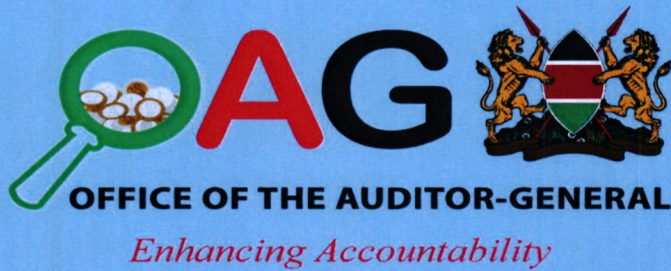


REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 11 FEB 2021	Thursday
TABLED BY:	Leader of Majority
CLERK-AT THE TABLE:	Hamina Ahmed

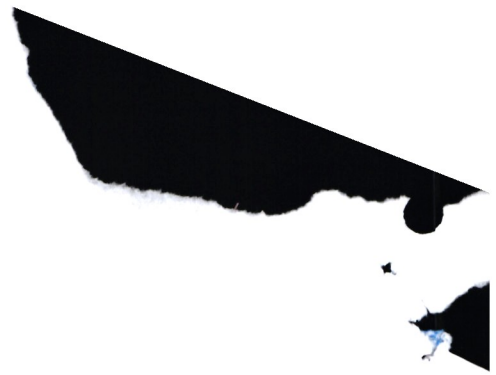
**REPORT**  
**OF**

**THE AUDITOR-GENERAL**

**ON**

**KENYA LOCAL LOANS SUPPORT FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2019**



Revised Template 30<sup>th</sup> June 2019



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**THE NATIONAL TREASURY AND PLANNING**

**KENYA LOCAL LOANS SUPPORT FUND**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2019**

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

**THE NATIONAL TREASURY AND PLANNING**  
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**I. NATIONAL TREASURY INFORMATION AND MANAGEMENT**

**(a) Background Information**

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

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

**Vision**

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

**Mission**

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

**Core Values**

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

**Mandate of the National Treasury**

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

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

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.

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

**Role of the National Treasury in the Devolved System of Government**

The National Treasury is mandated by law to:-

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

**(b) Key Management**

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

**Office of the Principal Secretary**

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

**Organizational structure of the National Treasury**

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

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**Directorate of Budget, Fiscal and Economic Affairs**

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

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

**Directorate of Accounting Services and Quality Assurance**

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

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

**Directorate of Portfolio Management**

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

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

**Directorate of Public Debt Management Office**

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

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

**Directorate of Administrative and Support Services (Common Shared Services)**

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

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core to the National Treasury but offer critical support services to the National Treasury. The functions include:-

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

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<b>NO.</b>	<b>Designation</b>	<b>Name</b>
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Francis Musyimi, CBS
3.	Director General, BFEA	Mr. Albert Mwenda, HSC
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Ag. Director General, PIPM	Eng. Stanley Kamau
6.	Director General, PDMO	Dr. Haron Sirma, OGW
7.	Ag. Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
10.	Director, Public Procurement Department	Mr. Eric Korir
11.	Ag Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
12.	Internal Auditor General	Mr. Alfayo Mogaka
13.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
14.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
15.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
16.	Ag. Director, Public Private Partnership Unit	Mrs. Judy Nyakawa
17.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
18.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
19.	Director, Pensions Department	Mr. Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, Debt Recording and Settlement Department	Mrs. Felister Kivisi
23.	Ag. Director of Administration	Ms. Margaret Muiru, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Head, Finance	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Mulavu
27.	Head, Internal Audit Unit	Ms. Esther Ngeru
28.	Director, Human Resource Management and Development	Ms. Susan Mucheru
29.	Ag Director, Information Communication and Technology	Mr. George Kariuki
30.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
31.	Head, Public Communications	Mr. Maina Kigaga
32.	Head, Legal Unit	Mr. James Mwenda
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua

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**(d) Fiduciary Oversight Arrangements**

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

**Audit Committee**

The purpose of the Audit Committee is to assist the ministry's management in fulfilling their mandates. The committee undertakes the responsibilities of ensuring existence of adequate financial reporting processes, strong systems of internal controls and efficient operational activities carried out under existing laws and regulations for the ministry to achieve its intended objectives.

