

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



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On Thurs. 23.08.2018
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REPORT

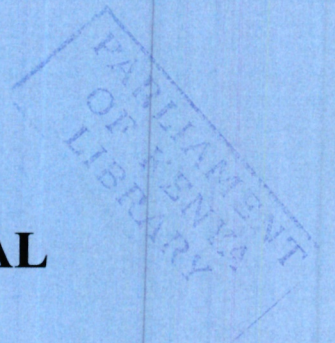
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
REVENUE ACCOUNTABILITY
STATEMENT OF KENYA REVENUE
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**





KENYA REVENUE
AUTHORITY

**Revenue Accountability Statement
For the Financial Year ended 30
June 2017**

OFFICE OF THE AUDITOR GENERAL

P. O. Box 30084 - 00100, NAIROBI

29 SEP 2017

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TABLE OF CONTENTS

1. KEY INFORMATION AND MANAGEMENT	3
2. BOARD OF DIRECTORS	5
3. MANAGEMENT TEAM.....	10
4. CHAIRMAN'S STATEMENT.....	11
5. COMMISSIONER GENERAL'S STATEMENT	15
6. CORPORATE GOVERNANCE STATEMENT.....	25
7. REPORT OF THE DIRECTORS	28
8. STATEMENT OF DIRECTORS' RESPONSIBILITES	29
9. STATEMENT OF REVENUE COLLECTION AND TRANSFERS	30
10. STATEMENT OF FINANCIAL POSITION	31
11. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY TAX HEAD AND AGENCY .	32
12. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY DEPARTMENT	33
13. ACCOUNTING POLICIES.....	35
14. NOTES TO THE REVENUE ACCOUNTABILITY STATEMENT	37
15. APPENDICES	49

1. 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 Building Trust through Facilitation so as to foster Compliance with Tax and Customs Legislation.

VISION To facilitate Kenya's Transformation through Innovative, Professional and Customer-Focused Tax Administration.

CORE VALUES

- Trustworthy
- Ethical
- Competent
- Helpful

(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
- Domestic Taxes Department
- Customs & Border Control Department
- Corporate Support Services Department
- Investigations and Enforcement Department
- Strategy Innovation & Risk Management Department
- Legal Service & Board Coordination Department

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

- Commissioner General
- Domestic Taxes Department
- Customs Border Control Department
- Corporate Support Services Department
- Investigations and Enforcement Department
- Strategy, Innovation & Risk Management Department
- Legal Services & Board Coordination Department
- Intelligence & Strategic Operations

John K. Njiraini
Benson Korongo
Julius Musyoki
Ezekiel Saina
David Yego
Mohamed Omar
Wairimu Nganga
James Mburu

(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
Naoribi, Kenya

2. BOARD OF DIRECTORS

Dr. Edward Sambili, CBS

Dr Sambili is an economist (Doctor of Philosophy (Ph.D) in Economics.) with experience and expertise in sustainable development, national planning and poverty analysis, human security and governance; macroeconomic issues including fiscal and monetary policies, debt and risk Management.

He has worked in Public sector reforms on Result Based Management, policy formulation, implementation and monitoring and evaluation. .

He directed Kenya's African Peer Review Mechanism (APRM), a comprehensive Governance system covering Private and Public Sectors reforms.

He has regulatory knowledge and practice of the money and Financial Markets. And has excellent knowledge and experience of development challenges in higher education and human resource development in sub-Saharan Africa.

Wide experience and track record in executive leadership and management in the public sector.

Amb. Dr. Rasid Ali

He was appointed on 7th November, 2016. Ambassador Rashid has had an expansive work experience in both Private and Public Sectors. Worked as a Director of the Kenya National Chamber of Commerce and Industry since July 2016 and as the Commissioner at Kenya Meat Commission.

Worked as an Ambassador of the Republic of Kenya to Islamic Republic of Iran from April 2010 to April 2014. He holds a Doctor of Philosophy (PhD) in Public Administration. Masters of Science (MSc) in Commerce and Bachelor of Commerce.

Hon. Rose Waruhiu

She graduated with honors in Economics from Makerere University, and pursued postgraduate training in Management of Higher Education in 1975. She was appointed Fellow at the Institute of Politics, Kennedy School of Government, and Harvard University for the spring semester in 1990.

She has competency in management of organizations, capacity building and public policy formulation and documentation.

Hon. Rose Waruhiu is an experienced public servant who has served as a Member of the Kenyan Parliament, and more recently served in the Assembly of the revived East Africa Community (EALA).

She has held leadership positions in the Women's Organizations and Civil Society serving as Chair/Convener of several initiatives in the pro-democracy movement in Kenya. As a development Consultant in the private sector, she has a wealth of experience in organization management and analytical skills.

She has also served as a member of the Kenya National Committee of United World Colleges and as chairperson of the League of Friends Kenyatta National Hospital.

Mr. Evans Kakai

He was first appointed on 3rd October, 2013. He holds a Bachelor's Degree in Business Administration from Catholic University and a Master's of Business Administration (Strategic Management) from University of Eastern and Southern African Management Institute and is also a Certified Public Accountant of Kenya (CPA-K), Certified Public Accountants of Uganda and Institute of Chartered Arbitrators. 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 UN agency Certified Auditor, undertaking donor confirmation assignments in Kenya, Uganda and South Sudan for various international UN Agencies.

He is a reliable and hardworking professional with a practical hands-on approach, who always perseveres to achieve the best results, with ability to collect and analyse information and quickly grasp what needs to be done.

Ms. Constantine Kandie

She was appointed on 15th August, 2013. She holds a Masters in Business Administration Degree (Marketing) from United States International University and a Bachelor's Degree in Business Administration from the same University. She has wide experience in governance, strategic management and leadership. She has experience in management of staff teams across a broad spectrum of professionals and specialties in enterprise development.

She has served as Council Member and Chair of Disciplinary Committee, Management University of Africa (MUA) and as 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) and as the Executive Director, Eastern Africa Grain Council, Coordinator, Economic and Social Development (Sorooptimist International Service Club for Women), Director at World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT). She holds a Master's Degree in Business Administration (Marketing).

Mr. Paul Icharia

He was appointed on 7th November, 2016. Mr. Paul Icharia is resourceful, detail-oriented professional with extensive experience in financial services, business development and social services development.

He holds a Bachelor of Science (BSc.) in Finance, and a Master of Business Administration (MBA) in Global Management.

He has worked with the Royal Bank of Canada (RBC), Vancouver BC, and Citigroup in, Dallas, Texas USA as an Account's executive.

He has demonstrated success in leading and mentoring teams in developing and executing marketing plans and has strong ability to motivate and influence employees in rapidly changing work environments plus building rapport with clients and individuals at all levels of the organization.

Mr. Abdi Bare Duale

He was first appointed on 3rd June, 2014. He holds a Master's degree in Business Administration from Edith Cowan University and High School Diploma from Penn Foster College.

Currently he is a Managing director of Medina Chemicals Ltd. and the Executive Chairman of Nomad Palace hotel limited. Previously, he held the position of the General Manager of Medina Pharmacy Ltd. He has held several directorship positions in both public and private entities including Kenya Bureau of Standards and Nerix Pharma Ltd.

Commissioner General - Mr. John K. Njiraini, MBS

He was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012. Previously, he served as the Commissioner of Domestic Taxes in charge of Large Taxpayers Office, since April 2006.

He holds a Bachelor of Commerce and Master of Business Administration (MBA) degrees 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, and 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.

EX OFFICIO MEMBERS

Attorney General – Hon. Prof. Githu Muigai, FCIArb, MP

He holds a Bachelor's Degree in Law (LLB) from the University of Nairobi, a Master's 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 also served as a Judge in the African Court of Justice.

Mary Ann Muthoni Njau-Kimani

She is an advocate of the High Court of Kenya with thirty (30) years' post admission experience both in private and public law practice. She also holds a Master's degree in Business and Administration from the University of Nairobi.

She is the Senior Deputy Solicitor General and the Secretary Justice and Constitutional Affairs, the current Head of the State Department of Justice, Office of the Attorney General & Department of Justice.

She is an accredited mediator and a certified Justice Rapid Response UN- Women SGBV Justice Expert, with management, financial, research, consultancy and training experience and skills.

She is the alternate director to the Attorney General.

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

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury. He 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. 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. Bernard Ndung'u,

Director General, Accounting Services – (Alternate Director to the Principal Secretary, the National Treasury).

3. MANAGEMENT TEAM

1. John Njiraini, MBS

He was appointed the Commissioner General of Kenya Revenue Authority on 3rd March, 2012 for a period of three (3) years. The contract was renewed for a further three (3) years. The contract will expire on 4th March, 2018.

2. Julius Musyoki

He was appointed as appointed Acting Commissioner, Customs & Border Control Department from 1st December, 2014. He was later confirmed as the substantive Commissioner in August, 2015. His contract will expire in July, 2018.

3. Benson Korongo

He was appointed Acting Commissioner, Domestic Taxes Department from 1st May, 2016. He was later confirmed as the substantive Commissioner on 1st June, 2016.

4. Beatrice Memo, HSC

She was appointed Head of Kenya School of Revenue Administration from February, 2015. Her contract will expire in January, 2018.

