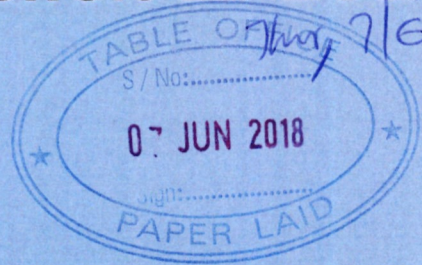
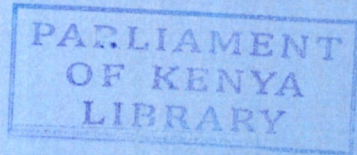


REPUBLIC OF KENYA



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by H. W. W. W. W.
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OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA LOCAL LOANS SUPPORT FUND

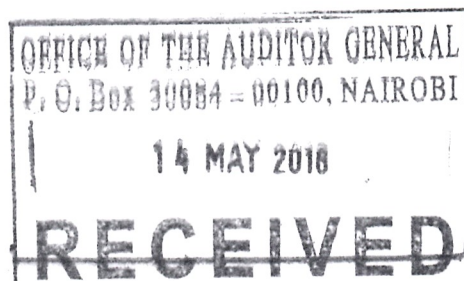
FOR THE YEAR
ENDED 30 JUNE 2017





THE NATIONAL TREASURY
KENYA LOCAL LOANS SUPPORT FUND
AMENDED REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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



KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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 Finance, who is responsible for the general policy and strategic direction of the Ministry.

Vision

An institution of excellence in economic and public financial management.

Mission

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

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, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

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 Order No.2/2013. 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;

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Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- 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 encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

(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 for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

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.

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

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:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

- 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 2017 and who had direct fiduciary responsibility were:

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Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, EBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
7.	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.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	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. Tom Khakame
15.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
16.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
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.	Director of Administration	Mr David Oleshege, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Chief Finance Officer	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Momanyi
27.	Director, Human Resource Management and Development	Ms. Susan Mucheru
28.	Ag Director, Information Communication and Technology	Mr. George Kariuki
29.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
30.	Head, Public Communications	Mr. Maina Kigaga
31.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
32.	Head, Government Clearing Agency	Mr. Felix Ateg

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Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

(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:

Internal Audit Unit

The National Treasury has a well resourced internal Audit Unit. The unit is 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 officers on a regular basis.

Audit Committee

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the 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.

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 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.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

(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
Website: www.treasury.go.ke

(f) The National Treasury Bankers

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

(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

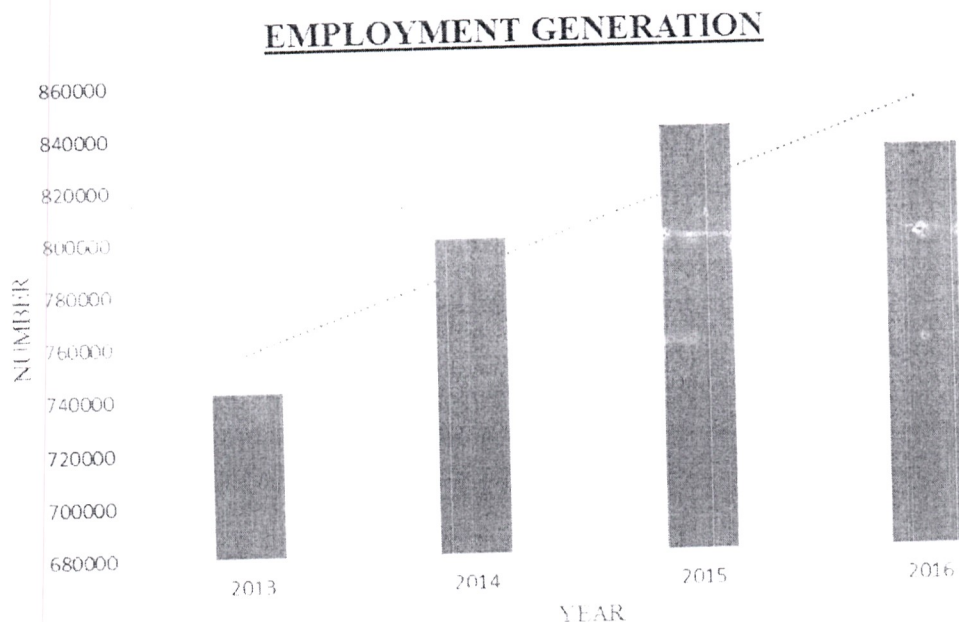
KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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, the economy grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub- Sahara Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

