revenue Authority to express an opinion on the financial statements;
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**10 April 2019**

## REPORT OF THE BOARD DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June, 2018 which show the state of Kenya Revenue Authority's affairs.

### Principal activities

The principal activities of the Authority continue to be assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the relevant Acts.

### Results

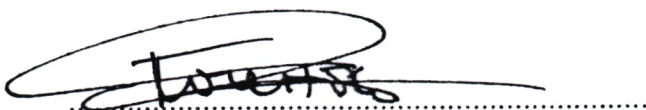
The results of the Authority for the year ended June, 2018 are set out on pages 32 to 66.

### Directors

The Members of the Board who served during the year are shown on page 4 to 10.

### Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.



By Order of the Board

Board Secretary

Date: 14<sup>th</sup> Feb. 2019

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and the Kenya Revenue Authority Act require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

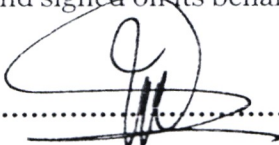
The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate 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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and The KRA Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2018, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

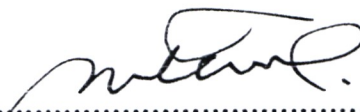
Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

**Approval of the financial statements**

The Authority's financial statements were approved by the Board on 14<sup>th</sup> February 2019 and signed on its behalf by:

  
.....

**J. K. NJIRAINI, CBS  
COMMISSIONER GENERAL**

  
.....

**AMB. DR. FRANCIS K. MUTHAURA, MBS, EGH  
CHAIRMAN**

KENYA REVENUE AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2018

		2017/2018	2016/2017
	NOTE	<u>Kshs'000</u>	<u>Restated Kshs'000</u>
<b>REVENUE</b>			
<b>Revenue from non- exchange transactions</b>			
Deferred grant income amortisation	2	324,635	196,663
<b>Revenue from exchange transactions</b>			
Agency Income	3	17,651,754	15,458,009
Commissions Income	4(a)	1,847,003	1,785,534
Interest Income		348,804	564,529
Other Income	4(b)	558,682	585,147
<b>TOTAL REVENUE</b>		<u><b>20,730,878</b></u>	<u><b>18,589,882</b></u>
<b>EXPENDITURE</b>			
Administrative Expenses	5	19,541,768	17,888,325
Operating Expenses	6	1,262,468	1,106,777
Maintenance Expenses	7	318,937	287,917
<b>TOTAL EXPENDITURE</b>		<u><b>21,123,173</b></u>	<u><b>19,283,019</b></u>
<b>Other gains/(losses)</b>			
Gain / (Loss) on sale of assets		(323)	3,561
<b>DEFICIT FOR THE YEAR</b>		<u><u><b>(392,618)</b></u></u>	<u><u><b>(689,576)</b></u></u>

The notes set out hereto form an integral part of the Financial Statements

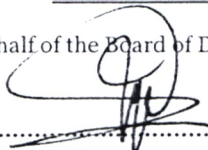
KENYA REVENUE AUTHORITY

STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2018

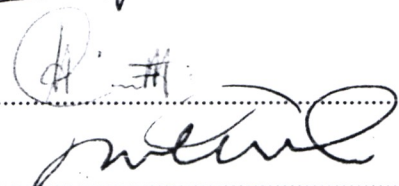
	NOTE	2017/2018 Kshs '000	2016/2017 Restated Kshs '000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Bank Balances	13	7,892,677	6,752,042
Stocks	14	126,635	120,898
Receivables	10	638,511	552,749
		<b>8,657,823</b>	<b>7,425,690</b>
<b>Non-Current Assets</b>			
Property, Plant & Equipment	8	33,569,059	31,230,635
Intangible Assets	9	4,256	12,437
Amount due from Treasury	11	1,295,877	3,444,499
Security Deposits	12	2,434,671	2,386,122
		<b>37,303,863</b>	<b>37,073,693</b>
<b>Total Assets</b>		<b>45,961,686</b>	<b>44,499,383</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables	15	2,401,613	1,881,643
Leave Pay and Gratuity Provision	16	1,968,198	1,538,033
Deferred Income Amortisation	24	324,635	177,759
		<b>4,694,446</b>	<b>3,597,435</b>
<b>Non Current Liabilities</b>			
Contribution to Govt Pension Fund	17	7,324	24,290
Designated Fund	18	36,784	62,248
		<b>44,108</b>	<b>86,538</b>
<b>Total Liabilities</b>		<b>4,738,554</b>	<b>3,683,973</b>
<b>Net Assets</b>		<b>41,223,132</b>	<b>40,815,410</b>
Capital grants by the Treasury	19	17,309,410	16,996,410
Deferred Grants Income	24	3,266,072	2,518,434
Accumulated Fund		3,065,501	3,458,119
Revaluation Reserve		17,582,149	17,842,447
		<b>41,223,132</b>	<b>40,815,410</b>
<b>Total net assets and liabilities</b>		<b>45,961,686</b>	<b>44,499,383</b>

The financial statements set out herein were signed on behalf of the Board of Directors by;

J. K. Njiraini, CBS  
Commissioner General

  
.....

E.K. Muchai  
Head of Finance - ICPAK Member No. 2728

  
.....

AMB. DR. Francis K. Muthaura, MBS, EGH  
Chairman

.....

The notes set out hereto form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY

STATEMENT OF CHANGES IN EQUITY  
AS AT 30 JUNE 2017

	Note	Capital Grants by Treasury Shs'000	Deferred Grant Income Shs'000	Accumulated Fund Shs'000	Revaluation Reserve Shs'000	Total Shs'000
<b>Year ended 30 June 2017</b>						
At 1 July 2016 - as previously reported		17,595,182	-	4,804,611	4,099,594	26,499,387
Prior year adjustments	27	(1,224,772)	1,306,857	(656,916)	260,297	(314,534)
<b>As restated</b>		<b>16,370,410</b>	<b>1,306,857</b>	<b>4,147,695</b>	<b>4,359,891</b>	<b>26,184,853</b>
Contribution for the year		626,000	1,585,999	-	-	2,211,999
Increase in revaluation		-	-	-	13,742,853	13,742,853
Charge for the year		-	(196,663)	-	(260,297)	(456,960)
Current portion of deferred income		-	(177,759)	-	-	(177,759)
Restated Deficit for the Year		-	-	(689,576)	-	(689,576)
<b>30 June 2017 - restated</b>	<b>27</b>	<b>16,996,410</b>	<b>2,518,434</b>	<b>3,458,119</b>	<b>17,842,447</b>	<b>40,815,410</b>
<b>Year ended 30 June 2018</b>						
At 1 July 2017 - restated		16,996,410	2,518,434	3,458,119	17,842,447	40,815,410
Contribution for the year		313,000	1,219,149	-	-	1,532,149
Surplus for the year		-	-	(392,618)	-	(392,618)
Charge for the year		-	(324,635)	-	(260,297)	(584,933)
Current portion of deferred income		-	(146,875)	-	-	(146,875)
<b>At 30 June 2018</b>		<b>17,309,410</b>	<b>3,266,072</b>	<b>3,065,501</b>	<b>17,582,149</b>	<b>41,223,132</b>