5. Ezekiel Saina, HSC

He was appointed Acting Commissioner, Corporate Support Services from 16th July, 2016. He was later confirmed as the substantive Commissioner on 1st June, 2016.

6. Mohamed Mohamud

Mr. Mohamud appointed Commissioner, Strategy Innovation & Risk Management from 1st October, 2015. The contract will expire on 10th September, 2018.

7. Wairimu Ng'ang'a

She was appointed Commissioner, Legal Services & Board Coordination from 1st January, 2016.

8. David Yego

He was appointed Acting Commissioner, Investigations & Enforcement Department from 11th February, 2016. He was later confirmed as the substantive Commissioner from 22nd March, 2017.

9. James Mburu

Mr. James Mburu was appointed Commissioner, Intelligence & Strategic Operations Department with effect from 3rd April, 2017.

4. CHAIRMAN'S STATEMENT

Foreword

It's my pleasure to present the Annual Report and Financial Statements of the Kenya Revenue Authority for the Financial Year 2016/17. This is the second Annual Report prepared within the implementation period of the Authority's **Sixth Corporate Plan (2015/2016 - 2017/2018)** whose theme is "**Building taxpayer trust through facilitation for enhanced tax compliance**".

The year under review was characterized by constrained global trade and subdued investments, increased policy uncertainties associated with United Kingdom withdrawal from European Union and the closely contested US elections but boosted by continued strong growth in sub-Saharan Africa. In addition, the campaigns for the Kenya's second general elections under the Constitution of Kenya 2010 kicked off during the last quarter of the financial year. The country was host to two major international conferences namely United Nations Conference on Trade and Development (UNCTAD), The Tokyo International Conference on African Development (TICAD VI) summit. Besides putting Kenya on the limelight and engaging with prospective investors, the conferences further boosted the tourism sector earning Kenya the much needed foreign exchange and associated tax revenues accruing from the activities.

Kenya Economy

The Economy was estimated to have grown by an average of **5.5% in 2016/17** while in the East Africa Community (EAC) region it is estimated to have grown by **6.1%** according to Kenya Economic Survey 2017. The growth was attributed to public infrastructure investment, buoyant private consumption and low oil prices.

The Kenya Economic survey 2017 further reported that the manufacturing sector recorded a real growth of 3.5 per cent in 2016 compared to a revised growth of 3.6 per cent in 2015. This growth was as a result of reduced cost of production, increased volume of output, reduced cost of electricity and stability in the price of imported raw materials.

With regard to the agricultural sector, Coffee exports increased by 12.2% from US \$ 214.96 Million in FY 2015/16 to US\$ 240.23 Million in FY 2016/17. Tea exports declined by 5.3% from US \$ 1296.55 Million to 1228 million in 2016/17. Horticultural exports declined by 1.6% from US\$ 1179.46 million to US\$ 1160 million in 2016/17.

The Financial Intermediation sector on the other hand, posted the slowest growth since 2012 to stand at 6.9% in 2016 compared to 9.4% in 2015. This underperformance can be explained by decelerated growth of 6.7% in earnings from banking sector partly due to uncertainty associated with the capping of interest rates that came into effect in September 2016.

However, the sector's growth was boosted by the insurance sub-sector which recorded a growth rate of 5.3% in 2016 compared to 5.0% in 2015.

Information, Communication and Technology sector is estimated to have expanded by an average of 10% during the Financial year 2016/17 compared to a growth rate of 8.2% in 2015/16.

Average inflation increased from **6.47%** in *FY 2015/16* to **8.10%** in *FY 2016/17* largely attributed to increased food prices as a result of the prolonged drought experienced throughout the country. The Exchange rate of Kenya Shilling to US Dollar averaged at 102.46 during the Financial Year.

Total exports declined by **19.1%** from **US \$ 5,969 million** in 2015/16 to **US \$ 4,819 million** in 2016/17 while total imports increased by **4.7%** from **US\$ 14,985 million** to **US\$ 15,595 million**. The decrease in exports was attributed to decrease in tea and horticultural products while the increase in imports value was majorly attributed to increased import value of petroleum products.

The Kenya Economic Survey 2017 further noted that the overall basic employment grew at **3.2%** which was below the recent past trend of 4.56% in spite of the positive growth in GDP.

Global Economy

The global economy is projected to have grown by **2.9%** in 2016 compared to a revised growth of **3.1%** in 2015. Growth in developed economies expanded by **2.1%** in 2016 compared to **1.9%** in 2015. The United States of America recorded a growth of **1.5%** in 2016 compared to **2.6%** in 2015, majorly attributed to reduced exports, subdued investments and uncertainty surrounding the 2016 elections. Growth in China contracted as a result of slowed investment as the economy tilted towards services and consumption. In Japan, growth was contributed by private consumer spending, signaling improved consumer purchasing power after two years of contraction.

The Sub-Saharan Africa's real gross domestic product is estimated to have grown by **1.5%** in 2016 compared to **3.8%** growth registered in 2015. The slow growth was explained by low commodity prices for metal exporting countries, domestic shocks from a generally less supportive global economic environment, decelerated growth in South Africa and considerable drop in international oil prices that affected growth in oil exporting countries.

Revenue Performance

During the financial year 2016/17, the Authority collected sh. **1.365 trillion** against a target of **Sh1.431 trillion**. This performance represents a growth of **13.8%** over **Kshs. 1.200 trillion** collected in financial year 2015/16. This year's growth indicates an improvement over last year's performance of **12%** growth in revenue collection. It is also the highest growth for the period 2014/15 -2016/17.

Exchequer Revenue

The Authority collected a total of **Kshs. 1,273,060 Million** against a target of **Kshs. 1,337,574 million** translating to a performance rate of **95.2%**.

Agency Revenue

Kshs. 92,209 Million was collected as Agency revenue against a target of **Kshs. 94,271 million** translating to a performance rate of **97.8%**.

Future Outlook

Globally

The IMF in its World Economic Outlook for April 2017 posits that with optimistic financial markets and a long-awaited cyclical recovery in manufacturing and trade, global economic growth is estimated to rise from **3.1 %** in 2016 to **3.5 %** in 2017 and **3.6 %** in 2018. However, structural challenges continue to hold back a stronger recovery, with these risks pointing to a bleak future over the medium term. With persistent structural problems, such as low productivity growth and high income inequality, pressures for inward-looking policies are increasing in advanced economies. These impede global economic integration and the cooperative global economic order that has served the world economy, especially emerging market and developing economies. In view of this, economic policies have an important role to play in countering off the risks and secure the recovery. Further, multilateral effort is also needed to tackle common challenges in an integrated global economy.

Kenya

The Budget Policy Statement (BPS) 2017, projects that during FY 2017/18, Kenya's real GDP shall expand by **6.2%** up from **6.0%** projected in FY 2016/17. This growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. However, the World Economic Outlook, October 2016 project that average Inflation will reach **9.0%**.

The Authority will expect more pressure in 2017/18 to collect more revenue to finance expenditures of strategic interest to the Nation's economic transformation agenda, the Third Medium Term Plan of the Vision 2030 especially public investments in infrastructure development, and social spending like the second phase of the Standard Gauge Railway and the social safety net program among others. Specifically, the Treasury revenue target for the financial year 2017/18 is **Kshs 1,614,800 million**, of which **Kshs. 1,506,987 million¹** (**93.3%**) is Exchequer revenues and **Kshs 107,913 billion (6.7%)** representing various agency revenues that KRA collects. The Treasury target represents a growth of **18.3%** over the revenue collection in FY 2016/17 while the Exchequer target represents a growth of **20.2%**.

It is expected that the completed phase one of the standard gauge railway from Mombasa to Nairobi will hugely impact on the movement of cargo from Mombasa to Nairobi and onward through the Northern Corridor to Uganda, Rwanda, South Sudan and Burundi. This will

¹ Excludes Railway Development Levy

have a positive impact on the Kenyan economy thus generating additional tax revenue and reduced cost of operation to investors. Further, setting up of special economic zones including privately owned ones for example the SEZ in Eldoret is expected to spur employment by creating direct and indirect jobs.

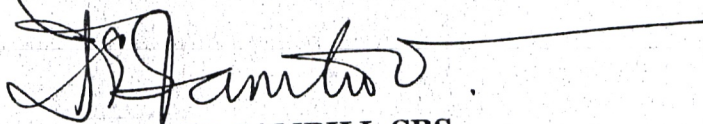
According to the Budget policy statement 2017/18, main threats to the outlook for FY 2017/18 and the medium term emanate from both external and domestic sources. Externally, the threats include weaker growth in the global economy, continued low demand in advanced and emerging market economies, the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates, Britain's exit from the European Union and persistent geopolitical uncertainty in the international oil markets as well as the low commodity prices that may impact negatively on our exports and tourism activities. Internally, adverse weather conditions, and uncertainties in the financial sector due to the impact of capping of interest rates pose significant threats to achievement of the projected economic growth.

Appreciation

The 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 increased revenue collection in FY 2016/17 by **Ksh. 155 billion**, the highest increase recorded so far. We wish to also thank all the compliant taxpayers (individuals and Non individuals, large, medium and small) who registered for all their relevant tax obligations, provided the correct relevant tax information, filed their taxes on time and timely paid their taxes. We also wish to thank all the strategic stakeholders who have partnered with us to make KRA a distinguished revenue authority in the region. We are optimistic that with your continued support, KRA will be able to continue to effectively carry out its mandate. That is trade facilitation, regional integration, improving Kenya's business climate as well as providing the resources for the Government to deliver on its obligations and commitments.