The National Treasury and Planning Audit Committee was launched on 22<sup>nd</sup> March 2019 and has met three times by end of June 2019. It has five members with the Internal Audit Unit as the Secretariat.

**Internal Audit Unit**

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

**Audit Query Committee**

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

**Project Implementation Committee**

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

**Parliamentary Activities**

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

**Development Partner Oversight**

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

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

**Senior Management Committee**

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

**Public Financial Management Sector Working Group**

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

**Budget Implementation Committee**

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

**Monitoring and Evaluation**

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

**(e) The National Treasury Headquarters**

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

**The National Treasury Contacts**

Telephone: (254)020-2252299

(e) Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)

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

**(f) The National Treasury Bankers**

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

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**For the year ended June 30, 2019**

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**(g) Independent Auditors**

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

**(h) Principal Legal Adviser**

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

**THE NATIONAL TREASURY AND PLANNING  
KENYA LOCAL LOANS SUPPORT FUND**

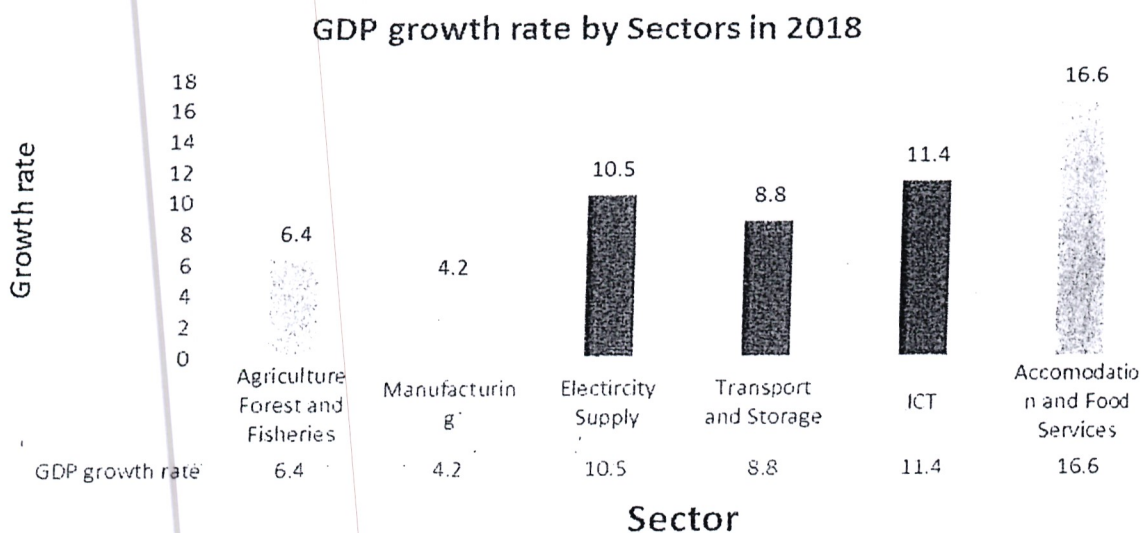
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**II. FORWARD BY THE CABINET SECRETARY**

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country.

As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, Economic growth remained resilient and broad based averaging 5.7% in the past 6 years and generating a total of around 5 million new jobs since 2013. Growth accelerated to 6.3% in 2018 from 4.9% in 2017. This growth is the highest to have been recorded for the past 8 years and well above the sub Saharan Africa region average growth of 3.0 percent and the global average of 3.6 percent. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transport and vibrant service sector activities. As a result of this economic growth, 860,000 new jobs were generated in the economy in 2018. Inflation remained within target, interest rates were stable, and exchange rates were competitive with adequate foreign exchange reserves equivalent to 6.2 months of import cover at the end of fiscal year 2018/19. The figure below shows the contribution of the GDP Growth rate by Sectors.