**KENYA REVENUE AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018**

		<b>2017/2018</b>	<b>2016/2017</b>
		<b>Kshs `000</b>	<b>Restated Kshs `000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	NOTE		
(Deficit) / Surplus for the year		(392,618)	(689,576)
<b>Non- cash movements</b>			
Depreciation	8	731,996	39,222
Amortisation of Intangible Assets	9	8,181	8,181
Increase in Amortisation of Deferred Income	25	146,876	95,674
Revaluation of Assets			-
Loss / (Gain) on disposal of Assets		323	(3,561)
Increase in Security Deposits	12	(48,549)	(52,526)
Increase in Stocks	14	(5,737)	(120,898)
Increase in Debtors and receivables		2,062,859	(1,359,367)
Decrease in Creditors and payables		933,169	(432,364)
<b>Net cash flows from operating activities</b>		<b>3,436,500</b>	<b>(2,515,215)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant & Equipment	8	(3,334,250)	(2,555,189)
Purchase of Intangible Assets		-	(12,768)
Proceeds from sale of Property, Plant & Equipment		3,210	6,036
<b>Net cash flows from investing activities</b>		<b>(3,331,040)</b>	<b>(2,561,921)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in Contribution by the Treasury & Donors	19	1,060,639	1,919,661
Decrease in designated Funds	18	(25,464)	(142,701)
<b>Net cash flows from financing activities</b>		<b>1,035,175</b>	<b>1,776,960</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,140,635</b>	<b>(3,300,176)</b>
Cash and cash equivalents at 1 July		6,752,042	10,052,218
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	13	<b>7,892,677</b>	<b>6,752,042</b>

The notes set out hereto form an integral part of the Financial Statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS						NOTES
	ORIGINAL BUDGET	ADJUSTMENTS ADDITIONS	FINAL BUDGET	ACTUAL COMPARABLE BASIS	PERFORMANCE DIFFERENCE	
	KSHS '000	KSHS '000	2017/2018 KSHS '000	2017/2018 KSHS '000	2017/2018 KSHS '000	
<b>INCOME :</b>						
Agency fees	15,457,318	2,194,436	17,651,754	17,651,754	-	
Road Maintenance Levy	1,353,467	(1)	1,353,467	1,473,360	119,893	
Sale of Tamper- Proof seals	12,527	-	12,527	12,934	407	
Petroleum Development levy	45,980	-	45,980	7,176	(38,804)	
NTSA Agency Commission	25,960	-	25,960	9,889	(16,071)	
Document Processing Fees	28,860	-	28,860	42,100	13,240	
Interest income	498,838	-	498,838	348,804	(150,034)	
Transit Toll	17,420	-	17,420	15,327	(2,093)	
Rent receivable	22,496	-	22,496	34,324	11,828	
Public Overtime	3,770	-	3,770	3,972	202	
Institutional houses - rent	114,439	-	114,439	136,408	21,969	
Aviation Revenue	92,600	-	92,600	96,609	4,009	
Sugar Levy	-	-	-	9,857	9,857	
Air Passenger Service charge	258,740	-	258,740	208,280	(50,460)	
KESRA Income	-	-	408,000	270,133	(137,867)	
Miscellaneous Income	17,793	-	17,793	11,991	(5,802)	
Other Funding	-	-	42,043	38,156	(3,887)	
OTHER AIA	48,540	-	48,540	34,846	(13,694)	
Deferred Income Amortisation	-	-	-	324,635	324,635	
<b>Total Operational Income</b>	<b>17,998,748</b>	<b>2,194,436</b>	<b>20,643,227</b>	<b>20,730,555</b>	<b>87,329</b> (a)	
<b>STAFF COSTS:</b>						
Basic pay	9,912,212	195,203	10,597,104	10,429,424	157,680	
Other Allowances	4,712,156	-	4,718,156	4,508,919	209,237	
<b>Total Staff Salaries and Allowances</b>	<b>14,624,368</b>	<b>195,203</b>	<b>15,305,260</b>	<b>14,938,344</b>	<b>366,916</b> (b)	
<b>OPERATIONAL Expenses:</b>						
Staff Welfare Expenses	70,300	20,486	79,793	60,238	19,465	
Medical Expenses	638,231	-	788,207	873,936	(85,729)	
Training Expenses	-	20,000	181,200	131,499	49,701	
Uniform & Laundry Expenses	-	31,853	33,013	56,236	(23,223)	
Travel & Accommodation	509,565	-	705,043	592,430	112,613	
Utilities Expenses	-	20,000	454,767	436,969	17,798	
Building Repairs & maintenance	425,310	-	135,721	146,649	(10,928)	
Motor Running Expenses	-	64,499	309,451	208,199	101,251	
Motor boat running Expenses	218,436	-	21,639	14,795	6,844	
Scanner Expenses	18,019	-	390,799	157,493	233,216	
Rents & Rates	-	393,909	571,364	649,452	(78,088)	
Computer Software	420,053	95,000	799,774	591,477	208,297	
Computer Expenses	75,088	-	125,861	-	125,861	
Security Expenses	578,230	50,000	461,867	423,470	38,397	
Insurance Expenses	413,666	21,284	75,530	68,260	7,270	
Publicity & Advertising	78,018	-	165,320	146,628	18,692	
Taxpayers Education	55,000	40,000	105,048	65,112	39,935	
Consultancy	53,980	7,093	223,095	159,908	63,187	
Secretarial Expenses	-	-	42,061	67,960	(25,899)	
Directors' Expenses	83,837	399,193	51,952	31,733	20,219	
Bank Charges	53,080	-	60,306	62,727	(2,421)	
Corp' strategy and review conf' exp	-	-	183,775	152,179	31,596	
Office Running Expenses	60,125	-	300,165	277,602	22,563	
Printing & Stationery Expenses	103,072	47,000	46,721	15,894	30,828	
Consumable Stores Expenses	231,710	47,917	23,343	-	23,343	
Materials & Supplies Expenses	38,016	-	-	-	-	
Enforcement Expenses	21,235	-	149,858	47,653	102,205	
Laboratory Expenses	4,390	-	13,638	6,154	7,484	
Depreciation Expenses	24,221	20,000	-	740,177	(740,177)	
<b>TOTAL Operational Expenses</b>	<b>4,173,581</b>	<b>1,278,235</b>	<b>6,499,132</b>	<b>6,184,830</b>	<b>314,393</b> (c)	
<b>TOTAL Recurrent Expenses</b>	<b>18,797,949</b>	<b>1,473,437</b>	<b>21,804,392</b>	<b>21,123,173</b>	<b>681,219</b>	
<b>DEFECIT FOR THE PERIOD</b>	<b>(799,201)</b>	<b>720,998</b>	<b>(1,161,166)</b>	<b>(392,618)</b>	<b>(593,800)</b> (d)	

**Notes:**

(a) Increase in operational incomes is attributable to deferred income amortised, KESRA income and Road Maintenance Levy.

There was a reduction of interest income due to capping of interest rates and less deposits held with commercial banks.

(b) The variance in staff costs is due to performance bonus budgeted but not paid

(c) The budget included roll over funding from the previous financial year for pending bills related to scanners, enforcement expenses and computer software

(d) The adjustments to the budget are due to additional funding from the National Treasury

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 1 (o).

The financial statements have been prepared and presented in Kenya Shillings which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Kshs. 000).

The financial statements have been prepared in accordance with the PFM Act, the Kenya Revenue Authority Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

Standard	Impact
<p><b>IPSAS 33:</b> First time adoption of Accrual Basis IPSAS</p>	<p><b>(Effective for annual periods beginning on or January 1, 2017)</b></p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p>The Authority adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Authority.</p>

**ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

- ii. **New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

- iii. **Early adoption of standards**

The Authority did not early – adopt any new or amended standards in year 2018.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Revenue Recognition**

**i) Agency Income**

In accordance with the Kenya Revenue Authority Act CAP 469, income to the Authority is “such amounts not exceeding 2% as may be determined by the Minister each financial year” of the total estimated revenue to be collected by the Authority on behalf of the Exchequer. In addition, the Authority is entitled to a Bonus of 3% of the surplus revenue collected above the estimates and also earns income from other activities. Agency Income is recognised

**ii) Revenue from exchange transactions**

*Finance Revenue*

Finance revenue comprises interest receivable on fixed and security deposits. The revenue is recognised as it accrues in using the effective yield method. Interest income is derived from short term placements held in approved commercial banks.

