

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

THE NATIONAL ASSEMBLY PAPERS LAID	
15 AUG 2019	DAY: 6/8/19
TABLED BY:	MR. ABEN DUALE LEADER OF MAJORITY
OF	IBM

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
CONSOLIDATED FUND SERVICES PENSIONS
AND GRATUITIES

FOR THE YEAR ENDED
30 JUNE 2018

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

29 SEP 2018

RECEIVED



Consolidated Fund Services Pension and Gratuities

NATIONAL GOVERNMENT ENTITY

FUND IDENTIFICATION NUMBER R 051

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

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1. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

Vision

An institution of excellence in economic and public financial management.

Mission

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

Core Values

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder participation, professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

Mandate of the National Treasury

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

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

- Formulate, implement and monitor macroeconomic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the National and County Governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the National Government and County Governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, executive/implement and control approved budgetary resources to MDAs and other Government Agencies/Entities.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relation between the National Government and County Governments and encourage support for County Governments in performing their functions;
- Assist County Governments to develop their capacity for efficient, effective and transparent financial management;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Coordinate capacity building of County Governments on public finance management matters.

(b) Key management

The National Treasury day-t-day management is under the following key offices:

Office of the Principal Secretary

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

Organizational Structure of the National Treasury

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

(i) Directorate of Budget, Fiscal and Economic Affairs

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

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

(ii) Directorate of Accounting Services and Quality Assurance

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

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information System (FMIS)
- National Sub-County Treasuries

(iii) Directorate of Portfolio Management

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

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

(iv) Directorate of Public Management Office

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

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

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

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the national Treasury but officer critical support services to the National Treasury. The functions include:-

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

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 3th June, 2017 and who had direct fiduciary responsibility were:

N O	DESIGNATION	NAME
1.	Chief Administrative Secretary	Hon. Nelson Gaichuhie
2.	Principal Secretary	Dr. Kamau Thugge, EBS
3.	Secretary Administration	Mr. Musyimi S.K. CBS
4.	Principal Administrative Secretary, CBS, SS	Mr. Mutua Kilaka, CBS, SS
5.	Director General, BFEA	Dr Geoffrey Mwau, EBS
6.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
7.	Director General, PIPM	Ms. Esther Koimett, CBS
8.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
9.	Director, Budget Department	Mr. Francis Anyona, OGW
10.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Internal Auditor General	Mr. Alfayo Mogaka
14.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
15.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director, Government Digital Payment	Mr. Harry Mwangi
17.	Ag Director, Financial Management Information System	Mr. Stanley Kamungu
18.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
19.	Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
20.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
21.	Director, Pensions Department	Mr Shem Nyakutu
22.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
23.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
24.	Ag Director, Debt Recording and settlement Department	Mrs Felister Kivisi
25.	Head, Accounts Division	Mr. George Gichuru
26.	Head, Finance	Mr. Kimathi Mugambi, HSC
27.	Head, SCM	Mr. Peter Momanyi
28.	Head, Internal Audit Unit	Mr. John Kariuki
29.	Director, Human Resource Management and Development	Ms. Susan Mucheru
30.	Ag Director, Information Communication and Technology	Mr. George Kariuki
31.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
32.	Head, Public Communications	Mr. Maina Kigaga
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Head, Government Clearing Agency	Mr. Felix Ateng

(d) Fiduciary Oversight Arrangements

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

(i) Internal Audit Unit

The National Treasury has a well-resourced internal Audit Unit. The unit is charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officers on a regular basis.

(ii) Audit Committee

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

(iii) Project Implementation Committee

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

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

(iv) Senior Management Committee

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

(v) Public Financial Management Sector Working Group

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

(vi) Budget Implementation Committee

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

(vii) Monitoring and Evaluation

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

(a) The National Treasury

P. O. Box 30007-00100,
Treasury Building,
Harambee Avenue
Nairobi, Kenya
Telephone: (54)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