The annual inflation rate was 8.1% in June 2017 compared to 6.5% in the same period in June 2016. This was largely on account of high food prices following adverse weather conditions. The Kenya shilling exchange rate however continued to display relatively less volatility compared to the East African currencies while the official foreign exchange reserves held by the Central Bank grew to **US\$ 8,500 million** (5.7 month of import cover) in June 2017 from **US\$ 8,267 million** (5.4 months of import cover) in the same period in 2016. The economic growth and stable macroeconomic environment led to the creation of 832,900 new jobs in 2016 broken down into 85,600 jobs in the modern sector and 747,300 jobs in the informal sector. Cumulatively, the economy is estimated to have generated 3,217,200 new jobs between 2013-2016 as shown in the bar graph below:-



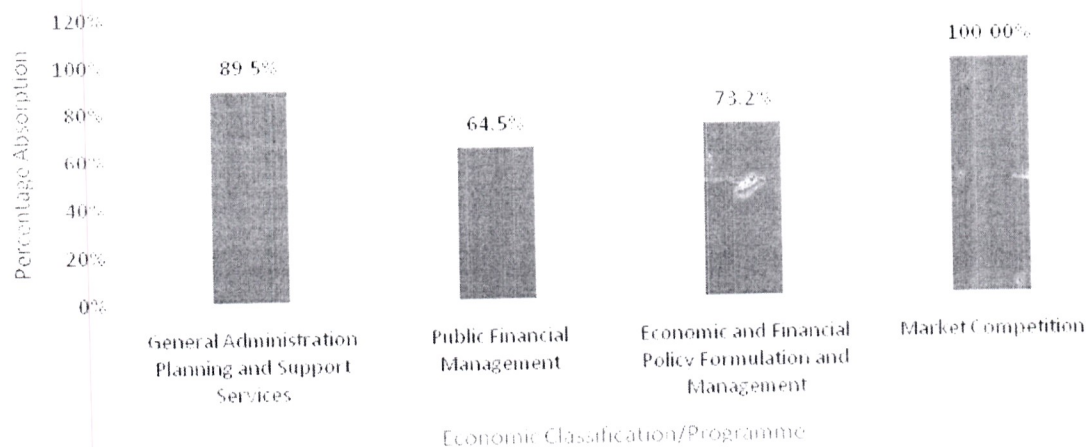
In terms of budget performance, the National Treasury expenditure stood at **Kshs.35,563,916,019.00** against an approved budget of **Kshs.37,527,564,690.00** in Recurrent while Development expenditure stood at **Kshs.16,668,950,121.00** against an approved budget of **Kshs.21,527,884,302.00** giving an overall absorption rate of 88.5%. The National Treasury

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

implemented the 2016/17 budget within four economic classification/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 the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services (89.5%), Economic and Financial Policy Formulation and Management (73.2%) and Public Financial Management Programme at 64.5%.

Budget absorption rate by Economic Classification/Programme



Utilisation of the budget was carried out through various activities as shown in the table below:

