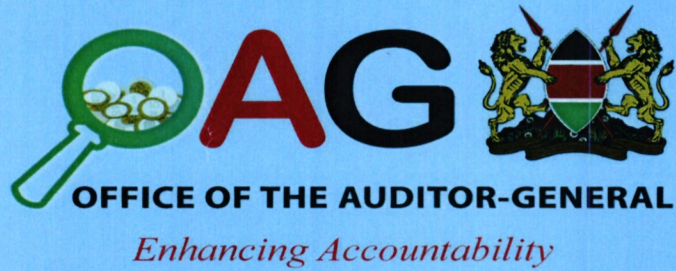


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<b>REPORT</b>	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 MAR 2021	DAY: TUESDAY
TABLED BY:	LOM
THE AUDITOR-GENERAL Ahmed Kadha	

**THE AUDITOR-GENERAL**

**ON**

**CONSOLIDATED FUND SERVICES –  
PUBLIC DEBT**

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

**THE NATIONAL TREASURY**



**THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT**

**Reports and Financial Statements  
For the year ended June 30, 2019**

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



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***THE NATIONAL TREASURY AND PLANNING***

***CFS PUBLIC DEBT***

**AMENDED 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  
CFS PUBLIC DEBT**

**Reports and Financial Statements  
For the year ended June 30, 2019**

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# THE NATIONAL TREASURY AND PLANNING CFS PUBLIC DEBT

## Reports and Financial Statements For the year ended June 30, 2019

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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.

# THE NATIONAL TREASURY AND PLANNING

## CFS PUBLIC DEBT

### Reports and Financial Statements

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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:

# THE NATIONAL TREASURY AND PLANNING CFS PUBLIC DEBT

## Reports and Financial Statements For the year ended June 30, 2019

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

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- 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

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**(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:

<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 Muiuru, 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

**(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:

# THE NATIONAL TREASURY AND PLANNING CFS PUBLIC DEBT

## Reports and Financial Statements For the year ended June 30, 2019

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### **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.

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

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**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  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)  
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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**(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  
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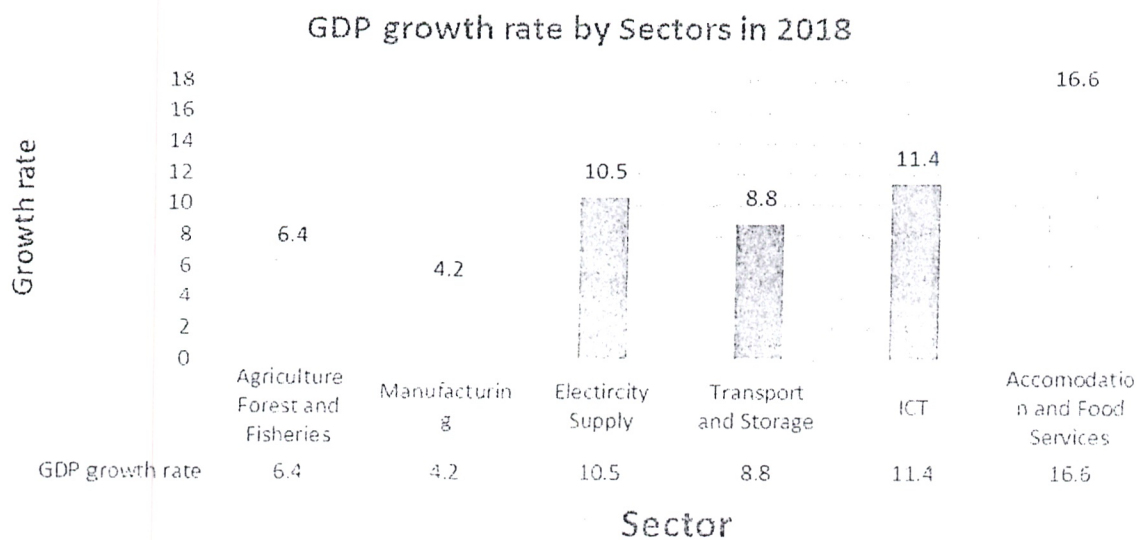
Reports and Financial Statements  
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II. FORWARD BY THE CABINET SECRETARY

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:-

- a) Conditional allocation worth more than **Ksh.15 billion** derived from the National Government's equitable revenue share;

## THE NATIONAL TREASURY AND PLANNING CFS PUBLIC DEBT

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- b) **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,
- c) Proceeds from external loans and grants totalling **Ksh.23.6 billion** earmarked to 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

