

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

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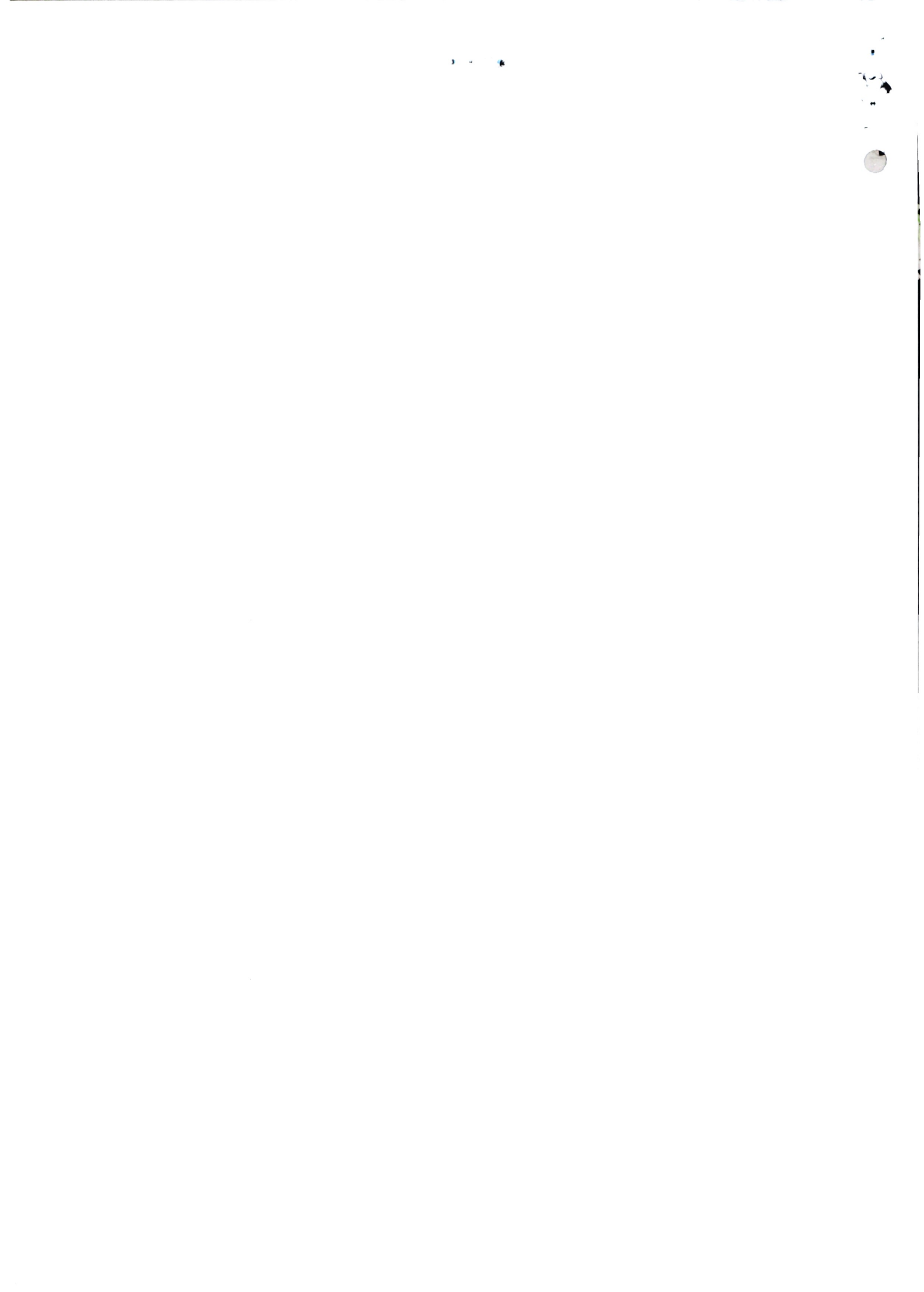
THE AUDITOR-GENERAL