(b) The National Treasury Bankers

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

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(c) Independent Auditors

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

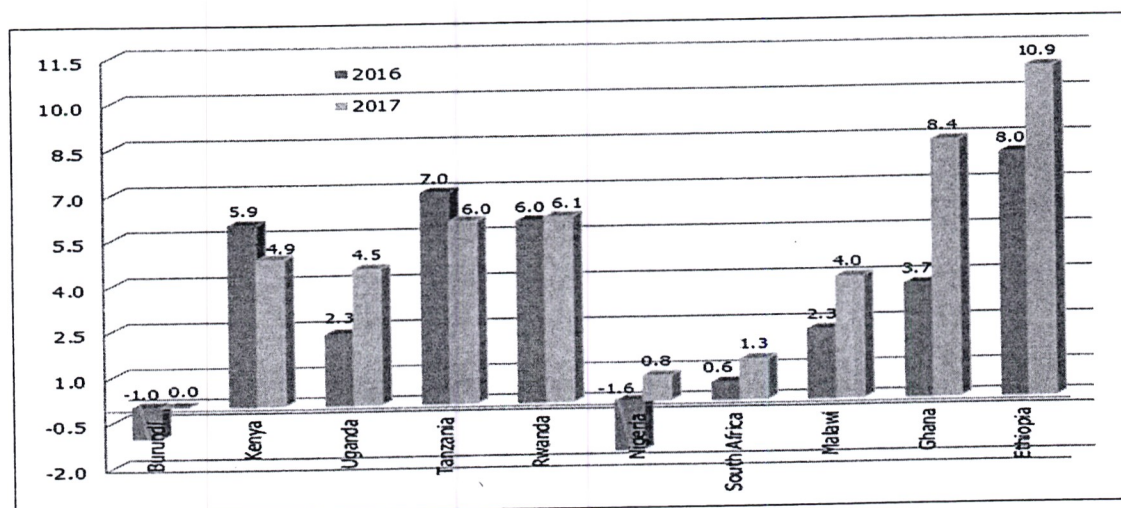
(d) Principal Legal Adviser

The Attorney General
State Law Office
Harambee Avenue
P. O. Box 0112
City square 00200
Nairobi, Kenya

2. FORWARDED BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-saharan Africa.

GDP Annual Growth Rates (2016 and 2017)

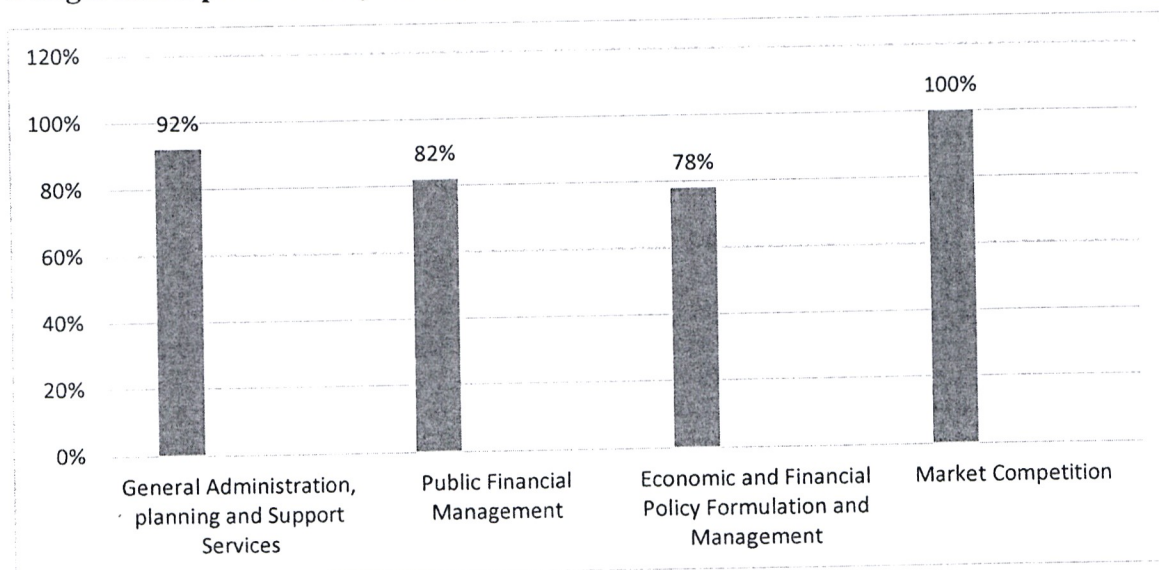


Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to maintain macro-economic stability, which is key in enhancing investor confidence. The Country made notable progress in 2017 in improving the ease of doing business, thereby providing a conducive business environment for both domestic and foreign investors. These reforms have seen Kenya being ranked favourably in the ease of doing business and as a top investment destination. For two consecutive years (2016 and 2017 World Bank's Doing Business Reports), Kenya emerged as the third most reformed country in the world, and in the 2018 Report, as the third best in sub-Saharan Africa and position 80 overall.

The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred investment destination in East Africa, with the majority of investors being attracted by the good infrastructure, ease of doing business, and strong economic growth and prospects.

In terms of budget performance, the National Treasury expenditure stood at Kshs.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs.9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%. The National Treasury implemented the 2017/18 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 81.7% and Economic and Financial Policy Formulation and Management (78%).

