

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

PARLIAMENT
OF KENYA
LIBRARY REPORT

*Paper laid by the
Leader of the Majority
Party, Hon Aden
Dale on 27/8/15
at 1515 hrs
[Signature]*

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
KENYA REVENUE AUTHORITY

FOR THE YEAR ENDED
30 JUNE 2014





KENYA REVENUE
AUTHORITY

ISO 9001:2008 CERTIFIED

**ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2014**



CONTENTS	Page
Key Information and Management	3
Board of Directors	5
Management Team	8
Chairman's Statement	9
Commissioner General's Statement	12
Corporate Governance Statement	20
Corporate Social Responsibility Statement	22
Report of the Directors	23
Statement of Directors' Responsibilities	24
Statement of Financial Performance	25
Statement of Financial Position	26
Statement of Changes in Net Assets	27
Statement of Cash Flows	28
Statement of Comparison of Budget and Actual Amounts	29
Notes to the Financial Statements	30

I. KEY INFORMATION AND MANAGEMENT

(a) Background Information

Kenya Revenue Authority (KRA) is a statutory body established by an Act of Parliament, KRA Act Cap 469 of 1995.

MISSION To promote compliance with Kenya's tax, trade and border legislation and regulation by promoting standards set out in the Taxpayers Charter and responsible enforcement by highly motivated and professional staff thereby maximizing revenue collection at least possible cost for the socio-economic wellbeing of all Kenyans.

VISION To be the leading Revenue Authority in the world respected for professionalism, integrity and fairness.

CORE VALUES

Integrity We uphold the highest standards of honesty, truthfulness, reliability and honour.

Professionalism We ensure competency and efficiency and we focus on achieving excellence.

Fairness We are committed to applying the law consistently, responsibly and administering our requirements reasonably.

Equity We value differences in people and ideas and we treat others with dignity and esteem.

Commitment and Teamwork We support the principle of teamwork and nurturing staff commitment.

Corporate Social Responsibility We value our stakeholders and collaborate with them to nurture participatory social well-being.

(b) Principal Activities

The Authority's objectives are the assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the Act.

(c) Key Management

The Authority's day-to-day management is under the following key organs;

- Office of the Commissioner General
- The Large Taxpayers' Office Department
- The Medium and Small Taxpayers Department
- The Customs Services Department
- The Technical Support Services Department
- The Corporate Support Services Department
- The Investigations and Enforcement Department

Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

- Commissioner General	John K. Njiraini
- Large Taxpayers' Office	Pancrasius N. Nyaga
- Medium and Small Taxpayers Department	Alice A Owour
- Customs Services Department	Beatrice M. Memo
- Technical Support Services Department	Helen A. Bila / Joseline Ogai
- Corporate Support Services Department	Edith N. King'ori
- Investigations and Enforcement Department	Joseph G. Nduati / Jonah Cheruiyot

(e) Headquarters

Times Tower Building,
Haile Selassie Avenue,
P.O. Box 48240 – 00100, Nairobi, Kenya.

(f) Contacts

Telephone (254) 020-310900, 2810000, 315553
Email callcentre@kra.go.ke , cic@kra.go.ke
Website www.kra.go.ke

(g) Bankers

National Bank of Kenya Ltd,
Harambee Avenue Branch,
P.O. Box 41862-00100 Nairobi, Kenya

(h) Independent Auditors

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

(i) Principal Legal Advisor

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

II. THE BOARD OF DIRECTORS

Major (Rtd) Marsden Madoka, EGH

Major Marsden H. Madoka was appointed Chairman of the Board of Kenya Revenue Authority in March, 2010. He was trained as an army officer in the UK after his 'A' Levels in 1962 and is a trained Paratrooper. He rose to the rank of Major in the army before retiring in 1974. He served as the 'Aide de Camp' to His Excellency the late President Jomo Kenyatta in 1966. He served the Kenya Breweries Limited as an Executive Director on the Board, General Manager-New Products, and in other capacities between 1974 to 1996. He is a former Member of Parliament for Mwatate Constituency and was appointed the Minister of State in the Office of the President in charge of Internal Security and Provincial Administration in 1998. In 2001, he was appointed Minister for Foreign Affairs. He is the Vice-patron of the Agricultural Society of Kenya, Chairman of St. John Ambulance – Kenya, and still holds numerous positions in local and international sports, voluntary and charitable organizations.

Mr. Kibuga Kariithi

He was appointed to the Authority's Board on 15th March 2010 and was reappointed for a second term of three (3) years on 15th August 2013. He holds a Bachelor of Business Administration degree in Economics from the York University, Canada and Masters of Business Administration from the same University. He is an Associate of the Chartered Institute of Bankers (UK). Mr. Kariithi is the immediate former Chief Executive Officer of Finance Bank Limited and founder of Baraka Africa Fund. He is a Director of Africa Investment Bank and a Member of the Nairobi Stock Exchange, with responsibility for Corporate Finance in Eastern Africa. He was the Chief Executive Officer for the Nairobi Stock Exchange for 6 years until April 2005.

Prior to joining the Nairobi Stock Exchange in 1999, he served as the Corporate Finance Director of Barclays Bank of Kenya and was responsible for Capital Markets activities in East Africa and managed the Barclays Merchant Finance Limited (BMFL). He is a Member of the Capital Markets Development Committee, Governor of the Kenya Private Sector Alliance, an Advisory Council Member of the Financial Analysts Governing Council and the Chairman of the Advisory Board of the University of Nairobi, Finance Students Association.

Mr. James Michoma Getuno

He was appointed Director on 24th September, 2012. He holds a Bachelor of Arts degree in Government and Sociology and a Masters of Arts in Urban and Regional Planning from the University of Nairobi. He joined the civil service in 1980 and has served in various capacities including as a Physical Planning Officer in the Ministry of Lands (Department of Physical Planning), District Development Officer in the Office of the President (Development Coordination), Director of Social Services and Housing at the Nakuru Municipal Council. He is currently the Principal Consultant, Nakuplan Consultants and is also a Member of Board of Governors – Kisii High School.

Ms Mary M'Mukindia

She was appointed on 15th August, 2013. She holds a Bachelor's Degree in Commerce (University of Nairobi). She is a dynamic international public servant with over thirty (30) years of working experience in both the public and private sector. Her career has seen her in top leadership positions in the energy sector as well as civil society and government and most recently in her work with the

United Nations. She is a recognized petroleum expert and has contributed significantly to Kenya's energy sector in development of key legislation and policies.

Her contributions to the revitalisation of the National Oil Corporation of Kenya (NOCK), a parastatal in the oil industry, demonstrate a capacity for development of systems that can drive change. During her tenure at Petroleum Institute of East Africa (PIEA), she consolidated buy in from a variety of stakeholders so that PIEA remains a relevant and powerful entity in the Energy sector.

Her most recent work with the United Nations has afforded her international experience in environmental industry as she has served as an expert in clean fuels and vehicles, for portfolios in Asia and the Middle East. She has also provided strategic guidance and fundraising expertise for various programmes within the Transport Unit of UNEP.

Ms Constantine Kandie

She was appointed on 15th August, 2013. She holds a Masters in Business Administration Degree (Marketing) and a Bachelor's Degree in Business Administration. She is a management expert in institutional start up, brand development and growth strategies.

She has wide experience in governance, strategic management and leadership. She has been involved in donor coordination, resource mobilisation and fundraising. She has experience in management of staff teams across a broad spectrum of professionals and specialties in enterprise development at national and regional level.

Currently, she is Council Member and Chair of Disciplinary Committee, Management University of Africa (MUA). She is also a Board Member, Professional Women Empowered (ILO). She has also served as a Board Member, Eastern Africa Regional Board-Practical Action International (Integrated Technology Development Group).

She has also served as the Executive Director, Eastern Africa Grain Council, Coordinator, Economic and Social Development (Soroptimist International Service Club for Women), Director at World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT).

Mr Evans Kakai

He was appointed on 3rd October, 2013. He holds a Bachelor's Degree in Business Administration and a Master's of Business Administration (Strategic Management) and is also a Certified Public Accountant of Kenya (CPA-K). He is the Managing Director of EKV Consultants Limited, a consultancy firm offering consultancy services in Kenya, Uganda, Tanzania and South Sudan. He is a practising accountant with wide experience in various economic sectors. He is a UN agency Certified Auditor, undertaking donor confirmation assignments in Kenya, Uganda and South Sudan for various international UN Agencies.

He is a dynamic entrepreneur who utilizes creativity, leadership and team work to design and execute solutions that create customer value in restructuring and reorganisation of Small and Medium Enterprises (SMEs). He has served as Director in several small and medium enterprises. He is also a highly motivated and enthusiastic recruitment expert with a strong vision to achieve successful outcomes for clients and jobseekers.

EX – OFFICIO MEMBERS

Mr. John Njiraini, MBS

Mr. Njiraini was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012. Prior to his appointment he served as the Commissioner of Domestic Taxes in charge of Large Taxpayers since April 2006. He holds First Class Bachelor of Commerce and Master of Business Administration (MBA) degrees both from the University of Nairobi. Prior to joining KRA, he served as the Chief Executive of the Institute of Certified Public Accountants of Kenya (ICPAK) between 1996 and 2006. Mr. Njiraini also served as Lecturer, Department of Accounting, University of Nairobi between 1984 to 1994. He had previously worked in various audit capacities with both Deloitte Haskins & Sells (now Deloitte) and Price Waterhouse (now PricewaterhouseCoopers). He has also served in various Government Boards and Task Forces including the Permanent Public Service Remuneration Review Board, Local Authorities Transfer Fund Advisory Board, Registration of Accountants Board and the Pending Bills Closing Committee, among others. He was conferred with the Moran of the Order of the Burning Spear (MBS) award in December 2005 for his contribution to national development.

Attorney General – Hon. Prof. Githu Muigai, FCI Arb, MP

He holds a Bachelor's Degree in Law (LLB) from the University of Nairobi, a Masters Degree in International Law (LLM) from the Columbia University, School of Law, New York and a Doctorate in Constitutional Law from the University of Nairobi.

He is a member of the Law Society of Kenya, East African Law Society, Commonwealth Lawyers Association, Institute of Public Secretaries (K), International Commission of Jurists (ICJ), International Bar Association and a Fellow of the Chartered Institute of Arbitrators (UK).

He was appointed as Attorney-General of the Republic of Kenya on 29th August, 2011. Prior to this, he was a senior partner in the law firm of Mohamed Muigai Advocates; he served as an Associate Professor of Law of the University of Nairobi, School of Law and a Commissioner in the Constitution of Kenya Review Commission. He served as a United Nations Special Rapporteur on Contemporary Forms of Racism, Racial Discrimination, Xenophobia and Related Intolerance from between 2008 and 2011; and as a judge in the African Court on Human Rights and People Rights between 2008 and 2010.

