REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

FOR THE YEAR ENDED 30 JUNE 2016

MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT

RAILWAYS DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT)

IMPLEMENTED BY MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT
STATE DEPARTMENT FOR TRANSPORT

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016

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

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I. Contents

II. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

Railway Development fund Levy was set up on 5th July 2013, by Gazette Supplement No. 99.The regulations may be sited as customs and Excise (Railway Development fund Levy) Regulations 2013.

The fund consists of:

1. The proceeds of railway development levy charges under Section 117A of the customs and Excise Act
2. Grants or donations made to the fund and
3. Any income generated from the proceeds of the fun
4. Proceeds from foreign borrowings(A.I.A)

(b) Principal Activities

The objective and purpose of the fund shall be to provide funds for the construction of the Standard Gauge Railway network in order to facilitate the transportation of goods.

(c) Key Management

The officer administering the Fund is the Principal Secretary responsible for matters relating to transport.

- Principal Secretary- In charge of Finance (Chairperson)
- Principal Secretary- In charge of Transport

Principal Secretary- In charge of Infrastructure
Managing Director- Kenya Railways Corporation.

(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:

No.	Designation	Name
1.	Principal Secretary	**Irungu Nyakera**

(e) Entity Headquarters

Transcom Building,
Upperhill
Nairobi, Kenya.

(f) Entity Contacts

P.O. Box 30007-00100
Nairobi, Kenya.

Telephone: +254 20 338111
Fax: +254 20 228861

(g) Bankers

1. Central Bank of Kenya
   Haile Selassie Avenue
   P.O. Box 60000
   City Square 00200
   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 Adviser

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

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

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

The Principal Secretary in charge of the Administration of the *Railway Development Levy Fund* is responsible for the preparation and presentation of the *Fund* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *Fund*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary in charge of the Administration of the *Railway Development Levy Fund* accepts responsibility for the *entity's* financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the *entity's* financial statements give a true and fair view of the state of *Fund's* transactions during the financial year ended June 30, 2016, and of the *entity's* financial position as at that date. The Principal Secretary charge of the *Railway Development Levy Fund* further confirms the completeness of the accounting records maintained for the *Fund,* which have been relied upon in the preparation of the *Fund's* financial statements as well as the adequacy y of the systems of internal financial control.

The Principal Secretary in charge of the Administration of the *Railway Development Levy Fund* confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Principal Secretary confirms that the *Fund's* financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The *Fund's* financial statements were approved and signed by the Principal Secretary on 27/04/2017.

Principal Secretary

Principal Accounts Controller

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RAILWAY DEVELOPMENT LEVY FUND (OPERATIONS ACCOUNT) FOR THE YEAR ENDED 30 JUNE 2016 - MINISTRY OF TRANSPORT, INFRASTRUCTURE, HOUSING AND URBAN DEVELOPMENT

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Railway Development Levy Fund (Operations Account) set out on pages 1 to 9, which comprise the statement of financial assets as at 30 June 2016, the statement of receipts and payments, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Accounting Officer's Responsibility for the Financial Statements

The Accounting Officer-State Department of Transport is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and Government Financial Regulations and Procedures and Public Finance Management Act, 2012 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 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 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 auditor's 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

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 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 qualified audit opinion.

Basis for Qualified Opinion

Variances between amounts paid from Railway Development Levy Fund (RDLF) and amount reflected as received in Kenya Railways Corporation financial statements.

The Fund's statement of receipts and payments for the year ended 30 June 2016 reflects payments for acquisition of non-financial assets totaling Kshs.4,320,984,173 out of which payments totalling Ksh.393,443,835.55 made up of Kshs.205,363,954.90, Kshs.161,748,697.70 and Kshs.26,331,182.95 as shown in Note 5 to the financial statements, were during the year under review, transferred to Kenya Railways Corporation to pay consultancy services relating to Standard Gauge Railway Project. However, the financial statements of Kenya Railway Corporation for the year ended 30 June 2016 reflect work-in-progress amount of Kshs.453,201,880.53 as having been paid during the year thus resulting in a variance of Kshs.59,758,044.98 which has not been explained.