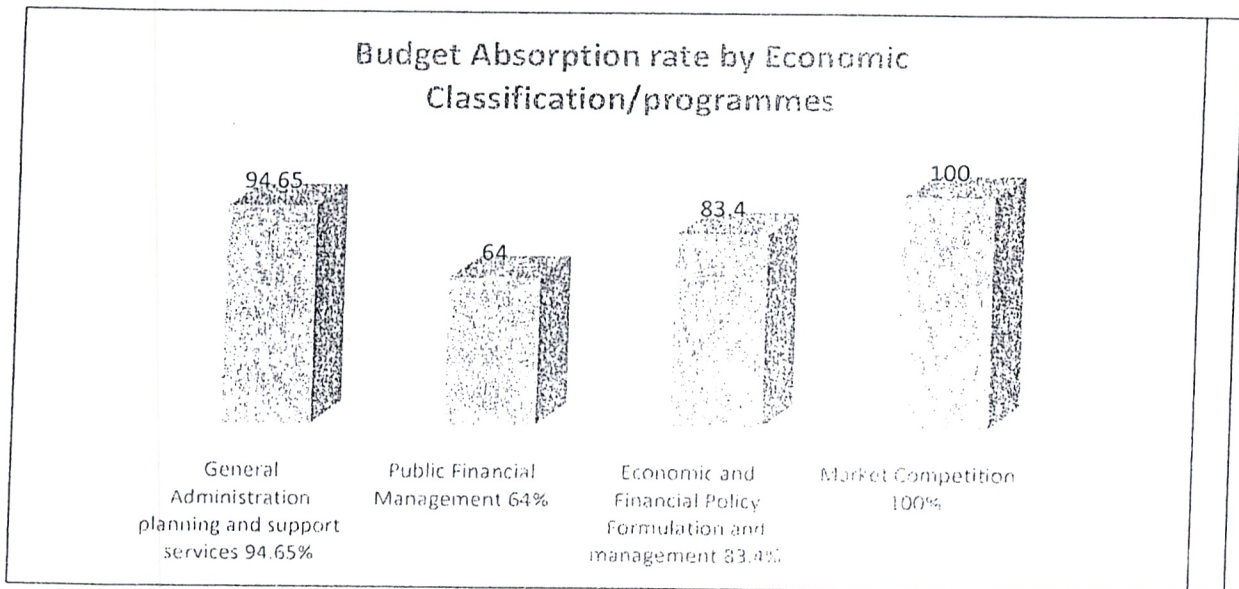
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Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in figure 2 below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 94.65%, Economic and Financial Policy Formulation and Management (83.4%) and Public Financial Management Programme at 64%.

Figure 2: Budget Absorption rate by Economic Classification/Programmes

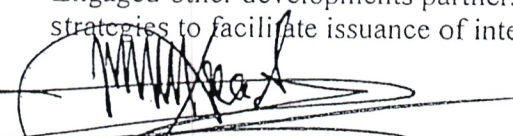


Some of the challenges the National Treasury faced while implementing the 2018/19 budget include:-

- 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

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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.

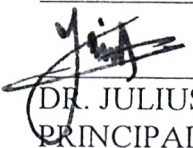
The Accounting Officer in charge of the National Treasury is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility 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.

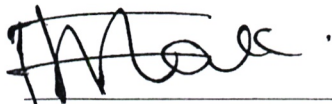
The Accounting Officer in charge of the National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). 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**

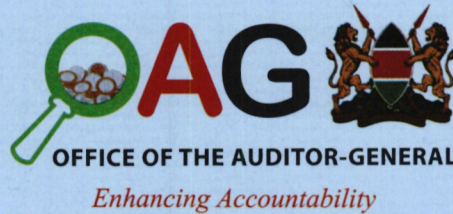
The National Treasury's financial statements were approved and signed by the Accounting Officer on \_\_\_\_\_ 2019.

  
\_\_\_\_\_  
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 THE CONSOLIDATED FUND SERVICES - PUBLIC DEBT FOR THE YEAR ENDED 30 JUNE, 2019 - THE NATIONAL TREASURY

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### REPORT ON THE FINANCIAL STATEMENTS

#### Adverse Opinion

I have audited the accompanying financial statements of the Consolidated Fund Services (CFS) - Public Debt set out on pages 3 to 18, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the statement of appropriation - recurrent for the year then ended, summary of significant accounting policies and other explanatory information, and the summary statement of public debt in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of the Consolidated Fund Services - Public Debt as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

#### Basis for Adverse Opinion

##### 1. Public Debt -Outstanding Balance

The summary statement of public debt reflects an outstanding loan balance of Kshs.5,451,153,803,416; (2018-Kshs.4,801,416,851,482) representing an increase of Kshs.649,736,951,934 or (13.5%) of the public debt. The statement also reflects loan repayments of Kshs.1,648,856,675,693 during the year but does not expressly indicate the amount procured during the year. However, review of the opening and closing balances and adjusted for the repayments during the year results in borrowings of Kshs.2,298,593,627,627 which have not been supported.