He has published extensively in the areas of constitutional law and legal theory and is the editor of the book "Arbitration Law and Practice in Kenya" (2011).

Cabinet Secretary, the National Treasury – Mr. Henry K. Rotich

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury. Prior to his appointment, he had worked at the Treasury, Ministry of Finance and the Central Bank of Kenya. He had been earlier attached to the International Monetary Fund (IMF) local office in Nairobi.

He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics. Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds Masters and Bachelor degrees in Economics from the University of Nairobi.

Dr. Geoffrey Mwau, Economic Secretary – (Alternate Director to the Principal Secretary, the National Treasury).

Mr. Njee Muturi – Solicitor General (Alternate Director to the Attorney General).

MANAGEMENT TEAM**Mr. John Njiraini, MBS**

He was appointed the Commissioner General of the Kenya Revenue Authority on 3rd March, 2012 for a period of 3 years. The contract will expire on 2nd March, 2015.

Alice A. Owuor

She was appointed Commissioner of Domestic Taxes, Medium & Small Taxpayers (MST) with effect from 1st May, 2010 for a period of three (3) years and served up to 30th April, 2013 for the first term. Her contract was renewed for a second term from 1st May, 2013 for a further three years. The contract will expire on 30th April, 2016.

Pancrasius N. Nyaga

He was appointed Commissioner of Domestic Taxes, Large Taxpayers Office (LTO) with effect from 5th March, 2012 for a period of three (3) years. The contract will expire on 4th March, 2015.

Beatrice M. Memo

She was appointed Commissioner of Customs Services with effect from 1st March, 2012 for a period of three (3) years. The contract will expire on 28th February, 2015.

Edith N. King'ori

She was appointed Commissioner of Corporate Support Services Department with effect from 16th July, 2012 for a period of three (3) years. The contract will expire on 15th July, 2015.

Helen A. Bila

She was appointed Commissioner of Technical Support Services Department with effect from 1st March, 2010 for a period of three (3) years. The contract expired on 28th February, 2014. Mr. Joseline Ogai was appointed as the Acting Commissioner for Technical Support Services following the retirement of Ms Helen Bila.

Joseph G. Nduati

He was appointed Commissioner of Investigations and Enforcement with effect from 1st October, 2007 for a period of three years to 30th September, 2010 for the first term. His contract was renewed for a further three years with effect from 1st October, 2010. The contract expired on 30th September, 2013.

Jonah K. Cheruiyot was appointed Commissioner of Investigations and Enforcement on 11th June 2014 following the retirement of Mr. Joseph Nduati. The contract will expire on 10th June, 2017.

IV. CHAIRMAN'S STATEMENT

Forward

I am pleased to present the Annual Report and Financial Statements of the Kenya Revenue Authority for the Financial Year ended 30th June 2014. This is the second Annual Report prepared within the implementation period of the Authority's **Fifth Corporate Plan 2012/2013 - 2014/2015** whose theme is *"Achieving excellence in revenue administration through organizational renewal, innovation and staff capacity enhancement for better customer focus"*. The year under review was characterised by an improved global economy and continued strong growth in sub-Saharan Africa. These positive developments coupled with an increased investor confidence following peaceful national elections held in the 3rd quarter of **2012/13** presented a favourable climate for improved revenue collection.

Kenya Economy

Kenya's economic performance has continued to record an improvement since experiencing adverse internal and external shocks in **2008** and **2009**. In 2013, the GDP growth of **4.7 per cent** was slightly better compared with the performance of **4.6 per cent** posted in 2012. This is mainly attributed to the stable macroeconomic environment, low and stable inflation as a result of improved supply of basic commodities, robust infrastructural development coupled with growth in the construction sector.

Inflation declined from **14 per cent** and **9.4 per cent** recorded in 2011 and 2012 respectively to a single digit of **5.7 per cent** in 2013. The decline in inflation was largely attributed to improved supply of basic foodstuffs and stable domestic prices of petroleum products.

The Central Bank Rate reduced from a high of **11.0 per cent** in December 2012 to **8.5 per cent** during the first half of 2013. The overdraft and maximum lending interest rates dropped by 1.28 and 1.16 percentage points, to 16.51 per cent and 16.99 per cent respectively in December 2013. This was largely as a result of lower inflationary pressure and the CBR reduction. These favourable macro-economic conditions, presents even a better avenue for revenue mobilization going forward. The Kenya Shilling exchange rate, though stable against the US dollar, depreciated slightly against other major world currencies. The stability to the US dollar followed increased short term capital inflows and remittances, disbursements under the Extended Credit Facility (ECF) programme and Central Bank activity in the foreign exchange market in the year to December 2013. Against the US dollar, the shilling stabilized at Ksh 86.4 per US dollar in December 2013 from Ksh 86.0 per US dollar in December 2012. Against the Sterling Pound, the exchange rate depreciated to Ksh 142.7 in December 2013 from Ksh 138.8 in December 2012 and Ksh 118.8 to the Euro from Ksh 112.8 in December 2012.

Total exports declined by **3.0 per cent** from **Kshs. 517.8 billion** in 2012 to **Kshs. 502 billion** in 2013. On the other hand, total imports increased by **2.8 per cent** from **Kshs. 1,374.6 billion** in 2012 to **Kshs. 1,413 billion** in 2013. This obviously led to the export-import deteriorating from 37.7 per cent in 2012 to 35.5 per cent in 2013.

Despite a stagnating demand for exports in traditional markets, economic growth at 4.7 per cent was satisfactory though did not meet the expected target of 5.5 per cent. Favourable rains contributed to good harvests, hydropower generation, and private sector activities benefited from improved macroeconomic environment.

Global Economy

The global economy registered a lower GDP growth of **3 per cent** in 2013 compared to a growth of **3.2 per cent** attained in 2012. The drop was attributed to slow growth in the developed world,

falling global commodity prices, and slowing down of growth in the China Brazil, Russia and India (BRIC) states.

Future Outlook

i. Globally

The global economic recovery is on a positive trend with the IMF's world economic outlook for **October 2013** projecting a **3.6 percent** growth in **2014**. In addition, the advanced economies are gradually strengthening with policy makers having successfully defused two of the biggest short-term threats to global recovery namely; the threat of a Euro area break-up and a sharp fiscal contraction in the United States. The core economies of Europe have shown some signs of recovery though progress on improving competitiveness and increasing exports is not yet strong enough to offset depressed internal demand.

Growth in emerging market economies for 2013 has been revised downwards to **4.5 percent** down from **5.3 percent**. This slowdown reflects both cyclical factors and a decrease in potential output growth. As commodity prices stabilize and financial conditions tighten, potential growth is lower, leading in some cases to a sharp cyclical adjustment. Growth in China is slowing, which will affect many other economies, notably commodity exporters among the emerging market and developing economies.

ii. Kenya

Real GDP was expected to grow by **5.5 percent** in 2014 up from **4.7 percent** recorded in **2013**. In terms of fiscal years, the projections translate to **5.5 percent** growth in 2013/14, **6.1 percent** in 2014/15, **6.6 percent in 2015/16** and **6.9 percent** in 2016/17

Inflation will be expected to remain at a single digit averaging **6 per cent** in 2013/14, while Investments and Gross National Savings are expected to post continuous growth to stand at **25.5 percent**.

The Authority expects more pressure in 2014/15 to collect more revenue to finance the Government development and recurrent expenditure while reducing both domestic and foreign borrowing. One of the key factors likely to have a positive influence in the economy is the rapid rise in Government expenditure towards implementation of the Constitution and financing the county governments. The desire to finalize the infrastructure projects including the construction of the standard gauge railway line from Mombasa to Malaba is also one of the key projects that need high capital injection. In addition, the oil discovery in Turkana and coal deposits in Kitui County is likely to spur intensified mineral exploration activities in 2014 going forward. These activities have a direct positive impact on the Kenyan economy.

The main threat to these economic growth projections is the continued insecurity incidences that have been reported in various parts of the country including the Kenyan Coast. These have resulted into travel advisories culminating into negative effects on the tourism sector. In addition, unstable oil prices, fluctuating food prices and unpredictable weather conditions, low demand for Kenyan's agricultural produce, the spillover effects of high inflation and tight monetary policy could also continue to present major challenges in 2013/14.

Revenue Performance

During the financial year ending **30th June 2014**, the Authority collected Kshs. **963.8 billion** against a target of an original target of Kshs. **973.5 billion** (99.0 per cent) and revised target of Kshs. **963.7 billion** (100.0 per cent). This performance represents a growth of **20.4** per cent over Kshs. 800.5 billion collected in financial year 2012/2013. This was an outstanding performance

given the economic growth and depressed import trends (a growth of only **5.1 per cent** over the fiscal year).

Exchequer Revenue

The Authority collected a total of Kshs. 899.1 billion collected against the original target of Kshs. 912.30 billion (a performance of 98.6%) and revised target of Kshs. 901.1 billion (a performance of 99.8 per cent).

Agency Revenue

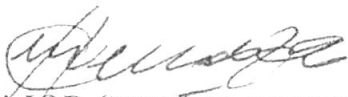
The Authority collected - Kshs. 64.6 billion against the original target of Kshs. 61.216 billion (a performance of 105.5%) and revised target of Kshs. 62.590 billion (a performance of 103.2 per cent).

Appreciation

The entire Board of Directors is pleased with the Management and Staff of the Authority for their continued hard work, commitment and dedication in ensuring that KRA met the set targets by the Board. We also thank our Taxpayers who diligently observed their commitments through timely payment of their taxes during the year. The results posted are as a result of concerted efforts from both the Taxpayers and other strategic stakeholders who have partnered with us to make KRA a first rank tax body within the region. We are optimistic that with your continued support, KRA will be able to continue to effectively carry out its mandate, providing the resources for the Government to deliver on its obligations and commitments.

In my Capacity as the Chair of the KRA Board, I wish to take this opportunity, on behalf of other Board Members, to thank the Government, the National Treasury, Parliament and H. E. the President for the support we continue to receive in the discharge of our duties.

Finally, I also want to express my sincere gratitude to my fellow Board Members for their dedication and hardwork during the year. I anticipate that the team will continue working even harder and post better results in the financial year 2014/15.



MAJOR (RTD) MARSDEN MADOKA, EGH
CHAIRMAN

2nd September 2014

V. COMMISSIONER GENERAL'S STATEMENT

Introduction

The Financial Year 2013-2014 marked the second year of the Authority's Fifth Corporate Plan running from 2012-13 to 2014-15. The Strategic Theme for the 5th Corporate Plan was; "Achieving excellence in revenue administration through organization renewal, innovation and staff capacity enhancement for better customer focus". The Plan outlined six core strategic objectives which seek to further entrench international best practices in the Authority's performance management, service delivery and use of technology to improve tax administration processes.