*Rental income*

Rental income is recognised on a straight line basis over the lease term.

*Commission revenue*

Commission income comprises agency fees charged on collections made on behalf of other regulatory bodies.

*Other operating income*

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be reliably measured.

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**(b) Development funding and capital grants by the Treasury**

Grants by the Treasury in form of assets or funding for acquisition of major assets or development projects are recognized as a financing reserve when received. No repayment of the financing is expected by the Authority.

**(c) Property, Plant and Equipment**

All categories of property, plant and equipment are stated at cost or valuation less accumulated depreciation and annual impairment losses. Depreciation is calculated to write off the cost or valuation of each asset to its residual value where applicable, over the expected useful life of the asset in equal instalments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated useful life is as follows: -

Plant & Machinery	8 years
Equipment/Furniture/Fittings	8 years
Boats	8 years
Motor Vehicles	5 years (with a 10% residual value)
Computers	3 years
Computer Software	3 Years
Buildings	40 years
Leasehold land	Over the remaining lease period

Gains or losses on property, plant and equipment are determined by reference to their carrying value and are taken into account in determining the surplus / (deficit) for the year.

**(d) Intangible Assets**

Intangible assets consist of various computer software systems purchased for use by the Authority. The Authority recognises Intangible Assets acquired separately at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over their useful lives as estimated by management from time to time.

**(e) Cash and Cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits held with banks.

**(f) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rate ruling on that date. The resulting foreign exchange gains and losses are recognized on a net basis, differences are dealt with in the income and expenditure statement in the financial year in which they arise.

**(g) Employee benefits costs**

*(i) Retirement benefit obligations*

The Authority operates an hybrid pension scheme with a defined contribution plan for the permanent and pensionable employees. Payments to the scheme by the Authority are recognised as an expense when employees have rendered service entitling them to the contributions. The scheme is funded by contributions from both the entity and the employees. The entity and all employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

*ii) Other entitlements*

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding leave at the reporting date.

**(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. The cost of inventories comprises purchase price, import duties, transportation and handing charges, and is determined on the weighted average price. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

**(i) Receivables**

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a receivable is considered uncollectible it is written off. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance. Changes in the carrying amount of the allowance account are recognized in the Statement of Financial Performance.

**(j) Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), otherwise they are presented as non-current liabilities.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

**(k) Provisions**

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

**(l) Budget information**

The annual budget is prepared on Activity basis, that is, activities are identified and costs and expenditure associated to the same.

**(m) Nature and Purpose of Reserves**

The Authority creates and maintains reserves in terms of specific requirements. The Authority has created Capital Grants from the National Treasury reserves to represent the National Treasury's input by directly funding capital development for the Authority.

The Revaluation reserves represent the surplus arising from the revaluation of the Authority's Property, Plant and Equipment.

**(n) Related Parties**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa.

**(o) Critical Accounting Estimates and Judgements in applying the Authority's accounting policies**

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

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**Critical accounting judgments in applying the Authority's policies**

*Impairment losses*

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

*Plant and equipment*

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

*Contingent liabilities*

The directors evaluate the status of any exposures on a regular basis to assess the probability of the entity incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

**2. REVENUE FROM NON EXCHANGE TRANSACTIONS**

	2017/2018 Kshs '000	2016/2017 Kshs '000
Amortisation of grants deferred Income	<u>324,635</u>	<u>196,663</u>
	<u><b>324,635</b></u>	<u><b>196,663</b></u>

Deferred incomes are the inflows of economic benefits or services received/receivable from assets donated to the Authority.

**3. REVENUE FROM EXCHANGE TRANSACTIONS**

	2017/2018 Kshs '000	2016/2017 Kshs '000
Agency Income	<u>17,651,754</u>	<u>15,458,009</u>
	<u><b>17,651,754</b></u>	<u><b>15,458,009</b></u>

The Agency Income is provided for in accordance with the provisions of the Kenya Revenue Authority Act CAP 469 Section 16.

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**4. REVENUE FROM EXCHANGE TRANSACTIONS**

*a. Commissions Income*

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Road Maintainance Levy Commission	1,473,360	1,348,915
Aviation Revenue Commission	96,609	97,081
Air Passenger Service Charge Commission	208,280	266,208
KEBS Agency Income	9,857	11,983
Insurance Deductions Commission	3,677	4,390
National Transport & Safety Authority Commission	9,889	12,701
Import Declaration Fees	7,176	9,410
Petroleum Development Levy	38,156	34,846
	<u><b>1,847,003</b></u>	<u><b>1,785,534</b></u>

*b. Other Incomes*

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Sale of Tamperproof Seals	12,934	9,260
Public Overtime	3,972	3,004
Document Processing Fees	42,100	22,436
Staff Housing Rental Income	136,408	137,938
Property Rental Income	34,324	30,961
KESRA Incomes	270,133	310,046
Other AIA	34,846	28,053
Miscellaneous Income **	23,965	43,449
	<u><b>558,682</b></u>	<u><b>585,147</b></u>

\*\*Miscellaneous income consists of income from sale of tender documents, staff identity cards, PSV Badges, training school activities, road transit toll collections and gains on foreign exchange.

**5. ADMINISTRATIVE COSTS**

*a. Staff and Employee Costs*

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Salaries & Allowances	14,827,075	13,509,829
Medical Expenses	873,936	728,000
Provision for Staff Leave	100,143	126,146
Provision for Staff Contract Gratuity	11,125	122,794
	<u><b>15,812,279</b></u>	<u><b>14,486,769</b></u>

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*b. Other Administrative Costs*

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Travelling & Accomodation	592,430	985,268
Utilities	436,969	354,581
Staff Welfare	60,238	55,393
Printing & Stationery	15,894	40,248
Consultancy	159,908	184,569
Computer Expenses	591,477	536,066
Training	131,499	300,679
Office Running Expenses	277,603	256,419
Insurances	68,260	69,178
Board Expenses (i)	31,733	21,223
Entertainment	152,179	180,369
Consumable Stores	47,653	16,472
Security Expenses	423,470	423,576
Depreciation Charge	731,996	39,222
Amortisation of Intangible Assets	8,181	8,181
	<u>3,729,490</u>	<u>3,471,443</u>
Inventory Write-back *		(69,887)
<b>TOTAL ADMINISTRATIVE COSTS</b>	<u><b>19,541,768</b></u>	<u><b>17,888,325</b></u>

\*The Inventory Write-back relates inventory for prior years earlier expensed and now capitalised after change in the policy on inventories.

*i. Board Expenses*

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Directors' fees	9,429	8,749
Sitting Allowances	9,539	10,160
Accomodation & Travel Expenses	12,766	2,314
	<u><b>31,733</b></u>	<u><b>21,223</b></u>

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**6. OPERATING EXPENSES**

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Rent & Rates	649,452	356,069
Taxpayer Education	65,112	160,435
Motor Running Expenses	208,199	156,060
Advertising & Public Relations	146,628	275,224
Secretarial Expenses	67,960	38,227
Uniforms & laundry	56,236	33,567
Bank Charges	62,727	76,315
Containers & Sealing Expenses	-	14
Laboratory Expenses	6,154	10,865
	<u><b>1,262,468</b></u>	<u><b>1,106,777</b></u>

**7. MAINTENANCE EXPENSES**

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Building Repair & Maintenance	146,649	198,316
Scanner Maintenance (a)	157,493	74,354
Motor Boat Expenses	14,795	15,246
	<u><b>318,937</b></u>	<u><b>287,917</b></u>

(a) Scanner expenses

	<b>2017/2018</b>	<b>2016/2017</b>
	Kshs '000	Kshs '000
Annual Maintenance Contract	141,971	72,420
Routine Maintenance Expenses	15,521	1,934
	<u><b>157,493</b></u>	<u><b>74,354</b></u>

