

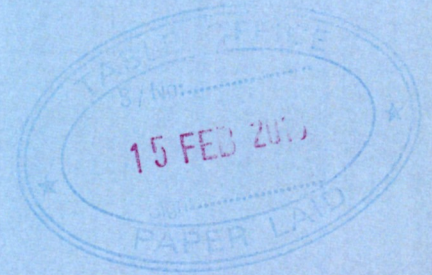
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*Paper laid by
Leader of Majority
on 15/2/2018
Shuk*

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE REVENUE ACCOUNTABILITY
STATEMENTS
KENYA REVENUE AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2016**



KENYA REVENUE
AUTHORITY

**Revenue Accountability Statement
For the Financial Year ended 30
June 2016**

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1. 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 To facilitate Kenya's Transformation through Innovative, Professional and Customer-Focused Tax Administration.

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 30th June 2016 and who had direct fiduciary responsibility were:

- | | |
|---|--|
| - Commissioner General | John K. Njiraini |
| - Domestic Taxes Department | Alice A Owour / Benson Korongo |
| - Customs Border Control Department | Julius Musyoki |
| - Corporate Support Services Department | Edith N. King'ori / Ezekiel Saina |
| - Investigations and Enforcement Department | Jonah Cheruiyot / David Yego |
| - Strategy, Innovation & Risk Management Department | Mohamed Omar |
| - Legal Services & Board Coordination Department | Wairimu Nganga |

(e) Headquarters

Times Tower Building,
Haile Selassie Avenue,
P.O. Box 48240 – 00100, Nairobi, Kenya.

(f) Contacts

Telephone (254) 020-310900, 2810000, 315553
Email callcentre@kra.go.ke , cic@kra.go.ke
Website 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

2. THE BOARD OF DIRECTORS

Major (Rtd) Marsden Madoka, EGH, K.St.J.

He was appointed Chairman of the Board of Kenya Revenue Authority in March, 2010 and reappointed for a second term of three (3) years on 1st June, 2013. He was trained as an army officer in the UK after his 'A' Levels in 1962 and is a trained Paratrooper. He served as the 'Aide de Camp' to His Excellency the late President Jomo Kenyatta in 1966. He rose to the rank of Major in the army before retiring in 1974.

He served the Kenya Breweries Limited as an Executive Director on the Board, General Manager-New Products, and in other capacities between 1974 to 1996.

He is a former Member of Parliament for Mwatate Constituency and was appointed Minister of State in the Office of the President in charge of Internal Security and Provincial Administration in 1998. In 2001, he was appointed Minister for Foreign Affairs. He is the Vice-patron of the Agricultural Society of Kenya and Chairman of St. John Ambulance – Kenya.

Mr. Kibuga Kariithi

He was appointed to the Authority's Board on 15th March 2010 and reappointed for a second term of three (3) years on 15th August 2013. He holds a Bachelor of Business Administration degree in Economics from the York University, Canada and Masters of Business Administration from the same University.

He is an Associate of the Chartered Institute of Bankers (UK).

Mr. Kariithi is the immediate former Chief Executive Officer of Finance Bank Limited and founder of Baraka Africa Fund. He is a Director of Africa Investment Bank and a Member of the Nairobi Stock Exchange. He was the Chief Executive Officer for the Nairobi Stock Exchange for 6 years until April 2005. He served as the Corporate Finance Director of Barclays Bank of Kenya and was responsible for Capital Markets activities in East Africa and managed the Barclays Merchant Finance Limited (BMFL).

He is a Member of the Capital Markets Development Committee and Financial Analysts Governing Council, Governor of the Kenya Private Sector Alliance and the Chairman of the Advisory Board of the University of Nairobi, Finance Students Association.

Mr. James Michoma Getuno

He was appointed Director on 24th September, 2012. He holds a Bachelor of Arts degree in Government and Sociology and a Masters of Arts in Urban and Regional Planning from the University of Nairobi. He joined the civil service in 1980 and has served in various capacities including as a Physical Planning Officer in the Ministry of Lands (Department of Physical Planning), District Development Officer in the Office of the President (Development Coordination), Director of Social Services and Housing at the Nakuru Municipal Council. He is currently the Principal Consultant, Nakuplan Consultants and is also a Member of Board of Governors – Kisii High School.

Ms. Mary M'Mukindia, MBS

She was appointed on 15th August, 2013. She holds a Bachelor's Degree in Commerce (University of Nairobi). She is a dynamic international public servant with over thirty (30) years of working experience in both the public and private sector. She has held top leadership positions in the energy sector as well as civil society and government and the United Nations where she served as an expert in clean fuels and renewable petroleum expert and has contributed significantly to Kenya's energy sector in development of key legislation and policies.

She was in the National Oil Corporation of Kenya (NOCK), and at the Petroleum Institute of East Africa (PIEA). She has also provided strategic guidance and fundraising expertise for various programmes within the Transport Unit of UNEP.

Ms. Constantine Kandie

She was appointed on 15th August, 2013. She holds a Masters in Business Administration Degree (Marketing) from United States International University and a Bachelor's Degree in Business Administration from the same University. She has wide experience in governance, strategic management and leadership. She has experience in management of staff teams across a broad spectrum of professionals and specialties in enterprise development.

Currently, she is Council Member and Chair of Disciplinary Committee, Management University of Africa (MUA). She is also a Board Member, Professional Women Empowered (ILO). She has also served as a Board Member, Eastern Africa Regional Board-Practical Action International (Integrated Technology Development Group) and as the Executive Director, Eastern Africa Grain Council, Coordinator, Economic and Social Development (Soroptimist International Service Club for Women), Director at World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT).

Mr. Evans Kakai

He was appointed on 3rd October, 2013. He holds a Bachelor's Degree in Business Administration from Catholic University and a Master's of Business Administration (Strategic Management) from University of Eastern and Southern African Management Institute and is also a Certified Public Accountant of Kenya (CPA-K). He is the 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.

Mr. Abdi Bare Duale

He was appointed on 3rd June, 2014. He holds a Masters degree in Business Administration from Edith Cowan University and High School Diploma from Penn Foster College. Currently he is a Managing director of Medina Chemicals Ltd. and the Executive Chairman of Nomad Palace hotel limited. Previously, he held the position of the General Manager of Medina Pharmacy Ltd. He has held several directorship positions in both public and private entities including Kenya Bureau of Standards and Nerix Pharma Ltd.

Commissioner General - Mr. John K. Njiraini, MBS

He was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012. Prior to his appointment he served as the Commissioner of Domestic Taxes in charge of Large Taxpayers Office, since April 2006. He holds a Bachelor of Commerce and Master of Business Administration (MBA) degrees from the University of Nairobi. Prior to joining KRA, he served as the Chief Executive of the Institute of Certified Public Accountants of Kenya (ICPAK) between 1996 and 2006. Mr. Njiraini also served as Lecturer, Department of Accounting, University of Nairobi between 1984 to 1994. He had previously worked in various audit capacities with both 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 the Pending Bills Closing Committee, among others.

EX – OFFICIO MEMBERS

Attorney General – Hon. Prof. Githu Muigai, FCI Arb, MP

He holds a Bachelor's Degree in Law (LLB) from the University of Nairobi, a Masters Degree in International Law (LLM) from the Columbia University, School of Law, New York and a Doctorate in Constitutional Law from the University of Nairobi.

He is a member of the Law Society of Kenya, East African Law Society, Commonwealth Lawyers Association, Institute of Public Secretaries (K), International Commission of Jurists (ICJ), International Bar Association and a Fellow of the Chartered Institute of Arbitrators (UK).

He was appointed as Attorney-General of the Republic of Kenya on 29th August, 2011. Prior to this, he was a senior partner in the law firm of Mohamed Muigai Advocates; he served as an Associate Professor of Law of the University of Nairobi, School of Law and a Commissioner in the Constitution of Kenya Review Commission.

He served as a United Nations Special Rapporteur on Contemporary Forms of Racism, Racial Discrimination, Xenophobia and Related Intolerance from between 2008 and 2011; and as a judge in the African Court on Human Rights and People Rights between 2008 and 2010.

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.

Mr. Bernard Ndung'u, Director General, Accounting Services – (Alternate Director to the Principal Secretary, the National Treasury).

Mr. Njee Muturi – Solicitor General (Alternate Director to the Attorney General).

3. MANAGEMENT TEAM

John Njiraini, MBS

He was appointed the Commissioner General of the Kenya Revenue Authority on 3rd March, 2012 for a period of 3 years. The contract was renewed for a further 3 years. The contract will expire on 4th March, 2018.

Alice A. Owuor OGW

She was appointed Commissioner of Domestic Taxes, Medium & Small Taxpayers (MST) with effect from 1st May, 2010 for a period of three (3) years and served up to 30th April, 2013 for the first term. Her contract was renewed for a second term from 1st May, 2013 for a further three years as Commissioner Domestic Taxes. The contract expired on 30th April, 2016.

Julius Musyoki

He was appointed as Acting Commissioner for the Customers Services & Border Control Department from 1st December, 2014. He was confirmed as the Commissioner for the Department in August, 2015. The contract will expire in July, 2018.

Benson Korongo

He was appointed as Acting Commissioner for Domestic Taxes Department from 1st May 2016. He was conformed as Commissioner for a period of 3 years with effect from 1st June 2016.

Beatrice M. Memo, HSC

She was appointed as Head of Kenya School of Revenue Administration with effect from February, 2015 for a period of three (3) years. The contract will expire in January, 2018.

Edith N. King'ori

She was appointed Commissioner for Corporate Support Services Department with effect from 16th July, 2012 for a period of three (3) years. The contract expired on 15th July, 2015.

Ezekiel K. Saina, HSC

He was appointed as Acting Commissioner for Corporate Support Services Department with effect from 16th January, 2016. He was confirmed as Commissioner for the Department on 1st June, 2016.

Mohamud Omar Mohammed

He was appointed Commissioner of Strategy, Innovation and Risk Management Department with effect from 1st October, 2015. The contract will expire on 10th September, 2018.

Wairimu Nganga

She was appointed Commissioner for Legal Services and Board Coordination Department with effect 1st January, 2016.

David Yego

He was appointed as Acting Commissioner for Investigations Department with effect from 11th February 2016.

4. CHAIRMAN'S STATEMENT

It gives me great pleasure to present to you the Annual Report and Financial Statement of Kenya Revenue Authority for the financial year ended 30th June 2016. This report marks the first Annual Report prepared within the implementation period of the Sixth Corporate Plan 2015/2016 – 2017/2018 whose theme is; '*Building Taxpayer Trust through Facilitation for Enhanced Tax Compliance*'.

The year 2015 was characterized by slower global economic growth including the Sub Saharan African region. Despite the slow economic growth globally and in the region, Kenya recorded an improved growth. Further, the attractiveness index by Ernst & Young ranked Kenya the best investment hub in East Africa and the fourth in Africa after South Africa, Morocco and Egypt. This was informed by Kenya's strong economic growth and prospects together with moderate performance in infrastructure.

Kenya's Economy

The resilience of the economy was demonstrated by the modest growth Kenya recorded in the wake of global economic slowdown; **5.6 percent** in 2015 from **5.3 percent** in 2014. Some of the contributing factors included; stable macroeconomic environment, growth in output from construction, agriculture, and manufacturing and real estate sectors.

At the beginning of the 2015/16 FY, the Shilling weakened further against the Dollar exchanging at over **Kshs. 100** throughout the period. As a result, the Central Bank Rate (CBR) decreased from **11.5 percent** in July 2015 to **10.5 percent** in June 2016 in an effort to stabilize the shilling against major trading currencies. Macroeconomic stability arising from institutional and economic reforms contained the inflation, declining current account deficit, robust growth and highly integrated global financial market painted the country as an investment hub. Further, declining crude oil prices complemented by increased connection to the electricity grid were expected to ease doing business.

The Kenya Shilling exchange rate against the US dollar depreciated throughout the financial year closing at **Kshs. 101.2** per dollar from **Kshs. 101.1** per dollar at the beginning of the financial year. Against the Sterling Pound, the exchange rate depreciated to **Kshs. 144.78** in April 2016 from

Kshs. 157.52 in July 2015 and depreciated against the Euro to **Kshs. 114.84** from **Kshs. 111.35** in July 2015.

Total exports increased by **8.2 per cent** from **Kshs. 537.2 billion** in 2014 to **Kshs. 581.0 billion** in 2015. On the other hand, total imports decreased by **2.5 per cent** from **Kshs. 1,618.3 billion** in 2014 to **Kshs. 1,577.6 billion** in 2015. As a result, the trade balance improved by **7.8 per cent** from a deficit of **Kshs. 1,081.1 billion** in 2014 to a deficit of **Kshs. 996.5 billion** in 2015. At the same time, the export to import ratio improved to **36.8 per cent** in 2015 from **33.2 per cent** in 2014.

Global Economy

The global economy registered a **3.1 per cent** growth in **2015** down from **3.4 per cent** in **2014**. This is explained by low commodity prices, weaker capital flows, subdued global trade and increasing financial market volatility particularly in emerging markets and developing economies. On the other hand, advanced economies experienced a modest economic recovery drawn from strong domestic demand. The fall in crude oil prices, lower inflation rates and increased internal demands in individual economies played a major role in the growth of the global economy. Global trade recorded a declining growth which reflected the reduction in import demand, especially in advanced economies. Sub-Saharan Africa reported a decreased growth from **5.0 per cent** in **2014** to **3.8 per cent** in **2015** whereas the highest growths in **2015** were in West African Economic and Monetary Union (WAEMU) and the East African Community (EAC) both at **6.1 per cent**. The instability in Burundi led to her negative growth of **7.2 per cent** which in turn slowed the EAC growth.

Future Outlook

Globally

According to the IMF's World Economic Outlook for April 2016, the global economic recovery is on a positive trend but at an increasingly fragile pace. It is projected that the global economy will grow by **3.2 per cent** in **2016** from **3.1 per cent** in **2015**. In addition, the advanced economies are gaining headwinds with the report projecting an increase in growth from **1.8 per cent** in 2014 to **1.9 per cent** in **2015**.

Growth in emerging market and developing economies is expected to grow from **4.0 per cent** in **2015** to **4.1 per cent** in **2016**. This will be mainly occasioned by capital outflows resulting from

diminished growths, interest rate differentials and financial market volatility. Of interest is China's performance whose slowdown will affect many other economies, notably commodity exporters among the emerging markets and developing economies. The sectors that contribute to China's slowdown include the manufacturing and real estate sector that had huge buildup of stocks.