In my capacity as the Chairman of the Board, I wish to take this opportunity, on behalf of other Board members, to thank H. E. The President, the whole of National Government, the National Treasury, Counties, and Parliament for their invaluable support we continue to receive from you in the performance of our noble duty of revenue administration.

Lastly, I wish to extend my gratitude to my fellow Board Members for their unending commitment and hard work during the year. It's my belief that the team will post even better results in the next financial year 2017/18.



DR. EDWARD SAMBILI, CBS
CHAIRMAN

5. COMMISSIONER GENERAL'S STATEMENT

Introduction

It gives me great pleasure to present to you the highlights of the Kenya Revenue Authority performance for FY 2016/17 which is the second year of implementation of the Authority's Sixth Corporate Plan (FY 2015/16 - 2017/18). The Plan advocates for change in our business approach and re-orientes our focus more on customer facilitation to enhance tax compliance. This call is aptly captured in the Plan's Strategic Theme; ***"Building Taxpayer Trust through Facilitation for enhanced tax compliance"***. To achieve KRA's primary mandate of tax administration, the Plan outlines four strategic priorities all aimed at enhancing revenue collection. These are, enhancing revenue mobilization through a raft of measures, organizational change and business process optimization to strengthen revenue administrative capacity, professional and customer-focused staff, and operational efficiency leveraging technology and benchmarking against best practice.

Operating Environment

Kenya's GDP growth rate was estimated at 6.0% in FY 2016/17 and is expected to rise to 6.2% in FY 2017/18.

Key elements of the macro-economic environment included the following:

- Inflation rate which was projected to average at 6.3 % started at 6.39 % in July 2016, peaking at 11.7 % in May, 2017 and closing the Financial Year at 9.21 %.
- The Exchange rate of Kenya Shilling to US Dollar averaged at 102.46 during the Financial Year.
- Total exports declined by 19.0% from Ksh 609,228 million in 2015/16 to KSh 493,761 million in 2016/17 while total imports increased by 5.1% from Ksh 1,520,376 million to 1,597,912 million during the same period.
- Average 91-Day Treasury Bill rates began the Financial Year at 6.16 %, peaked at 8.77 % in April, 2017 and closed the Financial Year at 8.4 %.
- The NSE 20-share index started off at 3,489 points, dipping to 2,794 points in January 2017 and closing the year at 6,609 points indicating a steady improvement in the investment environment in the economy.

REVENUE PERFORMANCE

Table 1: Revenue Collection (Ksh. Billion)

Department	Actual 2016/17	Revised Target 2016/17 ²	Performance Rate (%)	Actual 2015/16	Growth Over 2015/16 (%)
Customs Services	443.5	462.0	96.0	386.0	+14.9
Domestic Taxes	917.6	963.8	95.2	810.2	+13.3
Road Transport	4.1	6.0	68.5	3.9	+4.9
Total	1,365.3	1431.8	95.4	1,200.2	+13.8

1.1. Customs and Border Control Department

Customs collections during FY 2016/17 amounted to Kshs. 443.5 billion against a target of 462.0 billion translating to a performance rate of 96% and a growth of 14.9% over FY 2015/16. Net import duty grew by 7.3% to **Ksh. 86.9 Billion** while Net Excise duty grew by 13.6 % to **Ksh. 79.2 Billion**. Annual collections in Petroleum Taxes amounted to **Ksh. 139.3 Billion** while Trade Taxes amounted to **Ksh. 286.7 Billion** recording a growth of 29 % and 7.5 % respectively over FY 2015/16.

The recorded performance was buoyed by growth in oil imports to **6.701 billion litres** (6.0 % growth) and number of containers handled for transit cargo to **138,752** (13.8 % growth). However, the number of containers handled for home use cargo declined to **236,253** from **254,870** (7.3 % decline) during the same period. This is partly attributed to the recorded dip in motor vehicle importation in FY 2016/17 i.e. from 83,840 units to 65,130 in FY 2016/17.

1.2. Domestic Taxes Department

Domestic taxes collections during FY 2016/17 amounted to Kshs. 917.6 billion against a target of 963.8 billion translating to a performance rate of 95.2% and a growth of 13.3% over FY 2015/16.

Direct domestic taxes collected during the financial year amounted to **Ksh.628.5 Billion** representing a **95.1%** performance rate and growth of **11.8%** over FY 2015/16. Direct domestic taxes included: PAYE-**54%**; Corporate Taxes-**29%**, withholding taxes-**15%**, and the remaining **2%** comprised: individual taxes, Turn-Over-Taxes; Capital Gains Tax and Rental Income Tax.

Indirect Taxes collected during the Financial Year amounted to **Ksh. 286.7 Billion** representing 95.6 % performance and a growth of 17.0 % over FY 2015/16. This growth was mainly driven by 21.2 % growth in VAT to **Ksh. 193.1 Billion** and 39.5 % growth in Excise duty on money transfer to **Ksh. 12.6 Billion**.

1.3. Transport Department

Transport Revenue accounted for **0.3 %** of the total collections in FY 2016/17 recording a growth of **4.9 %** compared to FY 2015/16.

² Original Revenue Target for FY 2016/17 of Ksh. 1,415.6 Billion was revised to Ksh. 1,431.8 Billion

REVENUE ADMINISTRATION REFORM AND MODERNIZATION PROGRAMME (RARMP) INITIATIVES

The Authority continued to scale up reforms through the Revenue Administration Reform and Modernization Programme (RARMP) which is aimed at transforming KRA into a modern, fully integrated and client-focused organization. Key reform measures implemented during the year included:

iTax

This is a web based system that will enhance domestic tax administration and offers services including electronic registration of taxpayers, electronic filing, payment of taxes, self-service ledger accounts, and back office functions for Domestic Taxes Department staff. It is aimed at providing users with the benefits of an integrated view of a taxpayer which was not possible with the previous system. During this financial year, key achievements included:

- enhanced taxpayer support through a framework utilizing existing channels such as **'report a problem'** functionality and tracking tool (Open Source ticketing). The enhanced support framework will leverage on the CRM solution once it is rolled out through iTax customer support framework and virtual assistance (live chat).
- Audit module: being used by all Regional Audit Centers (RACs), Large Taxpayers' Office (LTO) and Medium Taxpayers' Office (MTO) in dealing with refund cases more efficiently.
- Debt Module: being used for the following functionalities: bankruptcy, write off and waiver.
- Cumulatively, a total of **5,219,100** taxpayers have updated their i-Page of which **3,478,257** are active i.e. paying and/or filing for taxes.
- Cumulatively for the FY 2016/17 **2.44 Million** Income Tax returns were filed compared to **1.58 Million** returns filed in the last financial year, a growth of **54%**.
- In order to support uptake of iTax by taxpayers and enhance the quality of services, a total of 26 iTax regional support service centers were set up in various regions across the country. In addition, KRA is currently operational in 45 Huduma Centres across the country.

Data Warehouse and Business Intelligence Project

This project is aimed at development of a data warehouse in KRA that is integrated to all relevant departments' information systems to provide fact-based business intelligence that will improve decision-making and monitoring business activities and trends. Data warehousing arises from the need for reliable, consolidated, unique and integrated reporting and analysis of data, at different levels of aggregation. This is all aimed at addressing operational challenges such as low compliance and tax evasion. In a nutshell, full implementation of DWBI will aid in:

- **Fact based decision making** as it will provide a central repository for linking data from multiple KRA systems to enable better reporting, analysis and knowledge based decision making
- **Enhanced tax compliance** by enabling single view of the tax payer and providing access to strategic third party data
- **Enhanced operational efficiency** by enabling fast and easy access to data to increase KRA's fraud detection capacity by providing tools to detect trends and patterns

The Authority received immense technical support from the Swedish Tax Authority (STA) and the South African Revenue Services (SARS) missions who ensured Quality Assurance of the DWBI solution which is currently under piloting.

By June 2018 we expect the following **transformative areas** (New ways of working) to be operational:

- Centralized Reporting & Analysis
- Dynamic, automated risk profiling and case selection
- Integration with iTax
- Fact based (Data driven) decision making, and
- Corporate Performance Monitoring.

Integrated Customs Management System (iCMS)

The increasing trade volumes across Kenya's boundaries and the attendant risks call for a versatile Customs Management System where stand-alone modules, systems, smart gates, and other security installations are integrated. The iCMS aims at:

- Enhancing trade facilitation in the cargo clearance process
- Streamlining and simplifying Customs processes
- Reducing time take to clear cargo
- Accurate trader information
- Enhanced control and accountability of exemptions
- Automatic and proactive profiling of potential AEO traders based on a holistic assessment from all the tax system (iTax, iCustoms)
- Transparent AEO accreditation process

During the Financial Year, iCMS was integrated with iTax and the following modules rolled out for testing: the Clearance, Manifest Management and Quota Management.

To Streamline and simplify Customs processes, the Risk Management, valuation Management, Trader Registration and Trader Accounting Modules were rolled out having passed the QA Tests.