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**8. PROPERTY, PLANT AND EQUIPMENT.**

**(i)**

	LAND BUILDING	PLANT & MACHINERY	MOTOR VEHICLE	OFFICE EQUIPMENTS & FURNITURE	COMPUTERS	MOTOR BOATS	WIP	TOTAL
	KSHS'000'		KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'	KSHS'000'
<b>VALUATION</b>								
1 July 2017	19,587,260	1,464,552	566,688	513,729	515,111	253,742	8,368,773	31,269,856
Additions	-	1,432,270	35,073	28,160	35,651	-	1,803,096	3,334,251
Disposal	-	-	(19,738)	-	-	-	-	(19,738)
<b>30 June 2018</b>	<b>19,587,260</b>	<b>2,896,823</b>	<b>582,024</b>	<b>541,890</b>	<b>550,762</b>	<b>253,742</b>	<b>10,171,869</b>	<b>34,584,369</b>
<b>DEPRECIATION</b>								
1 July 2017	-	-	-	10,709	28,513	-	-	39,223
Charge for the Year	214,791	167,596	68,953	65,606	176,908	38,141	-	731,996
Dep. On Reval	184,303	20,153	51,191	-	-	4,650	-	260,297
Disposal	-	-	(16,204)	-	-	-	-	(16,204)
<b>30 June 2018</b>	<b>399,094</b>	<b>187,749</b>	<b>103,940</b>	<b>76,315</b>	<b>205,422</b>	<b>42,791</b>	<b>-</b>	<b>1,015,312</b>
<b>NET BOOK VALUES:</b>								
<b>30 June 2018</b>	<b>19,188,166</b>	<b>2,709,074</b>	<b>478,084</b>	<b>465,574</b>	<b>345,340</b>	<b>210,951</b>	<b>10,171,869</b>	<b>33,569,057</b>
1 July 2017	10,455,850	3,445,475	876,306	1,284,564	2,291,227	604,467	4,044,270	23,002,158
Additions	-	-	28,248	169,023	155,193	-	2,202,726	2,555,190
Revaluation	9,131,410	(1,980,922)	(313,749)	(939,858)	(1,931,309)	(350,725)	2,121,778	5,736,624
Disposal	-	-	(24,116)	-	-	-	-	(24,116)
<b>30 June 2017</b>	<b>19,587,260</b>	<b>1,464,553</b>	<b>566,689</b>	<b>513,729</b>	<b>515,110</b>	<b>253,742</b>	<b>8,368,773</b>	<b>31,269,857</b>
<b>DEPRECIATION</b>								
1 July 2017	1,547,834	2,341,689	555,163	888,265	2,142,589	552,313	-	8,027,853
Charge for the Yr	-	-	-	10,709	28,513	-	-	39,222
Revaluation	(1,547,834)	(2,341,689)	(533,460)	(888,265)	(2,142,588)	(552,313)	-	(8,006,148)
Disposal	-	-	(21,704)	-	-	-	-	(21,704)
<b>30 June 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,709</b>	<b>28,513</b>	<b>-</b>	<b>-</b>	<b>39,223</b>
<b>NET BOOK VALUES:</b>								
<b>30 June 2017</b>	<b>19,587,260</b>	<b>1,464,553</b>	<b>566,689</b>	<b>503,020</b>	<b>486,597</b>	<b>253,742</b>	<b>8,368,773</b>	<b>31,230,635</b>

**(ii) Land & buildings**

The Authority received several leasehold properties (land and buildings) from the government at inception in 1995. The Authority was not required to pay for the property hence did not incur any cost on the same. To recognize the property in its books, the Authority did a professional valuation of the land and building in 1996 and the values were adopted in the Authority's statement of financial position. This was done by recognizing land and buildings assets in the statement of Financial Position. The assets were revalued again in Financial Year 2016/17.

The Authority is yet to receive title documents for some 14 pieces of leasehold land received Government. These properties are at various stages of registration with the Commissioner of Lands. Another title deed is in the name of East African Common Services Authority (EACSA) and the process transfer of the title is ongoing. The Authority was allocated 5 plots of land in Halugho, Amuma, Gerille, Elwak & Diff which have been gazetted as border entry points. The plots are yet to be valued and the Authority is in the process of acquiring title documents.

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**(iv) Capital Work In Progress**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Intergrated Tax Management System	1,783,246	1,736,053
Valuations Database system (Phase I & II)	33,939	33,939
SAP ERP System for Support Services	553,924	469,675
Renovation of JKIA Offices	10,294	10,294
Renovation of Border Stations	22,038	22,038
Datawarehouse and Business Intelligence	491,939	488,957
Diaster Recovery Management System	12,448	12,448
Video Conferencing	54,328	54,328
Simba Transformation Project	81,559	81,559
Biometric Security System (Times Towers)	138,512	122,504
Electronic Cargo Tracking System (Phase I)	85,287	80,084
Customs Revenue Accounting Module	4,664	4,664
One Stop Border Posts	3,877,052	3,877,052
Business Contunity Management System	61,061	48,283
eBoard System (BS)	4,789	4,789
New Fire Detection System	51,133	22,699
Customer Relationship Management System (CRM)	111,408	32,043
New Data Centre (CBC)	1,178,391	495,902
Corporate Business Centre Fit Out	664,274	266,581
CBM Rehabilitation of Border Stations	111,618	5,899
Intergrated Customs Management System	501,988	498,984
Data Analysis Tools & Computer Tools	19,208	-
Corporate Website Transformation	5,594	-
Enterprise Risk Management System	34,397	-
Payment Gateway	20,716	-
Scanner Networking & Command Centre	161,607	-
IP Telephony System	5,165	-
Replacement of Lifts (Times Towers)	91,291	-
<b>TOTAL</b>	<b><u>10,171,869</u></b>	<b><u>8,368,773</u></b>

**9. INTANGIBLE ASSETS**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>COST</b>		
1 July	358,481	358,481
Additions	-	-
30 June	<u>358,481</u>	<u>358,481</u>
<b>AMORTISATION</b>		
1 July	346,044	337,863
for the year	8,181	8,181
30 June	<u>354,225</u>	<u>346,044</u>
<b>NET BOOK VALUE</b>		
30 June	<u>4,256</u>	<u>12,437</u>

The intangible assets are made up of different computer software in use by the Authority. Included in the Intangible Assets are fully amortised assets whose original cost was Kshs. 169,267,025, (2017- Kshs. 169,267,025).

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**10. RECEIVABLES**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>Trade Debtors</b>		
Other Agency debtors	270,124	271,486
Rent Receivable	60,982	40,102
Interest Receivable	38,182	50,446
	<u>369,289</u>	<u>362,034</u>
<b>Other Debtors</b>		
Staff Debtors	184,365	115,915
Prepayments	20,818	19,863
Other Debtors	64,040	54,937
	<u>269,222</u>	<u>190,715</u>
<b>Debtors Total</b>	<u>638,511</u>	<u>552,749</u>

Other agency debtors represent outstanding commission on collection of revenues on behalf of other organisations. Staff debtors mainly comprise of outstanding travel imprests, loans for acquisition of laptops and medical advances.

