

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

Paper laid on the Table of the House by the Leader of the Majority Party

THE AUDITOR-GENERAL

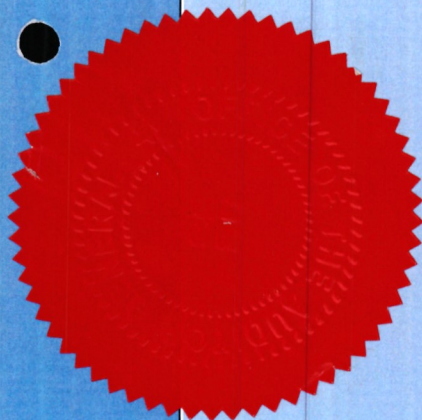
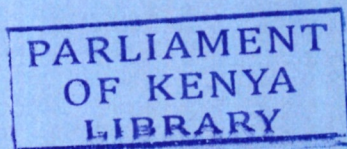
ON

Wednesday 15th August 2018 (Afternoon)

THE FINANCIAL STATEMENTS OF RECEIVER OF REVENUE –PENSION DEPARTMENT

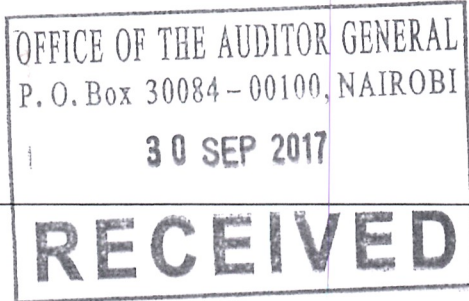
FOR THE YEAR ENDED 30 JUNE 2017

THE NATIONAL TREASURY





THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2017



RECEIVER OF REVENUE
THE NATIONAL TREASURY
PENSIONS DEPARTMENT
STATEMENT OF REVENUE

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)

THE NATIONAL TREASURY
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1. 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;

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- 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.
- 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.

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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:

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

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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,
- 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:

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

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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 Ateng

(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.

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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.

(a) 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

(b) The National Treasury Bankers

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

(c) Independent Auditors

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

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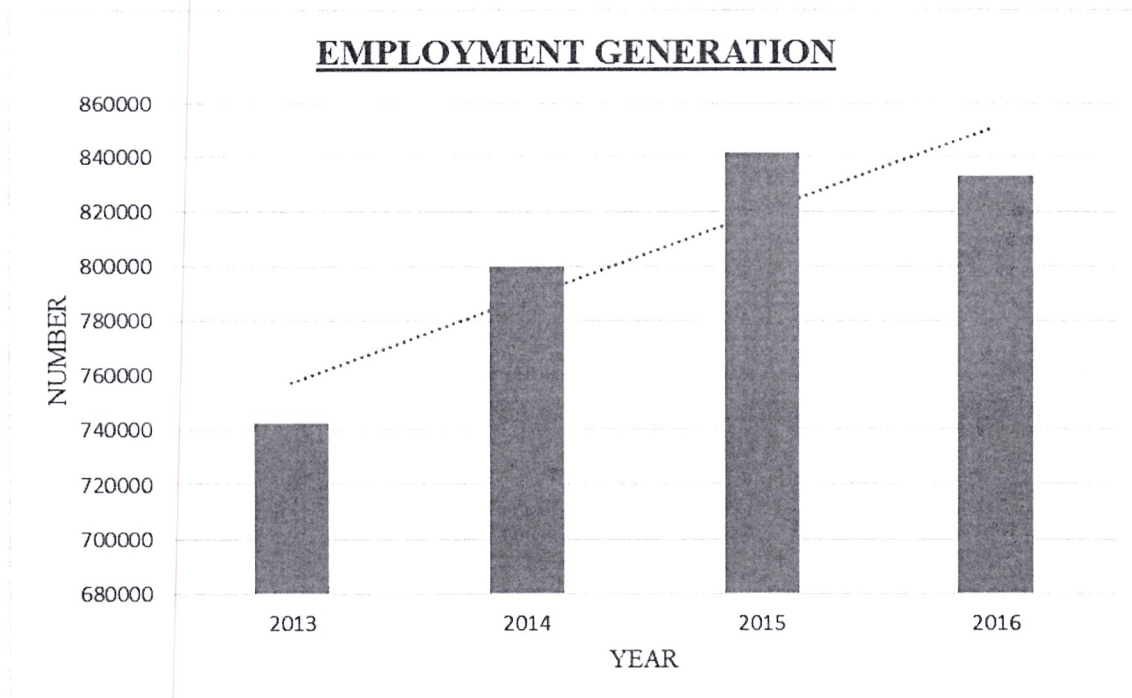
- (d) **Principal Legal Adviser**
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