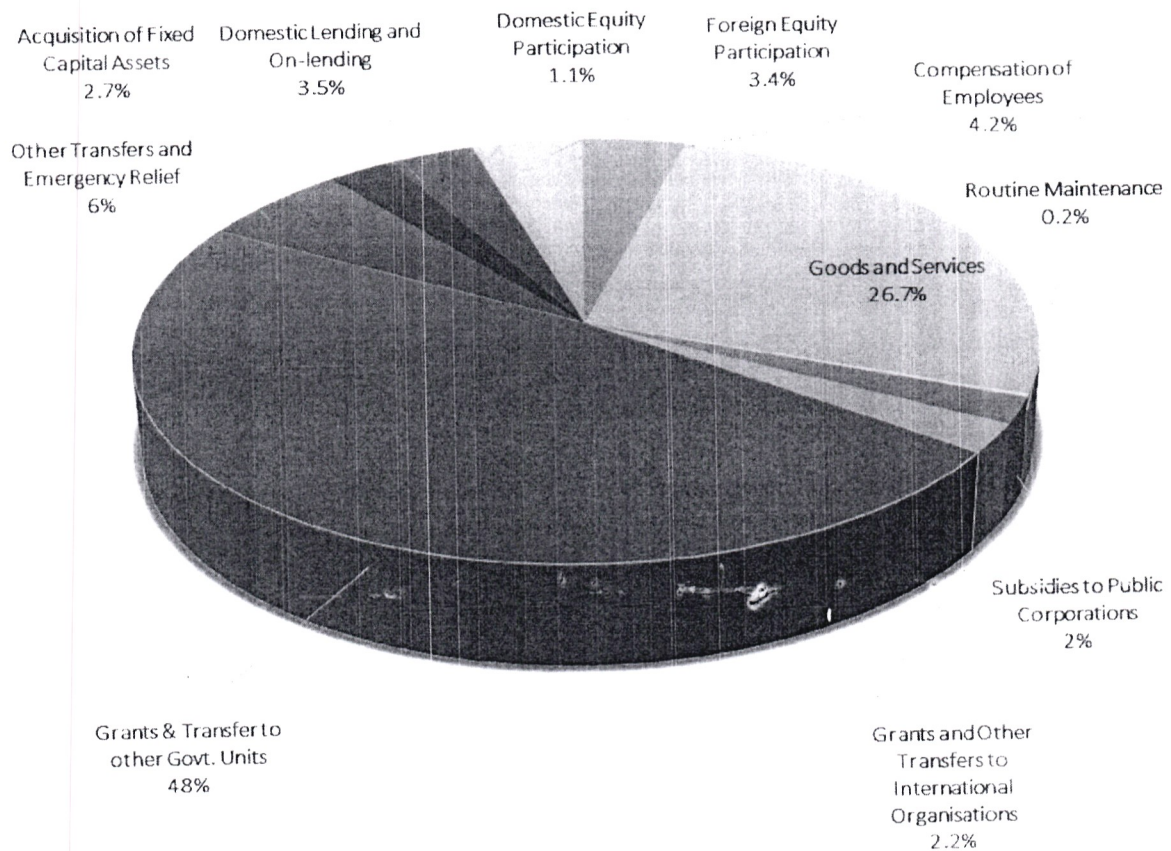
	Approved Budget Allocation	Actual Payments	Variance
Payments	KShs	KShs	KShs
Compensation of Employees	2,393,400,581.00	2,177,407,291.15	215,993,289.85
Social Contributions	0.00	0.00	0.00
Goods and Services	16,204,555,515.00	13,898,644,098.30	2,305,911,416.70
Routine Maintenance	121,383,364.00	89,824,691.10	31,558,672.90
Subsidies to Public Corporations	1,050,000,000.00	1,050,000,000.00	0.00
Grants and Other Transfers to International Organisations	1,283,656,005.00	1,150,831,076.15	132,824,928.85
Grants & Transfer to other Govt. Units	25,267,659,516.00	25,060,536,140.65	207,123,375.35
Other Transfers and Emergency Relief	3,710,329,340.00	3,152,942,824.75	557,386,515.25
Social Security Benefits	1,805,634.00	0.00	1,805,634.00
Budget contingency Reserve	0.00	0.00	0.00
Acquisition of Fixed Capital Assets	2,332,414,837.00	1,418,732,823.25	913,682,013.75
Domestic Lending and On-lending	2,015,000,000.00	1,850,000,000.00	165,000,000.00
Domestic Equity Participation	600,000,000.00	600,000,000.00	0.00
Foreign Equity Participation	4,075,244,200.00	1,782,536,438.00	2,292,707,762.00
Total Payments	59,055,448,992.00	52,231,455,383.35	6,823,993,608.65

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

Key Performance Highlights (Continued)

Percentage of Total payments



The Ministry's payments mainly comprise of Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and employee compensation, subscriptions and acquisition of assets.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