**11. AMOUNT DUE FROM TREASURY**

The amount represents outstanding agency commission for April to June 2018, the amount was received in July, 2018. The National Treasury paid an amount of Kshs. 2,131 Million that related to the long outstanding debt. The breakdown of the transfers from The National Treasury is as follows:-

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>1 July</b>	3,444,499	2,131,332
Accrued in the year	17,651,754	15,458,008
Amount received in the year	(19,800,375)	(14,144,841)
<b>30 June</b>	<u>1,295,877</u>	<u>3,444,499</u>

**12. SECURITY DEPOSITS**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Savings & Loan (k) Ltd	1,629,785	1,592,536
Housing Finance	622,315	612,847
National Bank of Kenya Ltd	162,571	160,738
Higher Educations Loans Board (HELB)	20,000	20,000
	<u>2,434,671</u>	<u>2,386,122</u>

The deposits with Savings & Loans and Housing Finance are placed as security against staff mortgage advances, while the National bank deposits are placements against staff car loans. Deposits with HELB are placements against college fees issued to staff for further studies.

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13. CASH AND BANK BALANCES

	2017/2018 Kshs '000	2016/2017 Kshs '000
Cash in Hand	1,345	807
Cash at Bank	3,809,554	1,878,751
Fixed Deposits	3,098,302	1,435,151
Government Treasury Bills	983,476	3,437,334
	<u>7,892,677</u>	<u>6,752,042</u>

The fixed deposits are made up of one month deposits in the commercial banks shown below. The maturity period for the deposits is between July and August 2018. The funds are held against creditors and ongoing commitments as per notes 15 and 21.

The analysis of Cash in Hand is as below;

**Cash in Hand**

<u>Station</u>	2017/2018 Kshs '000	2016/2017 Kshs '000
Nairobi	483	478
Mombasa	200	7
Machakos	7	4
Thika	37	61
Nyeri	3	3
Kisumu	171	45
Garissa	9	-
Nakuru	59	13
Eldoret	3	34
Embu	42	41
Namanga	50	-
Loitokitok	100	-
JKIA	180	120
	<u>1,345</u>	<u>807</u>

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The analysis of Cash at Bank is as below;

**Cash at Bank**

<u>Station</u>	<u>Bank</u>	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
Nairobi Main Account	National Bank of Kenya	479,285	1,463,485
Nairobi Dollar Account	National Bank of Kenya	85,637	169,344
Excise Stamps Account	National Bank of Kenya	495,829	180,934
KRA East African Regional Transpc	National Bank of Kenya	2,620,361	-
Kenya School of Revenue Administ	National Bank of Kenya	121,936	56,305
Kenya School of Revenue Administ	National Bank of Kenya	3,120	1,236
Kenya School of Revenue Administ	National Bank of Kenya	517	-
Mombasa Account	National Bank of Kenya	754	577
Kisumu Account	National Bank of Kenya	429	402
Nakuru Account	National Bank of Kenya	59	1,903
Eldoret Account	National Bank of Kenya	1,124	2,213
Embu Account	National Bank of Kenya	67	47
Thika Account	National Bank of Kenya	96	625
JKIA Account	National Bank of Kenya	314	612
Machakos Account	National Bank of Kenya	13	66
Garissa Account	National Bank of Kenya	9	392
Namanga Account	Kenya Commercial Bank	3	460
Wajir Account	Kenya Commercial Bank	-	149
		<b>3,809,554</b>	<b>1,878,751</b>

**Fixed Deposits**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
National Bank of Kenya	-	300,000
Cooperative Bank of Kenya	1,412,371	603,850
Kenya Commercial Bank	1,404,687	319,137
KESRA - National Bank of Kenya	281,244	212,164
	<b>3,098,302</b>	<b>1,435,151</b>

Treasury Bills are placements in Central Bank of Kenya with maturity period between July to September 2018. The placements are analysed as follows:-

**Government Treasury Bills**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
91 Day Treasury Bills	983,476	1,964,555
182 Day Treasury Bills	-	1,472,779
	<b>983,476</b>	<b>3,437,334</b>

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**14. STOCKS**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
General Stationery	67,194	13,215
Printed Stores Inventory	29,077	71,938
Computer Consumable Inventory	22,719	28,855
Miscellaneous Stores Inventory	7,645	6,891
	<u><b>126,635</b></u>	<u><b>120,898</b></u>

The Authority adopted a policy of recognising consumable stocks held for operations as current assets.

**15. PAYABLES**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
Trade Creditors and Accounts Payable	2,118,302	1,583,283
Payroll Deduction and Staff Creditors	43,893	47,394
Taxes	213,092	250,965
	<u><b>2,401,613</b></u>	<u><b>1,881,643</b></u>

Trade creditors and accounts payables represent the outstanding payments to suppliers and other parties, Payroll deductions include outstanding amounts for statutory deductions, loans, SACCOS contributions and others. Staff creditors comprise of outstanding payments due to staff and funds for staff welfare associations. Included in Accounts Payable is a balance of Kshs. 523 Million (analysed below) from sale of Excise Stamps for payment to the suppliers of the Stamps.

**Excise Stamps Fund Account**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
Balance B/F	94,958	212,715
Total Receipts	2,440,724	2,454,295
Total Payments	2,012,372	2,572,052
Balance C/F	<u><b>523,310</b></u>	<u><b>94,958</b></u>

There was a total of Kshs. 457 Million payable to the stamps manufacturer; for stamps and software.

**16. LEAVE PAY , CONTRACT GRATUITY & STAFF PROVISIONS**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
Provision for staff leave	1,188,070	1,090,451
Provision for Gratuity	223,682	47,130
Provision for Staff on Suspension	556,446	400,452
	<u><b>1,968,198</b></u>	<u><b>1,538,033</b></u>

Leave pay provision is in respect of leave days earned by staff members but not taken as at 30<sup>th</sup> June 2018. Contract gratuity provision is in respect of gratuity accrued for staff on contract terms for the period to 30<sup>th</sup> June 2018. Provision for staff on suspension relates to unpaid accrued salaries and allowances for staff members who are on suspension.

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**17. CONTRIBUTION TO GOVERNMENT PENSION FUND**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
1 July	24,290	25,616
Paid	<u>(16,966)</u>	<u>(1,326)</u>
30 June	<u><b>7,324</b></u>	<u><b>24,290</b></u>

This amount relates to contributions made to the Government pension during the nine-month secondment period from October 1995 to June 1996 for pensionable staff who were transferred from the Treasury to the Authority. The amount falls due for payment on retirement of an officer and is then transferred to the Treasury to facilitate payment of the pension.

**18. DESIGNATED FUNDS**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
1 July	<b>62,248</b>	<b>204,949</b>
Funds Received	-	-
Expenses	<u>(25,464)</u>	<u>(142,701)</u>
30 June	<u><b>36,784</b></u>	<u><b>62,248</b></u>

The legal claim funds are received from the Treasury for settling legal awards against the Authority in revenue related court cases.

**19. CAPITAL / DEVELOPMENT GRANTS BY THE NATIONAL TREASURY & DONORS**

**Capital / Development Grants by the National Treasury**

	<b>2017/2018</b> Kshs '000	<b>2016/2017</b> Kshs '000
<b>1 July</b>	<b>16,996,410</b>	<b>16,370,410</b>
<b>Contribution in the Year</b>		
ERP system for Support Services	110,000	220,000
Cordinated Border Management Project	100,000	200,000
New Data Centre	103,000	206,000
	<b>313,000</b>	<b>626,000</b>
30th June	<u><b>17,309,410</b></u>	<u><b>16,996,410</b></u>

The amounts represent assets and funds provided by the Treasury. The Treasury separately funds the major reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery.

**20. RETIREMENT BENEFIT COSTS**

During the year ended 30<sup>th</sup> June 2018, Kshs. 1,310 Million (2017 Kshs. 1,271.0 Million) was paid as contributions to the staff pensions scheme. The scheme changed from a defined benefit plan to a Defined Contribution scheme with a defined benefit section and a defined contribution section with effect from 1 July 2005. Under the defined benefit scheme, the employer contribution on actuarial advice was maintained at 13.2% per member while a rate of 14% was adopted for the defined contribution scheme. Employees contribute 7.5% of their salaries for both sections of the scheme. The value placed on the

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existing final assets per the last valuation of 30<sup>th</sup> June 2017, was Kshs. 18.078 Billion (2016, Kshs. 15.984 Billion) while the present value of past service liabilities at that date was Kshs 14.817 Billion (2016 Kshs. 17.230 Billion). The scheme prepares its own Financial Statements in accordance with the Retirement Benefits Authority (RBA) rules.