Outstanding modules before full roll out of the system include: Warehousing & Special Zones, Bonded Warehouses, Advance Passenger Information, and Customs Warehouse and Online Auction modules.

iSupport

To help drive efficiencies, the Authority implemented a core technology application which is aimed at scaling and accelerating organizational decision-making and enhancing business management. This platform will assist KRA transform business operations and to meet the demands of Digital Economy.

This project is aimed at:

- Providing timely and accurate information to support efficient tax administration operations, planning and reporting for the Authority;
- Stimulating integration of financial and operational activities through streamlined and efficient workflows and documents management;
- Providing better business insight; and tracking key operational KPIs on a real time basis, for prompt management information and decision making.
- Building centralised services capability.

During the Financial Year, iSupport system went live on 28th April 2017. Upon full roll out, the iSupport capabilities will include: Payroll management, Travel Management, Performance Management, e-recruitment, Medical Management, learning solutions, and Asset master data and Asset Disposal.

Tax Invoice Management System (TIMS)

Under VAT enhancement strategy, the need for ensuring simplicity and accuracy in input, output, credit VAT information and reconciliation between filed returns and payments is paramount. Implementation of a Tax Invoice Management System is aimed at ensuring:

- Real time validation of invoices at the trader tills prior to issuance to the customer and KRA tax system.
- Standardization of tax invoices and receipts
- Simplification of return filing in order to enhance voluntary compliance.
- Improve accuracy of VAT data for transactional purchases and sales information.

During the Financial Year, systems requirements were signed off, and stakeholders engaged.

Regional Electronic Cargo Tracking System (RECTS)

The RECTS was launched in March 2017 with the aim of boosting security thus curbing diversion of transit cargo along the Northern Corridor among other malpractices. The concept was anchored on the 2014 Northern Corridor directive to Kenya, Rwanda and Uganda to embrace electronic monitoring of cargo across the region. Besides securing the cargo, RECTS also saves on time and cost of doing business since a lot of time was wasted at border points to disarm and arm the seals. However, with this system, once the seal is armed at one point, it will only be disarmed upon reaching the final destination. RECTS and ICMS are set to be integrated to ensure high efficiency in cargo clearance as well as profiling of importers.

KEY ACHIEVEMENTS IN THE FINANCIAL YEAR

Financial Year 2016/17 has been an eventful year for the Kenya Revenue Authority as it was the second and middle year of implementation of our 6th Corporate Plan. We reviewed our realization of the medium term aspirations during the second quarter of the Financial Year-quarter ending December, 2016 and the outlook is promising. While much effort in FY 2015/16 went to laying foundations, tempo for realization of these aspirations was set in FY 2016/17. Key highlights of FY 2016/17 include:

Taxpayers Month

KRA has made it a tradition to organize annual taxpayer's month with a range of activities that culminate into the annual tax summit and recognition of distinguished taxpayers. The summit run under the theme "***Kenyan solution to Kenya's challenges: Taxation as a catalyst for development***", based on the need to tap into the skills and knowledge of Kenya's innovative youthful population for solutions that can create a favorable tax environment for the country's booming economy.

Other key activities included 'Good Morning Coffee' where staff served coffee to members of the public along major roads and roundabouts while creating awareness on tax matters and showcasing KRA as approachable and friendly. Various publicity activities were undertaken including live TV interviews, Radio talk shows and road shows (caravans) to educate and assist taxpayers.

ISO 9001:2015 Certification

During the Financial Year, the Authority was re-certified to ISO 9001:2015 to underscore its commitment to performance within universally acceptable standards. Through this certification, the Authority demonstrated its commitment and ability to:

- consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and
- Enhance customer satisfaction through effective application and improvement of Quality Management System, and the assurance of conformity to customer and applicable statutory and regulatory requirements.

Culture Change and ATAF Award

The Authority continued implementation of a Culture Change Programme which is aimed at supporting the ongoing modernization efforts through development of new cultures (new attitudes and behaviors) by focusing on the 'People' aspect of change as well as strengthening the 'Environmental Issues' affecting staff. In addition, the Authority continued the KUWA-TECH campaign to ensure that all members of staff live the Core Values-Trustworthy, Ethical, Competent and Helpful. This is in line with the key guiding thrusts for the 6th Corporate Plan. The thrusts are: Improving service accessibility, leveraging technology to enhance service delivery and compliance and reforming staff attitude to shift focus from enforcement to facilitation.

The Authority won the prestigious **Innovation Award by the African Tax Administration Forum (ATAF)** that recognizes member administrations for remarkable implementation of creative and innovative programs which can be used by other states in benchmarking. KRA presented '**Hidden Treasure Hunt**' innovation concept that is aimed at achieving cost effectiveness in the working environment where the Authority uses a lean technique for eliminating wasteful activities from work processes thereby increasing time efficiencies, reducing duplication, improving and simplifying the service process for both the staff and taxpayers

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. During the Financial Year, the Authority developed a Corporate Social Responsibility (CSR) Policy to guide all CSR activities. CSR activities, henceforth, are anchored on 4 pillars: Environment, Sports Marketing, Health and Education. A total of 1,266 KRA members of staff participated in 16 CSR activities, that is: Construction of five (5) classrooms, supported the Faraja Cancer initiative, participated in two (2) Golf tournament, Madoka Marathon, Football tournament, two (2) tree planting events and gave out four (4) donations.

Memorandum of Understanding (MoUs)

The Authority continues to partner with key institutions to share knowledge in order to enhance service delivery. During the financial year the Authority signed MOUs with the following institutions: **International Business Machines (IBM)** to provide a solution that employs statistical and machine learning techniques to detect fraud in the process of declaration, processing, payment and release of customs shipments; **Innovation for Poverty Action (IPA)** to assess different interventions to raise tax revenues, focusing on

VAT for small firms, rental income taxation, and taxation of informal firms using randomized controlled trials; collaboration with **Microsoft** on the use of advanced analytical techniques aimed at increasing the taxpayers' segments thus optimising the tax base; and **the University of Nairobi (UoN) focusing on** Joint scientific research in tax laws, tax compliance, tax analysis and short-term trainings.

HUMAN RESOURCES REVIEW

Staff Compliment as at 30.06.2017			
	Department	Count	Percentage (%)
1	Corporate Support Services	1,134	22.84%
2	Customs and Border Control	1,606	32.35%
3	Domestic Taxes Department	1,598	32.19%
4	Headquarters		
	Commissioner General's Office	12	0.24%
	Transformation Leadership Office	9	0.18%
5	Internal Audit	37	0.75%
6	Investigation and Enforcement	208	4.19%
7	Intelligence and Strategic Operations	17	0.34%
8	Kenya School of Revenue Administration	53	1.07%
9	Legal Services and Board Coordination	34	0.68%
10	Marketing and Communication	77	1.55%
11	National Treasury	4	0.08%
	Strategy, Innovation and Risk Management	176	3.54%
	Total	4,965	100.00%

Senior Staff Changes

1. Mr. James Mburu Githii was appointed Commissioner, Intelligence & Strategic Operations Department with effect from 3rd April, 2017.
2. Mr. David Yego was appointed Commissioner, Investigations & Enforcement Department with effect from 22nd March, 2017.

Staff Motivational and Welfare Programmes

In the Financial Year 2016/17, the Authority addressed staff motivation by implementing various welfare activities such as the annual Staff Team building events, staff recognition awards, health promotion activities such as health talks, health hikes, first Aid training Emergency evacuations for staff involved in accidents and terrorism attack, HIV/AIDs and Alcohol and Drugs Abuse Prevention Programs. Other motivational benefits include Mortgage as well as Car and laptops loans disbursed to staff.

Competency Development

- The Authority facilitated delivery of **297 Training courses** involving 4390 members of staff under the Annual Training Programme, covering revenue, management and support related courses during the financial year.

Automation of Human Resources Management Systems

The following HR modules were under implementation during the FY 2016/17.

- Organization Management
- Personnel Administration
- Time Management
- Payroll
- Performance Management
- E-Recruitment
- Medical Management

FUTURE OUTLOOK

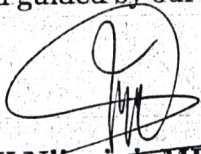
The Treasury revenue target for FY 2017/18 is **Ksh. 1,614,800 Million** out of which, **Ksh. 1,528,156 Million** (94.6%) is exchequer revenues and the balance of **Ksh. 86,644 Million** (3.4%) represents agency revenues. The revenue targets for the financial year 2017/18 took into consideration proposed amendments and proposals to the Revenue Acts. The government also seeks to strengthen tax administration procedures so as to minimize revenue leakages and leverage on technology.

During FY 2017/18, Kenya's real GDP is projected to expand by **6.2%** up from **6.0%** projected in FY 2016/17. This high growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector, growth of exports in the sub region and the ongoing structural reforms in the private sector that are aimed at improving competitiveness and promoting overall productivity. Inflation and Foreign exchange rates are expected to remain stable as a result of the Central Bank of Kenya monetary policy. The lending interest rates have also reduced following the capping of interest rates at 4% above the Central Bank Rate.

FY 2017/18 marks the end-term for the implementation of the 6th Corporate Plan and KRA's Vision 2018. To this end, the Authority is committed to delivering on its medium-term aspirations through innovative approaches, inclusive engagements, leveraging on technologies and keeping up with the best practices. We will continue our transformation journey which seeks to re-orient how we conduct business through taxpayer facilitation to build trust, customer focus, and pro-active measures to expand the tax base and enhance compliance.