Total Payment Breakdown

	Year to 30 th June 2017	Year to 30 th June 2016	Change	%
Payment	KShs	KShs	KShs	Change
Compensation of Employees	2,177,407,291.15	2,226,957,812.40	49,550,521.25	(2.2)
Social Contributions	0.00	0.00	0.00	0
Goods and Services	13,898,644,098.30	10,828,491,721.50	3,072,355,888.95	(28.4)
Routine Maintenance	89,824,691.10	217,510,677.30	127,685,986.20	58.7
Subsidies to Public Corporations	1,050,000,000.00	0.00	1,050,000,000.00	0
Grants and Other Transfers to International Organisations	1,150,831,076.15	154,303,947.45	996,527,128.70	645
Grants & Transfer To Other Govt. Units	25,060,536,140.65	25,341,007,430.65	280,471,290.00	(1.1)
Other Transfers and Emergency Relief	3,152,942,824.75	9,995,466,792.70	6,842,523,967.95	(68.4)
Social Security Benefits	0.00	0.00	0.00	0
Budget Contingency Reserve	0.00	5,000,000,000.00	5,000,000,000.00	(1000)
Acquisition of Fixed Capital Assets	1,418,732,823.25	2,333,505,123.40	914,772,300.15	(39.2)
Domestic Lending and On-lending	1,850,000,000.00	2,020,826,471.05	170,826,471.05	(8.4)
Domestic Equity Participation	600,000,000.00	375,000,000.00	225,000,000.00	60
Foreign Equity Participation	1,782,536,438.00	3,750,304,751.30	1,967,768,313.30	(52.4)
Total Payments	52,232,866,140.00	62,243,374,727.75	10,005,846,797.25	

The total payments for FY 2016/2017 stood at **Kshs.52,232,866,140.00** representing an decrease from **Kshs.62,243,374,727.75** for FY 2015/2016.

The decrease in payments is attributable to a significant decrease in Transfers to Other Government entities i.e. Projects, State Corporations, Semi-Autonomous Government Agencies (SAGAs) and contingency reserves. Further, there was also a decrease in compensation of employees attributed to staff transferred from the Ministry and retirement.

Financial Assets Summary

Financial Assets	As at 30 th June 2017	As at 30 th June 2016	Change	%
	KShs	KShs	KShs	Change
Bank Balances	1,781,246,794.00	2,267,285,756.00	486,038,962.00	(21.4)
Cash Balances	1,490,696.00	1,946,189.00	455,493.00	(23.4)
Accounts Receivables - Outstanding Imprest & Salary Advances	464,425,979	592,378,338.00	127,952,359	(21.6)
Total Financial Assets	2,247,163,469.00	2,861,610,283.00	614,446,446,814.00	

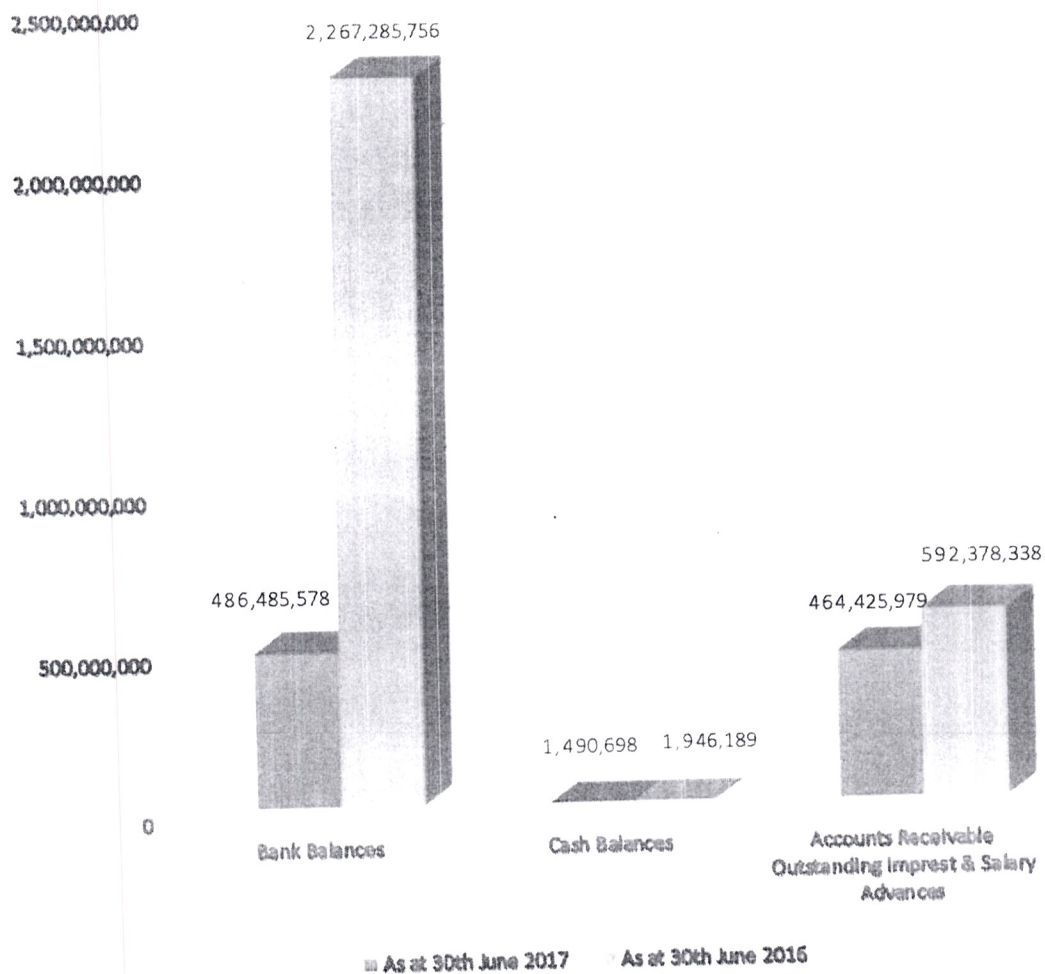
Bank balances decreased by 21.4% as a result of decreased deposits held in our Deposit Bank Account.