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2. FORWARD BY THE CABINET SECRETARY

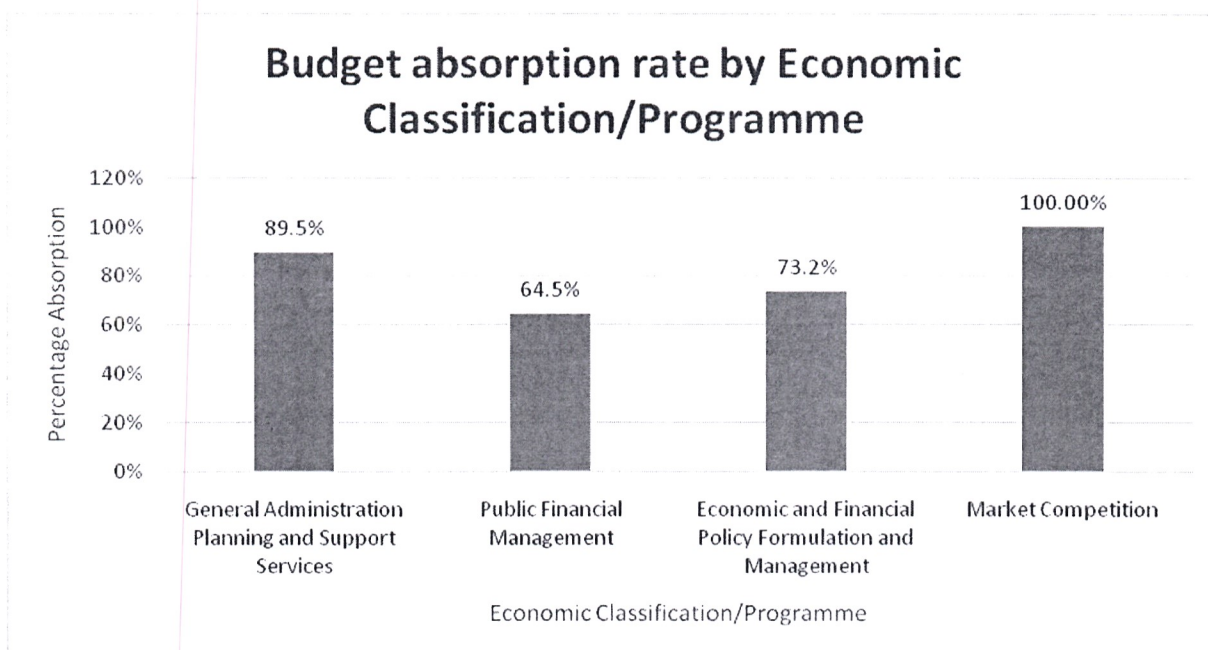
The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of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



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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 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%.