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

- The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of Kshs.327 billion in 2017/2018 up from Kshs.302.2 billion in 2016/2017. Since their establishment in March 2013, County Governments have received more than Kshs.1.3 trillion from the National Government.

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- In line with its commitment to enhance the County Governments capacity, the National Treasury developed the County Governments (Revenue Raising Regulation Process) Bill. The Bill is geared towards addressing the challenges County Governments are encountering in revenue collection, mitigating their negative effects and assisting the Counties to optimize own-sources revenue.
- The National Treasury successfully priced a new \$2 billion Eurobond Transaction. This issue was 7 times oversubscribed thus making it one of the highest order book for an issue from Africa, and providing a dollar yield curve stretching out to 30 years. This made Kenya one of a handful of Governments to achieve this. Specifically with the 30 year yield, international investors demonstrated their long term belief that Kenya is a stable economy in which long-term investments are safe.

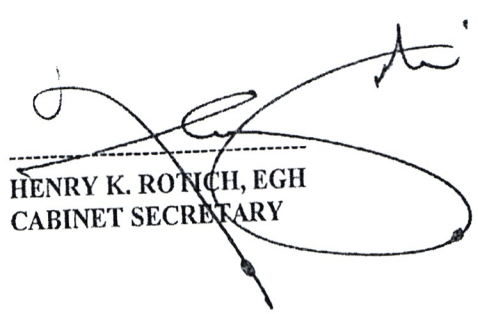
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Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and strengthen financial and fiscal relations between the national government and county governments.
6. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY

3. STATEMENT OF PENSION FUND MANAGEMENT RESPONSIBILITIES

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

The *Principal Secretary* for the National Treasury and the Principal Accountant for ***the Consolidated Fund Services – Pension and Gratuities*** are responsible for the preparation and presentation of the Pension Fund's financial statements, which give a true and fair view of the state of affairs of the Pension Fund for Consolidated Fund Services as at the end of the financial year ended on June 30, 2018.

This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Pension Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Pension Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* for the National Treasury and the Principal Accountant for ***the Consolidated Fund Services – Pension and Gratuities*** accept responsibility for the Pension Fund's financial statements, which have been prepared on the Accrual Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

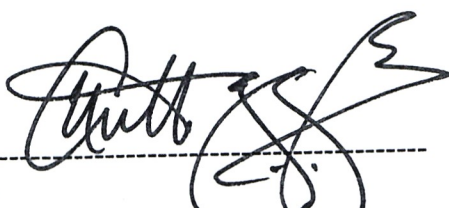
The *Principal Secretary* for the National Treasury and the Principal Accountant for ***the Consolidated Fund Services – Pension and Gratuities*** are of the opinion that the Pension Fund's financial statements give a true and fair view of the state of Pension Fund's transactions during the financial year ended June 30, 2018, and of the Pension Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the Principal Accountant for ***the Consolidated Fund Services – Pension and Gratuities*** further confirm the completeness of the accounting records maintained for the Pension Fund, which have been relied upon in the preparation of the Pension Fund financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the *Pension Fund* for ***the Consolidated Fund Services – Pension and Gratuities*** confirm that the Pension Fund has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Pension Fund funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

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Approved of the Pensions fund financial statement

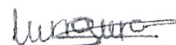
The Pension Fund financial statements were approved by the *Principal Secretary* for the National Treasury and the Principal Accountant for *the Consolidated Fund Services – Pension and Gratuities* on 30th September 2018 and signed by them.



DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018

Date



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018

Date

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED FUND SERVICES PENSIONS AND GRATUITIES FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Consolidated Fund Services Pensions and Gratuities set out on pages 17 to 28, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Consolidated Fund Services Pensions and Gratuities as at June 30 2018, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated Fund Service Pensions and Gratuities in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

1. Cash and Cash Equivalents

1.1. Bank Balance

The statement of assets and liabilities reflect an overdrawn bank balance of Kshs.572,446,864 while the cashbook in support of the balance reflects a debit balance of Kshs.1,540,215,805 resulting in a variance of Kshs.2,112,662,670. Bank reconciliation provided in support of the difference had the following deficiencies:-

*Report of the Auditor-General on the Financial Statements of Consolidated Fund Services Pensions and Gratuities
for the year ended 30 June 2018*

1.1.1. Payments in the Cash Book but not in the Bank

The bank reconciliation statement reflects payments in the cashbook but not in the bank statement amounting to Kshs.6,851,074,383. The following inconsistencies were noted:-

- Included in the balance are transactions dated July 2018 amounting to Kshs.2,930,968,073 which are outside the financial year and relate to the 2018/2019 financial year;
- Examination of the cashbook and the bank statements revealed payments amounting to Kshs.2,355,546 cleared through the bank account but continued to be carried as reconciling items;
- Further review of bank transactions revealed overpayments in excess of those recorded in the cash book amounting to Kshs.5,352,286;
- Scrutiny of the cashbook revealed transactions totalling Kshs.169,677,839 not in the bank statement but excluded from the schedule of reconciling items under payments in the cashbook but not in the bank statement. Consequently, the payments in the cashbook not in the bank statement has been understated;
- Included in the reconciling item payments in the cashbook but not in the bank statement are long outstanding items relating to periods between 2014 and 2017 totalling to Kshs.37,661,799 which had not been resolved as of the financial statements date.