**21. CAPITAL COMMITMENTS**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Approved and contracted	623,338	216,642
Approved and not contracted	<u>1,463,215</u>	<u>908,330</u>
	<b><u>2,086,553</u></b>	<b><u>1,124,972</u></b>

**22. RECURRENT COMMITMENTS**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
30 June	<b>1,262,039</b>	<b>839,252</b>
The above represents items and activities approved and contracted but not yet delivered.		

**23. EMPLOYEES**

The number of employees at the end of the year was;

	<b>2017/2018</b>	<b>2016/2017</b>
30 June	7,007	6,232

Included above are employees on Permanent and Pensionable, Contract and Temporary terms.

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**24. DEFERRED GRANT INCOME RECONCILIATION**

These relate to grants from the World Bank and other Donors under the Government of Kenya for projects to facilitate efficient and effective collection of taxes.

**i) Deferred grant income reconciliation**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
At 1 July	2,696,193	1,306,857
X - Ray Cargo Scanners	1,175,008	-
EARTTFP Funds	44,140	-
Motor Vehicles	-	27,955
Datawarehouse and Business Intelligence	-	486,048
New Data Centre (CBC)	-	573,011
ICMS	-	498,984
Amortisation	(324,635)	(196,662)
<b>At 30 June</b>	<b><u>3,590,707</u></b>	<b><u>2,696,193</u></b>
Grant income to be amortised within one year	324,635	177,759
<b>At the end of the period</b>	<b><u>3,266,072</u></b>	<b><u>2,518,434</u></b>

The amounts represent assets and funds provided by Donors both directly or through the National Treasury towards reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery. Ten X – Ray Cargo scanners were donated by the Government of China. Kshs. 44.14 Million was received from the World Bank for the East African Regional Transport, Trade and Development Facilitation Project (EARTTFP).

**25. RELATED PARTIES**

The Government of Kenya is the principal shareholder in Kenya Revenue Authority. During the year, the following transactions were carried out with related parties as analysed as follows:-

**(a) Transaction**

**i) Government of Kenya**

	<b>2017/2018</b>	<b>2016/2017</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Capital Grants	313,000	626,000
Agency Income	15,457,318	15,458,009
Revenue Enhancement Initiatives Funding	4,318,000	-
	<b><u>20,088,318</u></b>	<b><u>16,084,009</u></b>

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**ii) Key management compensation**

	2017/2018 Kshs '000	2016/2017 Kshs '000
Salaries and other short - term employment benefits	<u>125,657</u>	<u>115,920</u>
	<b>125,657</b>	<b>115,920</b>

**iii) Directors' remuneration**

	2017/2018 Kshs '000	2016/2017 Kshs '000
Fees and other Emoluments (note 5)	<u>31,733</u>	<u>21,223</u>
	<b>31,733</b>	<b>21,223</b>

**(b) Balances**

Due (to)/from related parties	2017/2018 Kshs '000	2016/2017 Kshs '000
Amount due from Treasury (note 11)	1,295,877	3,444,499
Contribution to Government pension fund (note 16)	<u>(7,324)</u>	<u>(24,290)</u>
	<b>1,288,553</b>	<b>3,420,209</b>

**26. FINANCIAL RISK & CAPITAL MANAGEMENT**

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Authority's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as agency and other receivables.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk is made up as follows:

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	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
<b>At 30 June 2018</b>			
Receivables	638,511	-	-
Security Deposits	2,434,670	-	-
Bank Balances	6,908,035	-	-
<b>At 30 June 2017</b>			
Receivables	552,749	-	-
Security Deposits	2,386,122	-	-
Bank Balances	3,314,021	-	-

The credit risk associated with these receivables is minimal hence no allowance for uncollectible amounts has been recognised in the financial statements.

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Authority's directors, who have built an appropriate liquidity risk management framework for the management of the Authority's short, medium and long-term funding and liquidity management requirements. The Authority manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month Kshs '000	Between 1-3 months Kshs '000	Over 5 months Kshs '000	Total Kshs '000
<b>At 30 June 2018</b>				
Trade payables	256,985	2,144,628	-	2,401,613
Provisions	-	-	1,968,198	1,968,198
Contribution to Govt. Pension Fund	-	-	7,324	7,324
<b>Total</b>	<b>256,985</b>	<b>2,144,628</b>	<b>1,975,522</b>	<b>4,377,135</b>
<b>At 30 June 2017</b>				
Trade payables	298,359	1,583,284	-	1,881,643
Provisions	-	-	1,538,033	1,538,033
Contribution to Govt. Pension Fund	-	-	24,290	24,290
<b>Total</b>	<b>298,359</b>	<b>1,583,284</b>	<b>1,562,323</b>	<b>3,443,966</b>

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

The Authority's Corporate Risk Department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies. There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

**(a) Foreign currency risk**

The Authority has transactional currency exposures. Such exposure arises from foreign denominated bank balances.

The carrying amount of the Authority's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2018			
Financial assets (Bank balances)	88,757	-	88,757
	_____	_____	_____
Liabilities			
Payables	-	-	-
	_____	_____	_____
Net foreign currency liability	88,757	-	88,757
	=====	=====	=====

**(b) Interest rate risk**

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from fixed and security deposits. This exposes the Authority to cash flow interest rate risk.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

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Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of financial performance if current floating interest rates increase/decrease by five percentage (5% as a decrease/increase of Kshs. 88,757,182 (2017: Kshs. 170,580,208).

(c) Price risk

The Authority does not hold investments that would be subject to price risk; hence this risk not relevant.

**27. PRIOR PERIOD ADJUSTMENTS**

The prior year adjustments relate to post audit adjustments for the Financial Period 2016/2017 and in compliance with IPSAS 3 sub section 48-54. The adjustments were;

	<b>2016/2017 Restated Kshs'000</b>
<b>Cash and Bank Balances:</b>	
As previously reported	6,524,721
<b>Restatements:</b>	
Recognition of KESRA income	36,026
Misposting adjustments	20,107
Recognition of Excise Funds	171,188
	<u>227,321</u>
<b>As restated</b>	<b><u>6,752,042</u></b>
<b>Debtors &amp; Receivables:</b>	
As previously reported	553,968
<b>Restatements:</b>	
Interests on Security Deposits	5,531
Misposting adjustments	-
	<u>1,220</u>
<b>As restated</b>	<b><u>552,748</u></b>
<b>Security Deposits</b>	
As previously reported	2,371,751
<b>Restatements:</b>	
Interests on Security Deposits	14,546
Misposting adjustments	-
	<u>14,371</u>
<b>As restated</b>	<b><u>2,386,122</u></b>
<b>Property, Plant &amp; Equipment</b>	
As previously reported	30,478,727
<b>Restatements:</b>	
Recognition of Training School Asset Additions	5,693
Recognition of development projects by donors and partners	1,425,586
Adjustment for Revaluation of Assets	-
Adjustment for Excisable Goods Management System	-
	<u>751,908</u>
<b>As restated</b>	<b><u>31,230,635</u></b>