Operating Environment

The economic environment registered a modest growth rate of 4.7 per cent depicting a slowdown against the projected growth of 5.5 per cent in the Budget Policy Statement 2014 and a small growth over the previous year GDP growth rate of 4.6 per cent. Key elements of the macro-economic environment included inflation rate which started at a modest rate of 6.0 percent in July 2013 and rose to 7.39 percent by the end of June 2014, exchange rate to the dollar which averaged of Kshs. 86.7 for the year, value of imports increased to Kshs. 1,482,363 million in 2013/14, a growth of 5.4% over the period 2012/13, average treasury bill rates which started at a low rate of 5.92 in July 2013 and closed at 9.81 percent in June 2014 and the NSE 20-share index closed at **4,885 points** in June 2014 compared to **4,790 points** recorded in June 2013 (a growth of **2%**).

Revenue Performance

In the last Financial Year 2013/14, KRA was expected to collect **Kshs. 973.518 billion**. However, based on the performance of the economy, the target was revised to **Kshs. 963.74**. A total of **Kshs. 963.823 billion** (including agency revenue) was collected representing a growth of **20.4 per cent** over 2012/13. The total collection represented a performance of **100.01 per cent** of the revised target.

Table 1: Revenue Collection (by department)

Department	Actual 2013/14 Kshs billion	Revised Target * 2013/14 Kshs billion	Performance Rate (%)	Actual 2012/13 Kshs billion	Growth over 2012/13 (%)
Customs Services	331.8	326.1	101.7	258.7	+ 28.3
Domestic Taxes	628.3	633.2	99.2	538.7	+ 16.6
Road Transport	3.7	4.4	84.0	3.1**	+ 19.3
Total	963.8	963.7	100.0	800.5	+ 20.4

* Original Target was Kshs 973.5 Billion which was revised to 963.8 billion.

** Included in Road Transport Exchequer Revenue in year 2012/13 is an amount of Kshs 23.7 Million collected by Districts relating to Court Fines, Liquor licences, and other collections banked in the Registrar of Motor Vehicles account. These were remitted to the Exchequer through the Traffic Revenue Account.

Customs Services Department (CSD)

Customs Services Department collected Kshs. 331.8 billion against a target of Kshs. 326.1 billion, thus registering a performance rate of 101.7 percent and a revenue growth of 28.3 percent. The collections accounted for 34.4 percent of the total revenue collections for the financial year 2013/2014. The revenue performance was positively impacted by Petroleum taxes which registered an impressive performance impacted by growth in oil volumes which rose from 5.154 billion litres in 2012/13 to 5.499 billion litres in 2013/14 (6.7 per cent increase). In addition, there was a shift in the composition of oil imports with a higher proportion of importation falling within the excisable components (i.e., Petrol and Diesel) thereby positively impacting revenue to the tune of Kshs 9.271 billion. Trade taxes performed below target but still registered an impressive growth of 33.3% driven by a 16.4 per cent growth in the number of containers landed for home use from 179,340 TEUs in 2012/13 to 208,760 TEUs over the same period in 2013/14. Performance was driven by import VAT which accounted 47.6% of trade taxes.

Domestic Taxes Department (DTD)

Domestic Taxes Department collected Kshs. 628.3 billion against a target of Kshs. 633.2 billion, registering a performance rate of 99.2 percent and revenue growth of 16.6 percent over the financial year 2012/2013. The collections accounted for 65.2 percent of the total revenue collections for the financial year 2013/2014. Indirect taxes registered a performance of 98.1% and a growth Kshs. 29.9 billion (20.7%) over collections in 2012/13. The collections amount to 18.1% of the total KRA collections. Direct domestic taxes recorded performance of 99.6% and a growth of 15.1% over collections in 2012/13. The performance was driven by corporation tax and PAYE which registered growths of 22.9% and 19.9% respectively. VAT also registered a Strong performance derived from the 2013 reform with overall growth at 27.5% being registered in FY 2013/14 (both for import and domestic VAT). VAT contribution to total revenue collection increased from 22.9% in 2012/13 to 24.2% in 2013/14.

Road Transport Department (RTD)

RTD collected Kshs. 3.7 billion against a target of Kshs. 4.4 billion, registering a performance rate of 84.0 percent. RTD collections accounted for 0.4 percent of the total revenue collections for the financial year 2013/2014.

KEY ACHIEVEMENTS IN THE FINANCIAL YEAR

Single Revenue Collector Project

During the 18th sitting of the Vision 2030 Delivery Board, held on 25th January 2013, the Board resolved to adopt KRA as the Single Collector of Government Revenue. In the last one year, KRA and the NSFF signed an MOU for KRA to take over collection of NSSF rates and piloting has been ongoing. In addition a presentation was made to County Governors on the need and readiness for KRA to collect county revenues on their behalf as provided in the Public Finance Management Act 2012.

Real Estate Project

The real estate project is aimed at enhancing revenue collection from real estate and rental income. The operations of the real estate initiative continue to create the desired impact in terms of enhanced awareness on taxation of the sector activities thereby boosting voluntary compliance. During the financial year 2013/14, a total of 1,842 top landlords and property developers were profiled with a revenue expectation of Kshs. 12,954.4 million. This was an exemplary performance compared to a total of 633 top landlords and property developers profiled in 2012/13 which realized Kshs. 983.6 million.

A comprehensive publicity campaign on filing of 2013 Income Tax Returns was carried out and several articles on taxation of real estate sector published in various property based magazines and journals of professional bodies such as the Institute of Quantity Surveyors of Kenya and the Institution of Surveyors of Kenya to create awareness.

In order to address some of the challenges that affect compliance initiatives in this sub sector, KRA developed a concept paper on the proposed legislative and administrative measures aimed at enhancing tax collections from rental income. The concept paper was submitted to the National Treasury for consideration.

Authorised Economic Operator (AEO)

This is a World Customs Organization standard concept, which involves giving preferential treatment to traders and their clearing agents, who over a period of time have proven to be reliable and compliant with customs procedures. A total of 18 new operators were registered in 2013/14, bringing the total number of operators to 97, a positive growth of 23% over 2012/13. The Authority continues to expand the current cluster of AEOs to incorporate more categories of taxpayers such as oil marketers, container freight stations, bonded warehouses under WCO EAC AEO regional framework that is being developed for uniformity in all partner states. Out of the 97 licensed operators since inception in 2008, four (4) companies have since been struck off after their undertakings compromised their status.

Risk Management

The management recognizes that risk management is an integral component of our business and carefully considers the level of risk it is prepared to tolerate for tax /trader compliance risks and operational risks. The KRA fosters a risk-aware corporate culture in all decision making, and is committed to managing all risk in a proactive and effective manner through competent risk management. To support this commitment, risk is identified, analyzed and prioritized in order to inform the management decisions taken at all levels within the organization. The principles that guide the management process are set out in the KRA Risk Management Policy and Framework (KRARMPPF) approved by the Board.

REVENUE ADMINISTRATION REFORM AND MODERNIZATION PROGRAMME (RARMP) INITIATIVES

The Authority continued to scale up reforms through the Revenue Administration Reform and Modernization Programme (RARMP). Key reform measures implemented during the year included:

iTax

iTax is a domestic taxes system initiated in 2012 in order to provide users with the benefits of an integrated view of a taxpayer which was not possible with the previous system. The system will enhance service delivery to the taxpayers by enabling electronic tax declaration and payment. The key achievements during the financial year include the development of iTax Phase II (comprising of core internal modules such as audit, compliance, debt, refunds), introduction of 26 banks in the Payment Gateway system to facilitate e-filing and payments processes of tax returns, migrations of Large and Medium taxpayers to iTax (other taxpayer categories will be progressively migrated to iTax) and establishment of an iTax National Support Centre at the Nairobi Railway Club.

Simba Transformation and Enhancement

This is a Customs Reform and Modernization System aimed at addressing recurrent system performance challenges faced in the Simba System in the processing of electronic declarations for cargo clearance. major

upgrade to improve its performance to provide internal capacity to interrogate declarations. The enhancement is expected to improve system stability and security, increase availability and be integrated with other systems in the Authority allowing for a single view of the taxpayer. Development is complete and piloting of finalized modules such as entry processing and release of goods is ongoing on some sites. The upgrade including integration of Simba with Kenya National Electronic Single Window System have been completed.

New Customs Management System

The new customs management system is aimed at providing a robust system to integrate with other KRA business systems and to adopt modern technology that will incorporate all customs processes. The project is still at the initial stages and during the financial year under review, KRA through the National Treasury secured US\$ 13.02 million funding from Trade Mark East Africa to support the replacement of the current customs system with a new integrated Customs Management System. By June 2014 evaluation of the Request for Proposal for acquisition of the system had commenced.

Data Warehouse and Business Intelligence Project

This is an Infrastructure Development Project that will provide a central repository of all taxpayer information thus enhancing analytical and risk management capability, interfacing KRA systems to strategic external sources for information exchange purposes, taxpayer recruitment, data matching and risk profiling, and validating tax returns. During this period, the funds to implement the project were secured, procurement process commenced and an Expression of Interest advertised and evaluated. In addition, benchmarking visits with the Swedish Tax Agency and South African Revenue Service were conducted to facilitate implementation of the project.

Mobile Payment System and SMS Gateway Solution

The solution will allow for additional modes of payment and alternative communication to taxpayers. The main achievement was the launch and roll out of SMS gateway solution to the public for selected services in Customs Services, Domestic Taxes and Road Transport. Mobile payment gateway to support payment of some taxes and fees was piloted successfully and user sensitization is on-going to facilitate the complete roll-out of the service. The mobile payment solution was successfully implemented and is currently available on M-pesa and Airtel Money. The solution is aimed at facilitating lower end payments especially for Road Transport services.

Electronic Fiscal Devices Management Solution

The solution is expected to enable the Authority seal revenue leakages and increase revenue by making compliance easier, making non-compliance or fraud more detectable, and reducing the cost of collection. The procurement process is on-going.

Excise Goods Management System (EGMS)

KRA introduced a modern automated system for the real time monitoring of the production of excisable goods. The system uses enhanced paper stamps which has a digital code that enables the tracing of the stamp and excisable goods along the supply chain. During the financial year, 25 automated production lines tracking technology were successfully implemented in key tobacco and spirits factories. The Track and Trace technology helps to detect fake stamps during field enforcement. A significant growth in excise revenue was recorded at 38% in 2013/14 and more dividends are expected as full system enforcement takes place in 2014/15.