1.1.2. Receipts in the Bank Statement but not in Cashbook

Included in the balance for receipts in the bank statement but not in the cashbook figure are long outstanding items relating to the periods between 2007 and 2017 totalling to Kshs.123,524,492. Ideally, the balances ought to have been cleared but remained outstanding as at the financial statements date.

1.1.3. Payments in Bank Statement but not in Cashbook

The bank statement reflects transactions whose amounts are in excess of those recorded in the cashbook. The excess payments total Kshs.11,877,823 for which no explanations have been rendered. Further, the reconciling items in the schedule of payments in the bank statement but not in cashbook include transactions amounting to Kshs.36,454,406 already recorded in the cashbook rendering them invalid.

From the foregoing, I am unable to confirm the accuracy and fair statement of the reported overdrawn bank balance of Kshs.572,446,864.

2. Military Gratuity Expenditure

The statement of receipts and payment reflects payment of pension amount of Kshs.63,170,121,740 - (2017 Kshs.59,757,695,779) and as disclosed under Note 13.2 to the financial statements. Included in the amount under commuted pension (Lumpsum)

is military gratuity expenditure of Kshs.1,517,299,948, an amount of Kshs.107,965,176 was noted to have been recorded twice. In addition, military gratuity expenditure amount of Kshs.38,352,507 had not been incorporated in the records thus understating the expenditure. In the circumstances, the accuracy of the pension expenditure of Kshs.63,170,121,740 could not be confirmed.

3. Irregular Payment of Pension

Also included in the payment of pensions expenditure of Kshs.63,170,121,740 are payments found not to be regular from the sample field inspections visits during the period of July to September 2018. These are namely:-

- During the period under review, monthly pension payroll amounting to Kshs.58,605,552 was indicated as having been paid to Asian and European officers. However, no individual officer files were made available to authenticate the payments.
- Payments amounting to Kshs.27,378,721 were made to deceased persons. Of this amount, Kshs.12,580,674 relate to repeat payments to deceased persons accounts even after being returned by the receiving bank at first instance. Ideally, the pension department should suspend further payments into an account on return.
- Monthly pension amounting to Kshs.20,761,552 was paid out to pensioners and dependents who could not be traced at their indicated areas of residence as per department of pensions records and our physical verification with the government administration representatives.

From the foregoing, the accuracy of the reported expenditure on payment of pensions of 63,170,121,740 could not be confirmed.

4. Unsupported Expenditure

Also included in the pensions expenditure of Kshs.63,170,121,740 is an amount of Kshs.20,294,340 paid to Crown Agent. The Management explained this to be payment on account of pre and post-independence pensioners who worked in Kenya and now residing in the United Kingdom. The expenditure has not been adequately supported by way of payrolls detailing out the beneficiaries. Consequently, the probity of the expenditures could not be confirmed.

5. Returned Pensions

The statement of assets and liabilities indicates accounts payables of Kshs.4,061,252,617 - (2017 - Kshs.3,243,545,204) and as disclosed under Note 13.2 to the financial statements. Analysis of the account indicates that Kshs.1,189,930,008 relates to payments returned during the year while Kshs.372,222,595 was repaid to pensioners on account of 2017 returns. Consequently, the net movement for the year is Kshs. 817,707,413. The Management has not been able to support the balance of Kshs.4,061,252,617 by way of detailed listing by individual pensioner.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Adverse Opinion section, I have determined that there are no other key audit matters to communicate in my report.

Other Matter

1. Prior Year's Matters

1.1. Irregular Payment of Pension

The statements of receipts and payments for the financial year 2016/2017 reflected pension expenditure of Kshs. 59,757,695,779. Included in the expenditure was civil pension of Kshs.22,901,547,520 and disclosed under Note 8.2 to the financial statements. An examination of pension payments revealed that an amount of Kshs.1,306,966,518.70 was paid to retired teachers during the financial year 2016/2017 without being properly supported with documents such as the last pay slips as required by Pension Act 189, Section 10 (1). The Management did not explain the basis of calculating the pensions and why the payments were made without adhering to the laid down pension payment procedures. Therefore, the accuracy of payment of civil pension amount of Kshs.,22,901,547,520 could not be confirmed.