Further, out of the twenty-four (24) loans sampled and reviewed, eleven (11) had total balances different from those reflected in the summary statement of public debt prepared by The National Treasury. The total variance between the two sets of records

amounted to Kshs.95,241,461,497 as detailed in Appendix 1 attached. The causes of the variances have not been explained.

Under the circumstances, the accuracy of the outstanding loan balance of Kshs.5,451,153,803,416 as at 30 June, 2019 could not be confirmed.

## 2. Inaccuracies in the Cash and Cash Equivalents

As disclosed in Note 5 to the financial statements, the statement of assets and liabilities reflects bank balances of Kshs.249,080,863 as at 30 June, 2019. On the other hand, the Trial Balance reflects bank balances of Kshs.1,064,098,739 resulting in a variance of Kshs 815,017,876 which has not been explained or reconciled. Further, the Board of Survey Report on the bank balance as at 30 June, 2019 was not availed for audit review.

Under the circumstances, the accuracy of the reported bank balances of Kshs.249,080,86 as at 30 June, 2019 could not be confirmed

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

### Emphasis of Matter

#### Unauthorized Over-Expenditure - Finance Costs and Loan Interest

The summary statement of appropriation reflects a final expenditure budget and actual on comparable basis of Kshs.848,303,865,142 and Kshs.826,202,867,839 respectively, resulting in under expenditure of Kshs.22,100,997,303 or 3% of the budget. However, detailed analysis of the individual expenditure items revealed that an over-expenditure was incurred on Interest on Treasury Bonds (TB) and Foreign Borrowing (FB) of Kshs.50,247,591,640 and Kshs.76,011,232,922 respectively as detailed out below.

**Table 1: Over-Expenditure on Treasury Bonds Interest**

Item Head	TB	Final Budget Kshs.	Actual Expenditure Kshs.	Over-Expenditure Kshs.
204	5- year Bonds	37,965,606,134	47,571,289,633	(9,605,683,499)
208	9- year Bonds	5,586,022,043	8,253,519,533	(2,667,497,490)
209	10-year Bonds	29,460,704,211	39,119,696,828	(9,658,992,617)

Item Head	TB	Final Budget Kshs.	Actual Expenditure Kshs.	Over-Expenditure Kshs.
211	12-year Bonds	18,789,973,633	23,871,568,938	(5,081,595,305)
212	15-year Bonds	36,764,599,120	50,454,047,463	(13,689,448,343)
213	20-year Bonds	14,448,378,250	22,254,896,750	(7,806,518,500)
214	25-year Bonds	2,271,656,250	3,752,708,575	(1,481,052,325)
215	30-year Bonds	3,123,515,438	3,377,364,000	(253,848,562)
220	M Akiba	39,780,000	42,735,000	(2,955,000)
<b>Total</b>		<b>148,450,235,079</b>	<b>198,697,826,719</b>	<b>(50,247,591,640)</b>

**Table 2: Over-Expenditure on Foreign Borrowing Interest**

Account Code	Donor Account Name	Final Budget Kshs.	Actual Expenditure Kshs.	Over-Expenditure Kshs.
2410101	Abu Dhabi	11,893,814	13,605,355	(1,711,541)
2410101	Germany	408,971,350	440,696,795	(31,725,445)
2410101	Japan	537,279,662	637,032,865	(99,753,203)
2410101	USA	79,492,384	88,640,131	(9,147,747)
2410101	Netherlands	15,921,972	24,110,679	(8,188,707)
2410101	Saudi Fund	-	994,465	(994,465)
2410101	Belgium	95,504,796	120,093,485	(24,588,689)
2410101	Finland	664,694	21,432,688	(20,767,994)
2410101	China	-	12,520,182,323	(12,520,182,323)
2410101	Exim Bank-Korea	29,527,069	30,611,462	(1,084,393)
2410101	Canada	2,390,464	7,389,581	(4,999,117)
2410101	United Kingdom	2,053,321	2,746,731	(693,410)
2410101	Stan Chart-SDY	-	237,876	(237,876)
2410101	Exim Bank India	-	68,349,499	(68,349,499)
2410101	Standard Bank-BVR	-	77,305,785	(77,305,785)
2410101	Debut International	-	37,081,759,220	(37,081,759,220)