Cash balances declined by 23.4% due to increased cash related transactions at the year-end. There is also a decline in accounts receivables by 21% as a result of prompt accounting for imprest advance by the imprest holders and funds released to projects.

Total Financial Assets in Kshs

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)



Cash Flows and Cash Position

The cash and bank balances held by the Ministry as at 30th June 2017 was **Kshs.1,782,737,490/=** compared to **Kshs.2,269,231,945.00** held as at 30th June 2016.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of **Kshs.302.2 billion** in 2016/2017 up from **Kshs.275.1 billion** in 2015/2016. Since their establishment in March 2013, County Governments have received more than **Kshs.1 trillion** from the National Government. The National Treasury submitted to Parliament the Equalization Fund Appropriations bill which has since been enacted and further conducted public participation to identify projects to be implemented under this fund. In addition the National Treasury trained over 800 officers from County Governments on Public Financial Management in 2016/17.

Other key achievements during the period under review are;

- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23rd March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre- Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.
- The National Treasury hosted the 2nd High Level Meeting on Global Partnership on Economic Development Conference in Nairobi from 28th November to 1st December 2016, where ministers and high level representatives of developing and developed countries as well as heads of multilateral and bilateral development agencies committed to effective development cooperation as a means to achieve the universal Sustainable Development Goals (SDGs).

Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

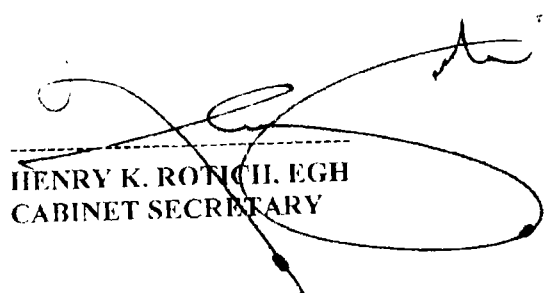
1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.

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

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. Enhance 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.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. RONCHI, EGH
CABINET SECRETARY

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

I. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

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

The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the financial statements for Share Subscriptions and Capital Contribution to International Organizations 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 ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the 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 Share Subscriptions and Capital Contribution to International Organizations 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, 2016, and of the entity's financial position as at that date. The Accounting Officer in charge of the Share Subscriptions and Capital Contribution to International Organizations 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.