ON

**CONSOLIDATED FUND SERVICES –
PUBLIC DEBT**

**FOR THE YEAR ENDED
30 JUNE, 2020**

THE NATIONAL TREASURY



THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

Revised Template 30th June 2020



THE NATIONAL TREASURY
CFS PUBLIC DEBT

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2020

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

1. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

Vision

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

Mission

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

Core Values

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

Mandate of the National Treasury

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

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

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

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

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

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

(b) Key Entity Information and Management

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

Office of the Principal Secretary

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

Organizational Structure of the National Treasury

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

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11

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11

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

Directorate of Budget, Fiscal and Economic Affairs

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

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

Directorate of Accounting Services and Quality Assurance

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

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

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

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

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

Directorate of Administrative and Support Services (Common Shared Services)

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

The functions include:

- Accounting,
- Finance,

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

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

(c) Fiduciary Management

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

(d) Fiduciary Oversight Arrangements

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

Internal Audit Unit

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

Audit Committees

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

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

Project Implementation Committee

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

Parliamentary Activities

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has established a Committee and designated a liaison officer to coordinate

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

Development Partner Oversight

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

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

Top Management and Senior Management Committees

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

Public Financial Management Sector Working Group

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

Budget Implementation Steering Committee

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

Budget Implementation Technical Committee

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

Budget Implementation Ministerial Committee

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

the implementation of budget and the planned programmes and activities and advises the management accordingly.

Monitoring and Evaluation

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

(e) The National Treasury Headquarters

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

The National Treasury Contacts

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

(f) The National Treasury Bankers

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

(g) Independent Auditors

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

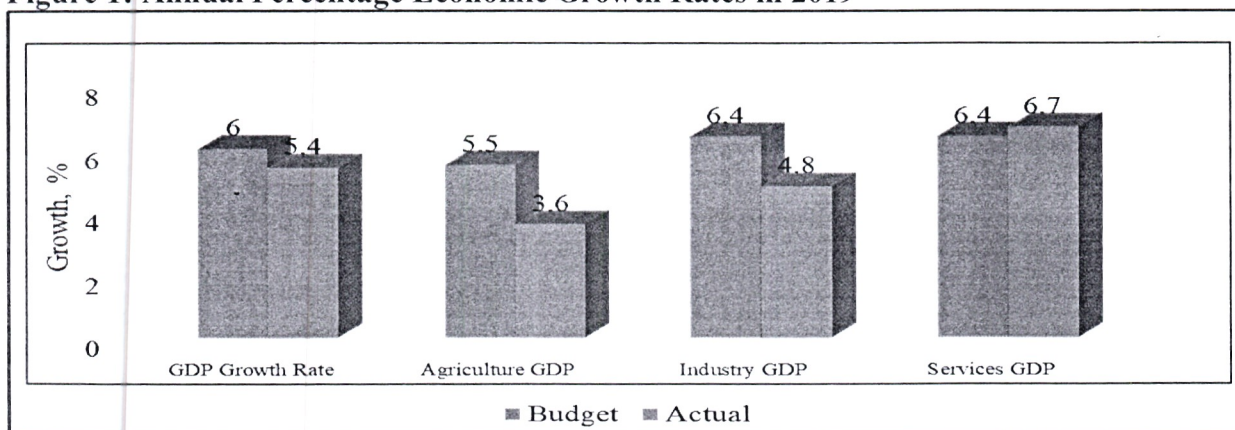
(h) Principal Legal Adviser

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

2. FOREWORD BY THE CABINET SECRETARY

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

Figure 1: Annual Percentage Economic Growth Rates in 2019



Data Source: Kenya National Bureau of Statistics, MTP III

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

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

In order to ensure increased efficiency, stability and access of the financial sector, the National Treasury published the Public Finance Management (amendments) Bill, 2020. The Bill which was assented to by H.E the President seeks to establish the Credit Guarantee Scheme for Micro, Small