OTHER ISSUES

International Cooperation

The Authority benefitted from agreements signed between the National Treasury and international agencies which include:

- Swedish International Development Agency (SIDA) to support the Data Warehouse and Business Intelligence Project to be implemented by KRA
- United States of America (USA) on Mutual Assistance between the Customs Administrations, and
- Trademark East Africa, a financing agreement of US\$ 13.02 million to support the implementation of a new customs management system (CMS).

Local Cooperation

The Authority realizes that it cannot work in isolation from other government agencies thus endeavors to enhance synergies with other government bodies in order to realize the overall government's agenda. In this regard the Authority signed three MoUs with the following agencies:

- National Social Security Fund (NSSF) to collect the NSSF contributions
- Kenya Maritime Authority (KMA) to collect the merchant shipping superintendent levy
- Ethics and Anti-corruption Commission (EACC) on combating and preventing corruption, economic crime and unethical practices at KRA.

Huduma Kenya Secretariat

Eight (8) new Huduma Centres are operational giving services to the public - Kisumu, Kisii, Nyeri, Mombasa, Kajjido, Nakuru, Eldoret & Embu whilst Three other Huduma Centres are operational in Nairobi at City square, GPO and Makadara. Huduma Centres in Kakamega & Eastleigh are expected to become operational soon. KRA will be offering services in all Huduma Centres countrywide. In addition to that we are currently offering Driving licence services in 117 PCK offices country wide.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a prerequisite for good corporate leadership and governance and as such is deeply rooted within the Authorities core values. The focus for the CSR programme has always targeted to support youth initiatives and the under privileged in society. To this end, the Authority held several outreach programmes targeting six children's homes, one school for the blind, a Cancer Trust and two marathons. Cash donations worth Kshs. 3.05 million were made, an increase of 69% from last year donation of Kshs. 1.8 million.

Taxpayers' Week

KRA has made it a tradition to organize annual taxpayer's week with a range of activities that culminate into the awarding ceremony to recognize the best taxpayers of the year. The 2013 Taxpayers' Week was held between 14th and 22nd October 2013 countrywide. During the week, there were various publicity activities including live TV interviews, Radio talk shows and road shows (caravans) to educate and assist taxpayers. Different educational materials were produced and distributed during the road shows.

Tax Clubs

The Authority introduced the School Outreach programme through which school tax clubs were established in various secondary schools across the country. The students are taken through the introduction to taxation and the importance of the school tax clubs. The students are actively engaged in tax debates and symposiums. During this period, 112 tax clubs across the stations were established bringing the total to 202. Formation of tax clubs in the universities was kicked off with forums held at Kenyatta, Egerton, KCA and Eldoret Universities.

Implementation of the Constitution of Kenya 2010

During the period under review, the management committee, mandated to ensure all arms of the Authority comply with the requirements of the Constitution 2010, conducted a comprehensive audit on compliance with the Constitution. The audit was carried out in the head office and most of the KRA stations and found that most offices were compliant with the provisions of the Constitution.

Kenya School of Revenue Administration (KESRA)

The institution continued to offer training to KRA staff and from the East Africa Community region, on a regular basis. The much anticipated MOU between KESRA and the University of Nairobi took-off in the financial year. Henceforth, KESRA trainees upon completion of the course will be awarded a post graduate diploma in Taxation from the University of Nairobi. This training approach is aimed at tapping the research capacity of the academia to solve real problems in the industry. KRA is confident that the program will henceforth produce graduates with the requisite skills and pre-disposition to effectively tackle emerging issues in tax administration.

HUMAN RESOURCES REVIEW 2013/2014

KRA implemented a new organizational structure which shortened the chain of command from seventeen to ten grades. New departmental structures were also developed and job titles and Job descriptions changed in line with the new structure. Staff were also graded and placed on the new grading structure. The terms of employments for managers were changed from permanent and pensionable to contract terms.

KRA Staff Compliment as end of 30th June 2014

Department	Number of Staff	Percentage of Total Staff
Customs Services	1433	30.3
Domestic Taxes	1444	30.6
Headquarters	1478	31.3
Road Transport	195	4.1
Trainees	176	3.7
TOTAL	4726	100.0

Senior Staff Changes

Mr. Jonah K. Cheruiyot was appointed Commissioner of Investigations and Enforcement on 11th June 2014 following the retirement of Mr. Joseph Nduati. Mr. Ogai was appointed Acting Commissioner Technical Support Services on 1st March 2014, upon retirement of the previous office holder, Ms. Hellen Achieng Bila.

Staff Motivational and Welfare Programmes

The Authority continues to enhance staff motivation through provision of various benefits such as mortgage, car and lap top loans, the medical benefit scheme, etc. Management also implemented various welfare programmes such as team building events, health promotion events such as health talks, HIV/Aids and Alcohol and Drugs Abuse Prevention Programmes, etc.

Competency Development

The Authority implemented programmes focused towards raising the levels of skills and proficiencies where a total of 3,472 staff were trained in the financial year. The training included management development and technical/specialized skills.

KRA also developed a leadership index to help assess the skill in the various levels of leadership. This will help in assessing effectiveness and skills gaps and recommend training where necessary. The Coaching and Mentoring programme was also rolled out where 494 officers were paired. A total of 387 coaches and mentors were also trained in the year.

FUTURE OUTLOOK

The financial year 2013/2014 was the second year of the Authority's Fifth Corporate Plan 2012/2013 - 2014/2015. The year also marked the first year of the Jubilee Government.

In the coming year 2014/15, KRA will continue with implementation of revenue enhancement initiatives in the Fifth Corporate Plan to ensure revenue targets are achieved and customer service improved. In addition, the preparation process for the 6th Corporate Plan will be kicked off which will culminate into the launch by July 2015. Some of the initiatives to be pursued in the coming financial year include:

iTax

A complete roll out of all the modules is expected in the coming year. Full compliance is expected among large and medium taxpayers while greater efforts will be put to bring on board small taxpayers through targeted sensitization programs. An iTax National Support Centre has been established at Nairobi Railway Club for technology and communication support. Five other supporting centres will be launched (in Mombasa, Nakuru, Kisumu, Eldoret, Nyeri) and mini-support structures set up at GoK Huduma Centres.

Data Warehouse, Business Intelligence and Analytics (DW&BI)

KRA will be implementing a DWBI system to assist in the processing of the large volumes of data generated/received annually to facilitate decision making. KRA will also continue to leverage on Third Party Information and supporting IT solutions for enhanced revenue collection and streamlined administration to address specific operational challenges including low compliance, Tax evasion and an effective performance management.

Implementation of ERP system:

KRA will be implementing an ERP system to modernize and automate the Support Services functions. Implementation will improve the support provided to the revenue departments in their core business of revenue collection and tax administration. Functions targeted include human resources, finance, procurement, and administration. The implementation will also help in reducing operating costs, increase efficiency, standardized business processes and improve compliance and visibility.

Business Information Management System

The BMIS will enable real time data transmission and remote monitoring of their usage which will in turn enable the Authority to seal revenue leakages and increase revenue by making compliance easier, making non-compliance or fraud more detectable, and reducing the cost of collection.

Transfer of functions to NTSA

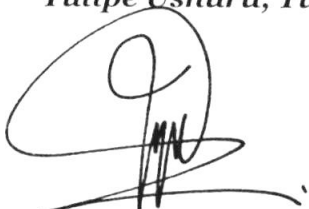
Following the establishment of National Transport & Safety Authority (NTSA) through the NTSA Act 2012, the NTSA will formally take over core RTD functions that have been previously under KRA from 1st July 2014. Road Transport regulatory functions including motor vehicle registration, ownership transfers licensing, among others will now be executed under NTSA. On the other hand, KRA will provide revenue collection facilities on agency basis.

CONCLUSION

In the Financial Year 2013/2014, KRA realised revenue increase of **Kshs. 163.34 billion** reflecting **20.4 per cent** growth. The revenue target for the financial year 2014/2015 is quite ambitious at **Kshs. 1,121.4 billion**, of which Kshs. 1,055.99 billion (94.2 per cent) is Exchequer revenue and Kshs. 65.47 billion (5.8 per cent) being Agency revenues. The estimates for 2014/15 require that revenue grows by **16.4 per cent** which will require highly concerted efforts to address challenges that continue to negatively impact on revenue generation. The Authority has come up with revenue enhancement measures to ensure delivery on the expectations.

I wish to thank the KRA Board of Directors, management and staff for their diligence and hard work which has enabled the Authority to effectively implement its mandate. I also thank the Government through the National Treasury, for according us support. Lastly, I extend our gratitude to our taxpayers, for their unwavering support, without which we would not have achieved our objectives.

Tulipe Ushuru, Tujitegemee!



J. K. NJIRAINI, MBS
COMMISSIONER GENERAL
2nd September 2014

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the process and structure used to direct and manage the business affairs of the Authority in order to enhance prosperity, corporate performance and accounting. The Board of Directors is the supreme forum for formulating and interpreting policy and charting out the road map for goal attainment including plans of action.

The Board of Directors is responsible for the governance of the KRA and is accountable to the Cabinet Secretary, the National Treasury to ensure compliance with the KRA Act, best practice, and business ethics. The Directors attach great importance to the need to conduct the business and operations of the Authority with integrity, professionalism and in accordance with generally accepted international corporate practice.

The Board's responsibilities are broadly set out in Section 6 (6) of the Kenya Revenue Authority Act CAP 469 of the Laws of Kenya, and include:

- Review and approval of the policy of the Authority.
- Monitoring performance of the Authority in carrying out its functions and
- Discipline and control of all members of staff in the Authority.

Board Meetings

The Board meets on a monthly basis to review management performance including revenue collection, operational issues and future planning. The Directors are given appropriate and timely information to enable them maintain full and effective control over strategic, financial operational, revenue and compliance issues. All non-executive Directors on the Board are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgment. The Board held 12 meetings during the period under review.

Board Committees

The Board had five standing committees during the year, which met regularly under the terms of reference set out by the Board:

Staff Committee

The Committee is responsible for monitoring and appraising the performance of Senior Management, reviewing of human resource policies, approval of remuneration policy for employees, and making recommendations on Senior Management appointments to the Board. The committee meets quarterly and the members were:

- Ms. Mary M'Mukindia,
- Mr. Evans Kakai,
- Mr. Kibuga Kariithi,
- Ms. Constantine Kandie,
- Mr. James Getuno, and
- The Attorney General Hon. Githu Muigai.

Finance Committee

The Finance Committee reviews the Authority's annual budget and is responsible for the financial policies of the Authority. The committee meets monthly and the members were:

- Mr. Evans Kakai,
- Ms. Constantine Kandie,

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

- Mr. James Getuno, and
- Principal Secretary– National Treasury.