**Figure 1: GDP Growth Rate by Sectors in 2018**



In FY 2018/19, County Governments received **Ksh.314 billion** as their equitable share of revenue raised nationally. This represents 100 percent of the appropriation as per the CARA, 2018. In addition to the equitable share, the Counties received Ksh.46.1 billion in FY 2018/19, which comprised of:-

- Conditional allocation worth more than **Ksh.15 billion** derived from the National Government's equitable revenue share;
- Ksh.7.4 billion** from the Roads Maintenance Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and,
- Proceeds from external loans and grants totalling **Ksh.23.6 billion** earmarked to

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supplement financing of devolved functions.

Based on the above aggregate, payments to County government in FY 2018/19 amounted to **Kshs.360.1 billion**, representing 96 percent of the CARA, 2018 allocations. Including the FY 2018/19 payments, county governments have now received an estimated **Kshs.1.7 trillion** cumulatively since their establishment.

In all years, County Governments' equitable revenue share has been well above the minimum threshold defined in Article 203 (2) of the Constitution. Moreover, counties' equitable revenue share allocation has been fully disbursed in accordance with Article 219 of the Constitution, even when the shareable revenue outturn was less than projected revenue used in the Division of Revenue Act.

The National Treasury and Planning, successfully priced a new US dollar 2.1 billion, dual tranche Eurobond of 7-year and 12-year tenors on 15th May 2019 in London, United Kingdom. This is the third time Kenya has been in the International Debt Capital Markets. The first was in June 2014, when we launched the debut bond of US dollar 2.0 billion and tapped for a further US dollar 750 million, while the second was in February 2018 when a dual-tranche of US\$ 2.0 billion was issued (10-year tenor of US\$1.0 billion and 30-year tenor of US\$ 1.0 billion).

The announcement of Kenya issuance triggered an overwhelming response from investors that amounted to an order book of US\$ 9.5 billion, an oversubscription of 4.5 times. This overwhelming interest in Kenya's bond issue confirms the strong investor confidence in Kenya's economic policy management and prospects going forward.

The proceeds from this issuance will be used to (i) finance some of the development infrastructure projects, (ii) the general budgetary expenditure in accordance with the applicable legal requirements and (iii) to refinance part or all of the obligations outstanding under the US\$ 750 million (2014 Eurobond).

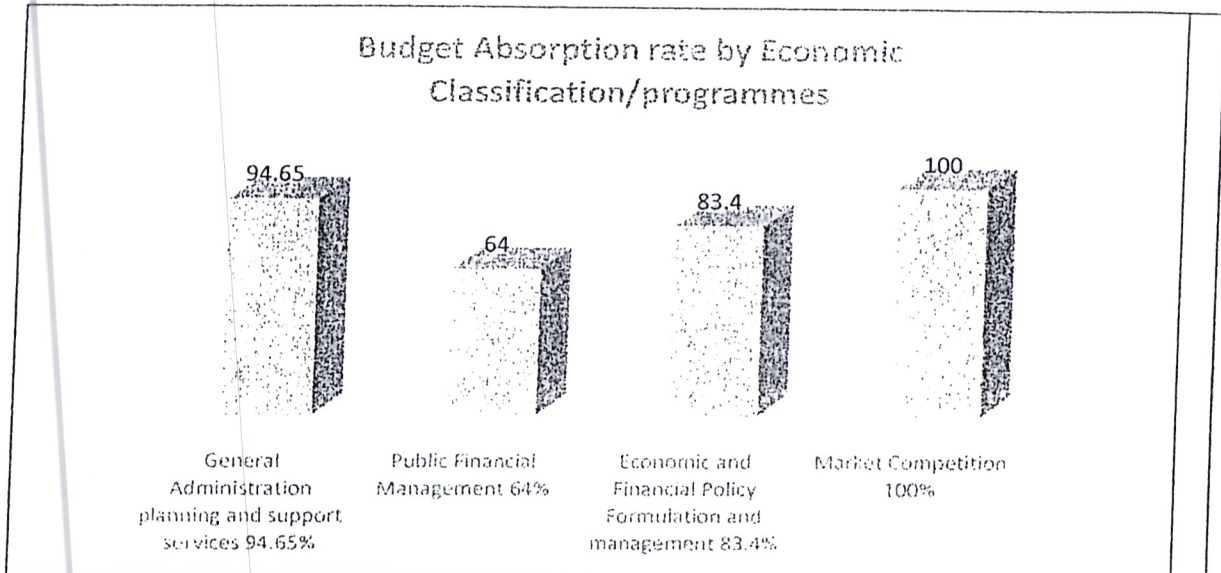
The National Treasury and Planning in its contribution to the Affordable Housing Agenda under the Big Four Plan launched the Kenya Mortgage Refinance Company (KMRC) in May 2019. This is a Public Private Partnership arrangement with majority private sector owned. KMRC will extend long term loans at fixed interest rate to financial institutions secured against mortgages so that they can extend the maturity of their housing loans to end borrowers hence increasing affordability. Given Kenya's urbanization rates, there is critical need to deliver housing at the lower end of the income spectrum in order to improve housing conditions for the average Kenyan. KMRC will seek to catalyze growth of the mortgage market in Kenya by targeting households that fall within the mortgage gap and lower middle-income categories which represents about 95% of the formally employed population.