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<b>Creditors &amp; Payables</b>	
As previously reported	1,880,766
<b>Restatements:</b>	
Recognition of Excise Funds	- 171,188
Accrual of scanner maintenance Expenses	105,154
Misposting adjustments	66,909
	<u>875</u>
<b>As restated</b>	<b><u>1,881,641</u></b>
<b>Contribution by The National Treasury</b>	
As previously reported	18,249,137
<b>Restatements:</b>	
Recognition of scanner donated by development partners	(1,425,586)
Recognition of Deferred Incomes from donations	2,678,313
	<u>1,252,727</u>
<b>As restated</b>	<b><u>16,996,410</u></b>
<b>Revaluation Reserve</b>	
As previously reported	18,427,808
<b>Restatements:</b>	
Recognition of Revaluation of Assets	585,361
	<u>585,361</u>
<b>As restated</b>	<b><u>17,842,447</u></b>
<b>Deferred Income</b>	
As previously reported	132,457
<b>Restatements:</b>	
Recognition of Deferred Income from assets acquired from development Partners	2,563,735
	<u>2,563,735</u>
<b>As restated</b>	<b><u>2,696,192</u></b>

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The effects of the prior period adjustments to the financial statements is a follows;  
STATEMENT OF FINANCIAL PERFORMANCE EXTRACT

		2016/2017	Profit increase / (decrease)	2016/2017
	NOTE	As previously reported Kshs'000		Restated Kshs'000
<b>REVENUE</b>				
<b>Revenue from non- exchange transactions</b>				
Deferred grant income amortisation	27 (g)	82,085	(114,578)	196,663
<b>Revenue from exchange transactions</b>				
Agency Income		15,458,009	-	15,458,009
Interest Income	27 (a)	544,428	(20,101)	564,529
Other Income	27	440,512	(144,635)	585,147
<b>TOTAL REVENUE</b>		<b>18,310,568</b>		<b>18,589,882</b>
<b>EXPENDITURE</b>				
Administrative Expenses	27	18,061,734	173,409	17,888,325
Operating Expenses	27	1,070,839	(35,938)	1,106,777
Maintenance Expenses	27	395,009	107,092	287,917
<b>TOTAL EXPENDITURE</b>		<b>19,527,582</b>		<b>19,283,019</b>
<b>Other gains/(losses)</b>				
<b>DEFICIT FOR THE YEAR</b>		<b>(1,213,453)</b>		<b>(689,576)</b>

STATEMENT OF FINANCIAL POSITION EXTRACT

		2016/2017	increase / (decrease)	2016/2017
	NOTE	As previously reported Kshs '000		Restated Kshs '000
<b>Current Assets</b>				
Cash and Bank Balances	27 (a)	6,524,721	(227,321)	6,752,042
Receivables	27 (b)	553,968	1,219	552,749
		<b>7,199,587</b>		<b>7,425,690</b>
<b>Non-Current Assets</b>				
Property, Plant & Equipment	27 (h)	30,478,727	(751,908)	31,230,635
Intangible Assets		12,437	-	12,437
Amount due from Treasury		3,444,499	-	3,444,499
Security Deposits	27 (c)	2,371,751	(14,371)	2,386,122
		<b>36,307,414</b>		<b>37,073,693</b>
<b>Total Assets</b>		<b>43,507,001</b>		<b>44,499,383</b>

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**Liabilities**

**Current Liabilities**

Payables	27 (d)	1,880,766	(877)	1,881,643
Leave Pay and Gratuinity Provision	27 (d)	1,139,136	(398,897)	1,538,033
Deferred Income Amortisation	27 (g)	0	(177,759)	177,759
		<b>3,019,902</b>		<b>3,597,435</b>

**Non Current Liabilities**

Contribution to Govt Pension Fund		24,290	-	24,290
Designated Fund		62,248	-	62,248
		<b>86,538</b>		<b>86,538</b>

**Total Liabilities** 3,106,440 3,683,973

**Net Assets** 40,400,561 40,815,410

Capital grants by the Treasury	27 (e)	18,249,137	1,252,727	16,996,410
Deferred Grants Income	27 (g)	132,457	(2,385,977)	2,518,434
Accumulated Fund	27	3,591,158	133,039	3,458,119
Revaluation Reserve	27 (f)	18,427,808	585,361	17,842,447
		<u>40,400,560</u>		<u>40,815,410</u>

**Total net assets and liabilities** 43,507,001 44,499,383

**STATEMENT OF CHANGES IN EQUITY EXTRACT**

**AS AT 30 JUNE 2017**

	Note	Capital Grants by Treasury Shs'000	Deferred Grant Income Shs'000	Accumulated Fund Shs'000	Revaluation Reserve Shs'000	Total Shs'000
<b>Year ended 30 June 2017</b>						
<b>At 1 July 2016 - as previously reported</b>		17,595,182	-	4,804,611	4,099,594	26,499,387
Prior year adjustments	<b>27</b>	(1,224,772)	1,306,857	(656,916)	260,297	(314,534)
<b>As restated</b>		16,370,410	1,306,857	4,147,695	4,359,891	26,184,853
Contribution for the year		626,000	1,585,999	-	-	2,211,999
Increase in revaluation					13,742,853	13,742,853
Charge for the year		-	(196,663)	-	(260,297)	(456,960)
Current portion of deferred income		-	(177,759)	-	-	(177,759)
Restated Deficit for the Year		-	-	(689,576)	-	(689,576)
<b>30 June 2017 - restated</b>	<b>27</b>	<u>16,996,410</u>	<u>2,518,434</u>	<u>3,458,119</u>	<u>17,842,447</u>	<u>40,815,410</u>
<b>Year ended 30 June 2018</b>						

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At 1 July 2017 - restated	16,996,410	2,518,434	3,458,119	17,842,447	40,815,410
Contribution for the year	313,000	1,219,149			1,532,149
Surplus for the year	-	-	(392,618)	-	(392,618)
Charge for the year	-	(324,635)	-	(260,297)	(584,932)
Current portion of deferred income	-	(146,875)	-	-	(146,875)
<b>At 30 June 2018</b>	<b>17,309,410</b>	<b>3,266,073</b>	<b>3,065,501</b>	<b>17,582,150</b>	<b>41,223,134</b>

**28. CONTINGENT LIABILITIES**

These include:-

- An amount of Kshs. 2 million included in utility deposits representing a bank guarantee to Kenya Power and Lighting for Times Tower power supply.
- An amount of Kshs 1,297,759 representing a guarantee to Telkom Kenya Limited for supply of telephone facilities in the Times Tower building.
- Pending legal cases and court awards against the Authority estimated at Kshs 4,454,051,492 at the financial year end. The Treasury is expected to meet the cost of settling the awards should they materialize.

**29. COMPARATIVES**

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

## KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

## APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Ref.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
1.	<b>Work in Progress</b> Board approval on the revaluation of the assets has not been presented for audit verification, date of the revaluation has not been indicated in the revaluation documents, difference of Kshs.433 million between the revaluation report and Financial Statements figures has not been explained. The Authority to present for audit verification payment vouchers to support the expenditure of Kshs.777,139,000.	Minutes & approval provided to the Auditors  Copies of payment vouchers presented to the Auditors	Deputy Commissioner - Finance	Resolved	N/A
2.	<b>Cash and bank</b> Balances reflected in the statement of financial position not in agreement with verified amounts. Two bank accounts held at Kenya Commercial Bank- Wajir and KESRA National Bank-Dollar A/C - Nairobi with balances of Kshs.50,345 and USD 4,195.50 respectively not disclosed.	Adjustment made in the Adjusted Financial Statements for FY 2016/2017. Accounts disclosed in adjusted financial statements.	Deputy Commissioner - Finance	Resolved	N/A
3.	<b>Debtors</b> Balance of other agency debtors of Kshs.271,228,000 is overstated by Kshs.30,324,284	Financial Statements are not overstated. Amounts were accrued and reversed on receipt.	Deputy Commissioner - Finance	Resolved	N/A
4.	<b>Long outstanding staff</b> Travel imp-rest debtors amounting to Kshs.2,248,829 excluded from the staff debtors' balances in the financial statements	The debtors were included in FY 2015/16 financial statements but had been surrendered at the end of FY 2016/17.	Deputy Commissioner - Finance	In Progress	N/A
5.	<b>Capital Grants</b> National Treasury and other Donors paid Kshs.1,814,647,000 directly to suppliers for goods, works and services towards projects undertaken by the Authority. The amounts have not been disclosed in the financial statement.	Adjustment done in the Adjusted Financial Statements for FY 2016/2017	Deputy Commissioner - Finance	Resolved	N/A
6.	<b>Commission Income:-</b> Income earned on standards levy, concession fees, insurance deduction commission and merchant superintendent shipping levy (MSSL) on behalf of Kenya Bureau of Standards, Kenya Airports	The Incomes had not been omitted in the Financial Statements. They are included in the commission income in the	Deputy Commissioner - Finance	Resolved	N/A