THE NATIONAL TREASURY- CFS PUBLIC DEBT

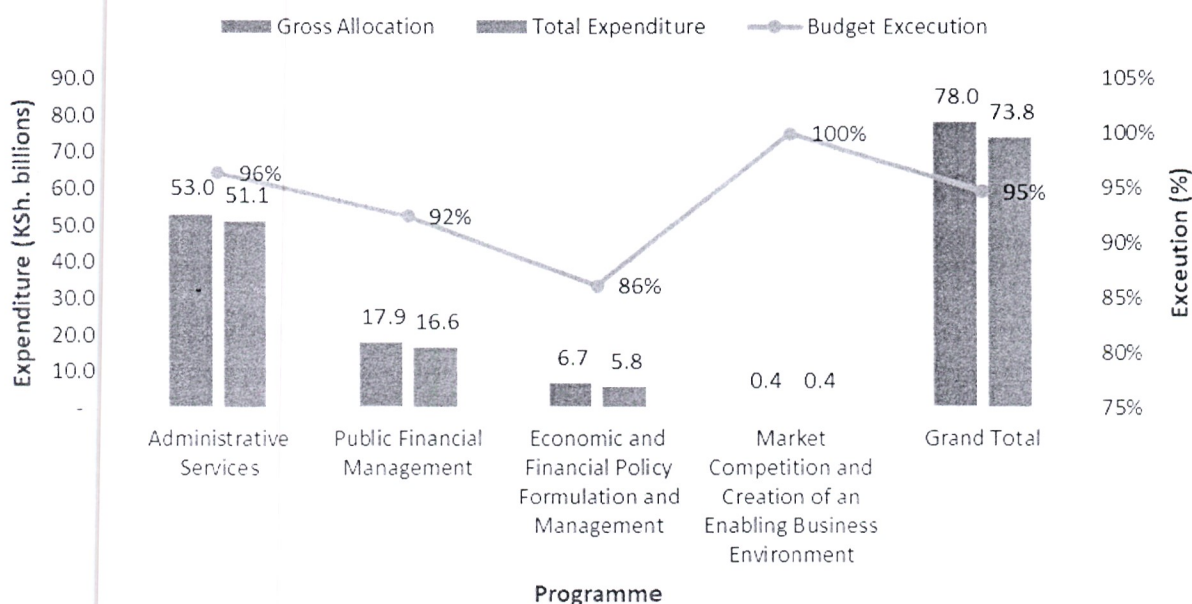
Reports and Financial Statements

For the year ended June 30, 2020

and Medium Enterprises (MSMEs) in Kenya. The Bill will enable the government to give its undertaking to participating financiers that in the event of a default on loans advanced to MSMEs, the government will pay part of the loan in default. Targeted credit support to MSMEs will lead to growth in output with the potential to uplift the lives of many Kenyans through job creation.

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

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



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

The lowest performing programme is Economic and Financial Policy Formulation and Management at 86%. This is attributed to underperformance in absorption in sub-classifications of Routine Maintenance (7%) and Acquisition of Capital Assets (4%) which was mainly due to scaled down activity as a result of COVID 19 related adjustments.

Other key achievements during the period under review are as follows;

- A framework for processing of tax exemptions and waivers was developed. The framework will help in managing the tax expenditures.
- A Draft Sovereign Wealth Fund Bill and Policy that establishes a framework for managing revenues from minerals, oil and gas was developed and submitted to the AG for legal drafting.