The Procurement & Disposal and ICT Oversight Committee

The Committee is responsible for vetting the award of contracts by management and ensuring that the procurement policies as provided for by Cap 3 of 2005 Public Procurement and Disposal Act are complied with. In addition, the committee reviews all the business automation strategies and procurements. The committee meets monthly and the members were:

- Mr. James Getuno,
- Ms. Constantine Kandie and
- The Attorney General

Audit Committee

The Committee is responsible for reviewing audit reports, compliance with relevant laws, procedures and standards, quality of financial reporting and oversight on internal control among others. The Audit Committee assists the Board in discharging its supervisory and good corporate governance responsibilities. The committee meets quarterly and the members were:

- Mr. James Getuno,
- Mr. Kibuga Kariithi, and
- The Principal Secretary – the National Treasury.

Strategy, Policy and Research Committee

The committee is responsible for reviewing the Authority's strategic implementation of the Corporate Plan and Reform Programme. It also serves as a forum to encourage continuous research and review of tax policy proposals; and regulatory framework for revenue collection. The committee meets quarterly and the members were:

- Mr. Kibuga Kariithi,
- Ms. Mary M'Mukindia,
- Mr. Evans Kakai, and Principal Secretary-National Treasury

The Authority also has a Staff Pension Scheme which is supervised, managed and administered by a Board of Trustees. The Authority as sponsor of the scheme is represented by the following Board Members:

- Ms Constantine Kandie,
- Mr Evans Kakai and
- Ms Mary M'Mukindia.

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Corporate Social Responsibility (CSR) is a prerequisite for good corporate leadership and governance and as such is deeply rooted within the Authority's core values. The focus for the CSR programme has always targeted to support youth initiatives and the under privileged members in the society. To this end, the Authority held several outreach programmes targeting six children's homes, one school for the blind, a Cancer Trust and two marathons. Cash donations worth Kshs. 3.05 million were made, an increase of 69% from last year donation of Kshs. 1.8 million.

Taxpayers' Week Events

KRA has made it a tradition to organize annual taxpayer's week events with a range of activities that culminate into the awarding ceremony to recognize the best taxpayers of the year. The 2013 Taxpayers' Week was held between 14th and 22nd October 2013 countrywide. During the week, there were various publicity activities including live TV interviews, Radio talk shows and road shows (caravans) to educate and assist taxpayers. Different educational materials were produced and distributed during the road shows.

Tax Clubs

The Authority introduced the School Outreach programme through which school tax clubs were established in various secondary schools across the country. The students are taken through the introduction to taxation and the importance of the school tax clubs. The students are actively engaged in tax debates and symposiums. During this period, 112 tax clubs across the stations were established bringing the total to 202. Formation of tax clubs in the universities was kicked off with forums held at Kenyatta, Egerton, KCA and Eldoret Universities.

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June, 2014 which show the state of Kenya Revenue Authority's affairs.

Principal activities

The principal activities of the Authority continue to be assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the relevant Acts.

Results

The results of the Authority for the year ended June, 2014 are set out on pages 25 to 28.

Directors

The Members of the Board who served during the year are shown on page 5 to 7.

Auditors

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Public Finance Management (PFM) Act, 2012.



.....

By Order of the Board

Board Secretary

Date: **2nd September, 2014**

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya Revenue Authority Act require the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the entity as at the end of the financial year and of the operating results of the entity for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity. They are also responsible for safeguarding the assets of the entity.

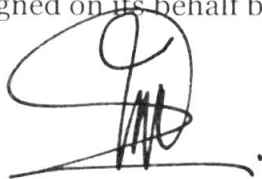
The Directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Public Sector Accounting Standards and the requirements of the Kenya Revenue Authority Act, and for such internal controls as directors determine are necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and in the manner required by the Kenya Revenue Authority Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the entity and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on **2nd September, 2014** and signed on its behalf by:



.....
J. K. NJIRAINI, MBS
COMMISSIONER GENERAL



.....
MAJOR (RTD) MARSDEN MADOKA, EGH
CHAIRMAN

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Revenue Authority set out on pages 25 to 47, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of cash flows, statement of comparison of budget and actual amounts and revenue collection statement 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 Sections 14 and 8 of the Public Audit Act, 2003.

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.

Management's Responsibility 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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements, based on the audit and report in accordance with the provisions of Section 15 (2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

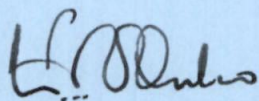
1.0 FINANCIAL STATEMENTS

Land without Title Deeds

The financial statements of the Authority reflect land and buildings with a net book value of Kshs.9,533,366,000 as at 30 June 2014, as disclosed in Note 8(i). Included in the balance of Kshs.9,533,366,000 are fifteen (17) parcels of land without title deeds in various parts of the country valued at Kshs.378,000,000 with buildings valued at Kshs.829,050,000, which were transferred to the Authority by the Government at inception in 1995. The net book value of Kshs.9,533,366,000, however excludes one (1) unvalued parcel of land in Machakos County without title deed and which was similarly transferred to the Authority by the Government in 1995. The balance further excludes an unvalued parcel of land in Taveta County without a title deed, and another one in Shimoni Kwale County, which is registered in the name of East Africa Common Services Authority. In the circumstances, it has not been possible to confirm the ownership status of the 20 parcels of land, and that the property, plant and equipment balance of Kshs.12,315,101,000 is fairly stated as at 30 June 2014.

Qualified Opinion

In my opinion, except for the effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Kenya Revenue Authority as at 30 June 2014, and of its financial performance and cash flows for the year then ended, in accordance with International Public Sector Accounting Standards, and comply with Kenya Revenue Authority Act, (Cap 469) of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

4 August 2015

KENYA REVENUE AUTHORITY

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2014**

		2013/2014	2012/2013
	NOTE	<u>Kshs'000</u>	<u>Kshs'000</u>
REVENUE			
Revenue from non- exchange transactions			
Agency Income	3	13,651,582	13,201,230
Deferred grant income amortisation	23	136,611	72,180
Revenue from exchange transactions			
Commissions Income	4(a)	812,570	744,978
Interest Income		361,228	186,484
Sale of Number Plates		402,364	322,862
Other Incomes	4(b)	280,128	265,104
TOTAL REVENUE		<u>15,644,483</u>	<u>14,792,838</u>
EXPENDITURE			
Administrative Expenses	5	13,746,965	12,681,690
Operating Expenses	6	932,003	802,925
Maintenance Expenses	7	164,902	204,137
TOTAL EXPENDITURE		<u>14,843,870</u>	<u>13,688,752</u>
Other gains/(losses)			
Loss on sale of assets		(580)	(2,132)
SURPLUS FOR THE YEAR		<u>800,033</u>	<u>1,101,954</u>

The notes set out on pages 30 to 48 form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2014

	NOTE	2013/2014 Kshs '000	2012/2013 Kshs '000
Assets			
Current Assets			
Cash and Bank Balances	13	7,122,465	3,025,385
Debtors and Receivables	10	467,025	707,877
		7,589,490	3,733,262
Non-Current Assets			
Property, Plant & Equipment	8	12,315,101	12,154,722
Intangible Assets	9	110,038	36,158
Amount due from Treasury	11	2,123,899	3,142,677
Security Deposits	12	1,991,883	1,981,892
		16,540,921	17,315,449
Total Assets		24,130,411	21,048,711
Liabilities			
Current Liabilities			
Creditors and Payables	14	2,681,337	1,152,229
Leave Pay Provision	15	1,004,327	763,687
Deferred Income Amortisation	23	136,611	72,180
		3,822,275	1,988,096
Non Current Liabilities			
Contribution to Govt Pension Fund	16	26,991	27,034
Designated Fund	18	240,980	260,134
Deferred Grants Income	23	218,696	226,444
		486,667	513,612
Total Liabilities		4,308,942	2,501,708
Net Assets		19,821,469	18,547,003
Capital grants by the Treasury	17	12,948,236	12,377,258
Accumulated Fund		2,580,549	1,780,516
Revaluation Reserve	8	4,292,684	4,389,229
		19,821,469	18,547,003
Total net assets and liabilities		24,130,411	21,048,711

The financial statements set out on pages 25 to 28 were signed on behalf of the Board of Directors by:

J. K. Njiraini, MBS
Commissioner General
Date


.....
2 September, 2014

Major (Rtd) Marsden Madoka, EGH
Chairman
Date


.....
2 September, 2014

The notes set out on pages 30 to 48 form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2014

		Capital Grants by Treasury	Accumulated Fund	Revaluation Reserve	Total Fund
	NOTE	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>	<u>Kshs'000</u>
1 July 2012 as previously reported		11,914,431	533,632	4,485,774	16,933,837
Prior year adjustment	23	(493,839)	144,930	-	(348,909)
1 July 2012 as restated		11,420,592	678,562	4,485,774	16,584,928
Contribution for the year		956,666	-	-	956,666
Charge for the year		-	-	(96,546)	(96,546)
Surplus for the year		-	1,101,954	-	1,101,954
at 30 June 2013		<u>12,377,258</u>	<u>1,780,516</u>	<u>4,389,229</u>	<u>18,547,003</u>
1 July 2013 as previously reported		12,892,992	1,563,406	4,389,229	18,845,626
Prior year adjustment	23	(515,733)	217,110	-	(298,623)
1 July 2013 as restated		12,377,259	1,780,516	4,389,229	18,547,003
Contribution for the year	17	570,977	-	-	570,977
Charge for the year		-	-	(96,545)	(96,545)
Surplus for the year		-	800,033	-	800,033
at 30 June 2014		<u>12,948,236</u>	<u>2,580,549</u>	<u>4,292,684</u>	<u>19,821,469</u>

The notes set out on pages 30 to 48 form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2014

		2013/2014	2012/2013
	NOTE	Kshs `000	Kshs `000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		800,033	1,101,954
Non- cash movements			
Depreciation	8	762,407	599,886
Amortisation	9	29,645	20,382
Increase in Amortisation of Deferred Income	23	(136,611)	(72,180)
Loss on disposal of Assets		580	2,132
Increase in Security Deposits	12	(9,991)	(83,597)
Decrease/ (Increase) in Debtors and receivables		1,259,630	(1,421,214)
Increase in Creditors and payables		1,769,707	910,181
Net cash flows from operating activities		4,475,400	1,057,544
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant & Equipment	8	(930,323)	(771,807)
Proceeds from sale of Property, Plant & Equipment		180	2,658
Net cash flows from investing activities		(930,143)	(769,149)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contribution by the Treasury	17	570,977	956,666
Decrease in designated Funds	18	(19,154)	(33,328)
Net cash flows from financing activities		551,823	923,338
NET INCREASE IN CASH AND CASH EQUIVALENTS		4,097,080	1,211,733
Cash and cash equivalents at 1 July		3,025,385	1,813,652
CASH AND CASH EQUIVALENTS AT 30 JUNE	13	7,122,465	3,025,385