In terms of budget performance, the National Treasury expenditure stood at Kshs.54.417b against an approved budget of **Kshs.64.865b**. The National Treasury implemented the 2018/19 budget within four economic classifications/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in figure 2 below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 94.65%, Economic and Financial Policy

NATIONAL GOVERNMENT ENTITY – (THE NATIONAL TREASURY & PLANNING)

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Figure 2: Budget Absorption rate by Economic Classification/Programmes

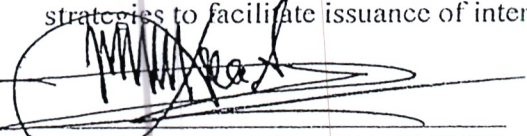


Some of the challenges the National Treasury faced while implementing the 2018/19 budget include:-

- Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
- Low absorption of Official Development Assistance (ODA).
- Inadequate Exchequer issues thus contributing to the pending bill increment from Kshs.29.3b to Kshs.64.7b in FY2018/19.
- Inadequate capacity of staff in some key technical Departments.

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects and prepared draft Public Investment Management Regulations.
- Strengthened capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthened financial and fiscal relations between the national government and county governments.
- Enhanced the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to facilitate issuance of international bonds to finance government projects.

  
HON. A.M.B, UKUR YATTANI, EGH  
AG. CABINET SECRETARY

**THE NATIONAL TREASURY AND PLANNING  
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**III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES**

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

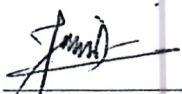
The Accounting Officer in charge of the National Treasury is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2019 and of the entity's financial position as at that date. The Accounting Officer charge of the National Treasury further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

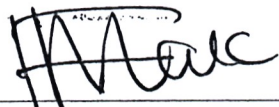
The Accounting Officer in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity'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 National Treasury's financial statements were approved and signed by the Accounting Officer on 27/9/ 2019.



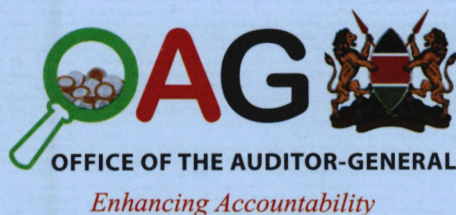
**DR. JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY**



**FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No.: 6338**

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON KENYA LOCAL LOANS SUPPORT FUND FOR THE YEAR ENDED 30 JUNE, 2019**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Disclaimer of Opinion**

I have audited the accompanying financial statements of Kenya Local Loans Support Fund set out on pages 16 to 29, which comprise the statement of financial assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the summary statement of appropriation-recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **Basis for Disclaimer of Opinion**

##### **1. Unsupported Balances**

The financial statements presented for audit are unsupported by a Trial Balance and Ledgers in support of the balances. In the circumstances it is not possible to ascertain the accuracy of the reported balances in the financial statements. Further, accrued interest yet to be received and investments at a cost of Kshs.71,595,406; (2018-Kshs.71,595,406) and Kshs.6,364,973; (2018-Kshs.10,410,373.50) respectively, have not been appropriately disclosed in the details in the Notes to the financial statements.