CONCLUSION

In conclusion, I would like to thank our Board of Directors, the KRA management and all staff for their hard work which has enabled the Authority to effectively implement its mandate as the principal revenue collector for the Government of Kenya. Your dedication and commitment led to an impressive revenue growth of 13.8% over FY 2015/16. I also thank the National Treasury, for according us strong support. Lastly, I extend our gratitude to our taxpayers and all our stakeholders, for their patriotism and unwavering support, without which we would not have achieved our strategic goals. I am confident that together and guided by our common vision, KRA is headed for greater exploits.



J K Njirani, MBS
COMMISSIONER GENERAL

6. CORPORATE GOVERNANCE STATEMENT

Corporate governance is the structure and process 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 governance practice.

The Board's responsibilities are broadly set out in Section 6 (6) of the Kenya Revenue 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 appointed under the Act.

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 not-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 judgement. The Board held 12 meetings during the period under review.

Board Committees

The Board had four (4) 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 met quarterly and the members were:

- Hon. Rose Waruhiu
- Mr. Evans Kakai
- Mr. Abdi Bare Duale
- The Attorney General
- Commissioner General

Support Services Committee

The Support Services Committee reviews the Authority's annual budget and is responsible for the financial policies of the Authority. The Committee is also responsible for the oversight of award of contracts by management and ensuring that the procurement policies as provided for under the Public Procurement and Disposal Act, 2015 are complied with. In addition, the committee reviews all the business automation strategies and procurements. The Committee met monthly and the members were:

- Mr. Evan Kakai
- Mr. Abdi Bare Duale
- Amb. Dr. Rasid Ali
- Cabinet Secretary – National Treasury
- Commissioner General

Audit Committee

The Committee is responsible for reviewing audit reports, compliance with relevant laws, procedure 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 met quarterly and the members were:

- Ms. Constantine Kandie
- Hon. Rose Waruhiu
- Mr. Paul Icharia
- Commissioner General

Strategy, Policy and Research Committee

The Committee is responsible for reviewing Revenue performance and 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 or revenue collection. The committee met quarterly and members were:

- Mr. Paul Icharia
- Mr. Evan Kakai
- Mr. Abdi Bare Duale
- Hon. Rose Waruhiu
- Cabinet Secretary – National Treasury
- Commissioner General

Board of Trustees

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:

- Mr. Paul Icharia
- Mr. Evan Kakai
- Ms. Constantine Kandie
- Commissioner General

7. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June, 2017 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

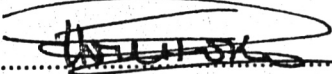
The results of the Authority for the year ended June, 2017 are set out on pages 30 to 52.

Directors

The Members of the Board who served during the year are shown on page 5 to 9.

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: 19/09/2017 ~~2017~~

8. 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.

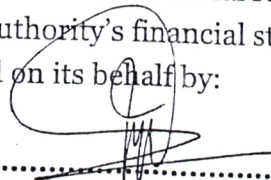
The Directors accept responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and in the manner required by the Kenya 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.

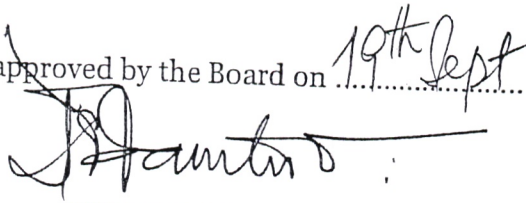
The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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 19th Sept 2017 and signed on its behalf by:


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


.....
DR. EDWARD SAMBILI, CBS
CHAIRMAN

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON REVENUE ACCOUNTABILITY STATEMENT OF KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE REVENUE ACCOUNTABILITY STATEMENT

Qualified Opinion

I have audited the accompanying revenue accountability statement of Kenya Revenue Authority set out on pages 30 to 50, which comprises the statement of financial position as at 30 June 2017, and the statement of revenue collection and transfers, statement of target vs actual performance by tax head and agency and statement of target vs actuals performance by department for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

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

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

Basis for Qualified Opinion

1. Cash and Cash Equivalent

The statement of financial position as at 30 June 2017 reflects cash and cash equivalents of Kshs. 18,007,793,478 held in various bank accounts as closing balances of exchequer account, agency account, refund payment account and appropriation in aid account of Kshs. 6,895,282,103, Kshs. 1,190,539,579, Kshs. 9,921,213,485 and Kshs. 758,310 respectively. The cash balances of Kshs. 18,007,793,478 could not be confirmed as a result of the following issues:-

1.1 Bank Reconciliations Long Outstanding items in Bank Reconciliation Statements

The bank reconciliation statements reflects receipts in cashbook and not in bank statement and receipts in the bank statement and not in the cash book of Kshs. 55,961,151,978 and

Report of the Auditor-General on the Financial Statements of Revenue Accountability Statement of Kenya revenue Authority for the year ended 30 June 2017

Kshs.67,973,449,285 respectively which have been outstanding over the years. It is not clear why the long outstanding balances have not been reconciled to date.

Similarly, the bank reconciliation statements reflect payments totaling Kshs.14,714,106,284 shown in the bank statement but not recorded in the cash book and payments in cash book not reflected in bank statement of Kshs.3,887,289 some dating to over five (5) years. It is not clear why the outstanding payments have not been recorded in the cash book or deposits made in the banks.

In addition, Oriental Bank cash book for account No. 0010011205 and First Community Bank Account No. 404-210201-00115768-000 cash book reflect overdrawn closing balances of Kshs.192,212 and Kshs.658,620 respectively all totaling Kshs.850,833. No explanation has been provided for this anomaly since these bank accounts are only collection bank accounts.

The audit also revealed that the bank reconciliation statements for the Dollar accounts reflect receipts in cash book not reflected in bank statement and receipts in bank statements not reflected in the cash book of £9,967,824 and £16,062,168 respectively. Similarly, the bank reconciliation statement reflects payments in bank statement not reflected in cash book and payment in cash book not reflected in bank statement for the dollar account of £3,051,389 and £3,060,254 respectively over a period of more than twelve (12) months. It is not clear why the long outstanding balances have not been cleared to date

Examination of records further indicated that Central Bank of Kenya (CBK) account 04-010-0053/1000009753 reflected a huge closing balance of Kshs. 2,991,678,555 as at 30 June 2017 for VAT refunds. There are no records in the KRA books that indicate who the payees are. The balance is in excess of 16.5% of the unspent VAT refund budget amount of Kshs.18,062,838,431

1.2 Closure of Bank Accounts

KRA closed Kenya Commercial bank account and National bank account numbers 1103134922 and 0100103211060 respectively without the approval of The National Treasury contrary to Section 28 (1) of the Public Finance Management Act, 2012. The KCB account had a credit balance of Kshs.298,382 that was transferred to Central Bank stamp duty account; however, the NBK account cashbook as at 30 June 2017 shows balance carried forward of Kshs.74,138,962. The bank reconciliation statement for the month of June 2017 shows payments in bank statement not in cash book of Kshs.74,138,962. It is not clear why and how cashbook and bank reconciliation statement were prepared for closed bank accounts. It is also not clear why the transactions have not been recorded in cash books and ledgers and when the payment of Kshs. 74,138,962 was made and for what purpose.

1.3 Misstatement of Transfers to Principals

Examination of records of KRA indicate that Kshs. 2,174,997,783 was remitted to the Ministry of Energy as Petroleum Development Levy but the Ministry's financial statements reflect Kshs. 2,137,500,000 as the amount received as at 30 June 2017. The difference of Kshs. 37,497,783 has not been explained.

1.4 Misstatement of Revenue

Notes 14.1a, b and c to the revenue statements reflect revenues collected during the year totaling Kshs. 289,863,023,384 in relation to other income taxes, capital gain tax and turnover tax. However, audit verification of the related Central Bank of Kenya bank statements and payment vouchers remitting the amounts revealed that the amounts paid totaled Kshs. 309,773,324,383 resulting in an under disclosure in the revenue accountability statement of Kshs. 19,910,300,999. No explanation has been provided for the difference. Details are as follows:

	Notes	Per Revenue Accountability Statements (Kshs)	Per Payment Voucher/CBK Bank Statement (Kshs)	Variance (Kshs)
Other incomes taxes	14.1a	287,342,722,973	307,452,707,737	(20,109,984,764)
Capital Gain tax	14.1c	2,418,718,265	2,225,443,047	193,275,219
Turnover	14.1b	101,582,146	95,173,599	6,408,546
Totals		289,863,023,384	309,773,324,383	(19,910,300,999)

1.5 Misstatement of Revenue Received by Receiver of Revenue

Note 14.8 to the revenue statements -Transfer to Receiver of Revenue – Treasury indicates that KRA transferred land rent revenue of Kshs. 879,351,899 to the receiver of revenue – The National Treasury. However, audit review of receiver of revenue financial statements for the year ended 30 June 2017 indicates that a total of Kshs. 919,345,537 land rent revenue was received. This resulted in a variance of Kshs. 39,993,638 that has not been explained. Further, land rent CBK bank statement A/C No.1000008741 reveals a total credit balance of Kshs.939,345,577 and the amount reflected as having been transferred to The National Treasury is Kshs.919,345,537 resulting in an unexplained difference of Kshs.20,000,000.