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

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

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

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

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

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

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



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

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

3. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

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

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

Progress on attainment of Strategic development objectives

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

MDA Program	Objective	Outcome	Indicator	Performance
General Administration, Planning and Support Services	Strengthen organization capacity for quality service delivery	Efficient and effective service delivery	% improvement in service delivery	Fixed lifts for Bima House, Installed CCTVs, refurbished two floors, promoted staff and launched the PSSS Pension Scheme.
Public Financial Management	Enhance mobilization, allocation and utilization of public resources.	Transparent and accountable management of public resources	Public Procurement Regulations	Developed PPDA regulations
			Consolidated Annual Accounts	Annual accounts prepared
			Annual national budget presented to Parliament by 30th April	Budget presented to parliament
Economic and Financial Policy Formulation and Management	Ensure stable and sustainable macro-economic environment.	Stable macroeconomic environment for economic growth	Real GDP growth rate (%)	5.4 %
			Inflation rate (%)	4.6%
			Months of	5.0 months of import

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

			import cover	cover
			% of fiscal deficit	8.2% of GDP
Market Competition and Creation of an Enabling Business Environment	Ensure market structures that encourage competition and orderly conduct of business.	Sustained high productivity and competitive markets	Percentage of consumer complaints investigations concluded	80% of the consumer complaints investigated

4. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

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

Sustainability strategy and profile –

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

Environmental performance

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

Employee welfare

Employee welfare is critical for effective implementation of the programmes and projects of an organization. Noting the importance of human resources, the National Treasury has a Department established to handle Human Resources Management and Development. The Ministry has also established a Human Resource Management Advisory Committee that process all the promotions, discipline, training, appraisal and general employee matters in line with the Public Service guidelines and procedures. In addition, a Committee on occupational safety and health has been established to follow up of the safety conditions in the work place. In order to ensure attracting

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

and retaining competent officers, the National Treasury continued to conduct capacity and training needs assessments for 2019/2020 – 2020/2021 as well as development and implementation of the training projections plan to fill skills gaps. In addition, the National Treasury continued to implement succession management plan by declaring number of the posts to be filled under the delegated powers and continually implementing the provision of the guidelines on the policy on advancement to the next grade at the entry level in the scheme of service and implementation of the Authorised officers and the PSC decisions. Further, the importance of knowledge management was reinforced through: identification of data needs and data gaps; preparation of a database of sources of knowledge across all levels in the State Department, preparation of a comprehensive report on patterns, trends and attributes of the processed data and information in the State Department; preservation and sharing of knowledge as well as application of knowledge to policy and problem solving within the National Treasury.

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

Market place practices

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

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

Community Engagements

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

5. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

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

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

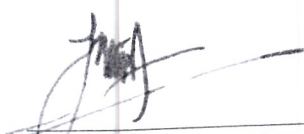
The Accounting Officer in charge of the National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS).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


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

Approval of the financial statements

The National Treasury financial statements were approved and signed by the Accounting Officer on

30th Sept. 2020.


JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY


NEMWEL M.MOTANYA
HEAD OF ACCOUNTING UNIT
ICPAK Member Number:2367

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED FUND SERVICES - PUBLIC DEBT FOR THE YEAR ENDED 30 JUNE, 2020 - THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Consolidated Fund Services (CFS) - Public Debt set out on pages 10 to 24, which comprise the statement of assets and liabilities as at 30 June, 2020, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development combined for the year then ended and a summary of significant accounting policies and other explanatory information, and the summary statement of public debt 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Consolidated Fund Services - Public Debt as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Unexplained Variance in Bank Balance

As disclosed in Note 5 to the financial statements, the statement of assets and liabilities reflects a bank balance of Kshs.4,537,769,205 in respect of the recurrent bank account held at the Central Bank of Kenya. However, the trial balance reflected a bank balance of Kshs.6,352,687,882 resulting into an unexplained difference of Kshs.1,814,918,677.

Consequently, the accuracy of the reported bank balance of Kshs.4,537,769,205 as at 30 June, 2020 could not be confirmed.