Account Code	Donor Account Name	Final Budget Kshs.	Actual Expenditure Kshs.	Over-Expenditure Kshs.
2410101	Israel	178,433,932	236,341,725	(57,907,793)
2410101	New Loans	-	259,351,428	(259,351,428)
2410102	Eastern and Southern	-	19,663,446,393	(19,663,446,393)
2410102	EIB	23,440,104	498,571,237	(475,131,133)
2410102	Austria	-	2,782,956	(2,782,956)
2410102	OPEC	65,023,176	68,725,896	(3,702,720)
2410102	New Loans	-	425,557,656	(425,557,656)
2410102	Stan Chart-SDY	-	1,267,620	(1,267,620)
2410102	EXIM Bank India	86,565,419	91,652,332	(5,086,913)
2410102	China Development Bank	-	5,165,508,896	(5,165,508,896)
<b>Total</b>		<b>1,537,162,157</b>	<b>77,548,395,079</b>	<b>(76,011,232,922)</b>

Although Management has explained that part of the over expenditure on interest on Treasury Bonds of Kshs.28,915,693,668 related to pending bills for the financial year 2017/2018, the amount had not been disclosed in the financial statements for that year. The over expenditure has not been authorized.

### Key Audit Matters

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

### Other Matter

#### 1. Unresolved Prior Year Matters

##### 1.1 Unsupported Balances

As previously reported, the statement of assets and liabilities for the year ended 30 June, 2018 reflected a prior year adjustment balance of Kshs.27,251,420,599 which was not supported by a journal voucher or Notes to the financial statements. In addition, the general ledger under payments reflected a balance of Kshs.516,547,493,884 which included a credit balance of Kshs.1,244,520,000 under Debut International SVRNG Bond (USD 2.75 BN). The balance was not supported by any documentary evidence. Further, the ledger reflected expenditure for new loans

and new administrative costs of Kshs.7,919,757,971 and Kshs.59,894,313,393 respectively but details of these payments were not provided.

Consequently, the accuracy and completeness of these balances could not be confirmed.

## 1.2 Accuracy of the Financial Statements

As reported in the previous year, a comparison of the statement of receipts and payments and the ledger for the year ended 30 June, 2018 reflected different accounts balances in respect to the same items as indicated:

Item Description	Financial Statement Balance Kshs.	Ledger Balance Kshs.	Variance Kshs.
Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860
Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,966	171,641,763
Exchequer Releases	517,161,876,534	-	517,161,876,534

Management has however not provided any analysis and supporting documents to support the adjustments. The accuracy of the balances reflected in the financial statements could therefore not be confirmed.

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

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

## **Conclusion**

As required by Section 7 (1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

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

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

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

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

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

and risk management, and ensuring the adequacy and effectiveness of the control environment.

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:


- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide

a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the CFS-Public Debt ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the CFS-Public Debt to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the CFS-Public Debt to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

**Nairobi**

**14 January, 2021**

## Appendix 1-Sampled Loans

No.	Project Name	Donor	Original Loan Amount (USD)	Loan Balance (USD)	CBK Exchange Rate (28 June, 2019)	Loan Balance (Kshs)	Balance as Per Statement (Kshs)	Variance (Kshs)
1	Horticulture. & Traditional food crops Development - F/KEN/HOR-AGR/94/20 (1995011)	AfDB	9,210,000	232,000	102.3	23,733,206	2,319,846,467	(2,296,113,261)
2	Rural Roads Upgrading (1991028)	AfDB	25,000,000	1,348,000	102.3	137,898,108	2,296,143,137	(2,158,245,029)
3	Export Development Programme (1993012)	AfDB	28,240,000	11,583,000	102.3	1,184,921,209	2,533,205,512	(1,348,284,303)
4	Kenya Urban Support Program Project No. 61340-KE (2017046)	IDA	300,000,000	135,453,000	102.3	13,856,611,630	13,856,634,374	(22,744)
5	Mombasa-Nairobi -Addis Ababa Ph.2-2009021	AfDB	125,000,000	49,604,000	102.3	5,074,404,873	10,247,143,476	(5,172,738,603)
6	China Buyer Credit Agreement Construction of Nairobi Icd and Access Roads 2017009	China	181,887,500	117,692,000	102.3	12,039,691,524	12,039,682,473	(9,051)
7	Upgrade of Kibwezi-Mutomo -Kitui Road 2016052	China	194,740,598	111,586,000	102.3	11,415,058,104	11,415,095,230	(37,126)
8	PTA Loan USD 750MN 2017049	P.T.A Bank	750,000,000	95,333,000	102.3	9,752,403,834	75,837,139,733	(66,084,735,899)
9	PTA Loan USD 500 Mn 2017015	P.T.A Bank	500,000,000	225,000,000	102.3	23,017,117,500	41,198,367,030	(18,181,249,530)
10	Kenya Nairobi -Naivasha Standard Gauge Railway Project 2015023	Exim Bank of China	1,482,745,029	1,004,933,000	102.3	102,802,937,514	102,802,942,302	(4,788)
11	Kenya Mombasa Nairobi Standard Gauge Railway project (comm) 2014008	Exim Bank of China	2,003,584,029	1,906,107,000	102.3	194,991,505,718	194,991,484,555	(21,163)
	<b>Total</b>		<b>5,600,407,156</b>	<b>3,658,871,000</b>		<b>374,296,283,219</b>	<b>469,537,684,289</b>	<b>(95,241,461,497)</b>

**THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT**

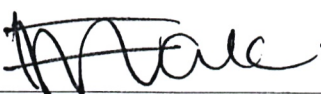
**Reports and Financial Statements  
For the year ended June 30, 2019**

**V. STATEMENT OF RECEIPTS AND PAYMENTS**

	Note	2018-2019	2017-2018
		Kshs	Kshs
<b>RECEIPTS</b>			
Exchequer releases	1	826,202,867,839	517,161,876,534
<b>TOTAL RECEIPTS</b>		<b>826,202,867,839</b>	<b>517,161,876,534</b>
<b>PAYMENTS</b>			
Transfer to other Government entities	2	999,900,800	196,472,098
Finance Costs, including Loan Interest	3	322,007,322,696	262,007,651,761
Repayment of principal on Domestic and Foreign borrowing	4	504,028,939,689	254,343,370,025
<b>TOTAL PAYMENTS</b>		<b>827,036,163,185</b>	<b>516,547,493,884</b>
<b>SURPLUS/DEFICIT</b>		<b>(833,295,346)</b>	<b>614,382,650</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 \_\_\_\_\_ 2019 and signed by:

  
DR. JULIUS MUIJA, PhD, EBS  
PRINCIPAL SECRETARY

  
FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No. 6338

THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT

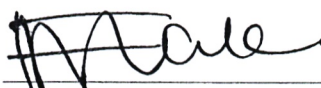
Reports and Financial Statements  
For the year ended June 30, 2019

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2018-2019	2017-2018
		Kshs	Kshs
<b>FINANCIAL ASSETS</b>			
Cash and Cash Equivalents			
Bank Balances	5	249,080,863	968,953,164
<b>Total Cash and cash equivalent</b>		<b>249,080,863</b>	<b>968,953,164</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>249,080,863</b>	<b>968,953,164</b>
<b>FINANCIAL LIABILITIES</b>			
<b>NET FINANCIAL ASSETS</b>		<b>249,080,863</b>	<b>968,953,164</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd	6	968,953,164	(26,896,850,085)
Prior year adjustment	8	113,423,046	27,251,420,599
Surplus/Deficit for the year		(833,295,346)	614,382,650
<b>NET FINANCIAL POSITION</b>		<b>249,080,864</b>	<b>968,953,164</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 \_\_\_\_\_ 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  
CFS PUBLIC DEBT**

**Reports and Financial Statements  
For the year ended June 30, 2019**

**STATEMENT OF CASH FLOWS**

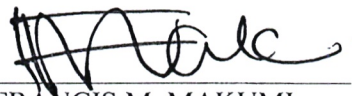
		2018-2019	2017-2018
		Kshs	Kshs
<b>Receipts for operating income</b>			
Exchequer Releases	1	826,202,867,839	517,161,876,534
<b>Payments for operating expenses</b>			
Transfers to other Government entities	2	(999,900,800)	(196,472,098)
Finance Costs, including Loan Interest	3	(322,007,322,696)	(262,007,651,761)
<b>Adjusted for:</b>			
Change in payables		-	(27,654,564,640)
Adjustments during the year	8	113,423,046	27,251,420,599
<b>Net cash flow from operating activities</b>		<b>503,309,067,389</b>	<b>262,204,123,858</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
<b>Net cash flows from Investing Activities</b>			
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Repayment of principal on Domestic and Foreign borrowing	4	(504,028,939,689)	(254,343,370,025)
<b>Net cash flow from financing activities</b>		<b>(504,028,939,689)</b>	<b>(254,343,370,025)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
		<b>(719,872,300)</b>	<b>211,238,609</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>	6	<b>968,953,164</b>	<b>757,714,555</b>
<b>Cash and cash equivalent at END of the year</b>	5	<b>249,080,864</b>	<b>968,953,163</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 \_\_\_\_\_ 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. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