1.6 Misstatement of AIA Transferred to KRA

Note 14.9 B to the revenue statements reflects AIA transferred to KRA amounting to Kshs.83,206,672. However, audit verification of all AIA transfers reflected in KRA Central Bank of Kenya bank statements account No. 1000008598 and payment vouchers indicate that AIA transferred totaled Kshs. 692,969,906 resulting in a variance of Kshs. 609,763,234 that has not been reconciled.

1.7 Variance in Revenue Disclosed in Revenue Accountability Statement and KRA Revenue Reports

Audit review revealed that revenues collected and disclosed in revenue accountability statements amounting to Kshs.11,282,228,059 varied significantly from the revenues of similar components reflected in KRA revenue reports/ledger of Kshs.10,984,841,590 by unexplained difference of Kshs. 297,386,469 as follows:

Report of the Auditor-General on the Financial Statements of Revenue Accountability Statement of Kenya revenue Authority for the year ended 30 June 2017

	Notes	Per Revenue Accountability Statement	Per Revenue Reports	Differences
APSC	11	11,199,227,642	10,898,346,951	300,880,691
AIA	9.3	83,000,417	86,494,639	(3,494,222)
Totals		11,282,228,059	10,984,841,590	297,386,469

1.8 Understated Budget and Actual Payments of VAT Refunds

Note 14.15 to the revenue statements - Refund Account movement schedule under column headed refunds, reflects VAT refund payment amounting to Kshs. 13,263,413,087 for the year ended 30 June 2017. However, review of the supporting schedule revealed that refunds made during the year totaled Kshs. 20,015,759,944 resulting in a variance of Kshs.6,752,346,857 which has not been explained.

Further, the reported budgeted amount for VAT refunds of Kshs. 13,464,000,000 reflected in note 14.15 to the revenue statements differs with the revised budgeted amount of Kshs.18,062,838,431 reflected in the estimate of revenue, grants and loans of the Government for the period by an under collection of Kshs.4,598,838,431. No explanation has been provided for the huge under performance.

1.9 Incorrect Cash Book Closing Balances

An audit review of the cash book for Victoria Bank Account Number 001012150001 revealed that the closing cash book balance reflected on 28 February 2017 was Kshs.253,532. However, the balance carried forward to 1 March 2017 reflects Kshs. 2,119,316 resulting in an overstatement of closing cashbook balance by Kshs.1,865,784. This discrepancy affects the end of year closing balance thereby affecting the overall bank reconciliation statement for the period under audit review.

1.10 Unsupported Rental Income

Note 14.1 to the financial statements reflects rental income collected during the year of 4,007,471,331. This revenue could not be verified because KRA did not provide information with regards to CBK bank accounts where the revenue was collected and banked. Further, the Authority did not provide information such as bank reconciliation and bank statements for verification. In the absence of these, the revenue collected could not be ascertained.

Transfers

1.11 Variances in the Transfer of Sugar Development Levy

Audit review of the KRA records and payment vouchers revealed that the Authority collected gross Sugar Development Levy of Kshs.131,042,913, charged commission of Kshs.2,620,858, charged VAT of Kshs. 419,337 and remitted to the principal, Agriculture, Fisheries and Food Authority, Kshs. 128,002,717. However, Note 11 of the revenue

statements reflects Sugar Development Levy income of Kshs.114,599,625 resulting in a variance of Kshs. 16,443,288. In addition, note 14.9 to the revenue statements indicates that Kshs. 111,940,914 was transferred to principal resulting in an under transfer of Kshs. 16,061,803 that has not been explained. Further, the principal, Agriculture, Fisheries and Food Authority financial statements reflect Kshs.126,707,668 as Sugar Levy received from KRA. The difference of Kshs. 14,766,754 has not been explained.

Payment Vouchers Analysis for Sugar Development Levy

	Month	Department	Pv No	Gross Amount	2% Paid To KRA	16% Vat Paid To KRA	Net Amount To Principal (KSH)
1	June 2017	CSD		382,682	7654	1225	373,804
2	May 2017	CSD		1263	25	4	1,234
3	Jan 2017	CSD		540	11	2	527
4	October 2016	CSD		22,725	455	73	22,198
5	Sept 2016	CSD		532,576	10,652	1,704	520,220
6	Aug 2016	CSD		13,267,150	265,343	42,455	12,959,352
7	July 2016	CSD		20,358,538	407,171	65,147	19,886,220
8	June 2016	CSD		16,512,327	330,247	52,839	16,129,241
9	August 2016	DTD		79,965,112	1,599,302	255,888	78,109,921
		TOTAL		131,042,913	2,620,858	419,337	128,002,717

1.12 Understatement of Un-transferred Balance on Petroleum Regulatory Levy

Note 14.12 (B) to the revenue statements reflects Petroleum Regulatory Levy of Kshs.5,799,772. However, the bank statements and the supporting schedule reflect a closing balance of Kshs. 7,452,431 leading to unexplained variance of Kshs. 1,652,659.

1.13 Understatement of Corporation Tax Income Transferred to Receiver of Revenue – The National Treasury

Note 14.8 to the revenue statements -Transfer to Receiver of Revenue indicates that income tax from corporations totaling Kshs. 290,555,554,930 was transferred to receiver of revenue-The National Treasury. However, extractions from the cash book reflect that transfers amounting to Kshs. 310,040,612,707 was done during the period resulting in an unreconciled under transfer of Kshs. 19,485,057,777.

1.14 Failure to Transfer Collections to the Principal on a Timely Basis

It was observed that the KRA does not consistently remit the collections to the principal, as evidenced by the accumulation of a credit balance of USD £4,622,192 under the National bank USD Account 02023015100100 during the year under review. In total there are

collections totaling USD £16,062,168 which are receipts in bank statement and not in cash book.

In addition, whereas KRA is supposed to receive collections from Airlines and their agents by 25th of every month following the month of collection, the Air Passenger Service Charge Act does not specify the date by which the Authority should transfer the collections to Kenya Airports Authority.

1.15 Variances in the Transfer of Excise CSD

A review of Note 14.8 Transfers to Receivers of Revenue – The National Treasury revealed that transfers of excise on imports amounted to Kshs. 80,294,494,743 while computation of transfers from vouchers and Central Bank of Kenya bank statement account No 1000007419 revealed a total of Kshs. 81,685,115,855 was transferred resulting in an under recording of transfer by Kshs. 1,390,621,112. No reconciliation has been provided to date to explain the difference. The variance is as indicated below:-

MONTH	COLLECTION
16-Jul	6,205,754,077
16-Aug	6,920,685,030
16-Sep	6,862,000,203
16-Oct	7,010,055,428
16-Nov	7,638,348,717
16-Dec	6,418,317,712
17-Jan	6,694,095,313
17-Feb	5,376,173,758
17-Mar	6,219,184,005
17-Apr	5,829,816,882
17-May	7,634,774,294
17-Jun	8,875,910,436
Totals	81,685,115,855
RAS Note 14.8(9)	80,294,494,743
Variance	1,390,621,112

1.16 Variance Between Revenue Collected and Revenue Transferred to Receiver of Revenue – Import Declaration Fees

Note 14.8 to the revenue accountability statement indicates that the KRA transferred import declaration fees amounting to Kshs.24,780,448,028 to the receiver of revenue – The National Treasury. However, audit review of receiver of revenue financial statements for the year ended 30 June 2017 indicated that only Kshs. 22,946,708,946 was received resulting in a variance of Kshs. 1,833,739,082 that has not been explained. Further, analysis of revenue collected by the agent banks through Simba and Kentrade systems revealed Kshs.24,464,892,782 was collected against Kshs. 24,486,090,075 reported under note 14.2 to the revenue accountability statement. This resulted in a variance of Kshs. 21,197,293

which was explained to have been caused by Kenya Commercial Bank's system that was not picking all tax heads after upgrading during the month of September 2016. No satisfactory documentary evidence was availed to confirm how the KCB issue was resolved.

1.17 Excess Transfer of Import Declaration Fees (IDF) Collected by KCB during the Month of September 2016

It was observed that from 25 August 2016 to 30 September 2016, Kenya Commercial Bank collected revenues amounting to Kshs. 7,076,296 in respect of IDF but remitted to Central Bank of Kenya account No. 1000007443, Kshs. 30,180,316 leading to excess transfer of Kshs. 23,104,020. Audit enquiry revealed that it was as a result of the Simba system not picking all tax heads after Kenya Commercial Bank upgraded their system during the month of September 2016. However, no documentary evidence has been availed to date showing details of revenue (tax heads) that were not captured in Simba system and when the revenue was remitted to CBK.

Un-Supported Balances

1.18 Unsupported Cash in Transit

Notes 14.12 A, B, C to the revenue accountability statement reflects closing balances of cash in transit with regards to The National Treasury collection of Kshs. 6,895,282,103, Agency collections Kshs. 1,190,539,579 and AIA revenue Kshs. 758,310. These are monies that are in transit from various commercial banks but have not been received by the Central Bank of Kenya collections account as at 30 June 2017. Some of the monies sit at commercial banks accounts operated by KRA. It has therefore not been explained why in addition to the disclosure made in Notes 14.12 A, B, C, an annexure listing all commercial and central bank accounts including the account numbers and amounts, prepared to support the closing balances was not availed for audit. Similarly, it has not been explained why certificates of balance supporting these balances were not availed for audit verification. Further, the closing balance of Petroleum Development Fund of Kshs. 34,650,565 in note 14.12 B excludes an un-transferred balance of Kshs. 18,130,516 appearing in the certificate of CBK bank balance account No. 1000007435 as at 30 June, 2017.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Revenue Authority 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 revenue statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the revenue accountability statement. Except for the matters described in the Basis for Qualified Opinion sections and other matter, I have determined that there are no other Key Audit Matters to communicate in my report.

