

REPUBLIC OF KENYA



*paper 2/11*  
*By the leader*  
*of majority party*  
*Hon. Adam Duale*  
*AM*



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
CONTINGENCIES FUND**

**FOR THE YEAR ENDED  
30 JUNE 2016**

**THE NATIONAL TREASURY**



**Republic of Kenya**

**The National Treasury**

**Financial Statements for the Contingencies Fund**

**For the Financial Year ended 30<sup>th</sup> June 2016**

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## **1. Executive Summary**

### **1.1. Establishment of the Fund**

The Contingencies Fund is established pursuant to Article 208 of the Constitution of Kenya and requires it to be operated in accordance with an Act of Parliament. The fund is set up for purposes of meeting an urgent and unforeseen need for expenditure for which there is no other authority.

Section 19 of the PFM Act, 2012, the Contingencies Fund shall consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year.

Section 20 (2) of the PFM Act, 2012, specifies that the permanent capital of the Contingencies Fund shall not exceed ten billion shillings (Kshs 10 billion) or such other amount as may be prescribed by the Cabinet Secretary with the approval of Parliament.

### **1.2. Administration of the Fund**

The Cabinet Secretary, National Treasury has been designated to administer the Contingencies Fund pursuant to Section 20 of the PFM Act, 2012 and further requires the Cabinet Secretary, National Treasury to keep the Contingencies Fund in a separate account, maintained at the Central Bank of Kenya and to pay into that account all monies appropriated to the Contingencies Fund by an appropriation Act.

The Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority pursuant to Section 21 of the PFM Act, 2012.

Further, Section 50 of the PFM regulations (National Government), 2015 requires an Accounting Officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

### **1.3. Financial reporting requirements**

The National Treasury is required to prepare and submit to the Auditor-General financial statements for that year in respect of the Contingencies Fund not later than three months after the end of each financial year pursuant to Section 23 of PFM Act, 2012.

This report therefore covers the operations of the Contingencies Fund for the financial year ended 30<sup>th</sup> June 2016.

#### **1.4. Commentary on the financial statements of the Fund**

The Fund received Kshs 5.0 billion during the financial year 2015/2016 by way of a provision under the National Treasury development budget compared to Kshs 2.0 billion for the year 2014/2015.

The Fund did not disburse any funds during the financial year 2015/2016 compared to Kshs 1.0 billion disbursed to State Department of Devolution during the financial year 2014/2015.

As at 30<sup>th</sup> June 2016, the Fund had a cumulative balance of Kshs 7.0 billion compared to the balance of Kshs 2.0 billion as at 30<sup>th</sup> June 2015. The balance represented the funds held in the bank account of the Fund.

## 2. Statement of Responsibility

The Accounting Officer to the National Treasury accepts responsibility for the financial statements of the Contingencies Fund which have been prepared on a Cash Basis method of accounting, using appropriate accounting policies in accordance with the International Public Sector Accounting Standards (IPSAS) and as prescribed by the Public Sector Accounting Standards Board (PSASB).

The Contingencies Fund financial statements have been extracted from the accounting records maintained by National Treasury, and the information provided is accurate and complete in all material respects.

The Accounting Officer to the National Treasury confirms the completeness of the accounting records maintained for the Contingencies Fund, which have been relied upon in the preparation of Financial Statements as set out on page 4 to 10 for the period ended 30<sup>th</sup> June 2016.

Signature: \_\_\_\_\_



Name: **Dr. Kamau Thugge, CBS**  
**Principal Secretary, The National Treasury**

Date: \_\_\_\_\_

23/2/2017

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON THE CONTINGENCIES FUND FOR THE YEAR ENDED 30 JUNE 2016- THE NATIONAL TREASURY

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Contingencies Fund set out on pages 4 to 10, which comprise the statement of financial assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows and summary of budget versus actual performance for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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**

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

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

#### **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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

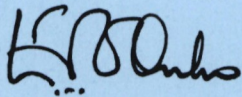
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*Report of the Auditor-General on the Financial Statements of Contingencies Fund for the year ended 30 June 2016  
- The National Treasury*

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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Contingencies Fund as at 30 June 2016 and of its financial performance and of its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.