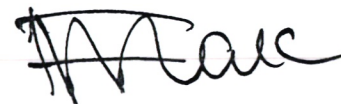
Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>RECEIPTS</b>						
Exchequer releases	870,615,957,739	(22,312,092,597)	848,303,865,142	826,202,867,839	22,100,997,303	97%
Transfers from Other Government Entities						
<b>TOTAL RECEIPTS</b>	870,615,957,739	(22,312,092,597)	848,303,865,142	826,202,867,839	22,100,997,303	97%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	399,980,973,117	(31,432,024,942)	368,548,948,175	322,007,322,696	46,541,625,479	88%
Repayment of principal on Domestic and Foreign borrowing	470,634,984,622	9,119,932,346	479,754,916,968	504,028,939,689	-24,274,022,721	105%
Other Payments- Refund to Exchequer				999,900,800	-999,900,800	
<b>TOTAL PAYMENTS</b>	870,615,957,739	-22,312,092,596	848,303,865,143	827,036,163,185	21,267,701,958	97%
<b>Surplus/ Deficit</b>	0	-1	-1	-833,295,346	833,295,345	

*The budget utilization in respect of finance costs for external loan interests and principle repayments was due to fluctuations in exchange rates and repayments of T.Bonds which was not funded in 2017/2018 but was financed in 2018/2019*

The entity financial statements were approved on \_\_\_\_\_ 2019 and signed by:



DR. JULIUS MUIJA, PhD, EBS  
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FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No. 6338

THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT

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For the year ended June 30, 2019

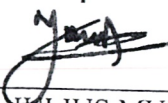
III. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

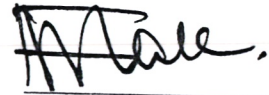
Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
<b>RECEIPTS</b>						
Exchequer releases	870,615,957,739	(22,312,092,597)	848,303,865,142	826,202,867,839	22,100,997,303	97%
Transfers from Other Government Entities						
<b>TOTAL RECEIPTS</b>	870,615,957,739	(22,312,092,597)	848,303,865,142	826,202,867,839	22,100,997,303	97%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	399,980,973,117	(31,432,024,942)	368,548,948,175	322,007,322,696	46,541,625,479	88%
Repayment of principal on Domestic and Foreign borrowing	470,634,984,622	9,119,932,346	479,754,916,968	504,028,939,689	(24,274,022,721)	105%
Other Payments- Refund to Exchequer				999,900,800	-999,900,800	
<b>TOTAL PAYMENTS</b>	870,615,957,739	(22,312,092,597)	848,303,865,142	826,202,867,839	21,267,701,958	97%
<b>Surplus/Deficit</b>	0	-1	-1	-833,295,346	833,295,345	

Notes

The budget utilization in respect of finance costs for external loan interests and principle repayments was due to fluctuations in exchange rates and repayments of T.Bonds which was not funded in 2017/2018 but was Financed in 2018/2019

The entity financial statements were approved on \_\_\_\_\_ 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  
CFS PUBLIC DEBT**

**Reports and Financial Statements  
For the year ended June 30, 2019**

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**XI. 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. Consolidated Fund Services – Public Debt**

The financial statements are for the Consolidated Fund services. The financial statements encompass the consolidated fund services reporting as specified under section 81 of the PFM Act 2012 .

**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.

**3. Significant Accounting Policies**

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

**a) Recognition of Receipts**

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

**• Tax Receipts**

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

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**SIGNIFICANT ACCOUNTING POLICIES**

- **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 CFS- Public Debt.

- **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 CFS- Public Debt.

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

During the year ended 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 Consolidated Services Fund – Public Debt recognises all payments when the event occurs and the related cash has actually been paid out by CFS- Public Debt.

- **Compensation of Employees**

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

- **Use of Goods and Services**

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

- **Interest on Borrowing**

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

## 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 CFS- Public Debt and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

### **4. In-kind contributions**

In-kind contributions are donations that are made to CFS- Public Debt 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.

### **5. 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.

### **6. 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 nil compared to Kshs nil in prior period as indicated on note N/A.

There were no other restrictions on cash during the year.

## SIGNIFICANT ACCOUNTING POLICIES

### 7. 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.

### 8. 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.

### 9. 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 CFS- Public Debt 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.