Kenya

Real GDP is expected to grow by **6.0 percent** in 2016 up from **5.6 percent** recorded in **2015**. In terms of fiscal years, the projections translate to **5.8 percent** growth in 2015/16, and **6.1 percent** in 2016/17.

Inflation will be expected to remain at a single digit averaging **5.0 per cent** in 2016/17, while investments will grow to **22.8 percent** to GDP in 2016/17 and Gross National Savings are expected to grow to **16.8 percent** of GDP.

The Authority will expect more pressure to collect more revenue in 2016/17 to finance Government development and recurrent expenditure, while reducing both domestic and foreign borrowing. One of the key factors likely to positively influence the economy is the increase in Government expenditure particularly as it meets its obligations towards implementing the Constitution and financing the devolved system of County Governments. The finalization of the infrastructure projects, in particular the completion of the construction of the Standard Gauge Railway line from Mombasa to Malaba, a key project that requires huge high capital outlay.

The main threat to these economic growth projections is the fluctuating Shilling; food prices with the unpredictable weather conditions; tight monetary policy which will continue to present challenges in 2016/17.

Revenue Performance

During the financial year ending **30th June 2016**, the Authority collected **Kshs. 1,210.9 billion** against a target of **Kshs. 1,212.6 billion (99.9 per cent)**. This performance represents a growth of **13.2 per cent** over **Kshs. 1,069.6 billion** collected in financial year 2014/2015. This was an exemplary performance given that the economy grew at an average growth of **5.8 per cent** over the first three quarters of 2015/16 compared to an earlier projection of **6.1 per cent**.

Exchequer Revenue

The Authority collected a total of **Kshs. 1,147.6 billion** against a target of **Kshs. 1,165.4 billion** (a performance of **98.5%**).

Agency Revenue

Agency revenue collected amounted to **Kshs. 63.2 billion** against a target of **Kshs. 47.2 billion** (a performance of **134.1%**).

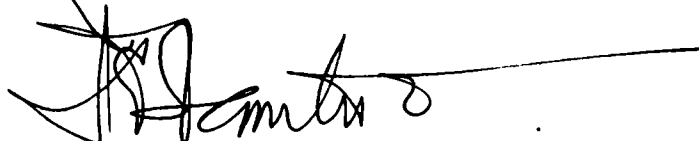
Appreciation

On behalf of the Board of Directors, I wish to extend my appreciation to the management and staff of the Authority for their commitment and dedication by working tirelessly in ensuring that KRA increased revenue collection by **Kshs. 141 billion**, a growth of **13.2%** over 2014/15 financial year. This is despite a challenging economic environment experienced in the year.

I would like to appreciate our taxpayers who diligently observed their commitments through timely payment of their taxes during the year. The impressive performance was as a result of concerted efforts from both the taxpayers and other strategic stakeholders who have partnered with us to enable the Government to deliver on its development commitments.

In my capacity as the Chairman of the Board, I wish to take this opportunity, on behalf of my fellow Board members, to thank H. E. The President, the National Government at large, our parent Ministry, the National Treasury and Parliament for the support in providing guidance and leadership as we continue to discharge our crucial mandate.

Finally, I would like to express my heartfelt gratitude to my fellow Board Members for their dedication and hard work during the year. I am confident that the team will endeavour to continue with its commitment and dedication and steer the Authority to even better performance in the next financial year.



DR. EDWARD SAMBILI, CBS
CHAIRMAN

5. COMMISSIONER GENERAL'S STATEMENT

Introduction

I am delighted to present to you the highlights of the Kenya Revenue Authority. FY2015/2016 marks the first year of the Authority' Sixth Corporate Plan - (2015/2016 to 2017/2018., whose strategic theme is: **'Building Taxpayer Trust through Facilitation for Enhanced Tax Compliance'**. This is a paradigm shift to focus more on customer facilitation rather than the traditional enforcement. The transformation from enforcement to relation building by focusing on creating trustful relationships internally and externally on the key driving forces to sustain tax compliance.

Operating Environment

A number of high level international meetings in the year under review positioned Kenya strategically in the global map for investment. This resulted in the resilience of the Kenyan economy, with a growth rate of **5.6 per cent** achieved, a slowdown against the projected growth of **6.5 per cent**.

Key elements of the macro-economic environment included inflation rate at **6.54 per cent** in July 2015 and decline marginally to **6.46 per cent** by the end of June 2016. The exchange rate to the dollar averaged **Kshs. 102. 03** for the year; while the value of imports decreased to **Kshs 1.5 billion** in 2015/16 from **Kshs 1.6 billion** in 2014/15. The average 91- Treasury bill rate in July 2015 was **11.3 per cent** and closed at **7.05 per cent** in June 2016.

Revenue Performance

Kenya Revenue Authority collected **Kshs. 1,210.9 billion** against a target of **Kshs. 1,212.6 billion** representing a performance of **99.9 per cent** and a growth of **13.2 per cent** over 2014/15.

Table 1: Revenue Collection (Kshs Billions)

Department	Actual 2015/16	Revised Target * 2015/16	Performance Rate (%)	Actual 2014/15	Growth over 2014/15 (%)
Customs Services	386.0	373.5	103.3	358.4	+7.7
Domestic Taxes**	821.0	834.3	98.4	707.3	+16.1
Road Transport	3.9	4.8	81.3	3.9	+0.3
Total	1,210.9	1,212.6	99.9%	1,069.6	+ 13.3

* Original Target was Kshs 1,292.9 Billion which was revised to 1,212.6 billion.

*** The figures include Kshs 6,085 million Treasury undertakings, Kshs 3,140 million surplus funds remitted by CAK directly to the National Treasury and Kshs 1,559 million surplus funds unremitted by Kenya Bureau of Standards.*

Customs and Border Control Department

Customs and Border Control Department collections accounted for **31.9 percent** of total revenue collected, and registered a performance of **103.3 per cent** and a revenue growth of **7.7 per cent** over the **2014/15** financial year.

The performance was positively impacted by petroleum taxes which registered an impressive performance of **108.0 per cent**. Oil volumes increased from **5.154 billion** litres in 2014/15 to **5.702 billion** litres in 2015/16. Additionally, there was a shift in the composition of oil imports with a higher proportion of importation falling within the excisable components mainly in petrol and diesel thus positively impacting revenue to the tune of **Kshs 1.173 billion**.

Trade taxes performed below target and registered a growth of **1.7 per cent** compared to expected growth of **19 per cent**. During the financial year 2015/16, the number of containers handled for home use cargo was **254,870** compared to **281,720** handled in 2014/15, a decline of **10 per cent**. Over the same period, the number of containers handled for transit cargo declined by **16 per cent** from **144,473** in 2014/15 to **121,950** in 2015/16. Performance was driven by import VAT which accounted for **47 per cent** of the trade taxes collection.

Domestic Taxes Department (DTD)

Domestic Taxes Department collections accounted for **67.8 per cent** total revenue collected and registered a growth of **16.1 per cent** over the **2014/15** financial year.

Indirect taxes registered a performance of **97.7 per cent** with a growth of **Kshs. 44.9 billion, 22.5 per cent** compared to collections in 2014/15. The performance was driven by domestic VAT which registered a strong performance with overall growth at **23.3 per cent** in FY 2015/16 over FY2014/15. Domestic VAT contribution to total collection was **13.3 per cent** in FY 2015/16 from **12.1 per cent** in FY 2014/15. Direct domestic taxes recorded a growth of **11.4 per cent** over 2014/15 collections.

Transport Revenue Department

Transport Revenue Department accounted for **0.3 per cent** of the total collections in FY 2015/2016 and recorded a decline of **0.9 per cent** compared to a similar period in FY 2014/15.

KEY ACHIEVEMENTS IN THE FINANCIAL YEAR

Talent Management

During the year, human resource interventions geared towards managing existing talent and recruiting new talent were implemented. Changes in senior management positions include the appointment of Commissioners of Customs & Border Control; Strategy, Innovation and Risk Management, Domestic Taxes, Support Services.

The Authority is recognized as a mentorship ground and for some of the finest tax administrators and policy makers. This is evident with a number of our staff seconded to international reputable organizations. One member of staff joined the WU Global Tax Policy Centre (WU GTPC) at the Institute of Austrian and International Law at Vienna University of Economics and Business as a Research and Teaching Associate primarily on the Tax and Good Governance. Another staff was appointed by the OECD to head the inaugural secretariat of the Tax Inspectors Without Borders (TIWB). The position is based at the OECD Headquarters in Paris, France and entails close collaboration with OCED and UNDP committees and boards, tax administrations, regional tax organization, amongst other stakeholders. The Belgium based World Customs Organization's East and Southern African Regional Office for Capacity based in Nairobi appointed another KRA staff as its Director. The staff is charged with delivering capacity building activities relating to international trade for 24 countries in the region.

Awards and Accolades

KRA' reforms continue to attract both local and international recognition. On several occasions the Authority hosted international delegates who come to learn from the success of various ongoing reforms and modernizations within the Authority. The flagship brand of i-tax system has received interest from Tanzania, Liberia, Ghana and Lesotho Revenue Authorities who sent delegations to KRA to interact and borrow expertise. The Authority has become a knowledge hub for other revenue administrations keen on learning and exchanging insights on the successful reforms.

KRA's effort to transform the national revenue collection system using Information Technology solution received a coveted commendation in the global banking arena. KRA was nominated in the "Highly Commended Winner, Best in Class Treasury Solution in Africa" awarded in the Adams Smith Award 2016. The Adam Smith Award is a globally recognized endorsement of hard work and achievements by private and public sector treasury managers. The criterion for selecting the winner is based on innovation, creativity, outstanding insight, thinking outside the box and real business impact. KRA was awarded for facilitating a tax payment gateway for more than 37 local commercial banks on i-tax and Simba system platforms. The award underlines the Authority's commitment to global excellence in revenue collection.

KRA won the Best Exhibition and Experience Award in the African Public Service Week Congress in Brazzaville, Republic of Congo.

Kenya School of Revenue Administration (KESRA)

KESRA was accredited with Technical and Vocational Education and Training (TVET). As a result of this accreditation KESRA embarked on Post graduate courses in Customs and Tax Administration. KESRA is collaborating with Jomo Kenyatta University of Agriculture and Technology (JUAT) and Moi University to offer masters degree and post graduate diploma in Customs and Tax Administration.

Memorandum of Understandings (MOUs)

KRA and Kenya International Freight and Warehousing Association (KIFWA) signed a Memorandum of Understanding (MOU) to strengthen the working relations and create an enabling business environment. Following the signing of the MOU, KIFWA will be the sole body for certifying Clearing Agents to handle cargo at all the ports. The MOU will facilitate implementation of the World Customs Organization SAFE Framework of Standards adopted in June 2005 and the World Trade Organisation initiatives. This is expected to speed up the movement, release and clearance of goods.

The Commissioner General's of Kenya and Uganda signed an MOU to facilitate establishment of a common customs and regional Electronic Cargo Tracking System (ECTS) to enhance regional trade. The system will provide real time tracking, minimize diversion of goods, timely response to transit alerts, identify supply chain trends, and enhance the decision making process, this will also safeguard the national security in the movement of goods under customs control along the Northern Corridor.

Regional and International Cooperation forums

KRA continues to experience great benefits through technical support by various international organizations. During the year the Authority continued to enjoy technical assistance and exchange of experiences in tax administration through various regional and international organizations including the International American Centre of Tax Administration (CIAT), World Customs Organization Swedish Tax Agency (STA), China Customs, Japan International Corporation Agency (JICA).

Kenya joined other **93** global nations in signing the multilateral convention on mutual administration assistance on tax matters in a meeting held in Paris France. The signing makes Kenya the **94th** jurisdiction to join the most powerful multilateral instrument against offshore tax

evasion and avoidance. By signing the Convention, Kenya takes a further step in fighting tax evasion and avoidance building on its participation in the Global forum on Transparency and Exchange of Information for Tax Purposes which KRA joined in 2010.

At the Regional level the Revenue Authorities continued to meet to deliberate on the implementation of priority programmes such as the Single Customs Territory (SCT) projects that have improved faster clearance of goods at the first point of entry within East Africa and increased efficiency. The cost of clearing cargo at the port of Mombasa and transportation along the Northern Corridor has gone down by **30%** since the implementation of the East African SCT.

In the year under review, the East African nations began the process of integrating their customs systems to enable Kenya, Uganda and Rwanda to have regional bond for goods in transit.

Stakeholder Engagements

KRA has institutionalized stakeholder engagement in its endeavor to be a pro-active responsive institution to the ever changing business environment. During the course of the year the Authority organized meetings with Kenya International Freight and Warehousing Association, Kenya Association of Manufacturers, Kenya Bureau of Standards and ICPAK, amongst many others. KRA engaged with the county Governments to enhance revenue collection and widen the tax base to enable them deliver service to the public. Areas of engagement with the County Governments included timely remittance of taxes attributed to Payroll taxes of County Executives and County Assemblies, supplier mobilization for sensitization and information sharing.

REVENUE ADMINISTRATION REFORM AND MODERNIZATION PROGRAMME (RARMP) INITIATIVES

The reforms continued in earnest within the Authority to preserve the trust and confidence that our stakeholders continue to bestow on us. KRA continued to achieve remarkable gains, including steady increase in revenue collection as well as significant improvement in the overall compliance of taxpayers. KRA recognizes that there is more work to be done to improve compliance amongst taxpayers, improve services and become more accessible to taxpayers.

Data Warehouse and Business Intelligence (DWBI) and Access to Third Party Information Initiative

In the year under review, implementation of DWBI continued in earnest with the development of the inception report and business intelligence readiness assessment carried out. The Authority mark major milestones through improved data management and business intelligence systems. The data will provide intelligence information on areas of business and revenue risks. The Data Warehouse Business Intelligence will address specific operational challenges such as low compliance and tax evasion. The data warehouse will provide a single-view of the taxpayer for informed decision making. The DWBI solution will be used in compliance monitoring and reporting. Hence, key

operational areas will benefit directly from use of the system. The project is expected to be fully implemented by end of 2017.

In an endeavour to increase the active tax payer base from **1.6 million** to **4 million** by 2017/18, the Authority has taken several initiatives drawn from a number of observations. For instance, in the FY2015/16 **10,493 suppliers** made supplies to the Counties estimated at **Kshs. 54.5 billion**. Towards this end, system integration with other government institutions will enable access to third party information and enhanced compliance levels and the revenue thereon. The KRA-CBK-IFMIS integration is currently in the last phase before the piloting of the programme is carried out.

Tax Information Management System (TIMS)

The Authority commenced the implementation of the Tax register automation programme known as the Tax Information Management System (TIMS). This is expected to provide a more effective means of controlling the use of tax register cash devices and has been enhanced to incorporate aspects of electronic invoicing. Work on the design, development and implementation of TIMS and associated services including integration with iTax is ongoing.