Qualified Opinion

In my opinion, except for the effects of the matter described in Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Railway Development Levy Fund (Operations Account) as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Legal Notice No. 118 of 2013 and the Public Finance Management Act, 2012.

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

Nairobi

25 May 2017

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2015-2016 Kshs	2014-2015 Kshs
RECEIPTS			
Tax Revenues	2	14,353,521,932	19,252,240,845
TOTAL RECEIPTS		**14,353,521,932**	**19,252,240,845**
PAYMENTS			
Use of goods and services	3	450	900
Transfers to Other Government Entities	4	10,029,217,520	12,251,140,519
Acquisition of non-Financial Assets	5	4,320,984,173	6,799,287,377
Finance costs	6		196,545,309
TOTAL PAYMENTS		**14,350,202,143**	19,246,974,108
SURPLUS/DEFICIT		**3,319,789**	**5,266,738**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27/04/2017 and signed by:

Principal Secretary

Principal Accounts Controller

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2015-2016 Kshs	2014-2015 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	7	8,586,528	5,266,738
TOTAL FINANCIAL ASSETS		**8,586,528**	**5,266,738**
LESS: FINANCIAL LIABILITIES			
Payables	-	-	-
TOTAL FINANCIAL LIABILITIES		-	-
NET FINANCIAL ASSETS/(LIABILITIES)		**8,586,528**	**5,266,738**
REPRESENTED BY			
Fund balance b/fwd	8	5,266,738	
Surplus/Deficit for the year		3,319,789	5,266,738
Prior year adjustments		-	-
NET FINANCIAL POSSITION		**8,586,529**	**5,266,738**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27/04/2017 and signed by:

Principal Secretary

Principal Accounts Controller

VII. STATEMENT OF CASHFLOW

CASHFLOWS FROM OPERATING ACTIVITIES		2015-2016	2014-2015
Receipts for operating income			
Tax revenues	2	14,353,521,932	19,252,240,845
		14,353,521,932	**19,252,240,845**
Payments for operating expenses			
Use of goods and services	3	450	900
Transfers to Other Government Entities	4	10,029,217,520	12,251,140,519
Finance costs-Exchange Rate losses	6		196,545,309
Net cash flow from operating activities		**10,029,218,420**	**12,447,686,728**
CASHFLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of assets			
Acquisition of Assets	5	(4,320,984,173)	(6,799,287,378)
Net cash flow from investing activities		**(4,320,984,173)**	**(6,799,287,378)**
CASHFLOWS FROM FINANCING ACTIVITIES			
Proceeds from domestic borrowing		-	-
Repayment of principal on foreign and domestic borrowing		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,319,789	6,799,287,378
Cash and cash equivalent at BEGINNING of the year		**5,266,738**	-
Cash and cash equivalent at END of the year		**8,586,528**	**5,266,738**

The entity financial statements were approved on 27/04/2017 and signed by:

Principal Secretary

Principal Accounts Controller

VIII. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

1. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Variance
	a	b	c=a+b	d	e=d-c	f=e/c %
Receipts						
Borrowings from foreign governments	25,672,395,459	-	25,672,395,459	14,353,521,932	11,318,873,527	44
Total Receipts	**25,672,395,459**	-	**25,672,395,459**	**14,353,521,932**	**11,318,873,527**	44
Payments						
Acquisition of assets	8,000,000,000		8,000,000,000	4,320,984,173	3,679,015,827	46
Transfers to other government units	17,672,395,459	-	17,672,395,459	10,029,217,520	7,643,177,939	43
Total Payments	**25,672,395,459**	-	**25,672,395,459**	**14,350,202,143**	**11,322,193,766**	

Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

Principal Secretary

Date

Principal Accounts Controller

27/04/2017

Date

1. SIGNIFICANT ACCOUNTING POLICIES

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

a. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and relevant legal framework of the Government of Kenya. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the *Fund* and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *Railway Development Levy Fund*

b. Recognition of revenue and expenses

The *Fund* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *Railway Development Levy Fund*. In addition, the *Fund* recognises all expenses when the event occurs and the related cash has actually been paid out by the *Fund*.

c. In-kind contributions

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

d. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Pending bills

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

f. Receivables and payables

These relate to provisioning balances for the GAV and Exchequer accounts as required by the current Government Financial Regulations and Procedures. These provisioning balances do not have an impact on the receipts and payments and therefore do not contravene the principles on the cash based IPSAS.

g. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The *Fund.'s* budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the *Fund.'s* actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

h. Comparative figures

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

i. 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.