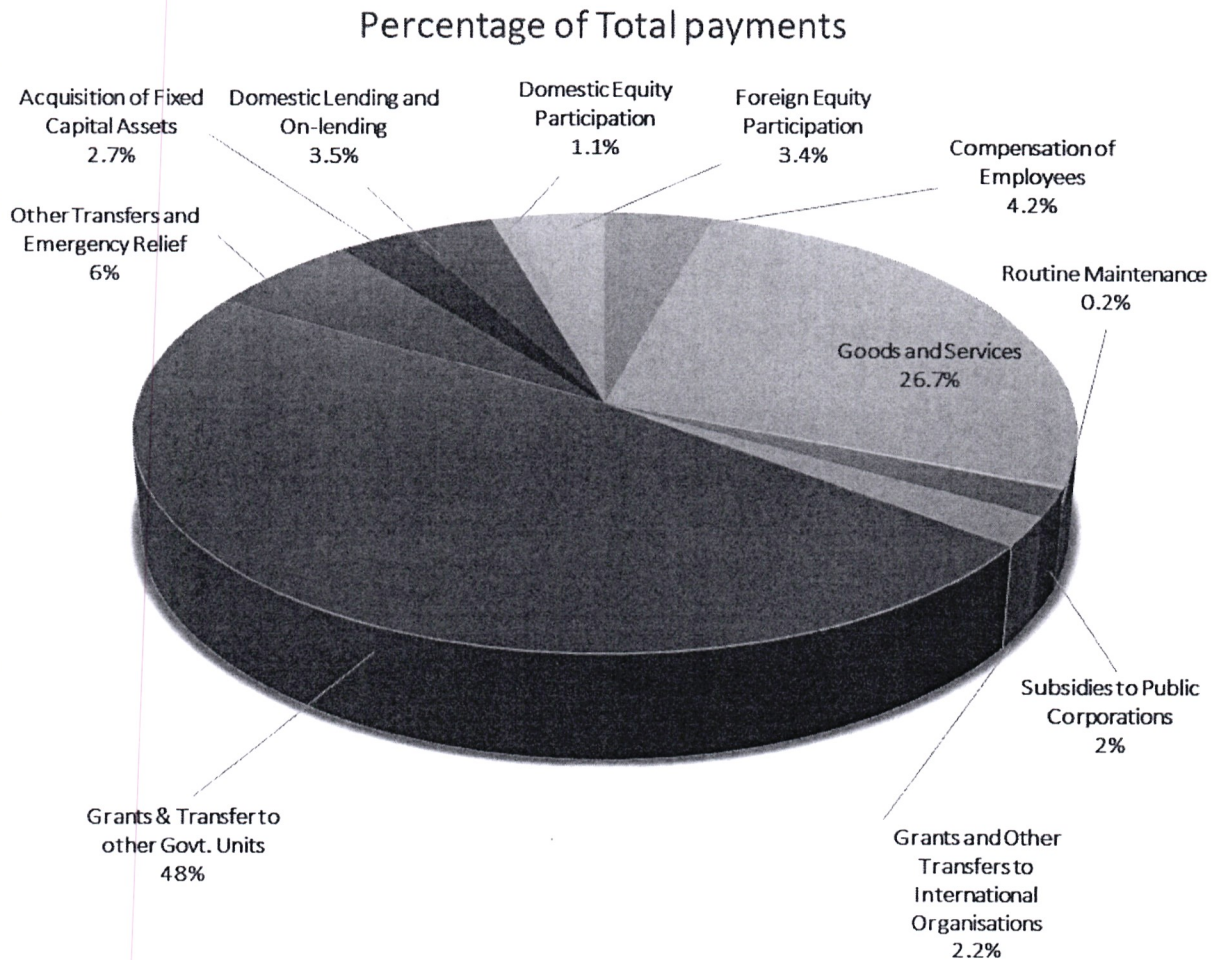
Utilisation of the budget was carried out through various activities as shown in the table below:

	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

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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

Key Performance Highlights (Continued)



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.

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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