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

**Nairobi**

**05 April 2017**

**3. Statement of Receipts and Payments for the year ended 30<sup>th</sup> June 2016**

		Period to 30th June 2016	Period to 30th June 2015
	Notes	Kshs	Kshs
<b>Receipts</b>			
Receipts from The National Treasury	7.2.1	5,000,000,000	2,000,000,000
Refund from State Department of Devolution	7.2.1	-	1,000,000,000
<b>Total Receipts</b>		<b>5,000,000,000</b>	<b>3,000,000,000</b>
<b>Transfers from the Contingencies Fund</b>			
Advance to State Department of Devolution	7.2.2	-	1,000,000,000
<b>Total transfers</b>		<b>-</b>	<b>1,000,000,000</b>
<b>Surplus</b>		<b>5,000,000,000</b>	<b>2,000,000,000</b>

The notes on pages 9 to 10 form an integral part of these financial statements. This statement has been prepared, reviewed and approved by the following:

Signature: 

Signature: 

**Dr. Kamau Thugge, CBS**  
**Permanent Secretary,**  
**The National Treasury**

**Bernard Ndungu, MBS**  
**Director General Accounting**  
**Services & Quality Assurance**  
**The National Treasury**

#### 4. Statement of Financial Assets as at 30<sup>th</sup> June 2016

	Note	30 <sup>th</sup> June 2016 Kshs	30 <sup>th</sup> June 2015 Kshs
<b>Financial Assets</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	7.2.3	7,000,000,000	2,000,000,000
<b>Total Cash and Cash Equivalent</b>		<b>7,000,000,000</b>	<b>2,000,000,000</b>
<b>Accounts Receivables</b>			
Outstanding Imprests		-	-
<b>Total Financial Assets</b>		<b>7,000,000,000</b>	<b>2,000,000,000</b>
<b>Financial Liabilities</b>			
Accounts Payables – Deposits And Retentions		-	-
<b>Net Financial Assets</b>		<b>-</b>	<b>-</b>
<b>Represented By</b>			
<b>Fund Balance B/Fwd</b>	7.2.4	2,000,000,000	-
Surplus/Deficit for the year		5,000,000,000	2,000,000,000
<b>Net Financial Position</b>	7.2.5	<b>7,000,000,000</b>	<b>2,000,000,000</b>

The notes on pages 9 to 10 form an integral part of these financial statements. This statement has been reviewed and approved by the following:

Signature: \_\_\_\_\_



**Dr. Kamau Thugge, CBS**  
 Permanent Secretary,  
 The National Treasury

Signature: \_\_\_\_\_



**Bernard Ndungu, MBS**  
 Director General Accounting  
 Services & Quality Assurance  
 The National Treasury

**5. Statement of cash flows for the period ended 30<sup>th</sup> June 2016**

		Period to 30 <sup>th</sup> June 2016 Kshs	Period to 30 <sup>th</sup> June 2015 Kshs
<b>Receipts for Operating Income</b>			
Receipts from The National Treasury	7.2.1	5,000,000,000	2,000,000,000
Refund from State Department of Devolution	7.2.1	-	1,000,000,000
<b>Payments and advances</b>			
Advance to State Department of Devolution	7.2.2	-	(1,000,000,000)
<b>Net Cash Flow from Operating Activities</b>		<b>5,000,000,000</b>	<b>2,000,000,000</b>
<b>Cash flow from Investing Activities</b>		-	-
<b>Cash flow from Borrowing Activities</b>		-	-
<b>Cash and cash equivalent at the beginning of the year</b>	7.2.4	<b>2,000,000,000</b>	-
<b>Net Increase in Cash and Cash Equivalent</b>		<b>5,000,000,000</b>	<b>2,000,000,000</b>
<b>Cash and Cash Equivalent at the end of the Year</b>	7.2.3	<b>7,000,000,000</b>	<b>2,000,000,000</b>

The notes on pages 9 to 10 form an integral part of these financial statements. This statement has been reviewed and approved by the following:

Signature: 

Signature: 

**Dr. Kamau Thugge, CBS**  
 Permanent Secretary,  
 The National Treasury

**Bernard Ndungu, MBS**  
 Director General Accounting  
 Services & Quality Assurance  
 The National Treasury

## 6. Summary of Budget versus Actual Performance

The following statement summarizes the outturn against budget:

	Original Estimates	Revised Estimates	Total Actual 30 <sup>th</sup> June 2016	% Realized
	Kshs	Kshs	Kshs	
<b>Receipts</b>				
The National Treasury	5,000,000,000	5,000,000,000	5,000,000,000	100%
<b>Sub-total</b>	<b>5,000,000,000</b>	<b>5,000,000,000</b>	<b>5,000,000,000</b>	
<b>Transfers</b>				
Transfer to other Government Agencies	-	-	-	-
<b>Total Transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Commentary:

A provision of Kshs 5.0 billion was made under the National Treasury and the amount was disbursed to the Contingencies Fund during the financial year representing 100% realization of the budgeted amount.