The notes set out on pages 30 to 48 form an integral part of the Financial Statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS					
	ORIGINAL BUDGET 2013/2014 KSHS '000	ADJUSTMENTS ADDITIONS KSHS '000	FINAL BUDGET 2013/2014 KSHS '000	ACTUAL COMPARABLE BASIS 2013/2014 KSHS '000	PERFORMANCE DIFFERENCE 2013/2014 KSHS '000
INCOME :					
Agency fees	12,528,591	1,000,000	13,528,591	13,528,591	-
Bonus Income	-	-	-	122,991	(122,991)
Road Maintenance levy	588,960	-	588,960	563,255	25,705
Sale of Number plates	336,571	-	336,571	402,364	(65,793)
Sale of Tamper- Proof seals	20,872	-	20,872	21,347	(475)
Petroleum Development levy	41,320	-	41,320	-	41,320
Document Processing Fees	30,991	-	30,991	26,217	4,774
Interest income	49,516	42,428	91,944	361,228	(269,284)
Transit Toll	10,824	-	10,824	9,893	931
Rent receivable	7,024	-	7,024	16,745	(9,720)
Public Overtime	2,037	-	2,037	2,144	(107)
Institutional houses - rent	98,293	(42,428)	55,865	71,217	(15,352)
Aviation Revenue	73,923	-	73,923	69,443	4,480
Sugar Levy	30,845	-	30,845	39,328	(8,484)
Air Passenger Service charge	127,532	-	127,532	136,662	(9,130)
Miscellaneous Income	41,762	-	41,762	135,869	(94,107)
Deferred Income Amortisation	-	-	-	136,611	(136,611)
Total Operational Income	14,233,401	1,000,000	15,233,401	15,643,904	(410,503)
STAFF COSTS:					
Basic pay	6,400,244	(106,698)	6,293,546	10,168,511	(3,874,965)
Other Allowances	4,565,089	(122,209)	4,442,880	-	4,442,880
Total Staff Salaries and Allowances	10,965,333	(228,908)	10,736,425	10,168,511	567,915
OPERATIONAL Expenses:					
Staff Welfare Expenses	23,851	39,993	63,844	16,928	46,916
Medical Expenses	426,806	-	426,806	508,364	(81,558)
Training Expenses	155,398	216,056	371,454	193,339	178,115
Uniform & Laundry Expenses	1,672	(266)	1,406	2,206	(800)
Travel & Accomodation	311,753	128,587	440,340	621,281	(180,941)
Transfer Allowance	43,900	6,500	50,400	-	50,400
Utilities Expenses	368,843	24,364	393,207	386,199	7,008
Building Repairs & maintenance	29,187	77,591	106,779	85,651	21,128
Motor Running Expenses	143,408	36,764	180,172	161,063	19,110
Motor boat running Expenses	18,603	3,700	22,303	6,548	15,755
Scanner Expenses	92,114	-	92,114	72,703	19,411
Rents & Rates	141,877	(875)	141,001	125,937	15,065
Computer Expenses	200,599	96,857	297,455	209,374	88,081
Security Expenses	252,101	112,686	364,787	349,917	14,870
Insurance Expenses	64,237	(29,995)	34,242	81,102	(46,861)
Public Relations Expenses	28,982	38,465	67,447	74,249	(6,802)
Taxpayers Education	51,692	17,259	68,951	63,770	5,181
Consultancy	47,308	49,160	96,468	94,599	1,869
Secretarial Expenses	79,307	19,007	98,314	32,738	65,576
Bank Charges	96,180	50,234	146,414	114,089	32,325
Corp' strategy and review conf' exp	51,971	20,029	72,001	10,546	61,455
Office Running Expenses	155,326	88,832	244,157	198,707	45,450
Printing & Stationery Expenses	56,278	12,790	69,067	77,834	(8,766)
Consumable Stores Expenses	19,217	(732)	18,485	16,417	2,068
Materials & Eupplies Expenses	324,891	8,080	332,971	376,352	(43,382)
Enforcement Expenses	27,129	8,765	35,894	56	35,838
Laboratory Expenses	5,438	3,600	9,038	3,339	5,699
TOTAL Operational Expenses	3,268,068	1,027,449	4,335,510	3,883,307	452,202
TOTAL Recurrent Expenses	14,233,401	798,541	15,071,935	14,051,818	609,614
Depreciation Expenses	700,000		700,000	792,053	(92,053)
SURPLUS FOR THE PERIOD	(700,000)	201,459	(538,534)	800,033	(928,064)

The notes set out on pages 30 to 48 form an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the indirect method. The financial statements are prepared on accrual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue Recognition

i) Revenue from non-exchange transactions

In accordance with the Kenya Revenue Authority Act CAP 469, income to the Authority is "such amounts not exceeding 2% as may be determined by the Minister each financial year" of the total estimated revenue to be collected by the Authority on behalf of the Exchequer. In addition, the Authority is entitled to a Bonus of 3% of the surplus revenue collected above the estimates and also earns income from other activities.

ii) Revenue from exchange transactions

Finance Revenue

Finance revenue comprises interest receivable from fixed deposits and security deposits. Finance revenue is recognised as it accrues in profit or loss, using the effective yield method.

Rental income

Rental income is recognised on a straight line basis over the lease term.

Commission revenue

Commission incomes comprise agency fees charged on collections on behalf of regulatory bodies.

Other operating income

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be measured reliably.

(b) Development funding and capital grants by the Treasury

Grants by the Treasury in form of assets or funding for acquisition of major assets or development projects are recognized as a financing reserve when received. No repayment of the financing is expected by the Authority.

(c) Property, Plant and Equipment

All categories of property, plant and equipment are stated at cost or valuation less accumulated depreciation and annual impairment losses. Depreciation is calculated to

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT
JUNE 2014**

write off the cost or valuation of each asset to its residual value where applicable, over the expected useful life of the asset in equal instalments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated useful life is as follows: -

Plant & Machinery	8 years
Equipment/Furniture/Fittings	8 years
Boats	8 years
Motor Vehicles	5 years (with a 10% residual value)
Computers	3 years
Computer Software	3 Years
Buildings	40 years
Leasehold land	Over the remaining lease period

Gains or losses on property, plant and equipment are determined by reference to their carrying value and are taken into account in determining the surplus / (deficit) for the year.

(d) Intangible Assets

Intangible assets consist of various computer software systems purchased for use by the Authority. The Authority recognises Intangible Assets acquired separately at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over their useful lives as estimated by management from time to time.

(e) Cash and Cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits held with banks.

(f) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rate ruling on that date. The resulting foreign exchange gains and losses are recognized on a net basis, differences are dealt with in the income and expenditure statement in the financial year in which they arise.

(g) Employee benefits costs

(i) Retirement benefit obligations

The Authority operates as hybrid pension scheme with a defined contribution plan for the permanent and pensionable employees. Payments to the scheme are recognised as an expense when employees have rendered service entitling them to the contributions. The scheme is funded by contributions from both the entity and employees. The entity and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

ii) Other entitlements

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave at the reporting date.

(h) Inventories

All consumable stocks held for use in operations are expensed on purchase

(i) Receivables

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a receivable is considered uncollectible it is written off. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance. Changes in the carrying amount of the allowance account are recognized in the Statement of Financial Performance.

(j) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

(k) Provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

(l) Critical Accounting Estimates and Judgements in applying the Authority's accounting policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

Critical accounting judgments in applying the Authority's policies

Impairment losses

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Plant and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Contingent liabilities

The directors evaluate the status of any exposures on a regular basis to assess the probability of the entity incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

3. REVENUE FROM NON EXCHANGE TRANSACTIONS

	2013/2014 Kshs '000	2012/2013 Kshs '000
Agency Income	13,528,591	13,201,230
Bonus	122,991	-
Amortisation of grants deferred Income	<u>136,611</u>	<u>72,180</u>
	<u>13,651,719</u>	<u>13,273,410</u>

The Agency Income and Bonus are provided in accordance with the provisions of the Kenya Revenue Authority Act CAP 469. Deferred incomes are the inflows of economic benefits or services received/receivable from assets donated to the Authority from the World bank.

4. REVENUE FROM EXCHANGE TRANSACTIONS

a. Commissions Income

	2013/2014 Kshs '000	2012/2013 Kshs '000
Road Maintenance Levy Commission	563,255	500,032
Aviation Revenue Commission	69,443	71,778
Air Passenger Service Charge Commission	136,662	125,611
Sugar Development Levy Commission	39	43,796
Insurance Deductions Commission	<u>3,883</u>	<u>3,761</u>
	<u>812,570</u>	<u>744,978</u>

b. Other Incomes

	2013/2014 Kshs '000	2012/2013 Kshs '000
IDF & PDL Income	35,883	34,030
Sale of Tamperproof Seals	21,347	16,843
Public Overtime	2,144	2,395
Document Processing Fees	26,217	32,994
Staff Housing / Rental Income	71,217	50,646
Property Rental Income	16,745	8,075
Miscellaneous Income **	<u>106,576</u>	<u>120,121</u>
	<u>280,128</u>	<u>265,104</u>

** Miscellaneous income consists of income from sale of tender documents, revenue stamps, staff identity cards, PSV Badges, training school activities and road transit toll collections.