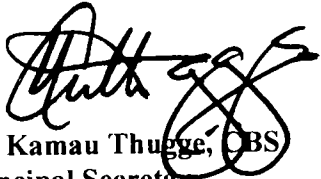
The Accounting Officer in charge of the Share Subscriptions and Capital Contribution to International Organizations confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received 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 Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on _____ 2017.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)



Dr. Kamau Thugge, CBS
Principal Secretary



George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA LOCAL LOANS SUPPORT FUND FOR THE YEAR ENDED 30 JUNE 2017

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 17 to 25, which comprise the statement of financial assets as at 30 June 2017, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

I 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.

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Un-supported Balances

The balances reflected in the statement of assets under cash balances, investment at cost (CSFC) and accrued interest, of Kshs.5000,000.00, Kshs.10,410,373.50, and Kshs.71,595,406.15, respectively have not been supported by notes, analyses and other documentary evidence. The accuracy of the balances cannot therefore be ascertained.

2. Failure to Redeem Stocks

In the audit reports for previous years, reference had been made to stocks valued at Kshs.10,430,700.00 which were past their redemption dates with the last redemption date for a sum of Kshs.17,400.00 having been on 6 February 2010.

The National Treasury had explained in the past that the stocks were redeemed some years ago but erroneously accounted for as revenue. However, records to confirm the erroneous accounting for receipts and subsequent correction in the books of account have not been made available for audit review to date.

3. Winding Up of the Fund

According to information available, the Kenya Local Loans Support Fund is in the process of being wound up in line with recommendations of the Public Accounts

Report of the Auditor-General on the Financial Statement of Kenya Local Loans Support Fund for the year ended 30 June 2017

Committee and instructions by the National Treasury that all dormant funds be wound up. However, the process had not been completed as at 30 June 2017.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such 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.

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 the management either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

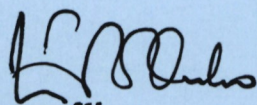
Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Fund's 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 matter 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.

I am independent of Kenya Local Loan Support Fund in accordance with ISSAI 30 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



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

Nairobi

14 May 2018

KENYA LOCAL LOANS SUPPORT FUND

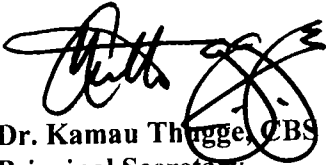
Reports and Financial Statements For the year ended June 30, 2017 (Kshs)


II. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2016-2017 Kshs	2015-2016 Kshs
RECEIPTS			
Exchequer releases	1	0	0
TOTAL RECEIPTS		0	0
PAYMENTS			
Payments – Redemption of stocks	2	0	0
TOTAL PAYMENTS		0	0
SURPLUS/DEFICIT		0	0

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 4th 2018


Dr. Kamau Thugge, CBS
Principal Secretary


George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262

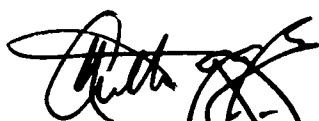
KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

III. STATEMENT OF FINANCIAL ASSETS

	Note	2016-2017 Kshs	2015-2016 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	4	5,000,000.00	5,000,000.00
Cash Balances		0	0
Total Cash and cash equivalent		5,000,000.00	5,000,000.00
Investment at cost (CSFC)	3(i)	10,410,373.50	10,410,373.50
Accrued interest yet to be received	3(ii)	71,595,406.15	71,595,406.15
TOTAL FINANCIAL ASSETS		87,005,779.65	87,005,779.65
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions		0	0
NET FINANCIAL ASSETS		87,005,779.65	87,005,779.65
REPRESENTED BY			
Fund balance b/fwd		87,005,779.65	87,005,779.65
Surplus/Deficit for the year		0	0
NET FINANCIAL POSITION		87,005,779.65	87,005,779.65

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements.