NOTES TO THE FINANCIAL STATEMENTS

2. TAX REVENUES

	2015 - 2016 Kshs	2014 - 2015 Kshs
First Tranche to MOTI Account	10,362,089,312.60	6,542,671,447
Second Tranche to MOTI Account	3,991,432,619.80	12,709,569,398
Total	**14,353,521,932.40**	**19,252,240,845**

3. USE OF GOODS AND SERVICES

	2015 - 2016 Kshs	2014 - 2015 Kshs
Other operating expenses	450	900
Total	**450**	**900**

4. TRANSFER TO OTHER GOVERNMENT ENTITIES

Description	2015 - 2016 Kshs	2014 - 2015 Kshs
Transfers to Central government entities-Parastatals		
Kenya Wildlife Services	-	1,374,900,000
Kenya Railways/Land compensation	6,353,022,834.35	7,802,680,520
KCB –Escrow Account	2,527,560,000.00	3,073,559,999
Kenya Forest Services	203,006,300.00	-
Kenya Power	945,628,385.30	-
TOTAL	**10,029,217,519.65**	**12,251,140,519**

5. ACQUISITION OF ASSETS

Non-Financial Assets	2015 - 2016	2014 - 2015
Construction of Rail		
China Road and Bridges Corporation	3,767,568,906.00	6,041,295,033.65
Geo serve Systems Ltd	24,875,431.80	21,798,734.00
3rd Railway Survey and Design	205,363,954.90	434,102,902.00
Apec Consortium Ltd	161,748,697.70	275,091,860.00
Edon Consortium Ltd	26,331,182.95	26,016,922.00
Withholding Tax	135,096,000.00	
Income Tax	-	981,926.10
Total	**4,320,984,173.00**	**6,799,287,377.00**

6. FINANCE COSTS, INCLUDING LOAN INTEREST

	2015 - 2016 Kshs	2014 - 2015 Kshs
Exchange Rate differences	-	196,545,309
Total	-	**196,545,309**

7. BANK ACCOUNTS

Name of Bank, Account No, & currency	Amount in bank account currency	Exc rate	2015 - 2016	2014 - 2015
			Kshs	Kshs
Central Bank of Kenya Account No.1000215879, Ksh Account			8,586,528	5,266,738
Total			**8,586,528**	**5,266,738**

8. BALANCES BROUGHT FORWARD

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Bank accounts	8,586,528	5,266,738
Total	**8,586,528**	**5,266,738**

9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue *(Name and designation)*	Status: *(Resolved / Not Resolved)*	Timeframe: *(Put a date when you expect the issue to be resolved)*
385	Non-disclosure of proceeds from Railway Development Levy in the Financial statements for the year ended 30th June 2015	Qualified Opinion		Resolved Awaiting appearance at the Public Accounts Committee.	By 30th June 2017.

ANNEX 1. VARIANCE COMPARATIVES - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Variance	% of Variance
	a	b	c=a+b	d	e=d-c	f=e/c %
Receipts						
Borrowings from foreign governments	25,672,395,459	-	25,672,395,459	14,353,521,932	11,318,873,527	44%
Total Receipts	**25,672,395,459**	-	**25,672,395,459**	**14,353,521,932**	**11,318,873,527**	44%
Payments						
Acquisition of assets	8,000,000,000		8,000,000,000	4,320,984,173	3,679,015,827	46%
Transfers to other government units	17,672,395,459	-	17,672,395,459	10,029,217,520	7,643,177,939	43%
Total Payments	**25,672,395,459**	-	**25,672,395,459**	**14,350,202,143**	**11,322,193,766**	

Principal Secretary

Date

Principal Accounts Controller

27/04/2017

Date