Integrated Customs Management system (iCMS)

The increase in trade volumes resulted in system challenges which included performance and maintenance. The Authority began the process of upgrading the Simba system so as to have greater versatility to risk profiling and valuation. The system was rolled out and configured to enable integration with the Domestic Taxes Department (DTD) *i-Tax* system to provide a unified view of taxpayers' operations. This transformation system is expected for address performance challenges by migrating to a modern and stable platform. The Authority began the rollout of the state-of-the-art system to replace the incumbent Simba System. The envisioned system known as the Integrated Customs Management System (iCMS) will be a game changer in KRA's operations. It is expected to accommodate most stand alone modules and systems, smart gates and be integration with CCTV cameras.

Progress on iTax

In the year 2015/2016 a total of **2,173,410** taxpayers updated their *i-Page*; new Registrations stood at totalled **1,792,507** totalling to **3,965,917** by end of June 2016. As at 30th of June 2016, which marks the end of the peak filing season the rating of *i-Tax* by taxpayers stood at **89%** rating of Good, Very Good or Excellent. The Authority expanded its *i-Tax* support by opening up additional support centres in Malindi, Embu, Garissa, Samier Park in Nairobi, and also extended the services to **33** Huduma Centres countrywide where taxpayers could obtain KRA services particularly on *i-Tax* Platform.

Corporate Tax Dispute Resolution (CTDR)

The creation of Corporate Tax Dispute Resolution Division (CTDR) and the launching of the Alternative Dispute Resolution (ADR) which Framework in June 2015, is an alternative to facilitate the settlement of tax disputes amicably to avoid, minimize and resolve disputes in a cooperative and collaborative environment. In the course of the year, a total of **49** cases with disputes were resolved amicably through this process resulted to a revenue yield of **Kshs. 1.7 billion**.

Cargo Scanner Improvement Project

This will be done in phases. Phase one will involve upgrading, integration and included installation of **3** new scanners. Progress was made towards taking over of airport baggage cargo scanning and installation of hand luggage cargo scanners. The Authority also made progress towards streamlining of passenger arrival to transform the process of passenger clearance through the green and red channel for efficiency. In the year, Customs and Border Control Department hosted a bilateral meeting with the General Administration of China Customs. The discussion held covered cooperation between China Customs and Kenya Custom Authorities, scanner solution in securing Kenya's border points, capacity building on scanner image technology and analysis and equipping of One Stop Border Posts.

Excise Goods Management Solution Implementation

During the year the EGMS solution was extended to the beer. Non-alcoholic beverage sector mainly juices is the next phase aimed at enhancing revenue collection. Stakeholders' engagement to address implementation concerns continued. The EGMS is an important solution in tracking counterfeit excisable goods and also establish proof of duty paid on the items on which a stamp has been affixed, account for production, importation and enhance tax compliance. In addition, stakeholders were sensitized on the use of the EGMS mobile application which is expected to be rolled into the market to help curb counterfeits. The application will enable consumers to participate in market surveillance, a move that will help the Authority fight imitation of products already in the market.

HUMAN RESOURCES REVIEW 2015/2016

During 2015/2016 financial year, the Authority undertook implementation of a new organizational structure to improve efficiency and operational effectiveness.

The Staff Complement at 30th June 2016 was as follows

DEPARTMENT	NUMBER OF STAFF	PERCENTAGE
Customs & Border Control	1521	32.9
Domestic Taxes	1500	32.5
Headquarters	1286	27.8
Investigations & Enforcement	264	5.7
Kenya School of Revenue Administration	51	1.1
Total	4622	100.0

Senior Staff Changes

1. Mr. Benson Korongo was appointed Commissioner, Domestic Taxes Department with effect from 1st June, 2016.
2. Mr. Ezekiel Saina was appointed Commissioner, Corporate Support Services with effect from 1st June, 2016.
3. Mr. Mohamud Omar was appointed Commissioner, Strategy Innovation & Risk Management with effect from 1st October, 2015.

Staff Motivational and Welfare Programmes

The Authority partly implemented revised staff salaries with effect from 1st July 2015 based on advice given by Salaries and Remuneration Commission on a salary review proposal and approval by the Authority Board of Directors.

The Authority continued to address staff motivation through provision of various benefits implemented various welfare activities such as the annual team building events, staff recognition awards, staff engagement sensitizations, health promotion events such as health talks, health hikes, HIV/Aids and Alcohol and Drugs Abuse Prevention Programs.

The Authority's Board of Directors approved Succession Management Policy, Attachment Policy, Retention Strategies Framework, Leadership & Management Development Framework, Talent Management & Succession Planning framework and Diversity Management Policy.

Competency Development

The Authority facilitated delivery of 199 Training courses involving 3016 members of staff under the Annual Training Programme, covering revenue, management and support related courses during the financial year. It also facilitated registration of staff in various professional associations.

Automation of a Human Resources Management System

The Authority commenced implementation of an ERP system which includes a Human Resources Information Management component.

FUTURE OUTLOOK

The Treasury revenue target for the financial year 2016/17 is **Kshs. 1,415,605 million**, of which **Kshs. 1,358,437 million (96.0%)** is Exchequer revenues and the balance of **Kshs. 57,168 million (4.0%)** represents the various agency revenues that KRA collects.

The Financial Year 2016/17 will mark the second year of the Authority's Sixth Corporate Plan 2015/16 – 2017/18. KRA is committed to delivering on the agreed targets through innovative practices, leveraging on technology and implementation of staff performance improvement measures. At the same time, customer facilitation approach continues to form the basis of our strategic direction for the next two years (2016/17 – 2017/18) whose theme is, 'Building Taxpayer Trust through Facilitation for Enhanced Tax Compliance'.

KRA will therefore continue on its transformational journey to re - orient the way it conducts her business by adopting a more proactive approach to compliance through innovation and customer focus. The past year has seen monthly average registration on *i-Tax* at over 175,000. In this regard, the Authority will continue to extend revenue collection support to county governments so as to ease the cost of doing business.

To facilitate this, the Authority has developed the strategic direction for revenue mobilization efforts and will continue to leverage on technology, innovation and implementation of revenue enhancement initiatives to ensure revenue targets are achieved and customer service improved. Some of the initiatives that will continue to be pursued in the coming financial year include; repositioning of the Authority in terms of skills development, change management and performance management. In addition, the focus for revenue performance for the coming financial year is leveraging on Third Part Data Linkage with *i-Tax* and IFMIS, expansion of the Withholding VAT regime for data collection and data mining; EGMS scope expansion, tax base expansion programmes that involves the Non and Nil filer.

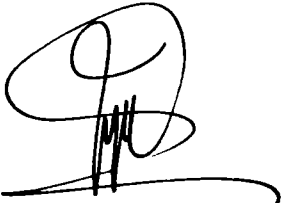
CONCLUSION

I thank the KRA Board of Directors, management and staff for their diligence and hard work which has enabled the Authority to effectively implement its mandate. I also thank the Government through the National Treasury, for according us support. I wish to also extend my appreciation to our taxpayers for their relentless support, without which we would not have achieved our objectives.

Most important I express my deep sense of gratitude to all those who have enabled the Authority to achieve the impressive revenue growth of **13.2%**. To all our taxpayers, thank you very much for your patriotism and support in tax compliance. To all our stakeholders, development and strategic business partners, thank you for your unwavering support. The Board of Directors,

thank you most sincerely for your guidance and support which has enabled the Authority to achieve its goals.

Finally, all the aforementioned achievements were made possible by a team of management and staff. This could not have been done without your support to live our core values. I am confident that together and guided by our renewed vision and mission we shall be able to steer the Authority to even greater heights of prosperity, for posterity.

A handwritten signature in black ink, consisting of a large, stylized 'J' and 'K' followed by a horizontal line and a vertical stroke.

J. K. Njiraini, MBS
Commissioner General
12th August 2016

6. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the structure and process used to direct and manage the business affairs of the Authority in order to enhance prosperity, corporate performance and accounting. The Board of Directors is the supreme forum for formulating and interpreting policy and charting out the road map for goal attainment including plans of action.

The Board of Directors is responsible for the governance of the KRA and is accountable to the Cabinet Secretary, the National Treasury to ensure compliance with the KRA Act, best practice, and business ethics. The Directors attach great importance to the need to conduct the 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:

- Review and approval of the policy of the Authority.
- Monitoring performance of the Authority in carrying out its functions and
- Discipline and control of all members of staff in 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 not-executive Directors on the Board are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgement. The Board held 18 meetings during the period under review.

Board Committees

The Board had five standing committees during the year, which met regularly under the terms of reference set out by the Board.

Staff 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 the members were:

- Mr. James Getuno
- Mr. Evans Kakai
- Mr. Abdi Bare Duale
- The Attorney General
- Commissioner General

Finance Committee

The Finance Committee reviews the Authority's annual budget and is responsible for the financial policies of the Authority. The Committee met monthly and the members were:

- Mr. Evan Kakai
- Mr. Kibuga Kariithi
- Ms. Mary M'Mukindia
- Cabinet Secretary – National Treasury

The Procurement & Disposal and ICT Oversight Committee

The Committee is responsible for vetting and award of contracts by management and ensuring that the procurement policies as provided for under the Public Procurement and Disposal Act, 2015 are complied with. In addition, the committee reviews all the business automation strategies and procurements. The committee met monthly and the members were:

- Mr. Abdi Bare Duale
- Mr. James Getuno
- Ms. Constantine Kandie
- The Attorney General
- Commissioner General

Audit Committee

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

- Mr. Kibuga Kariithi
- Mr. James Getuno
- Ms. Constantine Kandie
- Cabinet Secretary – National Treasury
- Commissioner General

Strategy, Policy and Research Committee

The Committee is responsible for reviewing 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; and regulatory framework or revenue collection. The committee met quarterly and members were:

- Ms. Mary M'Mukindia
- Mr. Kibuga Kariithi
- Mr. Abdi Bare Duale
- Cabinet Secretary – National Treasury
- Commissioner General

Board of Trustees

The Authority also 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:

- Ms. Constantine Kandie
- Mr. Evan Kakai
- Ms Mary M'Mukindia
- Commissioner General

7. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is a prerequisite for good corporate leadership and In line with KRA's strategic direction of Trust and Facilitation, Corporate Social Responsibility (CSR) remained an integral aspect in corporate leadership and governance.

The focus of KRA's sustainable CSR programmes is on sports marketing, environmental conservation, education and health (charity and donations).

During the financial year, KRA actively participated in CSR activities which involved partnership with other organizations as well as KRA staff participation.

Most of the CSR activities were undertaken during the Taxpayers' Month held in October 2015 in all KRA regions. These include; rehabilitation of the Kwale School of the Handicapped and Madoka Marathon in Southern Region, tree planting in all KRA Regions, Water Rafting at Sagana held on 22nd May 2016 in support of Faraja Cancer Support Trust.

KRA conducted football mentorship in four schools. The schools included; St. Anthony Kitale, St. Ruthagati Boys, Dagoreti Mixed and St. Charles Lwanga in Kitale, Nyeri, Nairobi and Mombasa respectively.

Under the focus on health, KRA partnered with Faraja Cancer Support Trust to create Cancer awareness among KRA staff through the Kenya Biggest Breakfast Initiative held on 5th April, 2016.

KRA staff actively participated in CSR activities through donation of foodstuff, clothing and financial support to the less fortunate members of our society, both at corporate and individual level.

KRA will continue to pursue such valuable CSR activities in future.

8. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya Revenue Authority Act require the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the entity as at the end of the financial year and of the operating results of the entity for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity. They are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Public Sector Accounting Standards, The Public Finance Management Act and the requirements of the Kenya Revenue Authority Act, and for such internal controls as directors determine are necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and in the manner required by the Kenya Revenue Authority Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the entity and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity 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 **12th August, 2016** and signed on its behalf by:



.....
J. K. NJIRAINI, MBS
COMMISSIONER GENERAL



.....
DR. EDWARD SAMBILI, CBS
CHAIRMAN

9. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June, 2016 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, 2016 are set out on pages 29 to 45.

Directors

The Members of the Board who served during the year are shown on page 5 to 7.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Public Audit Act, 2015.



.....
By Order of the Board

Board Secretary

Date: 12th August 2016

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE REVENUE ACCOUNTABILITY FINANCIAL STATEMENTS

I have audited the accompanying revenue accountability statements of Kenya Revenue Authority set out on pages 29 to 45, which comprise the statement of financial position as at 30 June 2016, and the statement of revenue collection and transfers, statement of target vs. actual performance by tax head and agency, statement of target vs. actual performance by department for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such control as management determines is necessary to enable the preparation of revenue accountability statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the revenue accountability statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the revenue accountability statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of

Report of the Auditor-General on the Financial Statements of Revenue Accountability financial Statements for the Kenya Revenue Authority for the year ended 30 June 2016

the revenue accountability statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the revenue accountability statements.

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

Basis for Qualified Opinion

1 Statement of Revenue Collection and Transfers

1.1 Excise Duty Receipts

The statement of revenue collection and transfers reflects taxes on goods and services collected totalling Kshs.461,269,116,363 and Kshs.396,912,480,364 for the years 2015/2016 and 2014/2015 respectively and as which, disclosed on Note 15.3 to the financial statements, include excise duty receipts from domestic, airtime, financial services and imports of Kshs.144,991,180,833. However, verification and analysis of all excise duty receipts remitted to Central Bank of Kenya account indicates that aggregate collections during the year 2015/2016 amounted to Kshs.143,799,553,951. The difference of Kshs.1,191,626,882 as indicated below has not been reconciled:

Details	RAS Note 15.3 Kshs.	CBK Bank Stament Kshs.	Differences Kshs.
Excise Duty Domestic	48,986,467,382	45,451,576,571	3,534,890,811
Excise Duty Airtime	14,884,353,356	7,232,944,014	7,651,409,342
Excise Duty Financial	9,012,674,488	20,481,671,034	(11,468,996,546)
Excise Duty Imports	72,107,685,607	70,633,362,332	1,474,323,275
Totals	144,991,180,833	143,799,553,951	1,191,626,882

1.2 Traffic Revenue

The statement of target vs actual performance by tax head and agency and Note 15.5 (other taxes) to the financial statements reflect traffic revenue collected of Kshs.1,052,101,896 and Kshs.2,859,225,149 during the year 2015/2016. The total traffic revenue therefore collected as per the financial statement is Kshs.3,911,327,045. However, audit review and verification of Road Transport Department (RTD) bank statements revealed that a total of Kshs.362,033,520 traffic revenue collected through other payment platforms and agencies as shown below did not reach the main collection bank account by 30 June 2016. Therefore, the accuracy of the traffic revenue collections totalling Kshs.3,911,327,045 reflected in the financial statements cannot be confirmed:

Revenue Collection Agent	Amounts (Kshs.)
Standard Bank	591,100
NIC Bank	201,900
M-Payments	13,627,000
NBK	250,314,082
HFCK – Simba	28,000
Citi Bank – Simba	571,900
Citi Bank	202,000
CFC – St Bank	2,551,300
Guld Africa Bank – Simba	557,800
KCB	1,394,500
E-Citizen	14,984,233
Equity	8,244,105
Eco Bank – Simba	1,137,500
Huduma Centre	162,500
Co-operative Bank	67,465,600
Total	362,033,520

1.3 Variances in Revenue Collected

Note 16 to the revenue accountability financial statement reflect gross revenue collection of Kshs.327,971,676,248 and Kshs.60,730,677,070 on customs service and agency revenue respectively. However, review of revenue reports generated from the Integrated Customs Management System (ICMS) reflects total revenue as Kshs.379,114,361,976 resulting in a difference of Kshs. 9,587,991,342. Although the Authority analyzed the difference of Kshs.9,587,991,342 as shown in the table below, no documentary evidence was provided to support the revenue collected under CCRS, EFT'S and KENTRADE business systems. Therefore the customs services revenue of Kshs.388,702,353,318 cannot be confirmed.