### 10. 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.

### 11. Comparative Figures

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

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**SIGNIFICANT ACCOUNTING POLICIES**

**12. 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.

**13. 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.

**14. 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.

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XII. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHEQUER RELEASES

Description	2018-2019	2017-2018
	Kshs	Kshs
Total Exchequer Releases for quarter 1	153,620,103,840	75,389,848,766
Total Exchequer Releases for quarter 2	184,046,134,971	140,241,442,195
Total Exchequer Releases for quarter 3	199,448,818,821	93,618,938,463
Total Exchequer Releases for quarter 4	289,087,810,207	207,911,647,110
<b>Total</b>	<b>826,202,867,839</b>	<b>517,161,876,534</b>

2 TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2018-2019	2017-2018
	Kshs	Kshs
Refund to Exchequer Account	999,900,800	-
Transfer to CFS R.052	-	196,472,098
<b>TOTAL</b>	<b>999,900,800</b>	<b>196,472,098-</b>

(i) The Amount of Ksh 999,900,800 comprise of opening bank balance of kshs. 968,952,263.90 and part of exchequer funding for the year kshs. 30,947,636.10 that was transfer to the exchequer on 3<sup>rd</sup> August 2018.

(ii) The transfer of kshs. 196,472,098 relate to exchequer issue for CFS R52 for Guarantee debt that had been funded under CFS R050 in error.

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3

FINANCE COSTS, INCLUDING LOAN INTEREST

Explanation	2018-2019	2017-2018
	Kshs	Kshs
Interest Payments on Foreign Borrowings	108,004,813,414	84,461,030,044
Interest on CBK Overdraft	2,523,255,059	2,493,536,827
Interest on Domestic Debt - T-Bonds	210,721,345,304	138,307,103,161
Short Term Borrowing (T-Bills interest)		36,104,826,935
Pre-1997 Domestic interest	694,597,465	725,206,095
T.Bond & T.Bills Advertisement Costs	20,576,454	19,491,632
M.Akiba	42,735,000	-
<b>Total</b>	<b>322,007,322,696</b>	<b>262,111,194,694</b>

i). The Treasury Bill Interest of Ksh 79,033,156,822.00 was repaid using the proceed from the market. No funding was received from the exchequer. An amount of Ksh 79,033,156,822.00 is included in the total T.Bill redemption for the financial year 2018/2019 of Ksh 1,170,882,550,000.00

ii). During the Financial year 2018/2019 an amount of T. Bill proceeds Ksh 1,161,637,089,288.25 was raised in the Market.

4 REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

Explanation	2018-2019	2017-2018
	Kshs	Kshs
Principal repayments on domestic loans	234,379,675,000	111,700,845,296
CBK Pre-1997 loans	1,110,000,000	1,110,000,000
Repayment of Principal from Foreign Lending & On – Lending	266,539,264,689	141,428,981,796
Shortfall on T-Bills'	2,000,000,000	-
<b>Total</b>	<b>504,028,939,689</b>	<b>254,239,827,092</b>

5. Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2018-2019	2017-2018
				Kshs	Kshs
PUBLIC DEBT-1000204378	KSHS	REC	-	249,080,863	968,953,164
<b>Total</b>				<b>249,080,863</b>	<b>968,953,164</b>

THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT

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6. Funds Balance Brought Forward

Item	2018-2019 Kshs	2017-2018 Kshs
Bank accounts	968,953,164	1,741,262,570
Sinking Funds		(2,093,438)
Outstanding items awaiting clearance		(27,652,471,202)
<b>Total</b>	<b>968,953,164</b>	<b>(25,913,302,070)</b>

7. RE-STATEMENT NOTE

Description	2017-2018	2017-2018	Variance
	Kshs	Kshs	Kshs
	Amended	Audited	
Principal Repayment (i)	141,428,981,796	141,532,524,7259	103,542,933
Interest Payment (ii)	84,461,030,044	84,357,487,111	103,542,933
Bank Balance (iii)	1,741,262,570	757,714,555	983,548,015

i) In the audited statement it includes an of Amount Kshs. 103,542,933.00 which is a principal repayment on Abu Dhabi but in the amended statement the amount was reduced by the same amount due to lack of budget provision on principal repayments

ii) The interest repayment in the amended statement was increased by an amount of kshs 103,542,933.00 which was principal repayment on Abu Dhabi charged to item of interest in new loan account.

iii) The amount of bank balance was re-stated from Kshs. 757,714,555.00 to Cash Balance of Kshs. 1,741,262,570.00 as 30<sup>th</sup> June, 2017.