Other Matter

Audit of records and documents of the Authority but not related to the revenue financial statements and documents of various companies and businesses relating to taxes on income, profits, capital gains, property, goods and services, international trade and transactions and other taxes for the period 2013 to 2017 and audit inspections undertaken at various border stations under customs and border Control Department and tax stations under domestic taxes department revealed the following unsatisfactory matters:

1. Differences in Bank Account Number for the Same Tax Collections Account

Audit review revealed that an account number 1149500004 quoted in the Guarantee Trust Bank statements differs with the account number 2110059658 quoted in the certificate of bank balance of the same Guarantee Trust Bank. No explanation has been provided for this anomaly and therefore the reconciliation carried out therefrom could not be confirmed.

2. Prior Year Revenue

The Central Bank of Kenya VAT imports account No 04-010-0127-1000007427 has credit transactions from National Bank of Kenya amounting to Kshs 88,049,470 that represent accumulated un-transferred collections of prior years. No evidence has been availed indicating interest charged and paid for the delayed revenue transfers.

3. Un-approved Budgetary Provisions for Income Tax Refunds

Audit review of income tax refund payment account revealed that KRA allocated Kshs.2,330,147,516 towards the payments of refunds against the approved budgetary provisions of Kshs. 300,000,000. The excess allocation of Kshs. 2,030,147,516 has not been supported. In addition, Note 14.15 to the revenue statement reflects provision for income tax refund of Kshs. 2,300,000,000. However, there is no budgetary approval sanctioning income tax refund in excess of Kshs. 300,000,000.

4. Overdraft at Eco-Bank Account Number 10135018639601

An analysis of both the cashbook and the bank statements revealed overdrafts at Eco-Bank account in the financial year as shown below; -

Date	Bank statement balance (Kshs)	Cash book balance (Kshs)
30.06.2017	(13,293,976)	(16,496,689)
01.07.2017	(13,024,778)	(18,292,316)
15.07.2017	(5,751,433)	(9,072,090)
18.07.2017	(1,788,610)	(4,925,725)

There were no approvals for the overdraft by either the Board of KRA or The National Treasury provided for audit. The explanation provided by the management that there was a

duplicate payment of Kshs.14,414,441 by the bank in December 2015 could not be confirmed. Similarly, audit review of cash books for Family Bank account number 068000011053 and Transnational Bank account number 18942001 revealed debit balances as at 30 June 2017 of Kshs. 3,797,367 and Kshs. 6,440,882 respectively. The debit balances have been explained by KRA as unapplied transactions which were transferred to Central Bank of Kenya by the commercial banks without updating the system report due to the missing payment registration number (PRN). However, there is no evidence showing that the Authority investigated these receipts without payment registration number (PRN) and resolved the matter.

5. Overdrawn Appropriation- In -Aid

The audit review revealed that AIA Miscellaneous Revenue is banked in Account No. 1000008598 at the Central Bank of Kenya whose reconciled closing cash book balance as at 30 June 2017 is however overdrawn by Kshs. 614,483,055. The reasons for overdrawing the account has not been provided or explanation given.

6. Income Tax Refunds Paid to Non-Compliant Taxpayers

During the year under review it was observed that several taxpayers both individuals and companies were paid income tax refunds. On review of the taxpayer records, it was observed that there are many non-compliant issues that are not taken into account before making the refund payment. Some of the issues relate to instances where taxpayers are paid refunds yet they had outstanding tax liabilities both in i-Tax and the Legacy system for the same tax being refunded, some had tax liabilities for different tax heads yet no recoveries were made, some had not filed tax returns, while some of the returns filed were inconsistent. The following are tax payers who received tax refunds yet they owed the tax authority money that was not deducted on payment.

6.1 Sinohydro Corporation Limited E A of PIN No – P051201917I

During the year under review, Sino-Hydro Company Limited was refunded income tax amounting to Kshs 237,805,317 on various dates as indicated in the table below;

Date	PAYE	Amount
25-Aug-16	Sinohydro Corporation Limited E A	10,335,550
8-Jul-16	Sinohydro Corporation Limited EA	15,000,000
28-Apr-17	Sinohydro Corporation Ltd	212,469,767
Total		237,805,317

While reviewing the taxpayer records it was noted that;

- On 1 February 2014, the taxpayer VAT return had reflected a credit balance brought forward from previous month of Kshs. 91,487,771 that was not confirmed to be correct since there were no supporting documents availed for verification.

- On 31 October 2015, the VAT return of the company on that month was inflated by Kshs.3,454,313 to avoid payment of tax. The credit was carried to subsequent months and as at December 2017, the overall excess VAT credit carried through several months was Kshs. 90,098,243. This was not recovered when paying the income tax refund.
- The taxpayer VAT return indicated exempt sales of Kshs. 13,114,945,412 as indicated as follows;

Month Declared	Exempt Sales/ Contracts as captured in returns
Nov-14	3,547,971,921
Dec-14	85,823,139
Total Year 2014	3,633,795,061
Nov-15	3,264,931,500
Total Year 2015	3,264,931,500
Jan-16	178,389,178
Nov-16	1,333,356,493
Total Year 2016	1,511,745,672
Mar-17	161,178,478
Nov-17	3,666,871,457
Dec-17	876,423,2452
Total Year 2017	4,704,473,118
Grand total	13,114,945,412

It was not possible to verify these exempt sales since no documentary evidence was provided to support the exemption during the period of the audit.

- It was further noted that there existed variances in declared sales per VAT return and per Income Tax Company return. Similarly variances were noted on Purchases/inputs as detailed below:-

Declared Income/Sales			Purchases		
Per Company Return	Per VAT Return	Variance undeclared sales for VAT(undeclared sales in account)	Purchase Per Account (less operating expenses)	Per VAT returns	Variance
7,793,724,658	5,993,570,677	1,800,153,981	5,681,664,147	1,906,054,014	3,775,610,133
8,780,939,697	4,960,200,535	3,820,739,162	6,178,213,638	2,027,951,919	4,150,261,719

Declared Income/Sales			Purchases		
Per Company Return	Per VAT Return	Variance undeclared sales for VAT(undeclared sales in account)	Purchase Per Account (less operating expenses)	Per VAT returns	Variance
3,007,944,845	3,212,903,484	-204,958,639	1,951,843,998	1,912,142,264	39,701,734
		5,415,934,504			7,965,573,586

The implication of inflated purchases per Income Tax Company return reduce corporation tax and company sales not subjected to Output VAT thus reducing the VAT tax liability for the entity.

Further, the company had the following issues in regard to PAYE as indicated below.

- The taxpayer filed returns but did not make PAYE payments amounting to Kshs.81,776,842 as from February 2014 to February 2015 yet refund was paid without recovering the liability.
- The taxpayer filed tax returns for the periods March 2015 to February 2017. However, part or late payments were made resulting in outstanding balance of Kshs. 11,462,791.
- For the month of May 2015, the taxpayer made payments of Kshs. 3,986,258 under PAYE but did not file the corresponding tax return.

Therefore, the refund payment Kshs 237,805,317 may not have been properly analyzed and authenticated.

7. Transfer of Revenue by Commercial Banks

7.1 Failure to Charge Penalty on Late Transfers of Revenue

Computation of penalties revealed that the Authority did not charge any penalty accruing on late VAT imports, excise duty, IDF and IDF/MSS transfers by Kenya Commercial Bank (KCB), National Bank of Kenya (NBK) and Cooperative Bank to Central Bank of Kenya on amounts totaling Kshs 19,176,624,724 :-

On enquiry, letter reference No. KRA/FIN-REV/KCB 2017 dated 23 June 2017 was availed. The letter was addressed to KCB requesting the bank to pay Kshs. 10,154,022,241 as penalties accruing for the period 1 January 2017 to 31 May 2017 on delayed funds transfer. It was, however, noted that the penalties were computed based on all tax heads making it impossible to verify and confirm the authenticity and accuracy of the amount due.

Further, the Authority vide letter reference number KRA/FIN-REV/NBK/2017 dated 21 November 2017 demanded Kshs. 10,942,117,020 from NBK as penalty which has not been honored to date. The amount demanded was for the period 1 January, 2017 to 31 October, 2017 on un-transferred and late transfers. Details of when the amount was collected for confirmation of the demand penalty have not been availed to date.

In addition, a review of the CBK-IDF account statement revealed that KCB and NBK remitted revenue relating to prior years as far back as the financial year 2012/13 but no penalties and interest was levied on the agent banks. As a result, interest and penalties amounting to Kshs. 96,940,787 was not collected.

7.2 Failure to Demand Penalties on Un-Transferred Revenue- Equity Bank

An un-transferred revenue amounting to Kshs. 354,760,989 at Equity Bank account number 240299657063 as at 30 June 2017 is outstanding. These amounts mainly relate to the period 2013 to 2015. Neither transfer nor demand letters for penalties on failure to transfer these funds were provided during the time of audit as evidence that the authority is making positive steps to collect the penalties.