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Ref.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
	Authority, various insurance companies and Kenya Maritime Authority of Kshs 45.7 million excluded in the commission income.	Statement of Financial Performance.			
7.	<b>Deferred Income-</b> Deferred grant income amortization of Kshs.82,085,000 varies with the amount computed during audit of Kshs. 48,133,417 resulting to a misstatement of the grant income by Kshs. 12,491,000	Adjustment to recognize the deferred income arising from all the donated assets has been calculated and included in the Adjusted Financial Statements for FY 2016/2017	Deputy Commissioner - Finance	Resolved	N/A
8.	<b>Assets not disclosed:</b> - three (3) Scanners donated by China Government in 2015/2016, five motor vehicles (5) donated by JICA and an ERP system from JICA. The deferred income associated with the use of these assets has not been recognized in the financial statement under review.	Adjustment done in the Adjusted Financial Statements for FY 2016/2017	Deputy Commissioner - Finance	Resolved	N/A
9.	<b>Variance between financial statement and Trial Balance.</b> Comparison of the financial statements figures in the 2016/2017 financial year against the ledger and trial balance figures of the agency for the same year revealed differences	The differences arose from adjustments made to the ledgers. Adjustments have been made in the Adjusted Financial Statements	Deputy Commissioner - Finance	Resolved	N/A
10.	<b>Duplicated invoices</b> Local creditors includes duplicated invoices of Kshs.50,927,000. Therefore the local creditors is overstated by Kshs.50,927,000.	Adjustment done in the Adjusted Financial Statements for FY 2016/2017	Deputy Commissioner - Finance	Resolved	N/A
11.	<b>Accrued Expenses</b> Scanner maintenance cost per year is Kshs.151,275,000 but the amount accrued as expenses for the financial year under consideration is Kshs.177,574,000. The scanner maintenance expenses therefore were overstated by Kshs.26,299,000.	The cost is Kshs 151 million plus Taxes which amounts to Kshs 177.5 million.	Deputy Commissioner - Finance	Resolved	N/A
12.	<b>Insurance expenses</b> Insurance expenses of Kshs.8 million, for the financial year 2015/2016 charged to 2016/2017 financial year.	The request to process payment was received after year end and accrued and paid in Financial Year 2016/2017	Deputy Commissioner - Finance	Resolved	N/A

## KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

Ref.	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
13.	<p><b>Unsupported Payments;</b></p> <p>Lake Naivasha Simba Lodge</p> <p>Expenditure of Kshs.127,781,000 whose payment vouchers were not availed for review and audit.</p>	<p>The list of attendants was provided for audit. The invoice was paid in according to the reservations and confirmation received from the organizing team. The request to process payment was received after year end and accrued and paid in Financial Year 2016/2017</p> <p>Payment vouchers availed for audit.</p>	Deputy Commissioner - Finance	Resolved	N/A
14.	<p><b>Motor Boat Expenses</b></p> <p>The motor boat maintenance expenses of Kshs.15,246,000 would not be confirmed to be expenses for 2016/2017 since only Kshs.5,866,959 was verified. The difference of Kshs.9,378,860 is an expenditure for the period 2015/2016 and therefore the expenditure for 2016/2017 is overstated Kshs.9,378,860.</p>	<p>The request to process payment was received after year end and accrued and paid in Financial Year 2016/2017</p>	Deputy Commissioner - Finance	Resolved	N/A
15.	<p><b>Medical Advances Write-off</b></p> <p>Write off of medical advances/balances of Kshs.3,262,700 requires approval from the Cabinet Secretary in charge of The National Treasury to write off the debt as required by the Public Finance Management Act 2012.</p>	<p>Board had approved the write off of the unrecoverable outstanding medical advance balances. The Authority has requested the approval of the Cabinet Secretary and is following up for the same.</p>	Deputy Commissioner - Finance	In Progress	FY 2018/2019
16.	<p><b>Leave Provision</b></p> <p>Accumulate leave days are beyond what is allowed by the human resource policy and the Authority continues to provide for the unjustified leave days whose value is currently Kshs. 185,454,748 at the end of the year.</p>	<p>Provision is based on the leave due to staff. The Employment Act does not have any provision for Staff to forfeit leave earned. Staff have been advised to utilize the accumulated leave days in the next 18 – 24 months.</p>	Deputy Commissioner - HR	In Progress	FY 2018/2019

The detailed responses on the matters have been shared with the Office of the Auditor General.

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APPENDIX II: INTER-ENTITY TRANSFERS

	2017/2018		2016/2017	
<b>Recurrent Grants</b>				
<u>Disbursement Month</u>	<u>Bank Statement Date</u>	<u>Amount</u>	<u>Bank Statement Date</u>	<u>Amount</u>
July	25.08.2017	1,288,110	24.08.2016	1,279,834
August	25.09.2017	1,288,110	24.08.2016	1,279,834
September	03.10.2017	1,288,110	30.09.2016	1,279,834
October	27.10.2017	1,288,110	15.11.2016	1,279,834
November	10.01.2018	1,288,110	29.11.2016	1,279,834
December	20.02.2018	1,288,110	22.12.2016	1,279,834
January	19.03.2018	1,288,110	10.02.2017	1,279,834
February	24.04.2018	1,288,110	19.04.2017	1,279,834
March	15.05.2018	1,288,110	05.05.2017	1,279,834
April	05.07.2018	1,288,110	20.06.2017	1,279,834
May	05.07.2018	1,288,110	20.06.2017	1,279,834
June	05.07.2018	1,288,110	29.06.2017	66,667
June	-	-	03.07.2017	1,213,167
Additional Funding	23.03.2018	1,200,000	03.07.2017	100,000
	26.03.2018	600,000		
	16.04.2018	600,000		
	10.05.2018	600,000		
	22.05.2018	718,000		
	22.05.2018	600,000		
<b>Total</b>		<b>19,775,318</b>		<b>15,458,008</b>
<b>Development Grants</b>				
	<u>Bank Statement Date</u>	<u>Amount</u>	<u>Bank Statement Date</u>	<u>Amount</u>
	07.09.2017	156,500	29.11.2016	313,000
	24.10.2017	156,500	24.03.2017	105,000
			26.04.2017	101,500
			30.05.2017	106,500
<b>Total</b>		<b>313,000</b>		<b>626,000</b>
<b>Grand Total</b>		<b>20,088,318</b>		<b>16,084,008</b>

## APPENDIX III: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received	Nature: Recurrent/ Development	Total Amount – KES('000)	Where Recorded/recognized			Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Receivables	
The National Treasury	Various Dates as per App. 2	Recurrent	19,775,318	17,651,754	-	2,123,564	19,775,318
The National Treasury	Various Dates as per App. 2	Development	313,000	-	313,000	-	313,000
<b>Total</b>			<b>20,088,318</b>	<b>17,651,754</b>	<b>313,000</b>	<b>2,123,564</b>	<b>20,088,318</b>