1.2. Military Gratuity

Also, included in the pension expenditure figure is military gratuity of Kshs.4,562,597,165 which has an overpayment of Kshs.86,584,111. The overpayment was as a result of poor record keeping. Management has yet to effect recovery for the overpayment.

1.3. Unsupported Expenditure

The Department paid pension totalling Kshs.58,656,973.00 to Asian and European Pensioners who retired due to Africanization of public sector after independence in 1963. Their life certificates were not availed to confirm that the pensioners are still alive as required by the pension department internal controls before payments were effected. The propriety of the expenditures could not, therefore, be confirmed.

1.4. Failure to Surrender Unspent Allocation

The Statement of Receipts and Payments for the financial year 2016/2017 reflected a deficit of Kshs.1,270,093,379 for the year ended 30 June 2017. The excess expenditure over the receipts for the year was funded from unspent balance from the financial year 2015/2016. This is contrary to the provisions of Section 45 of the Public Finance Management Act 2012 that requires the department to surrender the unspent pension as of year-end to the exchequer account.

1.5. Un-supported Clearance of Prior Year Adjustment

The statement of financial assets for the year 2015/2016 reflected a prior year adjustment of Kshs.297,889,272 under the comparative balances for the financial year 2014/2015. The amount was cleared during the period 2015/2016 but the transaction was neither supported nor explained. The balance was cleared without meeting the requirement of the Public Financial Management Act 2012, and the financial statement may not have presented fairly the financial position as at 30 June 2016.

REPORT ON COMPLIANCE WITH LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. The audit evidence obtained is not sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I did not obtain sufficient and appropriate audit evidence to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

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

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

In preparing the financial statements, management is responsible for assessing the National Treasury ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the National Treasury or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

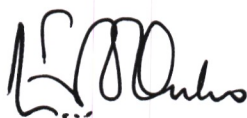
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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



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

Nairobi

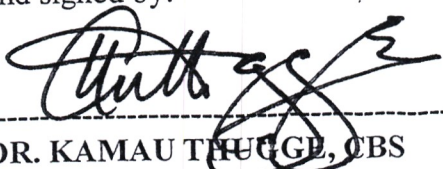
03 July 2019

THE NATIONAL TREASURY
CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES
Report and Financial Statements
For the year ended June 30, 2018

5. STATEMENT OF RECEIPTS AND PAYMENT FOR THE YEAR ENDED 30TH JUNE, 2018

	Note	2017/2018	2016/2017
		Kshs.	Kshs.
Transfer from Government entities	13.1	62,413,333,600	58,487,602,400
Total receipts		62,413,333,600	58,487,602,400
PAYMENT			
Payment of pensions	13.2	63,170,121,740	59,757,695,779
TOTAL PAYMENTS		63,170,121,740	59,757,695,779
SURPLUS/DEFICIT FOR THE YEAR		(756,788,140)	(1,270,093,379)

The Accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements was approved on 30th September 2018 and signed by:-


DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018
 Date


LILIAN W. DISHON
Principal Accountant
ICPAK 10442

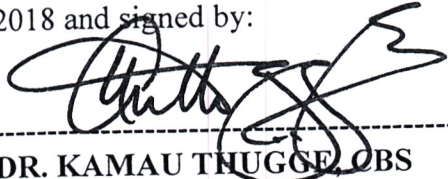
30th September 2018
 Date

THE NATIONAL TREASURY
CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES
Report and Financial Statements
For the year ended June 30, 2018

6. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE, 2018

	Note	2017/2018 Kshs.	2016/2017 Kshs.
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	13.3	(572,446,864)	(633,366,137)
Accounts Receivables		-	-
TOTAL FINANCIAL ASSETS		(572,446,864)	(633,366,137)
LESS FINANCIAL LIABILITIES			
Accounts Payables	13.4	4,061,252,617	3,243,545,204
NET FINANCIAL ASSETS		<u>(4,633,699,481)</u>	<u>(3,876,911,341)</u>
PRESENTED BY			
Funds Balance b/f	13.5	(3,876,911,341)	2,606,817,962
Surplus/Deficit for the year		(756,788,140)	(1,270,093,379)
Net Financial position		<u>(4,633,699,481)</u>	<u>(3,876,911,341)</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September, 2018 and signed by:


 DR. KAMAU THUGGE, CBS
 Principal Secretary

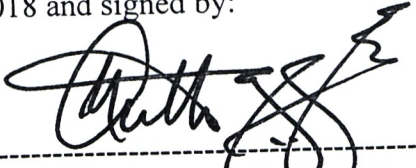
30th Sept. 2018
 Date


 LILIAN W. DISHON
 Principal Accountant
 ICPAK 10442
30th September 2018
 Date

7. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE, 2018

	Note	2017/2018 Kshs.	2016/2017 Kshs.
Receipts for operating Income			
Transfer from other Government Entities	13.1	62,413,333,600	58,487,602,400
Payment for operating expenses			
Payment of pensions	13.2	63,170,121,740 (756,788,140)	59,757,695,779 (1,270,093,379)
Adjusted for:			
Changes in receivables		817,707,413	390,023,244
Changes in payables			
Net cash flow from operating activities		<u>60,919,273</u>	<u>880,070,135</u>
CASH FLOW FROM INVESTMENT ACTIVITIES			
Net cash flows from Investment activities		-	-
CASH FLOW FROM BORROWING ACTIVITIES			
Net cash flow from financial activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		60,919,273	(880,070,1350)
Cash and cash equivalent at the beginning of the year		(633,366,137)	246,703,998
Cash and cash equivalent at the end of the year		(572,446,864)	(633,366,137)

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30th September 2018 and signed by:


 DR. KAMAU THUGGE, CBS
 Principal Secretary

30th Sept. 2018
 Date


 LILIAN W. DISHON
 Principal Accountant
 ICPAK 10442

30th September 2018
 Date

THE NATIONAL TREASURY
CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES
Report and Financial Statements
For the year ended June 30, 2018

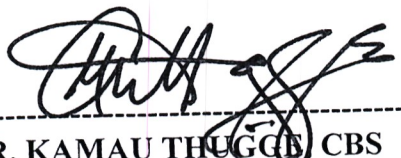
8. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED FOR THE PERIOD ENDED 30 JUNE 2018

Receipts/ Payments Item	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual on Comparable Basis Kshs	Budget Utilization Difference Kshs	% of Utiliz ation
	a	b	c=a+b	d	e= c- d	f=d/c %
Receipts						
Exchequer Receipts	71,895,127,200	-	71,895,127,200	62,413,333,600	9,481,793,600	87%
Total Receipts	71,895,127,200	-	71,895,127,200	62,413,333,600	9,481,793,600	87%
Payments						
Ordinary Pension	33,871,027,200	-	33,871,027,200	37,613,469,420	(3,742,442,220)	111%
Commutated Pension	37,762,000,000	-	37,762,000,000	25,527,573,854	12,234,426,146	68%
Other Pensions	262,100,000	-	262,100,000	29,078,466	233,021,534	3.8%
Total Payments	71,895,127,200	-	71,895,127,200	63,170,121,740	756,788,140	87%
NET TOTAL				(756,788,140)	(756,788,140)	

Notes

- The exchequer receipts were issued as per the number and amount of claims processed as at 30th June 2018.
- The variance of the ordinary pension was due short fall in budgeting and returned pension which is paid from the ordinary pension account.
- The variance of commuted pension was due to the unpaid PSC court cases.
- Other pension was as a result of not reimbursing dependant residing in UK through crown Agents.

The financial statements were approved on 30th September, 2018 and signed by:


DR. KAMAU THUGGE CBS
Principal Secretary
30th Sept. 2018
Date

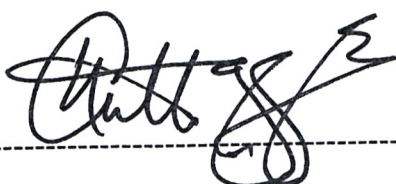

LILIAN W. DISHON
Principal Accountant
ICPAK 10442
30th September 2018
Date

THE NATIONAL TREASURY
CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES
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9. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT FOR THE PERIOD ENDED 30 JUNE 2018

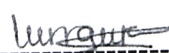
Receipts/ Payments Item	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual on Comparable Basis Kshs	Budget Utilization Difference Kshs	% of Utiliz ation
	a	b	c=a+b	d	e= c- d	f=d/c %
Receipts						
Exchequer Receipts	71,895,127,200	-	71,895,127,200	62,413,333,600	9,481,793,600	87%
Total Receipts	71,895,127,200	-	71,895,127,200	62,413,333,600	9,481,793,600	87%
Payments						
Ordinary Pension	33,871,027,200	-	33,871,027,200	37,613,469,420	(3,742,442,220)	111%
Commutated Pension	37,762,000,000	-	37,762,000,000	25,527,573,854	12,234,426,146	68%
Other Pensions	262,100,000	-	262,100,000	29,078,466	233,021,534	3.8%
Total Payments	71,895,127,200	-	71,895,127,200	63,170,121,740	756,788,140	87%
NET TOTAL				(756,788,140)	(756,788,140)	