The accuracy of the balances cannot therefore be ascertained.

##### **2. Winding Up of the Fund**

As reported previously, the Fund is dormant in spite of the recommendations of the Public Accounts Committee and instructions of The National Treasury vide Treasury Circular No.15/2009 dated 7 August, 2009 which directed Accounting Officers to start the process of winding up all dormant Funds. As at the time of finalizing this audit, the winding up process was yet to be completed.

##### **3. Failure to Redeem Stocks**

Similarly, as reported previously, stocks valued at Kshs.10,430,700 which were past their redemption date of 6 February, 2010 and cost Kshs.17,400 had not been redeemed.

Although The National Treasury has explained that the stocks were redeemed some years back but erroneously accounted for as revenue, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been availed for audit review.

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

### **Conclusion**

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

### **Conclusion**

I do not express a conclusion on the effectiveness of internal controls, risk management and overall governance as required by Section 7(1)(a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or cease operations.

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

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

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

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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and overall governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and overall governance in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of Kenya Local Loans Support Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

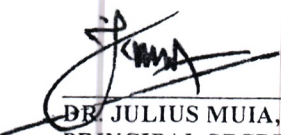
**17 December, 2020**

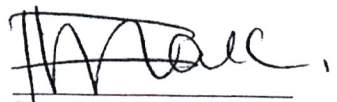
*The National Treasury  
Kenya Local Loans Support Fund  
Annual Reports and Financial Statements  
For the year ended June 30, 2019*

5. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30 JUNE 2019

	Notes	2018/2019 Kshs.	2017/2018 Kshs.
<b>RECEIPT</b>			
Exchequer Receipts	1	-	-
Other Reciepts	2	4,045,400	-
<b>TOTAL RECEIPTS</b>		<b>4,045,400</b>	<b>-</b>
<b>PAYMENT</b>			
Other payments		-	-
<b>TOTAL PAYMENTS</b>		<b>-</b>	<b>-</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b>4,045,000</b>	<b>-</b>

The Accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The financial statements were approved on 20/09/, 2019 and signed by:

  
DR. JULIUS MUIA, PhD, CBS  
PRINCIPAL SECRETARY

  
FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No. 6338

**THE NATIONAL TREASURY AND PLANNING  
KENYA LOCAL LOANS SUPPORT FUND**

**Reports and Financial Statements**

**For the year ended June 30, 2019**

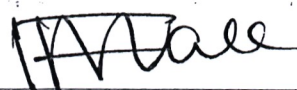
**VI. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES**

	Note	2018-2019 Kshs	2017-2018 Kshs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	2	9,045,400.00	5,000,000.00
<b>Total Cash and cash equivalent</b>		<b>9,045,400.00</b>	<b>5,000,000.00</b>
Investment at cost	3(i)	6,364,973.50	10,410,373.50
Accrued interest yet to be received	3(ii)	71,595,406.15	71,595,406.15
<b>TOTAL FINANCIAL ASSETS</b>		<b>87,005,779.65</b>	<b>87,005,779.65</b>
<b>NET FINANCIAL ASSETS</b>		<b>87,005,779.65</b>	<b>87,005,779.65</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd.	4	87,005,779.65	87,005,779.65
<b>Surplus/Deficit for the year</b>		-	-
<b>NET FINANCIAL POSITION</b>		<b>87,005,779.65</b>	<b>87,005,779.65</b>

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 27/9/ 2019 and signed by:



**DR. JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY**



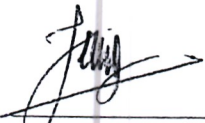
**FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No.: 6338**

**THE NATIONAL TREASURY AND PLANNING**  
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**VII. STATEMENT OF CASH FLOWS**