2. Unexplained Variance of Short-Term Borrowing Balances

The summary statement of public debt reflects internal loans - short-term borrowing balance of Kshs.887,141,500,000 as at 30 June, 2020. However, a re-computation of the expected closing balances based on the opening balance of Kshs.952,250,000,000 adjusted for proceeds from issues and redemptions during the year of Kshs.1,125,311,850,000 and Kshs.1,192,420,350,000 respectively, yielded a balance of Kshs.885,141,500,000 resulting into an unexplained variance of Kshs.2 Billion. The over-redemption of Kshs.2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.

Consequently, the accuracy of the reported short-term borrowing balance of Kshs.887,141,500,000 as at 30 June, 2020 could not be confirmed.

3. Inaccurate Treasury Bonds Balances

The summary statement of public debt reflects treasury bonds balance of Kshs.2,220,339,804,765 as at 30 June, 2020. However, a re-computation of the expected closing balance based on the opening balance of Kshs.1,724,207,207,062 adjusted for proceeds from issues and redemptions during the year of Kshs.580,894,063,036 and Kshs.110,977,783,887 respectively yielded a balance of Kshs.2,194,123,486,211 resulting into an unexplained variance of Kshs.26,216,318,554.

Consequently, the accuracy of the reported Treasury Bonds balances of Kshs.2,220,339,804,765 as at 30 June, 2020 could not be confirmed.

4. Non-Disclosure of Public Debt Procured

The summary statement of public debt reflects total External and Internal loans balance of Kshs.6,368,793,827,633 as at 30 June, 2020. This is an increase of Kshs.917,640,023,917 or 16.8% from the prior year's closing balance of Kshs.5,451,153,803,416. The statement also reflects loan repayments of Kshs.1,482,249,906,300 but does not reflect the new loans procured during the year.

Consequently, the accuracy of total loan balance (External and Internal) of Kshs.6,368,793,827,633 as at 30 June, 2020 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Consolidated Fund Services - Public Debt Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

In the previous year's audit report, several issues were raised under the Report on Financial Statements. The issues raised as disclosed in Note 13 to the financial statements on progress on follow up of prior years' auditor's recommendations, remained unresolved as at 30 June, 2020.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall 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 (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Consolidated Fund Services - Public Debt ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services unless Management is aware of the intention to terminate the Consolidated Fund Services - Public Debt or to cease operations.

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

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

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

Auditor-General’s Responsibilities for the Audit

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 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 overall 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 applicable 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 Consolidated Fund Services-Public Debt's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Consolidated Fund Services -Public Debt to cease to continue to sustain its services.

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

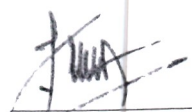
27 May, 2021


THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

6. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2019 - 2020	2018 2019
		Kshs	Kshs
RECEIPTS			
Exchequer releases	1	709,036,053,493	826,202,867,839
TOTAL RECEIPTS		709,036,053,493	826,202,867,839
PAYMENTS			
Transfers to Other Government Units – Exchequer Account	2	1,144,094,251	999,900,800
Finance Costs, including Loan Interest	3	423,560,514,825	322,007,322,697
Repayment of principal on Domestic and Foreign borrowing	4	280,085,193,021	504,028,939,689
TOTAL PAYMENTS		704,789,802,097	827,036,163,186
SURPLUS/DEFICIT		4,246,251,396	(833,295,347)

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th sept. 2020 and signed by:


 JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY
 NATIONAL TREASURY



 NEMWEL M. MOTANYA
 HEAD OF ACCOUNTING UNIT
 ICPAK Member Number:2367

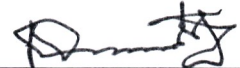
THE NATIONAL TREASURY- CFS PUBLIC DEBT
 Reports and Financial Statements
 For the year ended June 30, 2020