RECONCILIATION OF CUSTOMS REVENUE YEAR 2015-2016		Kshs.	Kshs.
Total revenue collected as per RAS			388,702,353,318
Total revenue collected as per ICMS			379,114,361,976
Difference			9,587,991,342
1. CCRS & EFTs (Dollar converted to Kshs.)	APSC	5,653,691,932	
	ANSC	2,090,707,971	
2. EFTs (Ksh)	APSC	628,461,265	
	ANSC	1,424,415,559	
3.KENTRADE-PRE-IDFs	IDF FEES	1,157,900,081	10,955,176,810
Less TRD revenue collections collected through ICMS but reported under TRD			(1,367,185,468)
			9,587,991,342

2 Amount Transferred and Received by Receivers of Revenue

2.1 Amounts Received by Receiver of Revenue

The statement of revenue collection and transfers indicates that Kshs.1,147,386,526,291 was transferred to the National Treasury as disclosed in Note 15.7. However, audit review of the National Treasury financial statements as at 30 June 2016 indicates that a total of Kshs. 1,130,282,330,784 exchequer revenue was received as shown below.

Exchequer	Transfers as Per KRA Revenue Statement Kshs.	Receipts as per Receiver of Revenue Statement National Treasury Kshs	Difference Kshs.
Income Tax-Individual PAYE	315,209,585,752	313,355,508,689	1,854,077,063
Income Tax-Corporations	252,709,279,920	251,216,663,394	1,492,616,525
Land Rent	1,190,265,212	1,181,008,562	9,256,659
VAT-Domestic Goods, Services	159,934,575,262	160,316,915,523	(782,340,261)
VAT-Import Goods, Services	141,094,957,892	128,896,551,022	12,198,406,869
Total Excise Receipt	141,106,614,538	140,212,409,544	894,204,993
Customs Duties-Import	80,502,656,320	79,637,853,183	864,803,137
Import Declaration Fees – IDF	25,764,418,393	25,181,943,630	582,474,762
Stamp Duty	10,340,353,672	10,275,603,609	64,750,062
Railway Development Levy	17,180,745,621	17,180,745,621	-
Traffic Revenue	2,753,073,707	2,827,128,002	(74,054,295)
Total	1,147,386,526,291	1,130,282,330,784	17,104,195,507

The difference of Kshs.17,104,195,507 between transfers shown in the Authority's records and receipts by the Receiver of revenue at the National Treasury has not been explained.

2.2 Transfers to Principals

The statement of revenue collection and transfers reflect transfer to principals totalling Kshs.61,386,239,345 as also disclosed in Note 15.8 of the revenue accountability financial statements. Examination of records and bank statements/remittances revealed that the actual amount transferred to principals during the year was Kshs.60,987,131,101 as indicated below thereby resulting to a difference of Kshs.399,108,244. No explanation has been provided for the variance between the two records.

Agency Revenue	Amounts Per Revenue Accountability statements Kshs.	Amounts Per Payment Vouchers and Bank Statements Kshs.	Difference Kshs.
Airport Revenue (APSC)	6,446,149,456	6,269,326,628	176,822,828
Aviation Revenue (DCA Aviation)	4,022,004,421	3,930,769,016	91,235,405
Petroleum Development Fund (PDF Levy)	1,921,208,076	1,989,382,267	(68,174,191)
Road Transit Toll Levy	651,020,638	667,534,246	(16,513,608)
Sugar Development Levy (SDL) – Customs & D	1,326,041,760	1,273,806,094	52,235,666
K.A.A. Concession Fees	108,767,601	111,766,368	(2,998,767)
Petroleum Regulatory Levy	469,845,509	466,487,171	3,358,338
Merchant Superintendent Shipping Levy (MSS)	912,757,847	920,125,562	(7,367,715)
Road Maintenance Levy (RML)	43,828,482,787	43,885,106,975	(56,624,188)
KEBS – Levy	670,131,760	459,381,011	210,750,749
Traffic Revenue Fees (Agency)	1,029,829,490	1,013,445,764	16,383,727
Total	61,386,239,345	60,987,131,101	399,108,244

Further, the statement indicates that Kshs.61,386,239,345 was transferred to the principals. Included in this balance was Kshs.1,921,208,076 Petroleum Development Fund (PDF) Levy reportedly transferred to Ministry of Energy during the year. However, the Ministry of Energy financial statements reflect receipts from the Agency totalled Kshs.1,374,700,000. The difference of Kshs.546,508,076 between the records of the Agency and those of the Ministry has not been explained.

2.3 Variance in Agency Commission Reported in KRA Revenue Accountability and Financial Statements

The statement of revenue collection and transfers and as further indicated in Note 15.9 to the revenue accountability statement reflects earnings of agency commission totalling Kshs.1,465,424,570 (Net of Value Added Tax - Kshs.1,263,297,042). However, the Note 4(a) of the Authority's financial statements for the year under review reflect agency commission income of Kshs.1,195,527,000 (net of Value Added Tax) resulting to a difference of Kshs.67,770,042 that has not been explained:

Principal	Agency Commission	Amount as per Revenue Accountability Statement			Amount as per KRA Financial Statements	Differences
		Note 15.9	LESS VAT 16%	Agency Commission net of VAT(16%)	Note 4(a)	
		Kshs.	Kshs.	Kshs.	Kshs.	Kshs.
Kenya Airports Authority	Airport Revenue (APSC)	152,427,759	21,024,518	131,403,241	131,403,000	241
Kenya Roads Board	Road Maintenance Levy (RML)	1,053,450,850	145,303,565	908,147,284	903,556,000	4,591,284
Sugar Directorate	Sugar Development Levy (SDL)	31,471,098	4,340,841	27,130,256	30,865,000	(3,734,743)
Kenya Civil Aviation Authority	Aviation Revenue (DCA Aviation)	95,629,791	13,190,316	82,439,475	82,439,000	475.00
National Transport & Safety Authority	Traffic Revenue Fees (Agency)	24,408,764	3,366,726.07	21,042,037	7,930,000	13,112,037
Ministry of Energy	Petroleum Development Fund (PDF LEVY)	45,801,833	6,317,494	39,484,338	39,334,000	150,338
Kenya Roads Board	Road Transit Toll Levy	15,634,521	2,156,485	13,478,035	-	13,478,035
Kenya Airports Authority	K.A.A. Concession Fees	2,654,749	366,172	2,288,576	-	2,288,576
Energy Regulatory Commission	Petroleum Regulatory Levy	11,256,634	1,552,639	9,703,994	-	9,703,994
Kenya Maritime Authority	Merchant Superintendent Shipping Levy (MSS)	21,678,933	2,990,197	18,688,735	-	18,688,735
Kenya Bureau of Standards	KEBS - Levy	11,009,636	1,518,570	9,491,065	-	9,491,065
TOTALS		1,465,424,568	202,127,526	1,263,297,042	1,195,527,000	67,770,042

3 Refund Payments

3.1 Unsupported Traffic Refunds

The statement of revenue collection and transfers reflects refund payments totalling Kshs.16,885,171,034 for the year (2015/2016) under review. Included in this balance is Kshs.7,255,785 paid towards traffic revenue refunds as indicated in Note 15.14 to the

financial statements. However, no evidence has been provided to support refund payment of traffic revenue and therefore the propriety of the refund payment balance of Kshs. 16,885,171,034 for the year ended 30 June 2016 cannot be ascertained.

3.2 Transfer of Unspent Customs Refund Funds

The statement of financial position reflects refund payment account balances of Kshs.4,703,408,858. Included in the balance are allocations and receipts from the National Treasury of Kshs. 300,000,000 and Kshs. 2,400,000,000 to facilitate import and excise duty refunds respectively. Audit review of the bank statement of account no. 04-010-0118/1000007389 at the Central Bank of Kenya revealed that Kshs. 545,629,209 was paid as refunds during the year. However, at the end of the financial year, Kshs.2,030,000,000 was transferred to account No.1001005070700 held at National Bank of Kenya instead of the exchequer account at the Central Bank of Kenya. This was contrary to Section 5.1.5 (B) of the Authority's financial regulations and procedures manual which requires that such unspent balances be transferred to the exchequer accounts.

Further review of documents supporting the transfers of Kshs. 2,030,000,000 to National Bank of Kenya Limited indicated that Form F147 was lodged in the Simba System as indicated in the table below. Form F147 is ordinarily used as revenue collection form and therefore, Kshs. 2,030,000,000 was recognized in the Simba System as revenue collected by National Bank for future transmission to the Authority. The reason for transferring the unspent balances to National Bank of Kenya instead of the exchequer account at the Central Bank of Kenya has not been provided.

Transfer Date	Transaction Reference Number	Payee	Amount (Kshs.)	F147
03-Aug-15	FT15215SGDJX	Commissioner of Customs Services	180,000,000	2015NBI332547
27-Aug-15	FT1523934PYH	Commissioner of Customs Services	140,000,000	2015NBI334436
30-Sep-15	FT15273TS3SK	Commissioner of Customs Services	100,000,000	2015NBI337113
29-Oct-15	FT15302NPZ74	Commissioner of Customs Services	140,000,000	2015NBI339078
27-Nov-15	FT15331P06DJ	Commissioner of Customs Services	180,000,000	2015NBI340976
28-Jan-16	FT16028FJ055	Commissioner of Customs Services	370,000,000	2016NBI345064
29-Jun-16	FT1618168TST	Commissioner of Customs Services	920,000,000	2016NBI353913
			2,030,000,000	

4. Outstanding Revenue

No records were presented for audit in respect of tax arrears as at 30 June 2016 disclosed under Note 15.13 – Statement of Outstanding Revenue amounting to Kshs.184,805,136,016. As a result, it has not been possible to ascertain the accuracy of the reported arrears of revenue of Kshs.184,805,136,016 as at 30 June 2016.

5. Bank Reconciliation Statements

Audit review of bank reconciliation statements for commercial banks and Central Bank of Kenya revealed the existence of long outstanding and un-cleared reconciling items. These include; receipts in cashbook not in bank statements of Kshs 23,955,197,030 and USD 182,579,733, receipts in bank statements not recorded in cashbook of Kshs.23,654,998,129 and USD 48,691,974, payments in cashbook not reflected in bank statements of Kshs.3,404,664 and USD 1,579,793 and payment of Kshs.1,196,653,626 and USD 23,161,975 reflected in the bank statements but not recorded in the cash books. The reconciling items relate to years dating between 2008 and 2016. It has not been explained why the reconciling items have remained outstanding for so long. In addition, the commercial banks charged the Authority bank commission and other charges of Kshs.11,240,885 as reflected in bank reconciliation statement, in complete disregard to the service level agreement between the Authority and the banks that prohibits the agent banks from imposing any charges, commissions or any other costs on accounts operated by the Authority and maintained by the agent for purposes of depositing or receiving revenue of the Authority.

6. Cash-in-Transit

The statement of Revenue Collection and Transfers and the Statement of Financial Position reflect un-transferred balances (cash in transit) totalling to Kshs. 1,009,003,836 for the year ended 30 June 2016. The amounts have neither been referenced in the Notes to the revenue accountability statement nor have 'analyses' been provided to support the un-transferred balances. In the absence of analysis and supporting documents, the propriety of the balances cannot be ascertained.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the revenue accountability statements present fairly, in all material respects, the financial position of Kenya Revenue Authority on revenue accountability as at 30 June 2016, and of its performance and remittance on revenue collection in the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Kenya Revenue Authority Act, Cap 469 Laws of Kenya.

Other Matter

Audit of records and documents of various companies and businesses relating to taxes on income, profits, capital gains, property, goods and services, international trade and transactions and other taxes for the period 2011 to June 2016 and audit inspections undertaken at various border stations under Customs and Border Control Department and

tax stations under Domestic Taxes Department revealed the following unsatisfactory matters:

1 Un-Accounted for Transit Goods, Spirits and Beer Destined to Neighbouring Countries and Sugar Imports

1.1 Transit Goods

An audit inspection was carried out at KRA stations in Mombasa, Kisumu, Namanga, Malaba, Busia and Isebania. Examination of records and the KRA Simba System in these stations revealed that security bonds valued at Kshs. 929,566,989 in relation to transit goods, some dating as far back as 2005 had not been realized into cash or cancelled. As a result, the government may have lost revenue amounting to Kshs.929,566,989. Further, security bonds valued at Kshs.1,742,421,675 were cancelled long after the stipulated period but no evidence of penalty fees collected was presented for audit. In addition, some T812s had no exit reports in the Simba system and could not be traced in the registers maintained at the exit points. This may imply that duty of Kshs.1,514,314,248 was not paid.

Further some, T812s with bonds in force valued at Kshs.125,781,829 had outward rotation numbers posted in the Simba System that did not agree with outward rotation numbers recorded in the registers maintained at the border points. No explanation has been provided for this anomaly.

Further, transit goods manifests some dating to year 2006 revealed that several consignments were not entered within 21 days from the date of discharge from the vessel(s) as required by Section 34(1) of the East Africa Community Customs Management Act, 2004. Efforts to establish if goods were declared after 21 days, sold by public auction or destroyed and the requisite revenue collected, did not bear fruit as no records were available for audit review. Consequently, it has not been possible to ascertain that transit goods exited the country to the countries of the respective consignees.