5. ADMINISTRATIVE COSTS

a. Staff and Employee Costs

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Salaries & Allowances	9,927,870	9,485,940
Provision for Staff Leave	240,641	188,681
Medical Expenses	508,364	592,656
	<u>10,676,875</u>	<u>10,267,277</u>

b. Other Administrative Costs

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Travelling & Accommodation	621,281	487,184
Utilities	386,199	299,711
Staff Welfare	16,928	26,405
Printing & Stationery	77,834	74,508
Consultancy	94,599	45,509
Computer Expenses	209,374	212,151
Training	193,339	112,504
Office Running Expenses	198,707	179,438
Insurances	81,102	55,789
Board Expenses (sub-note b1)	21,793	26,119
Entertainment	10,546	14,319
Consumable Stores	16,417	22,288
Security Expenses	349,917	238,221
Depreciation Charge	762,407	599,886
Amortisation of Intangible Assets	29,645	20,382
	<u>3,070,090</u>	<u>2,414,413</u>
TOTAL ADMINISTRATIVE COSTS	<u>13,746,965</u>	<u>12,681,690</u>

b(i) Board Expenses

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Monthly Directors' fees	8,702	11,918
Sitting Allowances & Honararia	11,222	12,002
Accommodation & Travel Expenses	1,869	2,199
	<u>21,793</u>	<u>26,119</u>

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT
JUNE 2014**

6. OPERATING EXPENSES

	2013/2014 Kshs '000	2012/2013 Kshs '000
Rent & Rates	125,936	122,042
Taxpayer Education	63,770	59,761
Motor Running Expenses	161,063	178,307
Advertising & Public Relations	74,249	32,125
Secretarial Expenses	10,945	7,835
Uniforms & laundry	2,206	617
Materials and Supplies	376,352	387,938
Bank Charges	114,089	1,229
Containers & Sealing Expenses	56	7,821
Laboratory Expenses	3,338	5,250
	<u>932,003</u>	<u>802,925</u>

7. MAINTENANCE EXPENSES

	2013/2014 Kshs '000	2012/2013 Kshs '000
Building Repair & Maintenance	85,651	26,465
Scanner Maintenance	72,702	167,916
Motor Boat Expenses	6,548	9,756
	<u>164,901</u>	<u>204,137</u>

7 (a) Scanner expenses

	2013/2014 Kshs '000	2012/2013 Kshs '000
Annual Maintenance Contract	71,474	167,916
Routine Maintenance Expenses	1,228	-
	<u>72,702</u>	<u>167,916</u>

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT
JUNE 2014

8. PROPERTY, PLANT AND EQUIPMENT.

(i)

	LAND & BUILDINGS	PLANT & MACHINERY	MOTOR VEHICLES	OFFICE EQUIPMENT FURNITURE	COMPUTERS	MOTOR BOATS	WIP	TOTAL
	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000	Kshs '000
2013/2014								
COST/VALUATION								
1 Jul 2013	9,721,703	2,204,375	577,976	988,023	1,609,826	604,468	1,563,432	17,269,803
Additions	-	-	41,352	52,593	362,181	-	563,966	1,020,091
Disposals	-	-	(7,600)	-	-	-	-	(7,600)
Transfer of WIP	731,219	-	-	-	-	-	(731,279)	-
30 June 2014	10,452,982	2,204,375	611,728	1,040,616	1,972,006	604,468	1,396,119	18,282,293
DEPRECIATION								
1 Jul 2013	655,236	1,607,628	466,058	614,295	1,440,191	331,673	-	5,115,081
Charge for Year	167,835	193,084	28,843	84,919	214,180	73,547	-	762,407
Depreciation on Revaluation	96,545	-	-	-	-	-	-	96,545
Disposals	-	-	(6,840)	-	-	-	-	(6,840)
30 June 2014	919,616	1,800,712	488,062	699,214	1,654,371	405,219	-	5,967,193
NET BOOK VALUE								
30 June 2014	9,533,366	403,663	123,667	341,402	317,635	199,248	1,396,119	12,315,101
2012/2013								
COST/VALUATION								
1 Jul 2012	7,360,800	2,204,375	585,424	767,494	1,381,275	612,040	1,308,430	14,219,838
Additions	-	-	40,446	212,291	89,062	-	404,576	746,375
Disposals	-	-	(47,894)	-	-	(7,572)	-	(55,466)
Prer Period Adj.	2,359,056	-	-	-	-	-	-	2,359,056
Transfer of WIP	1,847	-	-	8,238	139,489	-	(149,574)	-
30 June 2013	9,721,703	2,204,375	577,976	988,023	1,609,826	604,468	1,563,432	17,269,802
DEPRECIATION								
1 Jul 2012	368,034	1,414,544	485,243	531,639	1,335,398	265,698	-	4,400,556
Charge for Year	121,886	193,084	23,920	82,656	104,793	73,547	-	599,886
Dep. on Rev	96,545	-	-	-	-	-	-	96,546
Prer Period Adj.	68,770	-	-	-	-	-	-	68,770
Disposals	-	-	(43,105)	-	-	(7,572)	-	(50,677)
30 June 2013	655,236	1,607,628	466,058	614,295	1,440,191	331,673	-	5,115,081
NET BOOK VALUE								
30 June 2013	9,066,467	596,747	111,918	373,728	169,635	272,795	1,563,432	12,154,722

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

(ii) Land & buildings

The Authority received several leasehold properties (land and buildings) from the government at inception in 1995. The Authority was not required to pay for the property hence did not incur any cost on the same. To recognize the property in its books, the Authority did a professional valuation of the land and building in 1996 and the values were adopted in the Authority's statement of financial position. This was done by recognizing land and buildings assets in the statement of Financial Position.

The Authority is yet to receive title documents for some 18 pieces of leasehold land received Government. These properties are at various stages of registration with the Commissioner of Lands. Another title deed is in the name of East African Common Services Authority (EACSA) and the process transfer of the title is ongoing. The Authority also bought one parcel of land in Taveta in 2010 for construction of a border station and is in the process of obtaining the title.

(iii) Fully depreciated assets

Included in the assets are fully depreciated assets comprising of Motor Vehicles whose original cost was Kshs 451,489,258 with a residual value of Kshs 45,148,925, Motor Boats whose cost is Kshs 16,091,088, Computers whose cost is Kshs 1,329,466,725, Office Equipment of Kshs 172,648,521, Laboratory Equipment Kshs 17,500,090, Plant and Machinery Kshs 659,703,883 and Furniture and Fittings of Kshs. 170,883,090 whose book value is nil. The total notional depreciation charge for the assets is Kshs. 645,818,353 (2013- Kshs. 632,292,988). Most of these assets are in use by the Authority.

(iv) Capital Work In Progress

	2013/2014 Kshs '000	2012/2013 Kshs '000
Electronic Cargo Tracking System	77,612	77,612
Intergrated Tax Management System	917,274	684,686
Customs Revenue Accounting Module	4,664	4,664
Support Departments ERP System	5,276	5,276
Valuations Database system	23,705	17,791
Renovation of JKIA Offices	8,386	5,212
Simba Transformation Project	6,342	-
Biometric & Times Towers Secuirty System	11,625	-
Enterprise Storage System Upgrade	22,626	-
Exciseable Goods Management System (EGMS)	318,608	-
Common Cash Receipting System	-	63,691
Langata Staff Houses Renovation	-	594,435
Renovation of Training Institute (KESRA)	-	110,065
	<u>1,396,119</u>	<u>1,563,432</u>

9. INTANGIBLE ASSETS

	2013/2014	2012/2013
	Kshs '000	Kshs '000
COST		
1 July	230,413	183,085
Additions	103,525	47,328
30 June	<u>333,938</u>	<u>230,413</u>
AMORTISATION		
1 July	194,255	173,873
for the year	29,645	20,382
30 June	<u>223,900</u>	<u>194,255</u>
NET BOOK VALUE		
30 June	<u>110,038</u>	<u>36,158</u>

The intangible assets are made up of different computer software in use by the Authority. Included in the Intangible Assets are fully amortised assets whose original cost was Kshs. 169,267,025, (2013- Kshs. 169,267,025).

10. DEBTORS AND RECEIVABLES

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Trade Debtors		
Other Agency debtors	229,893	230,240
Rent Receivable	646	-
Interest Receivable	5,767	8,033
	<u>236,306</u>	<u>238,274</u>
Other Debtors		
Staff Debtors	94,329	90,181
Prepayments	8,878	8,256
Other Debtors	127,512	371,167
	<u>230,719</u>	<u>469,603</u>
Debtors Total	<u>467,025</u>	<u>707,877</u>

Other agency debtors represent outstanding commission on collection of revenues on behalf of other organisations. Staff debtors mainly comprise of outstanding travel imprests, loans for acquisition of laptops and medical advances.

11. AMOUNT DUE FROM TREASURY

	2013/2014	2012/2013
	Kshs '000	Kshs '000
1 July	3,142,677	2,000,907
Accrued in the year	13,528,592	13,201,230
Bonus earned	122,991	-
Amount received in the year	(14,670,361)	(12,059,460)
30 June	<u>2,123,899</u>	<u>3,142,677</u>

The amount represents outstanding agency commission, bonuses earned and payments made on behalf of the Treasury.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

12. SECURITY DEPOSITS

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Savings & Loan (k) Ltd	1,462,865	1,466,727
Housing Finance	375,736	364,909
National Bank of Kenya Ltd	153,281	150,256
	<u>1,991,883</u>	<u>1,981,892</u>

The deposits with Savings & Loans and Housing Finance are placed as security against staff mortgage advances, while the National bank deposits are placements against staff car loans.

13. CASH AND BANK BALANCES

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Cash in Hand	911	355
Cash at Bank	1,076,803	566,974
Fixed Deposits	6,044,751	2,458,056
	<u>7,122,465</u>	<u>3,025,385</u>

The fixed deposits are made up of one month deposits in commercial banks. The maturity period for the deposits is between July and August 2014. The deposits are further analysed as follows:-

	2013/2014	2012/2013
	Kshs '000	Kshs '000
National Bank of Kenya	2,801,814	1,221,914
Cooperative Bank of Kenya	3,231,075	1,221,774
World Bank project Account - NBK	11,862	14,368
	<u>6,044,751</u>	<u>2,458,056</u>

14. CREDITORS AND OTHER PAYABLES

	2013/2014	2012/2013
	Kshs '000	Kshs '000
Trade Creditors and Accounts Payables	1,862,350	813,081
Staff Creditors	685,116	306,945
Payroll Deduction Creditors	108,787	22,002
Taxes	25,084	10,201
	<u>2,681,337</u>	<u>1,152,229</u>

Trade creditors and accounts payables represent the outstanding payments to suppliers and other parties, also included in accounts payables is Kshs. 364 million refundable to the National Treasury in respect of commission erroneously recovered for collection of Railway Development Levy (RDL). The amount has been subsequently remitted to the National Treasury. Payroll deductions include outstanding amounts for statutory deductions, loans SACCOS and others. Staff creditors comprise of unpaid staff bonus, outstanding payments due to staff and funds for staff welfare associations. The general provisions relate to utilities, staff medical expenses and staff bonus.

15. LEAVE PAY PROVISIONS

	2013/2014	2012/2013
Balance as at 01 July	763,687	575,006
Charge for the year	<u>240,640</u>	<u>188,681</u>
Balance as at 30 June	<u>1,004,327</u>	<u>763,687</u>

16. CONTRIBUTION TO GOVERNMENT PENSION FUND

	2013/2014	2012/2013
	Kshs '000	Kshs '000
1 July	27,034	27,079
Payment to the Treasury in the year	<u>(43)</u>	<u>(45)</u>
30 June	<u>26,991</u>	<u>27,034</u>

This amount relates to contributions made to the Government pension during the nine-month secondment period from October 1995 to June 1996 for pensionable staff who were transferred from the Treasury to the Authority. The amount falls due for payment on retirement of an officer and is then transferred to the Treasury to facilitate processing of the pension.