7. STATEMENT OF ASSETS AND LIABILITIES

	Note	2019 - 2020 Kshs	2018 - 2019 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	5	4,537,769,205	249,080,863
Total Cash and cash equivalent		4,537,769,205	249,080,863
TOTAL FINANCIAL ASSETS		4,537,769,205	249,080,863
FINANCIAL LIABILITIES			
NET FINANCIAL ASSETS		4,537,769,205	249,080,863
REPRESENTED BY			
Fund balance b/fwd	6	249,080,863	968,953,164
Prior year adjustment	7	42,436,946	113,423,046
Surplus/Deficit for the year		4,246,251,396	(833,295,347)
NET FINANCIAL POSSITION		4,537,769,205	249,080,863

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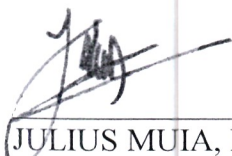
Reports and Financial Statements

For the year ended June 30, 2020

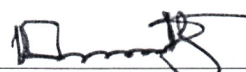
8. STATEMENT OF CASH FLOWS

		2019 - 2020	2018 - 2019
		Kshs	Kshs
Receipts for operating income			
Exchequer Releases	1	709,036,053,493	826,202,867,839
Payments for operating expenses			
Transfers to Other Government Units - Exchequer	2	(1,144,094,251)	(999,900,800)
Finance Costs, including Loan Interest	3	(423,560,514,825)	(322,007,322,697)
Adjusted for:			
Adjustments during the year			
Prior Year Adjustments	7	42,436,946	113,423,046
Net cash flow from operating activities		284,373,881,363	503,309,067,388
CASHFLOW FROM INVESTING ACTIVITIES			
Net cash flows from Investing Activities			
CASHFLOW FROM BORROWING ACTIVITIES			
Repayment of principal on Domestic and Foreign borrowing	4	(280,085,193,021)	(504,028,939,689)
Net cash flow from financing activities		(280,085,193,021)	(504,028,939,689)
NET INCREASE IN CASH AND CASH EQUIVALENT			
		4,288,688,342	(719,872,301)
Cash and cash equivalent at BEGINNING of the year	6	249,080,863	968,953,164
Cash and cash equivalent at END of the year	5	4,537,769,205	249,080,863

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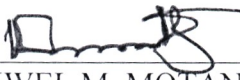
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 Reports and Financial Statements
 For the year ended June 30, 2020

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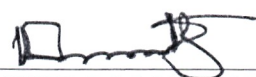
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 Reports and Financial Statements
 For the year ended June 30, 2020

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 NEMWEL M. MOTANYA
 HEAD OF ACCOUNTING UNIT
 ICPAK Member Number:2367

9. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS						
Exchequer releases	696,554,161,987	82,293,730,170	778,847,892,157	709,036,053,493	69,811,838,664	91.04 %
Transfers from Other Government Entities						
TOTAL RECEIPTS	696,554,161,987	82,293,730,170	778,847,892,157	709,036,053,493	69,811,838,664	91.04 %
PAYMENTS						
Finance Costs, including Loan Interest	441,481,154,077	(7,801,100,723)	433,680,053,354	423,560,514,825	10,119,538,529	97.67 %
Repayment of principal on Domestic and Foreign borrowing	255,073,007,902	90,094,830,902	345,167,838,804	280,085,193,021	65,082,605,783	81.14 %
Other Payments - Refund to Exchequer	0	0	0	1,144,094,251	-1,144,094,251	
TOTAL PAYMENTS	696,554,161,979	82,293,730,179	778,847,892,158	704,789,802,098	64,058,090,919	90.49 %
Surplus/ Deficit	8	(9)	(1)	4,246,251,395	-4,246,251,396	

- The under Utilization on Principal repayment was due to fluctuations in foreign exchange rate applied on repayment during the year under review
- The amount of Ksh 1,144,094,251 relates to a refund of risk mitigation fee for Ruiru Dam II project which was paid back to Exchequer account No 1000003987 on 12th May 2020.
- The entity does not operate a Development budget.