Dr. Kamau Thugga, CBS
Principal Secretary



George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262

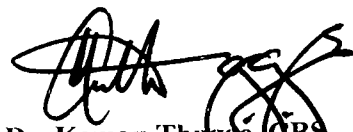
KENYA LOCAL LOANS SUPPORT FUND


Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

IV. STATEMENT OF CASHFLOW

	Note	2016 - 2017 Kshs	2015 - 2016 RESTATED Kshs
Receipts for operating income			
Exchequer Releases	1	0	0
Payments	2	0	0
Adjusted for:			
Net cash flow from operating activities		0	0
Cash flow from Borrowing activities		0	0
Net cash flow from financing activities		0	0
NET INCREASE IN CASH AND CASH EQUIVALENT		0	0
Cash and cash equivalent at BEGINNING of the year	5	5,000,000.00	5,000,000.00
Cash and cash equivalent at END of the year		5,000,000.00	5,000,000.00

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 4/5 2018


Dr. Kamau Thugge, CBS
Principal Secretary


George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262


Reports and Financial Statements
For the year ended June 30, 2017 (Kshs)

V. SUMMARY STATEMENT OF APPROPRIATION:

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilisation Difference e=c-d	% of Utilisation f=d/c %
RECEIPTS						
Exchequer releases	0	0	0	0	0	
PAYMENTS						
Other Payments	0	0	0	0	0	
NET TOTAL	0	0	0	0	0	

(a) [The entity is dormant.]

The Kenya Local Loans Support Fund financial statements were approved and signed by the Accounting Officer on 4/5/17 2018


Dr. Kamau Thugga CBS
Principal Secretary



George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

VI. 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 and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and applicable government legislations and regulations. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity. The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

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

3. 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 revenue and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

4. 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.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

5. 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 is treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as expenditure 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.

6. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties has been recognized 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.

7. Non-current assets

Non-current assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

8. 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 are 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. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

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

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

10. Comparative figures

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

11. Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of National Treasury.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

VII. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2016 - 2017	2015 - 2016
	Kshs	Kshs
Total Exchequer Releases for quarter 1	0	0
Total Exchequer Releases for quarter 2	0	0
Total Exchequer Releases for quarter 3	0	0
Total Exchequer Releases for quarter 4	0	0
Total	0	0

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

2 Payments

	2016 – 2017 Ksh.	2015 – 2016 Ksh.
Payments for Redemption of stocks	0	0
	0	0

3 Account Receivables

	2016 - 2017 Kshs	2015 - 2016 Kshs
(i) Investment at cost (CSFC)	10,410,373.55	10,410,373.55
(ii) Accrued Interest	71,595,406.15	71,595,406.15
Total	82,005,779.65	82,005,779.65

4 Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent	Exch. rate (if in foreign currency)	2016 - 2017 Kshs	2015 - 2016 Kshs
<i>Central Bank of Kenya, Account No. 1000182137</i>		Deposit	N/A	5,000,000.00	5,000,000.00
Total				5,000,000.00	5,000,000.00

5. Revision of Cashflow statement FY2016/17

The Cashflow statement has been revised to include cash at the beginning and at the end of the year Kshs.5,000,000.00 as well as in the comparative column as reported at note 4 above that had been erroneously omitted when preparing cashflow statement for the Financial Year 2015/16.

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

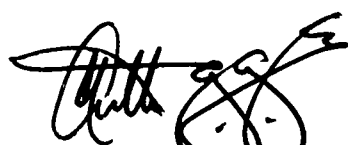
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

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	Presentation of Financial statements	Amounts reflected in the statement as Ksh. 5,000,000.00 and Ksh. 82,005,779.65 are sub-totals that make up the total of Ksh. 87,005,779.65. The statement was amended and submitted for audit review.	L. Bumbe and H Anyanga	Not resolved	On going
2	Un-supported Balances	The balances reflected in the statement are old balances that have been carried in the books pending completion of the winding up process of the fund. The only available record is prior year ledgers and statements.		Not resolved	On going

KENYA LOCAL LOANS SUPPORT FUND

Reports and Financial Statements For the year ended June 30, 2017 (Kshs)

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)
3	Comparative Balances	The reported amount of Ksh.660,000.00 does not relate to the year under review and was re-stated to nil.		Not resolved	On going
4	Failure to Redeem Stocks	Redemption proceeds for stocks amounting to Ksh. 4,045,400.00 are with Central Bank of Kenya. Balance of Ksh. 6,385,300.00 not yet traced.		Not resolved since redemption of Ksh. 6,385,300.00 has not been confirmed.	On going
5	Winding up of the Fund.	Progress report on winding up of the fund was provided for audit.		Resolved	



Dr. Kamau Thugge, CBS
Principal Secretary



George Kihara Gichuru
Senior Deputy Accountant General
ICPAK Member Number: 9262