17. CAPITAL GRANTS BY THE TREASURY

	2013/2014	2012/2013
	Kshs '000	Kshs '000
1 July	12,377,258	10,961,257
Border Stations & KESRA Rehabilitation	13,000	441,270
Excise Management System	82,978	416,666
Electronic Fiscal Devises Management System	250,000	-
ICT Strategy	25,000	-
Business Continuity Planning	100,000	-
Times Tower Security	100,000	-
Systems Security Software & Biometric System	-	53,730
Funds for Integrated Tax Management System	-	45,000
Leasehold Land (Reinstatement)	-	459,335
World bank funded projects	-	-
30th June	<u>12,948,236</u>	<u>12,377,258</u>

The amounts represent assets and asset funds provided by the Treasury. The Treasury separately funds the major reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery. The key projects include an Electronic Fiscal Devises Management system that will interconnect ETR machines to a centralized server, implementation of the Disaster Recovery & Business Continuity Planning, enhancement of security at Times Tower building and rehabilitation of the Authority's Training Institute and border stations.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

18. DESIGNATED FUNDS

	LEGAL CLAIM FUND	WORLD BANK FUNDS (EATTF)	TOTAL
	Kshs '000	Kshs '000	Kshs '000
1 July 2013	233,627	26,507	260,134
Funds Received	-	-	-
Interest Earned		100	100
Amount Spent	(16,647)	(2,606)	(19,253)
Transfer to Equity Contribution		-	-
30 June 2014	216,980	24,000	240,980

The legal claim funds are received from the Treasury for settling legal awards against the Authority in revenue related court cases.

The World Bank funds are disbursements to the local account for the East African Trade and Transportation Facilitation Project Fund (EATTF), provided to improve the infrastructure for monitoring movement of goods for the facilitation of trade in East Africa.

19. RETIREMENT BENEFIT COSTS

During the year ended 30th June 2013, Kshs 1,046.2 Million (2012 Kshs. 1,045.7 Million) was paid as contributions to the staff pensions scheme. The scheme changed from a defined benefit plan to a Hybrid scheme with a defined benefit section and a defined contribution section with effect from 1 July 2005. Under the defined benefit scheme, the employer contribution on actuarial advice was maintained at 13.2% per member while a rate of 14% was adopted for the defined contribution scheme. Employees contribute 7.5% of their salaries for both sections of the scheme. The value placed on the existing final assets per the last valuation of 30th June 2013, was Kshs. 11.476 Billion (2012, Kshs. 7.817 Billion) while the present value of past service liabilities at that date was Kshs 10.329 Billion (2012 Kshs. 7.739 Billion).

20. CAPITAL COMMITMENTS

	2013/2014 Kshs '000	2012/2013 Kshs '000
Approved and contracted	825,910	1,075,672
Approved and not contracted	660,126	108,938
	1,486,036	1,184,610

21. RECURRENT COMMITMENTS

	2013/2014 Kshs '000	2012/2013 Kshs '000
30 June	1,063,357	128,801

The above represents items and activities approved and contracted but not yet delivered.

22.EMPLOYEES

The number of employees at the end of the year was;

	2013/2014	2012/2013
30 June	4,729	4,783

23.DEFERRED GRANT INCOME RECONCILIATION

These relate to grants from the World Bank under the Government of Kenya used efficient and effective collection of taxes.

i) *Deferred grant income reconciliation*

At 1 July as previously reported	-	-
Prior year adjustment	298,624	348,909
At 1 July as restated	298,624	348,909
Received in the year	193,293	21,895
Amortisation	(136,611)	(72,180)
At 30 June	<u>355,306</u>	<u>298,624</u>

ii) *Deferred grant income amortisation*

Grant income to be amortised within one year	136,611	72,180
Grant income to be amortised after one year	218,696	226,444
At the end of the period	<u>355,306</u>	<u>298,624</u>

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

24. RELATED PARTIES

The Government of Kenya is the principal shareholder in Kenya Revenue Authority. During the year, the following transactions were carried out with related parties as analysed as follows:-

(a) Transaction

i) Government of Kenya

	2013/2014	2012/2013
Capital Grants	764,270	978,561
Agency Income	<u>13,651,582</u>	<u>13,201,230</u>
	<u>14,415,852</u>	<u>14,179,791</u>

ii) Key management compensation

	2013/2014	2012/2013
Salaries and other short - term employment benefits	<u>90,993</u>	<u>78,477</u>
	<u>90,993</u>	<u>78,477</u>

iii) Directors' remuneration

	2013/2014	2012/2013
Fees and other Emoluments (note 5)	<u>21,793</u>	<u>26,119</u>
	<u>21,793</u>	<u>26,119</u>

(b) Balances

Due (to)/from related parties

	2013/2014	2012/2013
Amount due from Treasury (note 11)	2,123,899	3,142,677
Contribution to Government pension fund (note 16)	<u>(26,991)</u>	<u>(27,034)</u>
	<u>2,096,908</u>	<u>3,115,643</u>

25. FINANCIAL RISK & CAPITAL MANAGEMENT

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Authority's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as agency and other receivables.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk is made up as follows:

	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
At 30 June 2014			
Receivables	476,025	-	-
Bank Balances	7,122,465	-	-
At 30 June 2013			
Receivables	707,877	-	-
Bank Balances	3,025,385	-	-

The credit risk associated with these receivables is minimal hence no allowance for uncollectible amounts has been recognised in the financial statements.

(ii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

The Authority's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Finance Committee) and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2014

(a) Foreign currency risk

The Authority has transactional currency exposures. Such exposure arises from foreign denominated bank balances.

The carrying amount of the Authority's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh Shs '000	Others Shs '000	Total Shs '000
At 30 June 2014			
Financial assets (Bank balances)	93,136	-	93,136
Liabilities			
Payables	-	-	-
Net foreign currency liability	93,136	-	93,136
	=====	=====	=====

(b) Interest rate risk

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from fixed and security deposits. This exposes the Authority to cash flow interest rate risk.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of financial performance if current floating interest rates increase/decrease by five percentage (5% as a decrease/increase of KShs. 18,061,000 (2012: KShs.9,324,000).

(iii) Price risk

The Authority does not hold investments that would be subject to price risk; hence this risk not relevant.

26. CONTINGENT LIABILITIES

These include:-

- An amount of Kshs. 2 million included in utility deposits representing a bank guarantee to Kenya Power and Lighting for Times Tower power supply.
- An amount of Kshs 1,297,759 representing a guarantee to Telkom Kenya Limited for supply of telephone facilities in the Times Tower building.
- Pending legal cases and court awards against the Authority estimated at Kshs 4,454,051,492 at the financial year end. The Treasury is expected to meet the cost of settling the awards should they materialize.

27. COMPARATIVES

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.



KENYA REVENUE AUTHORITY

REVENUE COLLECTION BY DEPARTMENT

	<u>NOTE</u>	<u>2013/2014</u>		<u>2012/2013</u>	
		<u>ACTUAL</u>	<u>TARGET^d</u>	<u>ACTUAL</u>	<u>TARGET</u>
		Kshs 'million'	Kshs 'million'	Kshs 'million'	Kshs 'million'
<u>EXCHEQUER REVENUE COLLECTION</u>					
Customs Services Department		269,968	266,389	220,307	263,192
Domestic Taxes Department		626,335	631,163	536,831	576,201
Road Transport Department	a	2,935	3,598	2,407	5,976
SUB-TOTAL		899,238	901,150	759,546	845,369
<u>AGENCY TAXES COLLECTION</u>					
Customs Services Department	b	61,863	59,787	38,409	33,518
Domestic Taxes Department	c	1,966	2,036	1,923	1,799
Road Transport Department	d	756	767	643	552
SUB-TOTAL		64,586	62,590	40,975	35,869
GROSS TOTAL		963,823	963,740	800,521	881,239

NOTES

Agency Taxes comprises of the following:-

- Customs Services Department - Road Maintenance Levy, Aviation Revenue, Petroleum Development Levy, Sugar Levy, Transit Toll among others.
- Domestic Taxes Department - Sugar development levy, Land Rates, and Kenya Bureau of standard (Keks) levy.
- Road Transport Department - Sale of number plates, TLB application fees, Driving test fees, vehicle inspection fees among others.
- The reported targets are the revised targets for the financial year

REVENUE COLLECTION MOVEMENT SCHEDULE

	2013/2014				2012/2013			
	CSD	DTD	RTD	TOTAL	CSD	DTD	RTD	TOTAL
	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>	<i>kshs</i> <i>'million'</i>
EXCHEQUER								
Cash in Transit brought forward - 1 July	1,400	224	-	602	1,088	404	45	1,537
Cash from commercial banks/adjustment	357	534		891	-	138	-	138
Add: Collections for the year	270,032	626,258	3,691	899,981	220,307	536,820	2,407	759,534
Total amounts to be credited in CBK in the year	271,789	627,016	3,089	901,894	221,395	537,086	2,452	760,933
Less: Transfers to CBK	270,729	626,957	3,669	901,355	219,995	536,862	2,640	759,497
: Transfers Banks/Principals				-		-	414	414
Total transfers within the year	270,729	626,957	3,669	901,355	219,995	536,862	3,054	759,911
Cash in Transit 30th June	1,060	59	-	580	1,400	224	-	602
AGENCY								
Cash in Transit brought forward - 1 July	739	29.00	643.00	1,411	815	-	-	815
Cash from commercial banks/adjustment	354	398	-		293			
Add: Collections for the year	61,876	1,966	-	63,842	38,409	1,923	643	40,975
Total amounts to be credited in CBK in the year	62,969	2,393	643	65,253	39,517	1,923	643	41,790
Less: Transfers to CBK	54,676	2,080	-	56,756	32,933	1,894	-	34,827
: Transfers Banks/Principals	7,757			7,757	5,845	-		5,845
Total transfers within the year	62,433	2,080	-	64,513	38,778	1,894	-	40,672
Cash in Transit 30th June	536	313	643	740	739	29	643	1,118
TOTAL								
Cash in Transit brought forward - 1 July	2,140	253	41	2,434	1,903	404	45	2,352
Cash from commercial banks/adjustment	711	932	-	1,643	293	138	-	155
Add: Collections for the year	331,909	628,224	3,691	963,824	258,717	538,743	3,050	800,510
Total amounts to be credited in CBK in the year	334,760	629,409	3,732	967,901	260,913	539,009	3,095	803,017
Less: Transfers to CBK	325,405	629,037	3,669	958,111	252,928	538,756	2,640	794,324
: Transfers Banks/Principals	7,757	-	-	7,757	5,845	-	414	6,259
Total transfers within the year	333,162	629,037	3,669	965,868	258,773	538,756	3,054	800,583
Cash in Transit 30th June	1,598	372	63	2,033	2,140	253	41	2,434

NB: Both Exchequer and Agency Revenue for RTD are banked in the Exchequer Account.