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



JULIUS MUIJA, PhD, CBS
PRINCIPAL SECRETARY
NATIONAL TREASURY



NEMWEL M.MOTANYA
HEAD OF ACCOUNTING UNIT
ICPAK Member Number:2367

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

10. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS						
Exchequer releases	696,554,161,987	82,293,730,170	778,847,892,157	709,036,053,493	69,811,838,664	91.04 %
Transfers from Other Government Entities						
TOTAL RECEIPTS	696,554,161,987	82,293,730,170	778,847,892,157	709,036,053,493	69,811,838,664	91.04 %
PAYMENTS						
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Repayment of principal on Domestic and Foreign borrowing	255,073,007,902	90,094,830,902	345,167,838,804	280,085,193,021	65,082,605,783	81.14 %
Other Payments – Refund to Exchequer	0	0	0	1,144,094,251	-1,144,094,251	
TOTAL PAYMENTS	696,554,161,979	82,293,730,179	778,847,892,158	704,789,802,098	64,058,090,919	90.49 %
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Notes

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THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

11. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

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

3. Reporting Currency

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

4. Significant Accounting Policies

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

a) Recognition of Receipts

The Consolidated Fund Services-Public Debt recognizes all receipts from the various sources when the event occurs and the related cash has actually been received by the CFS-Public Debt

Tax Receipts

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

Transfers from the Exchequer

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

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

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the CFS Public Debt.

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

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

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

b) Recognition of payments

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

- **Compensation of Employees**
Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.
- **Use of Goods and Services**
Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.
- **Interest on Borrowing**
Borrowing costs that include interest are recognized as payment in the period in which they are paid for.
- **Repayment of Borrowing (Principal Amount)**
The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

• **Acquisition of Fixed Assets**

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

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

5. In-kind contributions

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

6. Third Party Payments

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

7. Cash and Cash Equivalents

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

Restriction on Cash

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

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

There were no other restrictions on cash during the year.

SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

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

9. Accounts Payable

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

10. Pending Bills

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

11. Budget

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

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

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

12. Comparative Figures

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

13. Subsequent Events

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

SIGNIFICANT ACCOUNTING POLICIES

14. Errors

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

During the year, errors that have been corrected are disclosed under note 26 explaining the nature and amounts.

15. Related Party Transactions

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

THE NATIONAL TREASURY- CFS PUBLIC DEBT
 Reports and Financial Statements
 For the year ended June 30, 2020

12. NOTES TO THE FINANCIAL STATEMENTS

1. EXCHEQUER RELEASES

Description	2019-2020	2018-2019
	Kshs	Kshs
Total Exchequer Releases for quarter 1	214,796,300,834	153,620,103,840
Total Exchequer Releases for quarter 2	201,660,992,549	184,046,134,971
Total Exchequer Releases for quarter 3	96,130,690,922	199,448,818,821
Total Exchequer Releases for quarter 4	196,448,069,188	289,087,810,207
Total	709,036,053,493	826,202,867,839

2. GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2019-2020	2018-2019
	Kshs	Kshs
Refund to Exchequer Account	1,144,094,251	999,900,800
TOTAL	1,144,094,251	999,900,800

(I) The amount of Ksh.1,144,094,251 relates to risk mitigation Fee for Ruiru Dam II Project which was paid back to exchequer Account No. 1000003987 on 12th May 2020.

(II) The amount of Ksh.999,900,800 comprises of opening bank balance of Ksh.968,952,263.90 and part of exchequer funding for the financial year 2018/2019 of Ksh.30,947,636.10 which was paid back to exchequer on 3rd August 2018.