The entity financial statements were approved on 30th Sept. 2018 and signed by:



DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018
 DATE



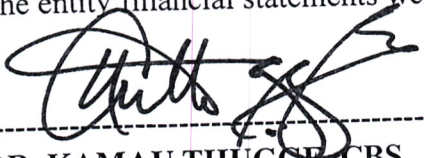
LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018
 DATE

10. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT FOR THE PERIOD ENDED 30 JUNE, 2018

Receipts/ Payments Item	Original Budget Kshs	Adjustment s Kshs	Final Budget Kshs	Actual on Comparable Basis Kshs	Budget Utilization Difference Kshs	% of Utilization
	a	b	c=a+b	d	e= c- d	f=d/c %
Receipts						
Exchequer Receipts	-	-	-	-	-	-
Total Receipts	-	-	-	-	-	-
Payments						
Ordinary Pension	-	-	-	-	-	-
Commutated Pension	-	-	-	-	-	-
Other Pensions	-	-	-	-	-	-
Total Payments	-	-	-	-	-	-
NET TOTAL	-	-	-	-	-	-

The entity financial statements were approved on 30th Sept. 2018 and signed by:


 DR. KAMAU THUGGE, CBS
 Principal Secretary

DATE

30th Sept. 2018


 LILIAN W. DISHON
 Principal Accountant
 ICPAK 10442

DATE

30th September 2018

THE NATIONAL TREASURY
CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES
Report and Financial Statements
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11. BUDGET EXECUTION BY PROGRAMMES AND SUB- PROGRAMMES

PAYMENTS OF PENSIONS	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference
	30.6.2018	30.6.2018	30.6.2018	30.6.2018	30.6.2018
Ordinary Pensions	Kshs	Kshs	Kshs	Kshs	KShs
Civil Pensions	23,724,864,000	-	23,724,864,000	26,781,732,478	(3,056,868,478)
Military Pensions	6,383,274,700	-	6,383,274,700	4,391,427,668	1,991,847,032
Emergency Pension	-	-	-	-	-
Widows, Children and Pension Dependents	3,491,888,500	-	3,491,888,500	6,118,133,379	(2,626,244,879)
Civil Pensions Mps	207,000,000	-	207,000,000	290,495,894	(83,495,894)
Civil Pensions President	64,000,000	-	64,000,000	31,680,000	32,320,000
	33,871,027,200	-	33,871,027,200	37,613,469,420	(3,742,442,220)
Commutated Pension (Monthly)		-			
Commutated Pensions and gratuities	24,854,000,000	-	24,854,000,000	21,434,120,098	3,419,879,902
Military gratuities	7,000,000,000	-	7,000,000,000	1,517,299,948	5,482,700,052
Civil Gratuity	3,052,000,000	-	3,052,000,000	1,219,455,965	1,832,544,035
Commutated Pensions MPs	2,856,000,000	-	2,856,000,000	1,356,697,843	1,499,302,157
Commutated Pensions President	-	-	-	-	-
	37,762,000,000	-	37,762,000,000	25,527,573,854	12,234,426,146
Other Pension Scheme		-			
Refunds and other ex-gratia allowances	112,100,000	-	112,100,000	8,784,125	103,315,875
Payment to Crown Agents	150,000,000	-	150,000,000	20,294,340	129,705,660
	262,100,000	-	262,100,000	29,078,465	233,021,534
Total	71,895,127,200	-	71,895,127,200	63,170,121,740	8,725,005,460

12. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Currency

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

3. Significant Accounting Policies

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

a) Recognition of Receipts

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

Transfers from the Exchequer

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

b) Recognition of payments

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

Compensation of Employees

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

4. Cash and Cash Equivalents

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

5. Accounts Receivable

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

6. Accounts Payable

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

7. Pending Bills

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

8. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2017 for the period 1st July 2017 to 30th June 2018 as required by Law and there were two supplementary adjustments to the original budget during the year.

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

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

9. Comparative Figures

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

10. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2018.

11. Errors

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

During the year, there were no errors.