		2018-2019	2017-2018
		Kshs	Kshs
<b>Receipts for operating income</b>			
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
Proceeds from matured stocks	1	4,045,400	-
<b>Net cash flows from Investing Activities</b>		<b>4,045,400</b>	<b>-</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
Cash and cash equivalent at BEGINNING of the year	4	5,000,000	5,000,000
Cash and cash equivalent at END of the year		<b>9,045,400</b>	<b>5,000,000</b>

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 27/9/ 20 19 and signed by:



**DR. JULIUS MUIA, PhD, EBS**  
**PRINCIPAL SECRETARY**



**FRANCIS M. MAKUMI**  
**PRINCIPAL ACCOUNTANT**  
**ICPAK MEMBER No.: 6338**

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c = a + b	Actual on Comparable Basis d	Budget Utilization Difference e = d - c	% of Utilization f = d/c
RECEIPTS						
Other Receipts	-	-	-	4,045,400	(4,045,400)	
TOTAL RECEIPTS				4,045,400	(4,045,400)	
Surplus	-	-	-	4,045,400	(4,045,400)	

Notes:

- i. The Fund is dormant.
- ii. Other receipt relates to proceeds from matured stocks.
- iii. There was no budget provision or expenditure in the financial year ended 30<sup>th</sup> June, 2019.

The entity financial statements were approved on 22/9/ 2019 and signed by:



DR. JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY



FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No.: 6338

IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c	Actual on Comparable Basis d	Budget Utilization Difference e	% of Utilization f
RECEIPTS						
Other Receipts	-	-	-	4,045,400	(4,045,400)	
TOTAL RECEIPTS	-	-	-	4,045,400	(4,045,400)	
Surplus	-	-	-	4,045,400	(4,045,400)	


Notes:

- i. The Fund is dormant.
- ii. Other receipt relates to proceeds from matured stocks.
- iii. There was no budget provision or expenditure in the financial year ended 30<sup>th</sup> June, 2019.

The entity financial statements were approved on 27/07 20 19 and signed by:



DR. JULIUS MUIUA, PhD, EBS  
PRINCIPAL SECRETARY



FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No.: 6338

## **X. SIGNIFICANT ACCOUNTING POLICIES**

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

### **1. Statement of Compliance and Basis of Preparation**

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

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

### **2. Reporting Entity**

The financial statements are for the *National Treasury*. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and does not comprise development projects.

### **3. Reporting Currency**

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

### **4. Significant Accounting Policies**

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

#### **a) Recognition of Receipts**

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Entity.

##### **• Tax Receipts**

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

##### **Transfers from the Exchequer**

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

## **SIGNIFICANT ACCOUNTING POLICIES**

- **External Assistance**

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

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.

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

During the year ended 30<sup>th</sup> June 2019, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

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

### **b) Recognition of payments**

The Entity recognises all payments when the event occurs and the related cash has actually been paid out by the Entity.

- **Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

- **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

- **Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

## SIGNIFICANT ACCOUNTING POLICIES

- **Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

- **Acquisition of Fixed Assets**

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

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

### 5. In-kind contributions

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

### 6. Third Party Payments

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

### 7. Cash and Cash Equivalents

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

#### Restriction on Cash

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

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2019, this amounted to Kshs zero compared to Kshs zero in prior period.

There were no other restrictions on cash during the year.

## **SIGNIFICANT ACCOUNTING POLICIES**

### **8. Accounts Receivable**

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

### **9. Accounts Payable**

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

### **10. Pending Bills**

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

### **11. Budget**

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2018 for the period 1<sup>st</sup> July 2018 to 30<sup>th</sup> June 2019 as required by Law and there were two supplementary adjustments to the original budget during the year.