3. FINANCE COSTS, INCLUDING LOAN INTEREST

Explanation	2019-2020	2018-2019
	Kshs	Kshs
Interest Payments on Foreign Borrowings	115,798,697,298	108,004,813,414
Interest on Domestic Borrowings (Non-Govt)	240,772,652,464	210,721,345,304
Interest on Short Term Borrowing – Treasury Bills	62,932,237,645	0
Interest on Borrowings from Other Government Units – Pre-1997 Government Over Draft Loan (C.B.K.).	665,006,173	694,597,465
Interest on C.B.K. Over-Draft	3,244,911,268	2,523,255,059
Treasury Bills & Treasury Bonds Advertisement Costs	56,049,977	20,576,454
Interest on M-Akiba	90,960,000	42,735,000
Total	423,560,514,825	322,007,322,697

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

4. REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

Explanation	2019-2020	2018-2019
	Kshs	Kshs
Principal repayments on domestic loans	111,127,833,887	234,379,675,000
Repayments on borrowings from other domestic creditors - Pre-1997 Government Over Draft Loan (C.B.K.).	1,110,000,000	1,110,000,000
Repayment of Principal from Foreign Lending & On – Lending	101,233,420,607	266,539,264,689
Shortfall on Treasury Bills	66,613,938,527	2,000,000,000
Total	280,085,193,021	504,028,939,689

The reduction in debt service payments was due to maturing of large commercial debts (Sovereign Bond and Trade and Development Bank) in FY 2018/2019 as compared to FY 2019/2020.

5. Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2019-2020	2018-2019
				Kshs	Kshs
<i>Central Bank of Kenya, Recurrent Public Debt A/C. No. 1000204378 (Kshs.)</i>	Kshs	REC	-	4,537,769,205	249,080,863
Total				4,537,769,205	249,080,863

6. FUND BALANCE BROUGHT FORWARD

Description	2019-2020	2018-2019
	Kshs	Kshs
Bank accounts	249,080,863	968,953,164
Total	249,080,863	968,953,164

These are cash book balances brought forward from previous period.

THE NATIONAL TREASURY- CFS PUBLIC DEBT

Reports and Financial Statements

For the year ended June 30, 2020

7. PRIOR YEAR ADJUSTMENTS

	Balance b/f FY 2019/2020 as per Financial statements	Adjustments	Adjusted Balance b/f FY 2018/2019
Description of the error	Kshs	Kshs	Kshs
Bank account Balances	42,436,946	0	113,423,046,
Total	42,436,946	0	113,423,046,

(i) The amount of Ksh 42,436,946 relates to refund from Central Bank of Kenya for PA no 113324 paid to Euler Hermes on 30th June 2019. These funds were credited to CFS Public Debt Bank Account No. 1000204378 on 10th September 2019.

(ii) The amount of Ksh 113,423,046 relates to refund from Central Bank of Kenya for PA No. 112753 in relation to interest paid to Intesa San Paolo for FY 2017/2018. These Funds were credited to CFS Public Debt Bank Account No. 1000204378 on 17th July 2018.

THE NATIONAL TREASURY- CFS PUBLIC DEBT
Reports and Financial Statements
For the year ended June 30, 2020

13. PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe : (Put a date when you expect the issue to be resolved)
1	Para. 121 Accuracy of the Financial Statement	The misstatements observed during audit were corrected through amendment of the Financial Statement	Mr. Makumi / Anyanga / Emily	Not Resolved	At audit review
2	Para. 122 Unsupported Balances	The unsupported balances relates to transactions under agency period that have since been supported	Mr. Makumi / Anyanga / Emily	Not Resolved	At audit review
3	Para.123 Outstanding Loan Balances	Outstanding loan balances as at 30 th June, 2018 are supported with schedules generated from electronic debt register where movement on disbursement and repayments are recorded	Mr. Makumi / Anyanga / Emily	Not Resolved	At audit review
4	Para. 124 Failure to prepare monthly bank reconciliations statements	At the time of audit Bank Reconciliation statement for June 2018 was provided. The Bank Reconciliation statements for the period July 2017 to May 2018 were later submitted.	Mr. Makumi / Anyanga / Emily	Resolved	