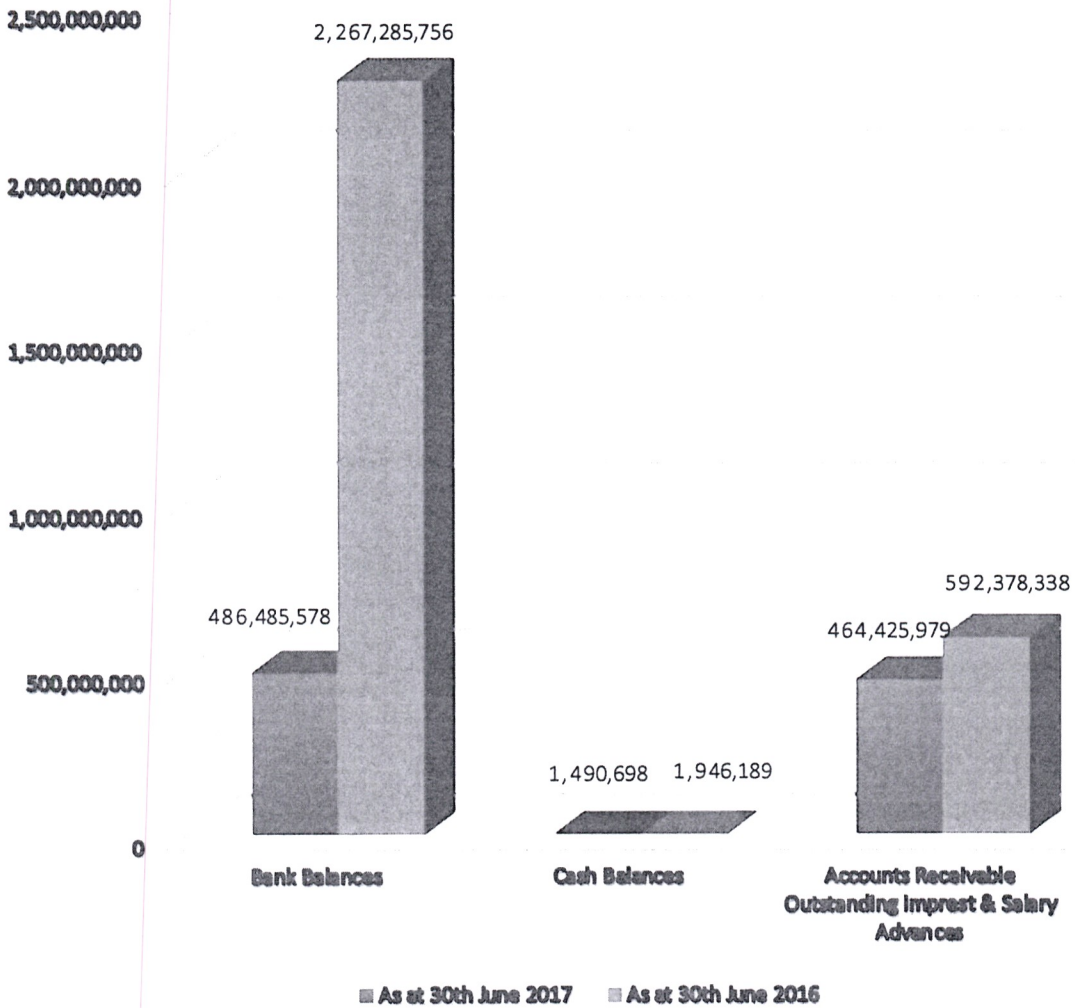
Financial Assets	As at 30 th June 2017	As at 30 th June 2016	Change	%
	KShs	KShs	KShs	Change
Bank Balances	1,781,246,794.00	2,267,285,756.00	486,038,962.00	(21.4)
Cash Balances	1,490,696.00	1,946,189.00	455,493.00	(23.4)
Accounts Receivables - Outstanding Imprest & Salary Advances	464,425,979	592,378,338.00	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.

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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



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.

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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).

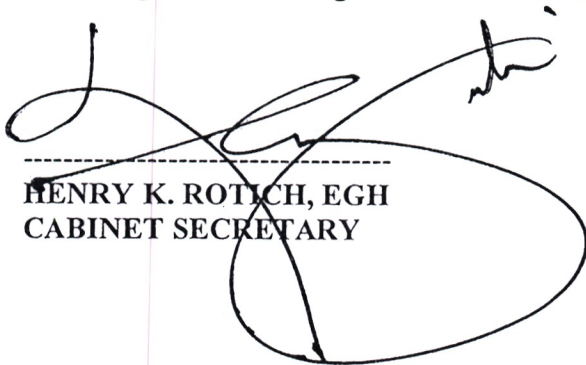
Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

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).

**THE NATIONAL TREASURY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017 (KSHS)**

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

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. ROTICH, EGH
CABINET SECRETARY

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3. STATEMENT OF RECEIVER OF REVENUE'S RESPONSIBILITIES

Section 82 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, a receiver of revenue for the national government shall prepare an account in respect of the revenue received and collected by the receiver during that financial year.