1.2. Sugar Imports from EAC Countries

1.2.1 Examination of records on sugar imports into the country at KRA Busia station indicated that the certificates of origin and sugar import permits issued by Kenya Sugar Board were not properly authenticated leading to excess importation of sugar over and above the authorized quotas from the East African Community countries. As a result, import duties amounting to Kshs.26,440,008 were not collected.

1.2.2 Examination of records at Kisumu station indicated that quantities of sugar on import entries were lower than quantities declared in the vessels' blue books maintained at station. As a result 825 metric tons of sugar whose duty amounted Kshs. 17,192,559 entered the country duty-free contrary to the law.

Further, several invoices in respect of imported sugar were plucked off their respective entry folders. As a result it was not possible to ascertain that duty on imported sugar with a FOB value of Kshs. 480,285,038 was correctly declared, assessed and collected.

1.2.3 Examination of records at Malaba border station indicated that a number of sugar import entries were processed or cancelled without replacement. It was, therefore, not possible to establish whether or not import duty of Kshs. 66,903,613 estimated on the basis of the original import entries declared, was collected.

1.3. Spirits/Beer Exports to Neighbouring Countries

Examination of customs records at various border points indicated that various ex-warehouse export (R351s) entries for spirits and beer either lacked exit reports or were not recorded in the outward register. The outward rotation numbers posted in the Simba System also differed with the entry numbers captured in the outward rotation registers maintained at the border points. As a result, it was not possible to establish whether beer and spirits/consignments with a bond value of Kshs. 65,485,494 in force were actually exported.

Further, examination of the hard copy export entries (E101s) maintained at Agro Chemical & Food Company (ACFC) Limited at Muhoroni in respect of exports of strong spirits revealed that the outward rotation entries numbers quoted differed with the actual numbers captured in the outward rotation register maintained at Busia border point. It was therefore not possible to confirm the export of spirits whose excise duty of Kshs.32,520,000 may have been lost.

2 Compliance and Audit Programme

2.1 Non-collection of Additional Tax Assessments

2.2.1. Twin Flames Limited

The Keya Revenue Authority carried out a compliance check on Twin Flames Limited, PIN P051179838M, for the period 2009 to 2013. The compliance check raised additional tax of Kshs.8,825,036. The Authority issued a demand notice on 4 October 2011 and a reminder on 10 November 2011 for the additional tax. However no funds have been collected to date. The taxpayers' ledger reflects an outstanding tax balance of Kshs.14,796,249. The debt of Kshs.15,080,482 was transferred to the debt programme management for collection on 29 September 2014. No funds have been collected to date.

2.2.2. Qline Construction Company Limited

The compliance check on Qline Construction Company Limited, (PIN P051234434T), in July 2005 realized additional tax of Kshs.39,330,116. However, the outstanding tax liability was not reflected in the tax payers' ledger and has remained uncollected to date. Further, the taxpayer has not been moved to the iTax platform, currently in use at KRA. No explanation has been provided for the anomalies.

2.2.3. Aegis Construction Limited

Compliance check on Aegis Construction Limited, (PIN 051139370F), in July 2005 realized additional tax assessment of Kshs.50,288,150, Kshs. 360,517, Kshs.869,400 and Kshs.10,084,045 in respect of VAT, Withholding, PAYE and Corporation tax respectively.

However, KRA issued a demand notice on 23 July 2015 for Kshs.51,518,067 only excluding the corporations tax of Kshs.10,084,045. The corporation tax of Kshs.10,084,045 is not recorded in taxpayers' ledgers in iTax or legacy systems. No explanation has been provided for this omission.

2.2.4. Mastermind Tobacco Company Limited

The Authority carried out a compliance check on Mastermind Tobacco Company Limited account and raised additional assessment of Kshs.357,877,031. The taxpayer paid Kshs.251,619,655 thereby leaving a balance of Kshs.106,257,376 as reflected in legacy system which has not been collected to date. Further, the taxpayer has accrued penalties amounting to Kshs.7,627,162 as indicated in VAT 75 for the period January 1996 to December 2013. The amounts remain uncollected to date and no evidence of waiver has been provided.

2.2.5. Nakumatt Limited

The Authority carried out a compliance check at Nakumatt Limited in relation to VAT and raised additional taxes of Kshs. 664,193,657 reflected in VAT 57. The company made a payment of Kshs.272,170,940 thus leaving a balance of Kshs.329,022,717 that has not been paid to date. Further, the taxpayer has not paid accrued penalties of Kshs. 200,000 charged in earlier years. No explanation has been provided as to why the tax due has not been collected.

2.2.6. Kenya Power and Lighting Limited

The Authority carried out compliance check on 26 September 2002 and raised additional VAT assessment of Kshs 666,776,745, a further VAT compliance check was carried out on 13 May 2013 and raised additional tax of Kshs. 45,392,219. The taxpayer has since paid Kshs.239,858,991 only, leaving a balance of Kshs.472,309,972. Similarly, the taxpayer has not paid penalties totaling Kshs. 210,000 charged in earlier years.

2.3 Tax Collection Without Corresponding Tax Assessments Returns

Audit of taxpayer ledger of the public sector entities shown below resulted in installment tax payments of Kshs. 1,991,910,037 as reflected in the iTax ledger. However, the entities did not file final assessments and returns in accordance with the requirement of Section 52B of the Income Tax Act, Cap 470. Similarly, there was no evidence showing that the taxpayers' were eventually assessed and the taxes due paid.

Failure To File Tax Returns				
PIN	Taxpayer	Tax Obligation	Period Covered	Amount (Ksh.)
P051318696V	Bondo University	PAYE	2015 - 2016	163,610,493
P051098786W	The Judiciary	PAYE	2015 - 2016	11,409,150

P0511048332	Jomo Kenyatta University	PAYE	2015 - 2016	653,296,341
P051093764E	Moi University	PAYE	2015 - 2016	686,954,731
P051098781R	Kenya Airport Authority	PAYE	2016	476,639,322
	Total Kshs.			1,991,910,037

2.4 Non-collection of Self-assessed Revenue Declared by Taxpayers

Examination of records of Large Tax Payer Office (LTO) on oil, transport and service sector indicates that Vivo Energy East Africa Limited – Pin No. P0005953332V and Bollore Africa Logistics – PIN No. 000600883U did carry out self-assessment for tax purposes for the period January 2013 and October 2013 and indicated VAT outstanding of Kshs. 19,359,519 and Kshs. 96,713,11 respectively. The self-assessed taxes payable have not been paid nor collected and KRA has not provided any reason as to why the self-assessed VAT has not been recovered to date.

2.5 Unconfirmed Export Sales and VAT Refunds

Audit review of wholesale sector taxpayers records indicates that transit goods with tax implication of Kshs.99,903,667 were exported to other countries. Some export consignments lacked exit reports and therefore it was not possible to confirm the export of goods. In the absence of exit reports, the government may have lost Kshs.186,777,872 including penalties and interest as detailed below.

Tax Payer	Vat	Import 25%	Total Principal Tax	Penalty 25%	Interest	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Al Emir Limited	43,140,267	40,021,812	83,162,078	67,406,667	862,805	151,431,550
Abbas Traders Limited	11,756,545	4,985,043	16,741,588	18,369,602	235,131	35,346,322
	54,896,812	45,006,855	99,903,667	85,776,269	1,097,936	186,777,872

Further, Abbas Traders Limited, made a claim of input tax of Kshs. 2,520,373 on exports during the year. However, there is no evidence that goods valued at Kshs.11,756,545 were actually exported. Therefore the refund of Kshs.2,520,373 may have been irregularly processed and paid.

2.6 Variance of Sales Declared in VAT and Income Tax Returns

2.6.1 Audit review of sales declared by taxpayers under VAT and Income tax returns in

the Oil, Transport and Service Sector revealed the following unexplained differences;

- a) Taxpayer records of Private Safaris E.A Ltd reflects sales of Kshs.889,753,645 in VAT tax return compared to sales of Kshs.863,145,797 declared in company income return. The difference of Kshs. 26,607,848 between the two records resulted to under assessment of corporation tax of Kshs. 7,982,354.
- b) Examination of Everrest Aviation E.A Limited records revealed sales of Kshs.494,239,194 under VAT returns as compared to sales of Kshs.643,186,445 declared in company's income tax return. The difference of Kshs.148,947,251 resulted to under payment of output VAT of Kshs. 23,831,560 as detailed below. The additional taxes have not been assessed and collected to date.

Taxpayers'	VAT Return	Company Income Tax Return Kshs.	Differences Kshs.	Corp Tax 30% Kshs.	VAT 16% Kshs.
Private Safaris E.A Ltd	889,753,645	863,145,797	26,607,848	7,982,354	
Everest Aviation Charter Ltd	494,239,194	643,186,445	(148,947,251)	(23,831,560)	
Totals	1,383,992,839	1,506,332,242	(122,339,403)	7,982,354	(23,831,560)

2.6.2 Overdeclared VAT Inputs of Kshs 2,559,538,392

- i. Review of tax records of Kenya Breweries Limited, a manufacturer of alcoholic beverages and beer, revealed that the consolidated sales amounted to Kshs.51,435,397,795 between July 2014 and November 2016 which differed with the total purchases of Kshs. 52,985,916,987 by Kshs.1,550,519,192. This over-declared purchase by distributors denied the Authority VAT and corporation tax of Kshs.270,329,740 and Kshs. 454,244,410 respectively as indicated below:

Cross-Matching Summary

Taxpayer	Pin	Eabl+Udv +Kbl		Distributor's Vat Returns		Variances			Total Due Kshs.
		Eabl+Kbl+Udv Sales to Distributor Kshs.	Output Tax	Distributor's Purchases From Kbl, Eabl &Udv Kshs.	Reported Distributor's 16% On Purchases Kshs.	Variance Kshs.	Additional Vat Payable On Overstated Purchases Kshs.	Additional 30% Corporation Payable Kshs.	
Bia Tosha	P051177770J	7,691,557,131.78	1,230,649,139.74	8,047,917,608.20	1,287,666,817.31	356,360,476.42	58,181,746.29	106,908,142	165,089,889
Ishano Distributors Ltd	P051095668N	9,021,680,206.59	1,443,468,832.49	9,073,737,654.43	1,448,418,114.29	52,057,447.83	29,411,788.90	4,705,886.79	34,117,675.69
Kamahuha Ltd	P000613841P	6,031,043,516.47	964,966,961.91	6,394,670,580.59	1,023,147,292.89	363,627,064.12	58,180,330.99	109,088,119.24	167,268,450.22
Mombasa Tamasha Distributors	P051201573R	4,190,537,873.29	670,486,059.33	4,196,956,691.87	671,513,070.70	6,418,818.58	1,027,011.37	1,925,645.57	2,952,656.95
Mt Kenya Beer Distributors Limited	P000625494H /P051188531 B	4,619,560,183.39	739,129,629.23	4,765,970,636.15	762,555,301.78	146,410,452.76	23,425,672.55	43,923,135.83	67,348,808.38
Pekay Brothers Ltd	P000605288F	3,853,481,661.75	616,557,065.76	3,922,805,865.09	627,648,938.41	69,324,203.34	11,091,872.65	20,797,261.00	31,889,133.65
Wamuti Distributors	P000624398 G	3,988,828,985.72	638,212,637.61	4,237,165,130.23	677,946,420.84	248,336,144.51	39,733,783.23	74,500,843.35	114,234,626.58

M' Limited	Big	P051154908T	4,419,098,687.85	707,055,789.79	4,487,854,367.35	718,056,698.78	68,755,679.50	11,000,908.99	20,626,703.85	31,627,612.84
Rwathia Distributors		P000594001H	4,869,927,921.96	779,188,467.51	5,006,848,230.15	801,095,716.82	136,920,308.19	21,907,249.31	41,076,092.46	62,983,341.77
Winam Limited		P051151941L	707,557,065.70	113,209,130.48	797,123,752.27	127,539,800.36	89,566,686.57	14,330,669.88	26,870,005.97	41,200,675.85
Mt Kenya Karue Bever		P051337920C	2,042,124,561.18	326,739,929.35	2,054,866,471.62	328,778,635.47	12,741,910.44	2,038,706.12	3,822,573.13	5,861,279.25
Sub Total			51,435,397,795.68	8,229,663,643.20	52,985,916,987.94	8,474,366,807.66	1,550,519,192.26	270,329,740.28	454,244,410.12	724,574,150.39
Cyden General Ent. Ltd		P051388603F	2,278,960,719.40				2,278,960,719.40	364,633,715.10	683,688,215.82	1,048,321,930.92
Leah Africa		P051444225V	1,710,091,979.85				1,710,091,979.85	273,614,716.78	513,027,593.96	786,642,310.73
Sub Total										1,834,964,241.66
Grand Total										2,559,538,392.05

- ii. Review of records of Cyden General Ent. Limited (PIN P051388603F), a beer & spirits distributor indicated that the company filed nil VAT 3 returns in respect of beer and spirits despite making purchases of Kshs. 2,278,960,719 from EABL and UDV. The non-disclosure denied the Authority VAT and corporation tax of Kshs.364,633,715 and Kshs.683,688,215 respectively. Similarly, Leah Africa Limited (PIN P051444225V) did not file monthly VAT 3 returns from March 2016 to November 2016 despite purchasing beer and spirits valued at Kshs1,710,091,979 thereby denying the Authority VAT and corporation tax of Kshs.273,614,716 and Kshs.513,027,593 respectively.
- iii. Review of VAT 3 returns filed by the distributors listed below, revealed that the distributors did not provide purchase invoice numbers and the type of goods traded. In the absence of purchase invoice numbers and type of goods traded, it was not possible to verify the purchase invoices and the tax liability outstanding:

Purchase Invoice Numbers or period Not Disclosed	
Taxpayer	Month
Bia Tosha	July 2014 to June 2016
Ayoti Distributors	January and February 2016
Ishano Distributors Ltd	May to November 2016
Pekay Brothers Ltd	January and November 2016
Winam Ltd	July 2014 to November 2016
Wamuti Distributors	July 2014 to November 2016
Supplies and Marketing	July 2014 to November 2016
Leah Africa Ltd	July 2014 to November 2016
Santafe Supplies Ltd	July 2014 to November 2016
Rwathia Distributors	July 2014 to November 2016

3. Outstanding Debt Balances in Legacy and Itax Systems

3.1. Patriotic Guards Limited

Kenya Revenue Authority issued an agency notice to Patriotic Guards Limited, (PIN P051104243,) on 13 July 2012 for long outstanding debt of Kshs. 190,742,571. No collection has been made to date. The taxpayer has not filed VAT, income tax and PAYE returns since December 2010, December 2013 for income tax and since inception for PAYE respectively. No explanations were provided for these anomalies. Review of the taxpayer ledger revealed that the last time the Company paid VAT and income tax was on 5 July 2010 and 8 January 2009 respectively. No subsequent payments have been received. No reason or explanation has been provided for the failure to collect the debt.