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

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

### **12. Comparative Figures**

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

## **SIGNIFICANT ACCOUNTING POLICIES**

### **13. Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June 2019.

### **14. Errors**

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

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

### **15. Related Party Transactions**

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

THE NATIONAL TREASURY AND PLANNING  
**KENYA LOCAL LOANS SUPPORT FUND**  
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**XI. NOTES TO THE FINANCIAL STATEMENTS**

**1 OTHER RECEIPTS**

Description	2018-2019	2017-2018
	Kshs	Kshs
Redemption of Stocks	4,045,400	-
<b>Total</b>	<b>4,045,400</b>	<b>-</b>

**2 Bank Accounts**

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit, e.t.c	Exc rate (if in foreign currency)	2018-2019	2017-2018
				Kshs	Kshs
Central Bank of Kenya 1000182137 (Kes)	-	Deposit	-	9,045,400	5,000,000
<b>Total</b>			-	<b>9,045,400</b>	<b>5,000,000</b>

**3 ACCOUNTS RECEIVABLE**

Description	2018-2019	2017-2018
	Kshs	Kshs
(i) Investment at cost	6,364,973.50	10,410,373.50
(ii) Accrued Interest	71,595,406.15	71,595,406.15
<b>Total</b>	<b>77,960,379.65</b>	<b>82,005,779.65</b>

**Notes:**

i) Investment in stocks amounting to Ksh. 6,364,973.50 were redeemed and have nil balances in the books of Central Bank of Kenya. However, they appear to be outstanding in our books due to lack records on the redemptions.

ii) Accrued interest of Ksh. 71,595,406.15 is not likely to be realized since the debtor is under liquidation. Attorney General's Office has given advice on the proposed write-off of the amount to pave way for the winding up of the Fund.

NATIONAL GOVERNMENT ENTITY - (indicate actual name of the entity)  
Reports and Financial Statements  
For the year ended June 30, 2019

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6 FUND BALANCE BROUGHT FORWARD

Description	2019-2020	2018-2019
	Kshs	Kshs
Bank accounts	9,045,400.00	5,000,000.00
Cash in hand	0	0
Investment at cost	6,364,973.50	10,410,373.50
Accounts Receivables	71,595,406.15	71,595,406.15
Accounts Payables	0	0
<b>Total</b>	<b>87,005,779.65</b>	<b>87,005,779.65</b>

*[Provide short appropriate explanations as necessary]*

**THE NATIONAL TREASURY AND PLANNING  
KENYA LOCAL LOANS SUPPORT FUND**

**Reports and Financial Statements**

**For the year ended June 30, 2019**

**5. 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.

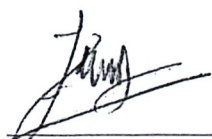
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status Resolved / Not Resolved	Timeframe (Put a date when you expect the issue to be resolved)
	Un-supported balances :				
	Bank balance - Kshs. 5,000,000.00	Bank balance of Kshs. 5,000,000.00 is included in the closing balance for National Treasury Deposit account and Supported with the bank certificate.	Mr. Makumi / Mr. Anyanga	Not Resolved	At time of audit Review
	Investment at cost - Kshs. 10,410,373.50	The investments were made in the name of Permanent Secretary, Treasury as confirmed by Central Bank of Kenya. Redemption of Kshs. 4,045,400.00 has been received and the balance is yet to be accounted for.	Mr. Makumi / Mr. Anyanga	Not Resolved	At time of audit Review

**THE NATIONAL TREASURY AND PLANNING  
KENYA LOCAL LOANS SUPPORT FUND**

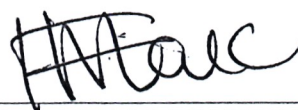
**Reports and Financial Statements**

**For the year ended June 30, 2019**

Reference No. in the external audit Report	Issue/ Observations from Auditor	Management comments	Local Point person to resolve the issue (Name and designation)	Status (Resolved/ Non Resolved)	Timeframe (Date when you expect the issue to be resolved)
	Accrued Interest - Kshs. 71,595,406.15	The accrued interest was computed on investments and deposits but was not realised. The amount is recommended for write-off to pave way for winding up the Fund.			On going
	Winding up of the Fund	Kenya Local Loans Support Fund is among the dormant Funds recommended for winding up. Legal advice on the winding up has been obtained from the Office of Attorney General The National Treasury has embarked on implementing the recommendations			On going



**DR. JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY**



**FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No.: 6338**