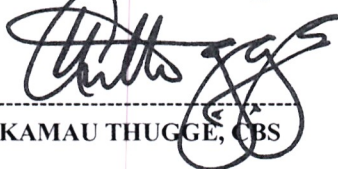
The Principal Secretary in charge of the National Treasury is responsible for the preparation and presentation of the receiver of revenue report, which give a true and fair view of the state of affairs of the National Treasury for and as at the end of the financial year ended on June 30, 2016. This responsibility 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 status of the revenue collected by the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Principal Secretary in charge of the National Treasury accepts responsibility for the National Treasury's revenue report, which has been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that this revenue report give a true and fair view of the national treasury's revenue performance during the financial year ended June 30, 2016. The Principal Secretary in charge of The national Treasury further confirms the completeness of the accounting records maintained for The National Treasury which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Principal Secretary in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and that the funds collected during the year were transferred to the Exchequer Account. Further the Principal Secretary confirms that this report has been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the Revenue Statements

The revenue statement was approved and signed by the Principal Secretary on 29/9/2017 2017.



DR KAMAU THUGGE, CBS

Principal Secretary

29/9/17

Date



GEORGE K GICHURU

Senior Deputy Accountant General
ICPAK 9262

29/9/17

Date

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE RECEIVER OF REVENUE – PENSIONS DEPARTMENT FOR THE YEAR ENDED 30 JUNE 2017 – THE NATIONAL TREASURY

REPORT ON THE REVENUE STATEMENT

Qualified Opinion

I have audited the accompanying statement of revenue of Receiver of Revenue - Pensions Department set out on pages 21 to 27, which comprise the statement of arrears of revenue as at 30 June 2017, and the statement of receipts and transfers and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the statement of revenue presents fairly, in all material respects, the revenue position of the Receiver of Revenue – Pensions Department as at June 30, 2017 and of its revenue performance in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion section of my report, nothing else has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Revenue Collected

The statement of receipts and transfers reflects total revenue of Kshs356,715,202 which has been disclosed in Note 10.1 as 31% contribution. The total revenue has not been analyzed to indicate what percentages of the revenue is Abatement, Cap Deductions and 2% Contribution, Further, management have not analyzed the amount of Kshs.356,715,202 and provided

Report of the Auditor-General on the Receiver of Revenue- Pensions Department for the Year ended 30 June 2017 – The National Treasury

for audit details of the contributors and which category they have made their contribution.

2. Un-resolved Issues for 2014/2015 Financial year

2.1 Un-supported Balances

As reported in 2014/2015 financial year, the statement of revenue, under the Notes reflects General Deposit-PMG of Kshs.1,051,602,039.19 which is not supported by trial balance figures and analyses.

2.2 As reported in the year 2013/2014, the statement of revenue reflected revenue totaling Kshs.1,457,308.991.55 which includes contributions and recoveries amounting to Kshs.840,964,209.75 as analyzed below:

	Kshs.
• 2% Contributions for Windows and Children Pension Scheme (W.C.PS)	246,409,365.80
• 31% Contributions	486,221,192.50
• Suspense Abatement - Recoveries	85,195,396.55
• CAP Deductions - Recoveries	<u>23,138,254.90</u>
Totals	<u>840,964,209.75</u>

However, no evidence has been provided for audit review to confirm that the above accumulated contributions and recoveries were surrendered to the Exchequer as at 30 June 2014 or thereafter as required under the Public Financial Management Act, 2012. The ledger for 2014/2015 still shows the amounts are being held by the Pensions Department.

2.3 Financial Position

The accumulated actual revenue balance of Kshs.2,125,593,875.47 disclosed under Note 4 to the statement and nil balance carried forward as at 30 June 2015 reflected in the statement have not been supported by related cashbook balances or bank records. In addition, no bank reconciliation statement or statement of financial position as at 30 June 2015 for the revenue has been prepared and submitted for audit.

2.4 Comparative Figures for 2013/2014

Note 4 to the statement of revenue reflects Other Suspense balance of Kshs.1,971,533.15 relating to overpayments of pension made over the years. However, the balance has not been analyzed. In addition, no indication has been given regarding how Pensions Department intends to recover the amounts overpaid to the pensioners.