No transfers were made out of the Contingencies Fund during the financial year ended 30<sup>th</sup> June 2016.

## **7. Significant Accounting Policies**

### **a) Basis of preparation**

The financial statements of the Contingencies Fund has been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

### **b) Reporting entity**

The Cabinet Secretary, National Treasury has been designated as the Administrator of the Contingencies Fund, pursuant to Section 20 of the PFM Act, 2012. Accordingly, the reporting entity is the National Treasury.

### **c) Receipts**

Receipts consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year. Receipts are recognized when cash is received in the Contingencies Fund.

### **d) Payments and transfers**

Pursuant to Section 21 of the PFM Act, 2012, the Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority. Section 50 of the PFM (National Government) regulations, 2015 requires an accounting officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

Payment is recognized when actual cash is paid out of the Contingencies Fund.

### **e) Cash and cash equivalents**

Cash and cash equivalents comprise cash at hand, bank balances, un-surrendered imprests and short term deposits in money market instruments.

### **f) Presentation Currency**

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

## 7.2. Notes to accounts

### 7.2.1 Income and Non Income Receipts

The following is an analysis of the receipts received into the Contingencies Fund:

Description	Period to 30-Jun-16	Period to 30-Jun-15
	Kshs	Kshs
Transfer from The National Treasury	5,000,000,000	2,000,000,000
Refund from State Department of Devolution	-	1,000,000,000
<b>Total Receipts</b>	<b>5,000,000,000</b>	<b>3,000,000,000</b>

### 7.2.2 Advances from the Fund

The National Treasury did not advance any Funds in financial year 2015/2016. An amount of Kshs. 1 Billion had been advanced to State Department of Devolution for the financial year 2014/2015 as analyzed below.

Date	Payee	Purpose	Period to 30-Jun-16 Amount KShs	Period to 30-Jun-15 Amount KShs
20.04.2015	National Cereal & Produce Board	Maize	-	131,600,000
20.04.2015	Unifresh Exotics	Rice	-	311,750,000
20.04.2015	Kotecha & Sons Limited	Rice	-	290,000,000
20.04.2015	Microbit Systems Limited	Beans	-	71,500,000
20.04.2015	HHJ Spices & Cereal Suppliers	Beans	-	55,000,000
20.04.2015	Bell Industries	Nutropap	-	49,230,000
20.04.2015	Pabari Distributors	Cooking oil	-	37,920,000
20.04.2015	State Department/Transporters	Transport & Logistics/A.I.E	-	53,000,000
	<b>Total Payments</b>		-	<b>1,000,000,000</b>

### 7.2.3 Bank balance of the Contingencies Fund

The bank balance as at 30<sup>th</sup> June 2016 amounted to Kshs 7.0 billion compared to Kshs 2.0 billion in the previous year.

Description	As at 30-Jun-16 Kshs	As at 30-Jun-15 Kshs
Bank Account No.	7,000,000,000	2,000,000,000
<b>Total Receipts</b>	<b>7,000,000,000</b>	<b>2,000,000,000</b>

### 7.2.4 Opening balance of the Contingencies Fund

The opening balance as at 1<sup>st</sup> July 2015 represents accumulated bank balances of the Fund that amounted to Kshs 2.0 billion compared to Nil balance for the previous year.

Description	As at 1-July-15 Kshs	As at 1-July-14 Kshs
Bank Account No.	2,000,000,000	-
<b>Total Receipts</b>	<b>2,000,000,000</b>	<b>-</b>

### 7.2.5 Closing Balance

The closing balance as at 30<sup>th</sup> June 2016 amounted to Kshs 7.0 billion while the closing balance as at 30<sup>th</sup> June 2015 amounted to Kshs 2.0 billion as reflected in the bank account of the Fund:

Description	As at 30-Jun-16 Kshs	As at 30-Jun-15 Kshs
Bank Account No.	7,000,000,000	2,000,000,000
<b>Total Receipts</b>	<b>7,000,000,000</b>	<b>2,000,000,000</b>