3.2. Cornerstone Security Services Ltd

Cornerstone Security Services Limited, (PIN 051138443Z,) was issued with agency notice in March 2013 for tax arrears of Kshs. 74,000,308 but the agency notice was cancelled after late objection. However, the taxpayer still has a debt balance of Kshs.77,681,374 in the legacy system. No efforts have been made by the Authority's management to recover the outstanding tax arrears. Similarly, the taxpayer did not file VAT returns for the period February 2004 to January 2016.

3.3 CCH Master Builders Africa Limited

Kenya Revenue Authority issued an agency and demand notice to CCH Master Builders Africa Ltd, PIN P05120396B, on 19 July 2012 for tax debts of Kshs. 14,535,525. No tax revenue has been collected to date and there is no agreed payment plan.

3.4 La Baquette Limited

Kenya Revenue Authority, issued an agency and demand notice to La Baquette Limited, (PIN P051114203D) dated 6 August 2013 on tax arrears of Kshs. 16,600,325. No tax revenue has been collected to date and no payment plan has been agreed with the taxpayer.

3.5 Three Mice Interactive Media Limited

Kenya Revenue Authority issued an agency and demand notice dated 2 February 2015 to Three Mice Interactive Media Limited, (PIN P051118584K), on tax arrears of Kshs.48,135,590. The taxpayer raised a late objection on 15 April 2015. The Authority debt portfolio reflects debt owing as Kshs. 12,462,578. Review of the taxpayers' legacy ledger did not reflect any payment received after the agency and demand notices were issued, it is therefore not clear how the debt was reduced from Kshs. 48,135,590 initially issued by the Authority and cited in demand notice to Kshs. 12,462,578 shown in the respective station's debt portfolio.

3.6 China Wu Yi Company Limited - PIN P051148223U

The taxpayer was audited in 2011 for the period 2008 to 2009 raising an additional tax of Kshs.451,292,991. A demand note on the tax was raised on 22 February 2011. The taxpayer requested that corporation tax of Kshs. 205,733,338 be offset against VAT refund due of Kshs. 386,521,725 while VAT arrears of Kshs. 244,196,761 were to be offset against taxpayers' VAT credit balances. On 6 September 2011 the taxpayer requested for waiver of penalties and interest of Kshs. 92,281,803 which was wholly approved. In August 2011, a demand notice was issued for VAT arrears of Kshs.54,955,740, for the month of March 2011. However on 30 August 2011 a payment of Kshs 47,617,833 was received from the tax payer leaving a balance of Kshs. 7,337,907 which has not been paid to date. No explanation has been provided by the Authority as to why these amounts are still outstanding.

3.7 Aggreko International Projects - PIN P051184536W

On 24 September 2015 Aggreko International Projects – PIN P051184536W wrote a letter to the Cabinet Secretary, The National Treasury requesting for 100% waiver of interest and penalties that had accumulated on their tax obligations to Kshs. 455,018,056. The Kenya Revenue Authority, while forwarding the request recommended the taxpayer to be granted 50% waiver. This request has not been confirmed and approved by Cabinet Secretary to The National Treasury to date. The taxpayer has not made any payments to the Authority to reduce or clear the outstanding debt of Kshs.455,018,056.

3.8 EpcO Builders Limited

Examination of KRA records indicated that EpcO Builders Ltd was issued with demand notice on 30 March 2013 with regards to VAT arrears of Kshs. 65,696,652 relating to period 2001 to 2003. The taxpayer disputed the amount cited and instead claimed its projects were tax-exempt. After confirmation of exemption status backed with exemption certificates and letters, the debt was reduced to Kshs. 6,734,643. This debt has not been paid to date. Further the taxpayer's ledger in the Authority's legacy system revealed outstanding liability of Kshs. 101,604,614 which has not been collected to date. It is not clear why the Authority has not collected this amount.

On 23 July 2015 the Authority demanded Kshs. 37,688,534 relating to interest and penalties for late payment of VAT for the periods 2009 to 2013. No further action has been taken by the Authority on the taxpayer as the amount remains unpaid.

3.9 Estate of the Late Gerison Kirima

The Authority issued an agency and demand notice to the estate of the late Gerison Kirima, PIN A000117726L, on 15 February 2011 towards tax arrears of Kshs.583,152,109. The agency and demand notice was followed with a distress warrant dated 4 April 2011. However, on 12 April 2011, Rachier and Amollo Company Advocate on behalf of the taxpayer, sought for one month to put the taxpayers' records in order and make payments. At the expiry of one month, KRA failed to collect the tax arrears. On 22

November 2012, the agency notice dated 15 February, 2011 was withdrawn and substituted with another agency notice dated 25 June 2013 for a tax debt outstanding of Kshs. 631,859,960. This agency notice dated 25 June 2013 was also suspended for 30 days pending deliberations and provision of more records. On 25 November 2013 there was a late objection on the estimated assessments debt of Kshs. 631,859,960 which was accepted by the Authority. The outstanding debt portfolio reflected in the taxpayers' ledger is Kshs. 374,632,164. The tax debt of Kshs. 374,632,164 has not been paid to date and the estate did not file tax returns and payments during the years 2015 to May 2016. Further, it has not been explained how the tax liability was agreed at Kshs.374,632,164 instead of Kshs. 631,859,960.

3.10 Del Monte Kenya Limited

Audit review of the taxpayer's ledger both in legacy and iTax systems revealed that corporation and PAYE taxes of Kshs. 253,228,597 and Kshs. 177,594,431 respectively were still outstanding. The total tax liability of Kshs. 430,823,028 as indicated below is still outstanding. In addition, the taxpayer has not filed returns for the year 2015. No explanation has been provided for none-collection of revenue as required by tax laws.

Year	Ledger Ref	Tax Regime	Self-Assessment Kshs.	Remitted Kshs.	Balance Kshs.
2013	Legacy	Corporation Tax	74,479,437	21,038,777	53,440,660
2014	Legacy		199,787,937	Nil	199,787,937
Sub Totals			274,267,374	21,038,777	253,228,597
2014 – Aug	iTax	PAYEE	51,252,654	Nil	51,252,654
2014-Sept	iTax	PAYEE	27,205,793	Nil	27,205,793
2014-Oct	iTax	PAYEE	18,597,059	Nil	18,597,059
2014-Nov	iTax	PAYEE	21,047,013	Nil	21,047,013
2014-Dec	iTax	PAYEE	18,597,059	Nil	18,597,059
2015-Jan	iTax	PAYEE	21,047,013	Nil	21,047,013
2015-Feb	iTax	PAYEE	19,227,190	Nil	19,227,190
Sub Totals			177,594,431	-	177,594,431
Grand Total			451,861,805	21,038,777	430,823,028

3.11 KRA carried out an in-depth audit assessments on large taxpayers and raised additional taxes totalling Kshs. 2,141,941,453 from additional tax assessments. However, the taxpayer objected, to the Authority's assessment. The taxpayer and the Authority agreed on additional tax assessment of Kshs. 807,772,246 in which the taxpayers remitted Kshs. 69,462,459 leaving the outstanding debt balance of Kshs. 738,309,787 as detailed below which has however not been collected to date. The debt has also not been transferred to debt unit for collection nor has it been recorded in taxpayers' ledger accounts. The additional assessments are off book transactions and are omitted from the debt portfolio of the oil, transport and services sector.

Debts Arising from Audits

Tax Payer	Taxhead	Assessment Tax Yield Kshs.	Assessment Conceded Kshs.	Payments Kshs.	Debt Balance Kshs.
Multiple Haulers P000596398R	Corp.Tax	162,346,128	25,320,843	8,180,667	17,140,176
	VAT	921,778,426			
	W/Tax	3,528,039			
Sub-Total		1,087,652,593	25,320,843	8,180,667	17,140,176
Kenyatta National Hospital	PAYE	459,514,301	545,693,303	0	545,693,303
	VAT	58,971,002			
	W/Tax	27,208,001			
Sub-Total		545,693,304	545,693,303	0	545,693,303
Abercrombie and Kent P000592730P	Corp.Tax	29,656,424	52,807,153	29,126,443	23,680,710
	PAYE	16,192,033			
	VAT	5,712,274			
	W/Tax	1,246,423			
Sub-Total		52,807,154	52,807,153	29,126,443	23,680,710
DHL Limited P051135510I	Corp Tax	275,846,382	102,024,596	31,882,597	70,141,999
	PAYE	2,286,129			
	VAT	77,032,188			
	W/Tax	15,576,060			
Sub-Total		370,740,759	102,024,596	31,882,597	70,141,999
Mater Hospital P000592782D	PAYE	81,366,303	81,366,304		81,366,306
The EKA Hotel P051370743V	VAT	3,681,340	560,045	272,752	287,293
TOTALS		2,141,941,453	807,772,244	69,462,459	738,309,787

Further, the Authority carried out a compliance check and raised additional tax of Kshs.97,067,093 which however have not been collected or transferred to debt unit for collection as detailed below.

Debts Arising from Compliance Checks

Tax Payer	Tax Head	Additional Assessment Kshs.
Wells Fargo Ltd P000609989V	VAT	10,295,345
Magnate Ventures P051116256Y	VAT	798,737
	Corporation Tax	4,410,173
Sony Holdings P051157968P	VAT	81,562,838
Totals		97,067,093

3.12 Audit review of the legacy system revealed that some taxpayers under the manufacturing sector owe the Authority Kshs.334,746,204 as detailed below. Further, there is no debt repayment plan in place.

Tax Payer	Pin	Vat Kshs.	Corporation Tax-Tax Kshs.	Total Kshs.
Ellam Products	P000610035D	170,812,046	-	170,812,046
Polypipes	P00598993W	58,955,173	104,978,985	163,934,158
Total		229,767,219	104,978,985	334,746,204

3.13. Examination of taxpayer records maintained in the Authority's Legacy System for the Top 25 sector revealed the following unsatisfactory matters;

a) Audit review of the corporation tax ledgers maintained by the authority for Top 25 Sector in Legacy system revealed that corporation tax outstanding of Kshs.20,561,689,631 had not been collected nor transferred to the new i-Tax system. In the event the balances are not transferred to the new i-Tax system, the government risks loss of revenue amounting to Kshs. 20,561,689,631 when the legacy system is finally phased out, .

b) Examinations of the value added tax (VAT) ledgers maintained in the legacy system for the Top 25 Sector taxpayers revealed the following unsatisfactory matters:

- i. That several transactions whose VAT3 returns were filed and recorded in the ledger, and assessed to hold outstanding VAT of Ksh.1,487,889,188 which however, has not been collected.
- ii. Additional assessments not being recorded in the ledgers leading to overstatement of the taxpayers' credit balances by Ksh. 8,797,861,182.
- iii. Additional VAT assessment returns (VAT57) were raised and recorded in the ledgers, but VAT of Ksh. 988,243,530 was not collected.
- iv. Several self-assessment returns (VAT3s) had their VAT dues paid but the corresponding debits were not recorded. The government is at risk of losing Ksh.7,299,178,763 as the taxpayers balances are unconfirmed credits.

Efforts made to obtain the missing VAT3 and VAT57 returns plus compliance audit reports for review did not bear fruit. As a result, Kshs.1,487,889,188, Kshs.8,797,861,182, Kshs.988,243,530 and Kshs.7,299,178,763 in respect of uncollected VAT3, overstated credit, undercollected additional VAT57 and payments made without corresponding VAT3 respectively may not be collected.

3.14. Nairobi Bottlers Company Limited

Review of Nairobi Bottlers Company Limitedd VAT ledger in the legacy system revealed outstanding tax owed of Kshs. 832,574,664 in respect of VAT and PAYE as shown

below. Further scrutiny of the records revealed that the VAT ledger was credited with PAY 57 of Kshs. 230,286,409 while corresponding additional VAT 57 assessments of Kshs. 27,215,511 were debited hence leaving unexplained credit balance of Kshs.203,070,898. It has not been explained why a taxpayer would pay such an amount without a demand notice requiring payment.

Details	Kshs.
VAT 57	4,075,977,360
PAY 57	3,243,402,696
Outstanding Balance	832,574,664

The relevant VAT 57 and PAY 57 were not availed to explain the extra assessments and the corresponding payments. Over the years, the taxpayer has been penalized a total of Kshs. 330,000 for non-compliance yet the Authority keeps on renewing the taxpayers tax compliance certificate every new year. There is no evidence that the penalties have since been paid.

3.15. Examination of KRA records and taxpayers' ledgers for the wholesaler sector, indicated that Kshs.9,566,361,567 was outstanding and due for collection from taxpayers. The balance was in respect of VAT and corporation tax as indicated below. However, debts had not been collected as at 30 June 2016.

	VAT	CORPORATION TAX	Kshs.
Legacy	4,740,305,969	4,826,055,598	9,566,361,567

3.16. Athi River Mining Limited - PIN P000624429S

Review of Athi River Mining Limited records indicates that an additional assessment of VAT for the period 2009 to 2012 was confirmed as Kshs.108,691,069 on 30 April 2014. Subsequent correspondence dated 4 June 2015 shows that the taxpayer paid Kshs.20,000,000 on 2 May 2015 leaving a balance of Kshs. 85,297,813. The balance Kshs.85,297,813 was transferred to the debt section for collection and thereafter the taxpayer paid Kshs.14,872,045 on 18 June 2016. An agency notice was issued to the taxpayers' bankers on 16 September 2015 to collect the outstanding liability. On 22 September 2015, the taxpayer paid Kshs.19,592,622 leaving a balance of penalty and accrued interest of Kshs.50, 833,146. The authority lifted the agency notice on 25 September 2015. However the status of the outstanding amount of Kshs. 50,833,146 has not been explained.

3.17 China Wu Yi (Kenya) - P051242974F

Examination of ledger records of China Wu Yi (Kenya) Limited (PIN No. P051242974F) revealed that the Authority failed to validate taxpayers' debit ledger balances on

orporation ax of Kshs.16,204,318 reflected in the legacy system and therefore could not enforce collection. No reason has been provided for failure to collect the debt.