The audit was conducted in accordance with International Standards of Supreme Audit Institution (ISSAIs). I am independent of the Receiver of Revenue -

Pensions Department in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities 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 qualified opinion.

Emphasis of Matter

Budgeting of Revenue

I draw attention to significant accounting policy 2 which indicates that the revenue budget was approved as required by the Law and included in the government printed estimates. The accounting policy also indicates that a high level assessment of the revenue's actual performance against the comparable budget for the financial year under review had been included. However, the statement of comparison of budget and actual amounts reflects budgeted amount as zero.

The amount of revenue collected is significant and ought to have been included in the budget for the financial year 2016/2017. My opinion is not qualified in respect of this matter.

Key Audit Matters

Except for the matter described in the Basis for Qualified Opinion and emphasis of matter sections, I have determined that there are no other key audit matters to communicate in my report.

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

Management is responsible for the preparation and fair presentation of this statement 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 the statement that is free from material misstatement, whether due to fraud or error.

In preparing the statement, management is responsible for assessing the Receiver of Revenue's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services.

Management is also responsible for the submission of the statement 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 Receiver of Revenue's financial reporting process.

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

The audit objectives are to obtain reasonable assurance about whether the statement of revenue as a whole is 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 this statement of revenue.

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 statement of revenue, 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Receiver of Revenue's 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 going concern 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 Receiver of Revenue's ability to continue sustaining 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 Receiver of Revenue not to continue sustaining services.

- Evaluate the overall presentation, structure and content of the statement of revenue, including the disclosures, and whether the statement of revenue 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 Receiver of Revenue 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.



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

Nairobi

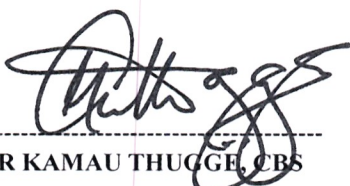
11 July 2018

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For the year ended June 30, 2017

5. STATEMENT OF RECEIPTS AND TRANSFERS


	Note	2016-2017	2015-2016
		Kshs	Kshs
NON-TAX RECEIPTS			
RECEIPTS	10.1	356,715,202	459,421,435
TOTAL NON-TAX RECEIPTS		356,715,202	<u>459,421,435</u>
TOTAL RECEIPTS COLLECTED		356,715,202	459,421,435
TRANSFERS TO EXCHEQUER ACCOUNT		356,715,202	459,421,435
BALANCE BROUGHT FORWARD		NIL	NIL
BALANCE CARRIED FORWARD		NIL	NIL

The accounting policies and explanatory notes to these revenue statements form an integral part of the revenue statements. These revenue statements were approved on...29/9/17... 2017 and signed by:



 DR KAMAU THUGGE, CBS
 Principal Secretary
29/9/17

 Date



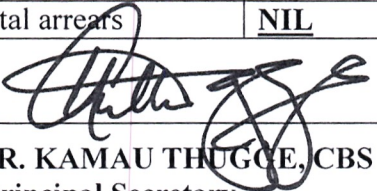
 GEORGE K GICHURU
 Senior Deputy Accountant General
 ICPAK 9262
29/9/17

 Date

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6. STATEMENT OF ARREARS OF REVENUE AS AT 30TH JUNE 2017

Classification of Revenue	Accumulated amount in arrears from prior periods to June 2015 (a)	Amount in arrears for the immediate previous year to 30 June 2016 (b)	Amount in arrears for the current year to June 30 2017 (c)	Total arrears as at 30 June 2017 (a+b+c)	Measures taken to recover the arrears	Assessment to the recoverability of arrears
<u>Non Tax Revenues</u>						
31% Contribution	NIL	NIL	NIL	NIL		
2% WCPS	NIL	NIL	NIL	NIL		
Abatement	NIL	NIL	NIL	NIL		
Cap Deductions	NIL	NIL	NIL	NIL		
Total arrears	<u>NIL</u>	<u>NIL</u>	<u>NIL</u>	<u>NIL</u>		