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8. PRIOR YEAR ADJUSTMENTS

	2018-2019	2017-2018
	Kshs	Kshs
Balance on Sinking Fund		2,093,438
Items awaiting clearance		27,652,471,202
Adjustment on bank account balances	113,423,046	(783,690,750)
Adjustment on bank account balances		(206,566,875)
Adjustment on bank account balances		(161,754,722)
Adjustment on bank account balances		(994,963)
Adjustment on bank account balances		(207,047,872)
Adjustment on payable		27,654,564,640
<b>Total</b>	<b>113,423,046</b>	<b>26,267,872,584</b>

*The amount of Ksh 113,423,046 relates to refund from Central bank for P.A No 112753 in relation to interest paid to Intensa San Paolo for Financial year 2017/2018 which was credited to the Public debt Bank account on 17<sup>th</sup> July 2018.*

THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT

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**XIII. 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)
1	Accuracy of the Financial Statement	The misstatements observed during audit were corrected through amendment of the Financial Statements.	Mr. Makumi / Dorcas / Tonui / Anyanga	Not resolved	At audit review
2	Unsupported Balances	The unsupported balance relates to transactions under agency period that have since been supported.	Mr. Makumi / Dorcas / Tonui / Anyanga	Not resolved	At audit review
3	Outstanding Loan balances	Outstanding loan balances as at 30 <sup>th</sup> June, 2018 are supported with schedules generated from electronic debt register where movements on disbursements and repayments are recorded.	Mr. Makumi / Dorcas / Tonui / Anyanga	Not resolved	At audit review
4	Failure to prepare monthly bank reconciliations statements.	At the time of audit, Bank reconciliation statement for June, 2018 was provided for audit. The statements for the period July, 2017 to May, 2018 were later submitted.	Mr. Makumi / Dorcas / Tonui / Anyanga	Not resolved	At audit review

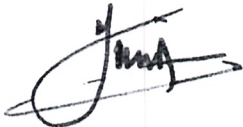
**THE NATIONAL TREASURY AND PLANNING  
CFS PUBLIC DEBT**

**Reports and Financial Statements  
For the year ended June 30, 2019**

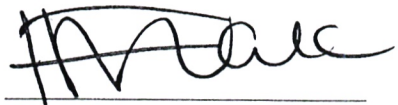
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.



DR. JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY



FRANCIS M. MAKUMI  
PRINCIPAL ACCOUNTANT  
ICPAK MEMBER No. 6338


OFFICE OF THE AUDITOR GENERAL  
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REGISTRY

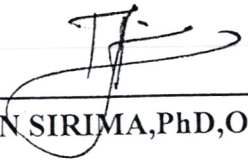
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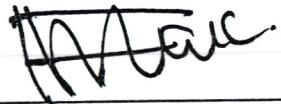
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THE NATIONAL TREASURY  
DEBT MANAGEMENT DEPARTMENT  
SUMMARY STATEMENT OF PUBLIC DEBT

		AMOUNT OUTSTANDING AS AT 30-06-2018 Kshs.	AMOUNT REPAID IN THE YEAR ENDED 30-06- 2019 Kshs.	AMOUNT OUTSTANDING AS AT 30-06-2019 Kshs.
<b>EXTERNAL LOANS</b>				
Pound Sterling Loans	Part I	271,679,223	221,034,892	65,656,442
US Dollar Loans	Part II	2,092,922,917,126	239,593,524,168	2,356,733,192,910
Euro Loans	Part III	167,618,909,382	18,666,513,234	257,267,320,255
Other Currencies	Part IV	143,085,596,453	10,343,428,400	138,401,671,061
<b>SUB TOTAL</b>		<b>2,403,899,102,184</b>	<b>268,824,500,693</b>	<b>2,752,467,840,668</b>
<b>INTERNAL LOANS</b>				
Pre-1997 Govt. O.D. Debt	Part V	23,338,755,686	1,110,000,000	22,228,755,686.00
Treasury Bonds		1,495,557,343,612	208,039,625,000	1,724,207,207,062.00
Short Term Borrowing		878,621,650,000	1,170,882,550,000	952,250,000,000.00
<b>SUB TOTAL</b>		<b>2,397,517,749,298</b>	<b>1,380,032,175,000</b>	<b>2,698,685,962,748</b>
<b>GRAND TOTAL</b>		<b>4,801,416,851,482</b>	<b>1,648,856,675,693</b>	<b>5,451,153,803,416</b>

  
JULIUS MUIA, PhD, EBS  
PRINCIPAL SECRETARY

  
HARON SIRIMA, PhD, OGW  
DIRECTOR GENERAL-PDMO

  
FRANCIS MAKU  
PRINCIPAL ACCOUNTANT  
ICPAK Member Number: 6338