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

09 November 2017

10. STATEMENT OF REVENUE COLLECTION AND TRANSFERS

Collection of Treasury Tax by Tax Head For Financial Year ended 30th June, 2016

	Notes	Actual Receipts for period ended 30th June 2016	Actual Receipts for period ended 30th June 2015
		KShs	KShs
Collections			
1 Treasury collections			
Taxes on Income, Profits and Capital Gains	15.1	564,830,535,657	506,770,084,443.64
Taxes on Property	15.2	1,201,198,116	1,047,468,672.94
Taxes on Goods and Services	15.3	461,269,116,363	396,912,480,364.35
Taxes on International Trade & Transactions	15.4	107,117,175,181	101,150,806,884.91
Other Taxes	15.5	13,276,008,217	14,543,240,627.91
Transfers to Treasury(Railway dev account)	15.6	17,273,369,562	18,939,957,462
Total Gross Treasury Collections	12	1,164,967,403,096	1,039,364,038,455.75
2 Agency collections	12	63,164,852,157	47,472,966,655.34
3 AIA-Revenue	12	161,156,663	150,017,178.00
Gross Revenue Collections - Treasury & Agency & AIA		1,228,293,411,916	1,086,987,022,289.09
Transfers			
Transfers to Treasury	15.7	1,147,386,526,292	1,015,667,581,306
Transfers to Principals	15.8(b)	61,386,239,345	46,032,205,813
Agency commissions	15.9	1,465,424,570	1,101,372,826
Refund Payments	15.15& 15.14	16,885,171,034	18,444,763,277
AIA-Revenue	15.8(c)	161,046,838	149,395,553
Total transfers and commission		1,227,284,408,080	1,081,395,318,776
Untransferred revenue balance		1,009,003,836	5,591,703,513

11. STATEMENT OF FINANCIAL POSITION

Statement of Financial Position as at 30th June, 2016

	Notes	As at 30th June 2016	As at 30th June 2015
		KShs	KShs
Cash and cash equivalent			
Closing Balance- Exchequer	15.11(a)	10,171,271,679	10,344,394,875
Closing Balance- Agency	15.11(b)	714,907,814	401,719,573
Closing Balance- Refund Payment Account	15.10	4,703,408,858	3,834,579,892
Closing Balance- AIA	15.11(c.)	961,565	851,740
Total cash and cash equivalent		15,590,549,916	14,581,546,079
Represented by:			
Opening Balances- Exchequer	15.12(a)	10,344,394,875	5,101,937,726
Opening Balances- Agency	15.12(b)	401,719,573	62,331,555
Opening Balances- Refund Payment Account	15.14&15.15	3,834,579,892	3,825,343,169
Untransferred Balances (C.I.T)		1,009,003,836	5,591,703,513
Opening Balances-AIA	15.12(c.)	851,740	230,115
Total closing balances		15,590,549,916	14,581,546,077

12. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY TAX HEAD AND AGENCY

	Target - Treasury	Actual Receipts for period ended 30th June 2016	% target realised for period ended 30th June 2016	Actual Receipts for period ended 30th June 2015	Year on year Growth
	KShs	KShs	%	KShs	%
Collections					
Treasury collections					
Taxes on Income, Profits and Capital Gains	583,225,192,100	564,830,535,657	96.8%	506,770,084,444	11.5%
Taxes on Property	1,923,160,069	1,201,198,116	62.5%	1,047,468,673	14.7%
Taxes on Goods and Services	454,281,246,161	461,269,116,363	101.5%	396,912,480,364	16.2%
Taxes on International Trade & Transactions	110,069,105,585	107,117,175,181	97.3%	101,150,806,885	5.9%
Other Taxes	15,320,902,275	13,276,008,217	86.7%	14,543,240,628	-8.7%
Railway Development Levy	17,950,867,632	17,273,369,562	96%	18,939,957,462	-9.6%
Total Gross Treasury Collections	1,182,770,473,822	1,164,967,403,096	98.5%	1,039,364,038,456	12.1%
Agency collections					
Airport Revenue	8,985,610,875	6,570,162,063	73%	6,619,176,085	-0.7%
Aviation Revenue	4,111,222,923	4,121,973,768	100%	3,564,775,248	13.5%
Petroleum Development Fund	1,394,700,000	1,974,216,940	142%	1,817,143,022	8.0%
Road Maintenance Levy	26,228,979,746	45,407,364,240	173%	30,889,535,670	32.0%
K.A.A. Concession Fees	122,487,808	114,428,833	93%	113,460,306	0.8%
Road Transit Toll Levy	549,661,880	673,901,776		562,396,970	16.5%
Sugar Levy	1,963,765,240	1,356,512,858	69%	1,328,852,970	2.0%
Petroleum Regulatory Levy	301,128,093	485,199,741	161%	300,547,345	38.1%
Merchant Superintendent Shipping Levy	2,001,491,229	934,436,781	47%	820,144,519	12.2%
KEBS Levy	510,714,356	474,553,260	93%	474,626,433	0.0%
Traffic Fees-Agency	1,060,461,170	1,052,101,896	99%	982,308,087	6.6%
Total Agency Collections	47,230,223,320	63,164,852,157	134%	47,472,966,655	24.8%
AIA Revenue (Miscellaneous)	-	161,156,663	0%	150,017,178	6.9%
Sub-totals (agency & AIA revenue)	47,230,223,320	63,326,008,820	134%	47,622,983,833	24.8%
Total Gross Revenue Collections	1,230,000,697,142	1,228,293,411,916	100%	1,086,987,022,289	11.5%

13. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY DEPARTMENT

	Target - Treasury	Actual Receipts FY 2015/16	% target realised FY 2015/16	Actual Receipts FY 2014/15	Year on year Growth
	KShs	KShs	%	KShs	%
Revenue collection					
1 Treasury collections					
Customs Services Department	329,533,485,582	325,271,676,248	98.7%	313,291,233,562	3.8%
Domestic Taxes Department	832,104,752,528	819,455,557,699	98.5%	705,720,567,301	16.1%
Traffic Revenues	3,751,291,712	2,859,225,149	76.2%	2,964,237,593	-3.5%
Total Net Treasury collections	1,165,389,529,822	1,147,586,459,096	98.5%	1,021,976,038,456	12.3%
2 Agency collections					
Customs Services Department	43,959,047,794	60,730,677,070	138.2%	45,132,365,347	34.6%
Domestic Taxes Department	2,210,714,356	1,543,229,854	69.8%	1,508,310,399	2.3%
Traffic Revenues	1,060,461,170	1,052,101,896	99.2%	982,308,087	7.1%
Total Agency collections	47,230,223,320	63,326,008,820	134.1%	47,622,983,833	33.0%
Total Net Revenue Collections	1,212,619,753,142	1,210,912,467,916	99.9%	1,069,599,022,289	13.2%

14. ACCOUNTING POLICIES

a. Reporting Entity

The Revenue Accountability Statements has been prepared by the Kenya Revenue Authority.

b. Basis of Preparation

The financial statements comply with the requirements of the Public Financial Management Act of 2012 and the cash basis of International Public Sector Accounting Standards.

The accounting policies have been consistently applied to all the years presented.

The financial statements are presented in Kenya Shillings (KShs), being the currency of legal tender in Kenya which is the functional and reporting currency of the Government of Kenya.

c. Reporting periods

The Government of Kenya Fiscal Year runs from 1st July to 30th June. The financial statements cover the period 1st July 2015 to 30th June 2016. The comparative figures reflect the 12 months ended 30th June 2015.

d. Significant accounting policies

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated:

(a) Receipts

Revenue is recognized at the point of collection. Only taxes billed/assessed and collected are recognized as receipts under the cash basis of accounting. Revenue billed/assessed during the year but not yet collected is disclosed as receivable for purposes of disclosure.

(b) Transfers

The transfers relates to payments made from the collection accounts to the Treasury receiver of revenue account. It also related to transfers made to the various principals.

(c) Provisioning for refund

A total of Kshs 17,754,000,000 was set aside for purpose of refund of claims on items specified under table 15.10 below.

(d) Agency commission

The Authority receives an allocation from The National Treasury as determined by the Cabinet Secretary each year, not exceeding 2% of the revenue estimated in the Financial Estimates for each financial year to be collected by the Authority. This is the main source of revenue for recurrent expenditure of KRA.

In addition, the Authority also charges a commission of 2% on collections made on behalf of other principals. The commission is deducted at source plus 16% vat thereon before remittance to the principals.

(e) *Cash and equivalents*

Cash and equivalents comprises of cash in transit.

(f) *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 June 30, 2016.

g) *Treatment of Road Maintenance Levy*

During the Financial year 2014/2015, Road Maintenance Levy was classified as an Agency Revenue but later re-classified as an Exchequer Revenue in the Financial Year 2015/2016.

15. NOTES TO THE REVENUE ACCOUNTABILITY STATEMENT

15.1 Taxes on Income, Profits and Capital Gains

		FY 2015/16	FY 2014/15
		KShs	KShs
1	Income Tax from Individuals (PAYE)	312,031,647,287	277,068,370,394
2	Income Tax from Corporations	252,798,888,370	229,701,714,050
	Total	564,830,535,657	506,770,084,443.64

15.2 Taxes on Property

		FY 2015/16	FY 2014/15
		KShs	KShs
	Land Rent	1,201,198,116	1,047,468,673
	Total	1,201,198,116	1,047,468,672.94

15.3 Taxes on Goods and Services

		FY 2015/16	FY 2014/15
		KShs	KShs
1	VAT on Domestic Goods and Services	174,050,915,589	143,922,312,070
2	VAT on Imported Goods and Services	142,227,019,941	135,637,356,631
3	Excise Receipts (Air time + domestic + import+Fin.services)	144,991,180,833	117,352,811,662
	Total	461,269,116,363	396,912,480,364.35

NB: VAT on Imported Goods and Services for Financial Year 2015/2016 include Treasury undertakings totaling Ksh. 10,753,574,044.00

15.4 Taxes on International Trade & Transactions

		FY 2015/16	FY 2014/15
		KShs	KShs
1	Customs Duties (Import Duty)	81,266,483,020	74,032,173,598
2	Other Taxes on International Trade and Transactions (IDF Fee)	25,850,692,161	27,118,633,287
	Total	107,117,175,181	101,150,806,885

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15.5 Other Taxes

		FY 2015/16	FY 2014/15
		KShs	KShs
1	Stamp Duty	10,416,783,068	11,579,003,035
2	Traffic revenue	2,859,225,149	2,964,237,593
	Total	13,276,008,217	14,543,240,627.91

15.6 Railway Development Levy

		FY 2015/16	FY 2014/15
		KShs	KShs
1	Railway Development Levy	17,273,369,562	18,939,957,462.00

15.7 Transfers to Receivers of Revenue - Treasury

The following is a breakdown of funds transfer from the collections accounts to the Treasury Account E312 Account:

	Name of bank account by tax head	CBK Account Number	Funds transferred to Treasury FY 2015/16	Funds transferred to Treasury FY 2014/15
			KShs	KShs
1	Income Tax from Individuals (PAYE)	1000009877	315,209,585,752.02	274,009,916,251.96
2	Income Tax from Corporations	1000007338	252,709,279,920.06	229,411,195,511.17
3	Land Rent	1000008741	1,190,265,212.60	1,043,853,986.65
4	VAT on Domestic Goods and Services	1000007354	159,534,575,262.19	129,285,666,339.50
5	VAT on Imported Goods and Services	1000007427	141,094,957,892.04	134,366,868,538.36
6	Excise on Domestic Goods & Services	1000008482	48,986,573,257.49	38,244,883,752.97
7	Excise on Airtime	1000007915	14,884,353,355.77	13,121,625,695.57
8	Excise on Financial Services	1000007923	9,012,674,488.38	5,722,312,474.56
9	Excise on Imports	1000007419	68,223,013,436.80	57,178,689,180.55
10	Customs Duties (Import Duties)	1000007408	80,502,656,320.82	72,957,510,203.90
11	Import Declaration Fees (IDF)	1000007443	25,764,418,393.13	26,936,254,205.30
12	Stamp Duty	1000008318	10,340,353,672.29	11,586,445,892.51
13	Railway Development Levy	1000180536	17,180,745,621.38	18,878,461,078.00
14	Traffic revenue	1000007478 / 1000008148	2,753,073,707.00	2,923,898,195.40
	Total		1,147,386,526,291.96	1,015,667,581,306.40

15.8 Transfers to Principals

(A) Transfers by Bank Account

The following is a breakdown of the transfers from holding accounts to principals:

	AGENCY ACCOUNTS	FY 2015/16	FY 2014/15
		KShs	KShs
1	Airport Revenue (APSC)	6,446,149,455.84	6,447,670,239.65
2	Petroleum Development Fund (PDF LEVY)	1,921,208,076.19	1,775,875,752.89
3	Road Transit Toll Levy	651,020,637.80	536,955,226.30
4	Sugar Development Levy (SDL)	1,326,041,760.13	1,297,219,734.92
5	K.A.A. Concession Fees	108,767,601.07	110,235,993.90
6	Aviation Revenue (DCA Aviation)	4,022,004,421.10	3,479,489,229.95
7	Petroleum Regulatory Levy	469,845,509.32	292,009,112.60
8	Merchant Superintendent Shipping Levy (MSS)	912,757,847.19	801,117,166.16
9	Road Maintenance Levy (RML)	43,828,482,786.63	30,066,915,711.46
10	KEBS - Levy	670,131,759.81	257,372,844.46
11	Traffic Revenue Fees (Agency)	1,029,829,490.16	967,344,801.13
	Total	61,386,239,345.25	46,032,205,813.41

(B) Transfers by Principal

The following is the breakdown of the principals to whom funds were transferred to during the year:

	Name of Principal	Funds transferred to Principals FY 2015/16	Funds transferred to Principals FY 2014/15
		KShs	KShs
1	Kenya Airports Authority	6,446,149,455.84	6,447,670,239.65
2	Ministry of Energy	1,921,208,076.19	1,775,875,752.89
3	Kenya Roads Board	651,020,637.80	536,955,226.30
4	Sugar Directorate	1,326,041,760.13	1,297,219,734.92
5	Kenya Airports Authority	108,767,601.07	110,235,993.90
6	Kenya Civil Aviation Authority	4,022,004,421.10	3,479,489,229.95
7	Energy Regulatory Commission	469,845,509.32	292,009,112.60
8	Kenya Maritime Authority	912,757,847.19	801,117,166.16
9	Kenya Roads Board	43,828,482,786.63	30,066,915,711.46
10	Kenya Bureau of Standards	670,131,759.81	257,372,844.46
11	National Transport & Safety Authority	1,029,829,490.16	967,344,801.13
	Total	61,386,239,345.25	46,032,205,813.41

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(C) Transfers to KRA (AIA)