 DR. KAMAU THUGGE, CBS
 Principal Secretary

Date

27/9/17


 GEORGE K GICHURU
 Senior Deputy Accountant General
 ICPAK 9262

Date

29/9/17

THE NATIONAL TREASURY
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7. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
Non tax receipts	NIL	NIL	NIL	NIL	NIL
31% Contributions	NIL	NIL	NIL	356,715,202.00	356,715,202.00
2% WCPS	NIL	NIL	NIL	NIL	NIL
Abatement	NIL	NIL	NIL	NIL	NIL
Cap Deductions	NIL	NIL	NIL	NIL	NIL
Total Non tax receipts	NIL	NIL	NIL	356,715,202.00	356,715,202.00
Total receipts	NIL	NIL	NIL	356,715,202.00	356,715,202.00

8. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

The revenue statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *The National Treasury*.

2. Recognition of Revenue

The *The National Treasury* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *The National Treasury*.

Budget

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

3. 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.

4. Revenue in Arrears

This relates to revenue due and is yet to be received or collected by the receiver of revenue. The revenue in arrears is as disclosed in the Statement of Revenue in Arrears under section IV of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Comparative Figures

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

6. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the revenue statements for the year ended June 30, 2017.

7. Statement of Arrears of Revenue

The statement of arrears of revenue is not a requirement as per the IPSAS Cash Standard. The IPSAS Cash Standard encourages disclosure of accrual based balances since it's a transitional standard to accrual basis of accounting. The PFM Act, 2012 section 82,2b and section 69(c) of the PFM Regulations 2015 requires a Receiver of Revenue to prepare a statement on revenue of arrears due but not yet collected at the end of the period. This statement has been disclosed under section IV of these financial statements.

**THE NATIONAL TREASURY
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

**9. A REPORT OF WAIVERS AND VARIATIONS OF TAXES, FEES OR CHARGES
GRANTED BY THE RECEIVER OF RING THE YEAR.**

Name of person / organisation benefitting from waiver/ variation	Year in which waiver/ variation relates	Amount of variation/ waiver	Reasons for waiver/ variation	The law in terms of which the variation was granted
NONE				

THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2017

10. NOTES TO THE REVENUE STATEMENT

10.1. OTHER REVENUE (NOT ELSEWHERE CLASSIFIED)

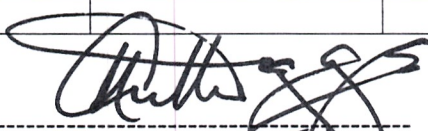
	2016/2017	2015/2016	Comments
General Deposit - PMG	-	-	-
Revenue			-
2% Contribution	-	-	-
31% Contribution	356,715,202	455,812,435	Failure for the parastatals to submit the contributed money on time
Suspense			-
Abatement	-		-
Cap Deductions	-	3,609,255	Non deductions during the year.
Other Suspense	-	-	
P.Increase AWOPF	-	-	-
Totals	356,715,202	459,421,690	

THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2017

11. 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)
1.1	Revenue collected Kshs 459,421,435.00	The analysis for the amount has been provided for audit review	Shem Nyakutu Director Pensions	Resolved	
1.2	Revenue balance – Nil balance	The bank reconciliation statement and certificates of bank balances have been availed for audit review	Shem Nyakutu Director Pensions	Resolved	
2.1	Unsupported balance of Kshs 1,051,602,039.19 of 2014/2015 F/Y	This figure has been analyzed and supported by the ledger and the trial balance and the same has been availed for audit review	Shem Nyakutu Director Pensions	Resolved	
2.2	Other suspense balance of Kshs 1,971,533.15 of 2014/2015 F/Y	This figure was cleared off during the 2014/2015 financial year.	Shem Nyakutu Director Pensions	Resolved	
2.3	Accumulated Revenue balance Kshs 2,125,593,875.47	The accumulated amount of Kshs.2,125,593,875.47 was collection of two financial years and the amount was transferred to the Exchequer	Shem Nyakutu Director Pensions	Resolved	



DR KAMAU THUGGE, CBS

Principal Secretary

Date

29/9/17



GEORGE K GICHURU

Senior Deputy Accountant General
 ICPAK 9262

Date

29/9/17