12. Related Party Transactions

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

13. NOTES TO THE FINANCIAL STATEMENTS

13.1 EXCHEQUER RELEASES

Transfer from Government entities		
These represent counterpart funding and other receipts from government as follows:		
	2017/ 2018	2016/ 2017
	Kshs	Kshs
Counterpart funds Quarter 1	9,317,900,000	14,043,602,400
Counterpart funds Quarter 2	16,612,833,600	14,490,000,000
Counterpart funds Quarter 3	15,090,500,000	10,622,000,000
Counterpart funds Quarter 4	21,392,100,000	19,332,000,000
	62,413,333,600	58,487,602,400

13.2 PAYMENT OF PENSIONS

	2017/2018	2016/2017
	Kshs	Kshs
ORDINARY PENSIONS		
Civil pension	26,781,732,479	22,901,547,520
Military Pension	4,391,427,668	4,158,194,689
Emergency Pension	-	-
Widows, children and pension dependants	6,118,133,378	6,800,765,652
Ex-gratia pension	-	-
Civil pension -MPS	290,495,895	182,438,610
Civil pension -President	31,680,000	31,680,000
	37,613,469,420	34,074,626,471
COMMUTED PENSION (LUMPSUM)		
Commutated pension and gratuity	21,434,120,098	19,459,772,367
Military gratuity	1,517,299,948	4,562,597,165
Civil gratuity	1,219,455,965	1,639,541,776
Commutated pensions -MPs	1,356,697,843	11,238,732
Commutated pensions -President	-	-
	25,527,573,854	25,673,150,040
OTHER PENSION SCHEMES		
Refunds and other ex-gratia allowances	8,784,126	9,919,268
Payment to Crown Agents	20,294,340	-
	29,078,466	9,919,268
Grand Total	63,170,121,740	59,757,695,779

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13.3 BANK ACCOUNTS (LEDGER)

	2017/2018	2016/2017
	Kshs	Kshs
<u>Local Currency Accounts</u>		
Central Bank of Kenya	(572,446,864)	(633,366,137)
REC-PENSIONS A/C NO. 1000204397		
Total Cash and Cash Equivalents	(572,446,864)	(633,366,137)
Total bank account balances	(572,446,864)	(633,366,137)

13.4 PAYABLES

	2017/2018	2016/2017
Re-credited cheques	4,061,252,617	3,243,545,204
	4,061,252,617	3,243,545,204

13.5 FUND BALANCE B/F

	2017/2018	2016/2017
	Kshs.	Kshs.
Bank	(633,366,137)	246,703,998
Account payable	(3,243,545,204)	(2,853,521,960)
	(3,876,911,341)	(2,606,817,962)

14. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
43	Difference of Kshs2,815,162.70	The figure in question was journalized properly in the ledger in the month of February, 2016.The entry disputed was auto-posted in the Trial balance.	Shem Nyakutu Director Pensions	Resolved	
44	Unsupported payment of crown agent	A payroll to show the payment of Ksh. 24,427,260.00 for pensioners' residing in UK is provided.	Shem Nyakutu Director Pensions	Resolved.	
45 (i)	Bank Balance	The bank balance of Ksh.246,703,998 was reconciled with the cashbook balance at 30 th June, 2016, and the reconciliation availed for audit review	Shem Nyakutu Director Pensions	Resolved	
(ii)a)	Payment in cashbook not in bank statement	An amount of Ksh.979,009,639.50 has been cleared as per April, 2017 Bank reconciliation. Balance to be cleared in subsequent months.	Shem Nyakutu Director Pensions	partially resolved	By the end of this financial year.

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
c)	Payment in Bank Statement not in Cashbook	An amount of Ksh.31,119,224.70 has been cleared as per April, 2017 Bank Reconciliation. Balance to be cleared in subsequent months	Shem Nyakutu Director Pensions	Resolved partially	In the subsequent months
d)	Receipt in Cashbook not in Bank statement	An amount of Ksh 46,135,882.20 has been cleared as per April, 2017 Bank Reconciliation. Balance to be cleared in subsequent months	Shem Nyakutu Director Pensions	Resolved partially	In the subsequent months
46.1	Re-credited Cheques -Kshs 2,853,521,960.00	The increase is due to identification of dependants, dependants take to long to report death of pensioners and increase of pensioners' pension after every two years.	Shem Nyakutu Director Pensions	Not resolved	
46.2	Deposit bank account	Schedules of returned pension provided. Return pension goes back to the account that pays pensioners.	Shem Nyakutu Director Pensions	Resolved	
47	Fund to Public Trustee	The role of Treasury ends when we transmit money to the Public Trustee.	Shem Nyakutu Director Pensions	Not resolved	

Notes:

Re-credited Cheques

- (i) Informing pensioners through mail in case of problem and advertising through media
- (ii) Ministry has set up service points at Huduma centres countrywide to sensitise pensioners at grassroots.
- (iii) Pension claim forms and especially pay point forms has been redesigned to include mobile phone numbers for



DR. KAMAU THUGGE, CBS
Principal Secretary

30th Sept. 2018
DATE



LILIAN W. DISHON
Principal Accountant
ICPAK 10442

30th September 2018
DATE