AIA	FY 2015/16	FY 2014/15
	KShs	KShs
MISCELLANEOUS	161,046,838.40	149,395,553.00
Total	161,046,838	149,395,553.00

15.9 Agency commission

The following is a breakdown of the agency fees analyzed by Principal:

	AGENCY ACCOUNTS	FY 2015/16	FY 2014/15
		KShs	KShs
1	Kenya Airports Authority	152,427,759.86	153,564,885.22
2	Ministry of Energy	45,801,833.01	42,157,718.11
4	Kenya Roads Board	15,634,521.20	13,047,609.70
5	Sugar Directorate	31,471,098.32	30,829,388.90
6	Kenya Airports Authority	2,654,748.93	2,632,279.10
7	Kenya Civil Aviation Authority	95,629,791.41	82,702,785.76
8	Energy Regulatory Commission	11,256,634.00	6,972,698.40
9	Kenya Maritime Authority	21,678,933.31	19,027,352.84
10	Kenya Roads Board	1,053,450,850.37	716,637,227.54
11	Kenya Bureau of Standards	11,009,635.64	11,011,333.25
12	National Transport & Safety Authority	24,408,763.99	22,789,547.62
	Total	1,465,424,570.03	1,101,372,826.45

15.10 Provision for Refunds

	FY 2015/16	FY 2014/15
	KShs	KShs
Opening balance	3,834,579,892	3,825,343,169
Transfers - Provision for Refunds		
CSD - Import Duty provision for refund	300,000,000	300,000,000
CSD - Excise Duty provision for refund	2,400,000,000	2,400,000,000
DTD - VAT Domestic provision for refund	14,688,000,000	14,688,000,000
DTD - VAT Domestic provision for refund(Additional funding)	-	700,000,000
DTD - Income Tax provision for refund	300,000,000	300,000,000
DTD - Excise Duty Domestic provision for refund	-	-
DTD - Stamp Duty provision for refund	6,000,000	6,000,000
RTD-Traffic Revenue Provision for Refund	60,000,000	60,000,000

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Total provisioning	17,754,000,000	18,454,000,000
Payment		
Total refunds paid during the year	16,885,171,034	18,444,763,277
Closing balance	4,703,408,858	3,834,579,892
Represented by:		
Bank book balance on Refund accounts	4,703,408,858	3,834,579,892

15.11 Closing balances

The following is the movement in the closing balances:

(A) Treasury Collections

	EXCHEQUER	FY 2015/16	FY 2014/15
		Cash In Transit as at 30th June 2016	Cash In Transit as at 30th June 2015
		KShs	KShs
1	Income Tax from Individuals (PAYE)	679,011,352	3,856,949,817
2	Income Tax from Corporations	1,521,904,695	1,732,296,245
3	Land Rent	20,163,261	9,230,358
4	VAT on Domestic Goods and Services	158,595,611	330,255,284
5	VAT on Imported Goods and Services	3,003,303,379	1,871,241,330
6	Excise on Domestic Goods & Services	888,516	994,391
7	Excise on Imports	2,249,978,520	765,306,350
8	Customs Duties	1,591,919,575	1,128,092,875
9	IDF Fee	459,201,435	372,927,668
10	Stamp Duty	209,780,608	139,351,212
11	Railway Development Levy	230,373,287	137,749,346
12	Traffic revenue	46,151,442	-
	TOTAL	10,171,271,679	10,344,394,875

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(B) Agency Accounts

	AGENCY	FY 2015/16	FY 2014/15
		KShs	KShs
1	Airport Revenue (APSC)	3,970,435	32,385,588
2	Petroleum Development Fund (PDF LEVY)	17,169,359	9,962,328
3	Road Transit Toll Levy	20,790,891	13,544,274
4	Sugar Development Levy (SDL)	-	1,000,000
5	K.A.A. Concession Fees	4,180,841	1,174,358
6	Aviation Revenue (DCA)	16,275,796	11,936,241
7	Petroleum Regulatory Levy	5,799,772	1,702,174
8	Merchant Superintendent Shipping Levy (MSS)	-	-
9	Road Maintenance Levy (RML)	635,283,622	109,853,019
10	KEBS - Levy	742,156	207,330,291
11	Traffic Revenue Fees (Agency)	10,694,942	12,831,300
	Total	714,907,814	401,719,573

(c) Closing balance analysis - AIA REVENUE

	AIA REVENUE (MISCELLANEOUS)	FY 2015/16	FY 2014/15
		KShs	KShs
	MISCELLANEOUS	961,565	851,740
	Total	961,565	851,740

15.12 Opening balances

The following is the book opening balances:

(A) Treasury Collections

	EXCHEQUER	FY 2015/16	FY 2014/15
		Cash In Transit as at 30th June 2015	Cash In Transit as at 30th June 2014
		KShs	KShs
1	Income Tax from Individuals (PAYE)	3,856,949,817	798,495,675.27
2	Income Tax from Corporations	1,732,296,245	1,741,777,705.69
3	Land Rent	9,230,358	5,615,671.35
4	VAT on Domestic Goods and Services	330,255,284	1,081,609,553.59
5	VAT on Imported Goods and Services	1,871,241,330	600,753,236.00
6	Excise on Domestic Goods & Services	994,391	117,235.00
7	Excise on Imports	765,306,350	80,882,947.00
8	Customs Duties	1,128,092,875	353,429,481.50
9	IDF Fee	372,927,668	190,548,586.00
10	Stamp Duty	139,351,212	152,794,069.80
11	Railway Development Levy	137,749,346	76,252,962.00
12	Traffic revenue	-	19,660,602.40
	TOTAL	10,344,394,875	5,101,937,726

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(B) Agency Collections

	AGENCY	FY 2015/16	FY 2014/15
		KShs	KShs
1	Airport Revenue (APSC)	32,385,588	14,444,626
2	Petroleum Development Fund (PDF LEVY)	9,962,328	10,852,777
3	Road Transit Toll Levy	13,544,274	1,150,140
4	Sugar Development Levy (SDL)	1,000,000	196,154
5	K.A.A. Concession Fees	1,174,358	582,325
6	Aviation Revenue (DCA)	11,936,241	9,353,008
7	Petroleum Regulatory Levy	1,702,174	136,640
8	Road Maintenance Levy (RML)	109,853,019	3,870,288
9	KEBS - Levy	207,330,291	1,088,036
10	Traffic Revenue Fees (Agency)	12,831,300	20,657,562
	Total	401,719,573	62,331,555

(C) Opening balance AIA

	AIA	FY 2015/16	FY 2014/15
		KShs	KShs
	MISCELLANEOUS	851,740	230,115

15.13 Statement of Outstanding Revenue

The following is a summary of tax arrears owed by the taxpayers as at 30th June 2016 and the comparative period:

Particulars	Custom Services Department	Domestic Taxes Department	Road Transport Department	Total
	KShs	KShs	KShs	KShs
Balance brought forward	-	158,008,209,235.00	-	158,008,209,235.00
Current year	-	26,796,926,781.00	-	26,796,926,781.00
Closing balance	-	184,805,136,016.00	-	184,805,136,016.00

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15.14 Refund Accounts Movement Schedule 2015-2016

Provision	Opening Balance	Provision for Refund	Total Amount available	Payment Refunds	Closing Balances
	KShs	KShs	KShs	Kshs	KShs
CSD - Import & Excise Duty provision for refund	2,455,539,349.75	2,700,000,000.00	5,155,539,349.75	3,464,255,529.30	1,691,283,820.45
DTD - Income Tax provision for refund	156,467.00	300,000,000.00	300,156,467.00	277,191,323.85	22,965,143.15
DTD - VAT Domestic provision for refund	1,237,259,673.50	14,688,000,000.00	15,925,259,673.50	13,134,168,031.35	2,791,091,642.15
DTD - Stamp Duty provision for refund	3,320,337.65	6,000,000.00	9,320,337.65	2,300,363.75	7,019,973.90
DTD - Excise Duty Domestic provision for refund	2,814,082.60	-	2,814,082.60	-	2,814,082.60
RTD-Traffic Revenue Provison for Refund	135,489,981.00	60,000,000.00	195,489,981.00	7,255,785.65	188,234,195.35
TOTAL AGENCY	3,834,579,891.50	17,754,000,000.00	21,588,579,891.50	16,885,171,033.90	4,703,408,857.60

15.15 Refund Accounts Movement Schedule 2014-2015

Provision	Opening Balance	Provision for Refund	Returned Payments/R receipts to the Account	Total Amount available	Refunds	Closing Balances
	KShs	KShs	KShs	Kshs	KShs	Kshs
CSD - Import & Excise Duty provision for refund	2,061,943,403.55	2,700,000,000.00		4,761,943,403.55	2,306,404,053.80	2,455,539,349.75
DTD - Income Tax provision for refund	1,441,437.25	300,000,000.00		301,441,437.25	301,284,970.25	156,467.00
DTD - VAT Domestic provision for refund	1,679,935,314.95	15,388,000,000.00		17,067,935,314.95	15,830,675,641.45	1,237,259,673.50
DTD - Stamp Duty provision for refund	2,488,110.95	6,000,000.00		8,488,110.95	5,167,773.30	3,320,337.65
DTD - Excise Duty Domestic provision for refund	2,713,542.60	-	100,540.00	2,814,082.60	-	2,814,082.60
RTD-Traffic Revenue Provison for Refund	76,821,359.30	60,000,000.00		136,821,359.30	1,331,378.30	135,489,981.00
TOTAL AGENCY	3,825,343,168.60	18,454,000,000.00	100,540.00	22,279,443,708.60	18,444,863,817.10	3,834,579,891.50

16. APPENDICES

(i) Customs Services Department

The following is a detailed collection analysis of Customs Services Department:

	Target - Treasury	Actual Receipts FY 2015/16	% target realised FY 2014/15	Actual Receipts FY 2014/15	Year on year Growth
Exchequer					
Gross Import Duty	83,927,683,802	81,266,483,020	96.8%	74,032,173,597.91	9.8%
Gross Excise Duty - Imports	69,946,692,072	72,107,685,607	103.1%	60,263,112,583.30	19.7%
VAT - Imports	134,266,820,293	131,473,445,897	97.9%	135,637,356,631.49	-3.1%
Import Declaration Fees	26,141,421,783	25,850,692,161	98.9%	27,118,633,287.00	-4.7%
Railway Development Levy	17,950,867,632	17,273,369,562	96.2%	18,939,957,462.00	0.0%
Sub-Gross total Exchequer	332,233,485,582	327,971,676,248	98.7%	315,991,233,561.70	3.8%
Less: Prov. for Refunds(Import Duty)	300,000,000	300,000,000	100.0%	300,000,000.00	0.0%
Less: Prov. for Refunds (Excise Duty)	2,400,000,000	2,400,000,000	100.0%	2,400,000,000.00	0.0%
Net total Exchequer	329,533,485,582	325,271,676,248	98.7%	313,291,233,561.70	3.8%
Agency					
Airport Revenue	8,985,610,875	6,570,162,063	73.1%	6,619,176,084.89	-0.7%
Aviation Revenue	4,111,222,923	4,121,973,768	100.3%	3,564,775,248.37	15.6%
Petroleum Development Fund	1,394,700,000	1,974,216,940	141.6%	1,817,143,022.00	8.6%
Road Maintenance Levy	26,228,979,746	45,407,364,240	173.1%	30,889,535,670.00	47.0%
K.A.A. Concession Fees	122,487,808	114,428,833	93.4%	113,460,306.00	0.9%
Road Transit Toll Levy	549,661,880	673,901,776	122.6%	562,396,970.00	19.8%
Sugar Levy	263,765,240	287,836,265	109.1%	295,169,004.00	-2.5%
Petroleum Regulatory Levy	301,128,093	485,199,741	161.1%	300,547,345.00	61.4%
Merchant Superintendent Shipping Levy	2,001,491,229	934,436,781	46.7%	820,144,519.00	13.9%
Miscellaneous	-	161,156,663	0.0%	150,017,178.00	7.4%
Sub-total Agency	43,959,047,794	60,730,677,070	138.2%	45,132,365,347.26	34.6%
Total CSD	373,492,533,375	386,002,353,317	103.3%	358,423,598,908.96	7.7%

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(ii) Domestic Taxes Department

The following is a detailed collection analysis of Domestic Taxes department:

	Target - Treasury	Actual Receipts FY 2014/15	% target realised FY 2014/15	Actual Receipts FY 2013/14	Year on year Growth
Exchequer					
VAT-Gross Collection	180,439,443,334	174,050,915,589	96.5%	143,922,312,070	20.9%
Less Provision for Refunds (VAT)	(14,680,944,000)	(14,680,944,000)	100.0%	(14,688,000,000)	0.0%
VAT Domestic	165,758,499,334	159,369,971,589	96.1%	129,234,312,070	23.3%
P. A. Y. E	309,188,670,075	312,031,647,287	100.9%	277,068,370,394	12.6%
Other Income Taxes	273,528,867,266	252,413,612,332	92.3%	229,071,995,251	10.2%
Turnover Tax	507,654,758	385,276,038	75.9%	629,718,799	-38.8%
Excise Duty Domestic	46,724,380,686	48,986,467,382	104.8%	38,245,760,909	28.1%
Excise Tax on Airtime	15,076,358,916	14,884,353,356	98.7%	13,121,625,696	13.4%
Excise Tax on Financial Services	7,827,550,860	9,012,674,488	115.1%	5,722,312,475	0.0%
Stamp Duty	11,569,610,563	10,416,783,068	90.0%	11,579,003,035	-10.0%
Land Rent	1,923,160,069	1,201,198,116	62.5%	1,047,468,673	14.7%
Sub-Total Exchequer Revenue	832,104,752,528	808,701,983,655	97.2%	705,720,567,301	14.6%
Agency Revenue					
KEBS - Levy	510,714,356	474,553,260	92.9%	474,626,433	0.0%
Sugar Levy	1,700,000,000	1,068,676,593	62.9%	1,033,683,966	3.4%
Sub Total of Agency Revenue	2,210,714,356	1,543,229,854	69.8%	1,508,310,399	2.3%
TOTAL DTD	834,315,466,885	810,245,213,509	97.1%	707,228,877,700	14.6%

(iii) Traffic Revenues

The following is a detailed collection analysis of Traffic Revenues department:

	Target - Treasury	Actual Receipts FY 2014/15	% target realised FY 2014/15	Actual Receipts FY 2013/14	Year on year Growth
Exchequer	3,751,291,712	2,859,225,149	76.2%	2,964,237,593	-3.5%
Agency	1,060,461,170	1,052,101,896	99.2%	982,308,087	7.1%
Total RTD	4,811,752,883	3,911,327,045	81.3%	3,946,545,680	-0.9%