7.3 Late Transfer of Revenue Collected to Central Bank – National Bank

It was noted that revenue collected by National Bank of Kenya on diverse dates amounting to Kshs. 456,394,449 in relation to IDF, Excise duty on imports and MSS levy were remitted late to CBK-IDF/MSS account and CBK Excise duty accounts and no evidence was availed to indicate that interests and penalties were charge.

Bank	Period		Component	Amounts (Kshs)
NBK	2/8/2016	1/6/2017	IDF	148,739,608
NBK	4/8/2016	27/4/2017	Excise Duty	163,063,413
NBK	11/8/2016	30/6/2017	MSS	144,591,428
Totals				456,394,449

Similarly, KRA vide its letter reference number KRA/CSSD/24/13/VOL.5/19 of 20 December 2017 had directed the National Bank of Kenya to remit revenue in excess of Kshs. 10.7 Billion it had collected but had not transferred to CBK. Efforts made to procure the breakdown of this amount and when it was collected by the agent bank has not been successful since no documentary evidence was provided to support the demand note.

8. Customs Security Bond

Audit of customs security bonds records covering the calendar years 2005 to 30 June 2016 maintained at the bond execution and cancellation unit of KRA revealed the following unsatisfactory matters:

8.1 Unaccounted for Revenue on Outstanding Bond Transactions Relating to Companies Under Receivership

Section 38(1) (a) of the Bankruptcy Act, Cap 53 of the laws of Kenya, prioritizes payment of taxes due to government from the bankrupt entity proceeds.

Audit scrutiny of customs security bonds records maintained in Simba system revealed that Concord Insurance Company Limited had outstanding security bonds whose validity period had expired amounting to Kshs. 1,016,577,286. Audit enquiry revealed that the company was placed under statutory management vide a High Court Order of 6 February, 2013 and Policy Holders Compensation Fund appointed as the statutory manager. During the statutory management period, a moratorium was placed suspending any claimant from pursuing any payment of claim from the company. The statutory management period was extended up and until a winding up case filed by Commissioner of Insurance in 2016 is heard and determined. In view of the above, the statutory manager indicated that they were unable to settle the outstanding amount and informed KRA to provide accurate data on outstanding bond liabilities to record the same in their books. No documentary evidence has been availed to date showing that the statutory manager was provided with the data.

Further, examination of customs security bonds records relating to United Insurance Company Limited also under receivership showed that the company had outstanding bond liabilities amounting to Kshs. 2,799,478.

As a result, the government risks losing revenue totaling Kshs. 1,019,376,764 in case the goods secured vide the bonds were diverted into the local market without payment of taxes.

8.2 Security Bonds Confirmed by Guarantors who's Validity Period Had Expired with Outstanding Transactions

Audit review of security bonds confirmed by various guarantors' records revealed that bonds whose validity period had expired had not been discharged at the time of audit contrary to Section 107(2) to (4) of the East Africa Community Customs Management Act, 2004. The bonds had un-cancelled transactions with revenue amounting to Kshs. 1,939,493,526. No satisfactory explanation has been provided regarding this irregular state of affairs.

8.3 Unaccounted for Revenue on Goods Who's Release was Secured with Security Bonds not Confirmed by Guarantors

Upon guarantors' circularization by the KRA, it was noted that security bonds with guaranteed amounts of Kshs. 1,971,039,101 that were used to secure release of goods with taxes (B.I.F) amounting to Kshs. 41,116,041,652 as per the records maintained in Simba system were not confirmed by the guarantors. The said security bonds had outstanding transactions with bond in force amounting to Kshs. 473,035,600. As a result of failure by the guarantors to confirm whether they were sureties to the said bonds, it was not possible to ascertain their authenticity. This in effect puts the government at risk of losing Kshs. 41,116,041,652 if the released goods were secured using illegally executed (forged) bonds and were diverted into the local market without payment of taxes.

8.4 Forged Customs Security Bonds

Circularization of guarantors, through the bonds execution unit of the KRA revealed that some security bonds were illegally executed as the sureties disowned being guarantors to some of security bonds. Audit evaluation of the said bonds revealed that of the 184 security bonds disowned, they had guaranteed amounts totaling Kshs. 2,295,052,286. These bonds were used to secure goods with taxes (B.I.F) amounting to Kshs. 48,641,352,413 as per the records maintained in Simba system and had outstanding transactions with taxes amounting to Kshs. 816,294,982.

As a result, the government risks losing revenue estimated to be over Kshs. 48,641,352,413 if the goods were diverted into the local market without payment of taxes.

8.5 Failure to Avail Documents/Information in Relation to Treasury Undertakings to Pay Taxes on Aga Khan Development Network (AKDN) and other Taxpayers of Similar Projects

Following circularization of guarantors, Jubilee Insurance Company of Kenya indicated that they were liaising with the principal (Aga Khan Development Network) to get the bond particulars before they could give the status report. It later emerged that Treasury had undertaken to pay duty costs as VAT would have been exempt on behalf of the four (4) Aga Khan Development Network (AKDN) agencies imported goods vide Ministry of Finance letter reference number ZZTS/GP/30 dated 9 August, 2007.

As per Treasury letter reference number ZZTS/GP/30 dated 11 April, 2016 a payment of Kshs. 67,536,854 was made on 15 April, 2015 in favour of Commissioner of Customs Services, bank account number 01003058234000 and advised AKDN to follow up the matter with Customs Services and Boarder Control department.

It was further noted that, the Authority had demanded taxes amounting to Kshs. 419,555,913 from Treasury on AKDN projects undertaking vide their letter reference number C&BC/BOND/03/17 of 8 March, 2017. Efforts to understand the background under which Treasury undertook to pay duty on behalf of AKDN and other similar projects, did not bore positive results as information requested on the said projects were not provided to date contrary to Section 9 (1)(e)(i) of the Public Audit Act, No.34 of 2015. The payment was premised on the privileges and immunities to AKDN and its affiliated agencies, which are of philanthropic, charitable and non-profit making which is not the case as per the brief to the Commissioner General from Treasury.

As a result, it was not possible to confirm if Treasury paid Kshs. 419,555,913 demanded by the Authority. In addition, we were not able to establish the exact amount Treasury paid/owed KRA on the undertakings to pay duty for AKDN and other similar projects carried out by other companies/taxpayers.

9. Customs Issues

9.1 Makupa – Container Freight Station (CFS) Limited –Mombasa

Audit inspection undertaken at M/s Makupa Container Freight Station (CFS) Ltd during the month of January 2017 revealed the following unsatisfactory matters:-

9.2 Diversion of Transit Goods Into Local Market

Examination of records at Kenya Revenue Authority Simba system in respect to Makupa Container Freight Station (CFS) for vehicles and goods in transit to regional market indicated that assorted goods and vehicles were delivered and received into Makupa CFS from Kilindini Port through the Cargo Management Information System (CAMIS). However, there was no documentary evidence to show that the goods/vehicles were indeed sighted and released at the exit point of exportation and at the same time there was no export certificates/rotation numbers from border station (Malaba) to confirm that the goods actually left the country.

In the absence of exit export certificates as evidence of exportation, it is not possible to establish that the said goods left the country and the goods may have been diverted into the local market without payment of respective duties totaling Kshs.7, 851,163. This is in contravention of the East African Community Customs Management Regulations 2010 section 104 (7) and 104 (16).

9.3 Uncancelled Security Bonds

Regulation 65 of the Customs and Excise Act CAP 472 requires importer of goods entered for exportation to give bond security in form CB3 to cover removal of goods from the landing station to the respective CFS. In addition, Regulation 96 (4) requires the importer of goods in transit to execute a security bond in form CB8 to cover the goods from the port of entry to the point of exit (exportation). Where the bond allocation remains outstanding for more than 21 days from the date of the entry, the importer is to be called upon in writing to pay the duty on the goods.

However, a review of the Simba system on security bonds revealed that security bonds amounting to Kshs.4, 668,185 which is equivalent to bond in force (BIF) were lodged in respect to various transit vehicles/goods and became overdue after 21 days but have not been realized into revenue and at the same time no documentary evidence of exportation was produced.

As a result of the non-cancellation of security bonds, KRA has not collected Kshs.4, 668,185 revenue due. KRA is likely to have lost the revenue as no explanation has been provided to the contrary.

9.4 Mitchell Cotts II – Container Freight Station (CFS) Limited –Mombasa

9.4.1 Diversion of Transit Goods into Local Market

Examination of records in KRA Simba system in respect to Mitchell Cotts II CFS for vehicles and goods in transit to regional market indicated that assorted goods and vehicles were delivered and received into Mombasa Mitchell Cotts CFS from Kilindini Port through CAMIS. However, there was no documentary evidence to show that the goods/vehicles were indeed sighted and released at the exit point of exportation and no export certificates/rotation numbers from border station (Malaba) were availed to confirm that the goods actually left the country.

In the absence of exit export certificates as evidence of exportation, it is deemed that the goods were diverted into the local market without payment of respective duties totaling Kshs.3,534,164 in contravention of the East African Community Customs Management Regulation 2010 section 104 (7).

9.5 Portside-Container Freight Station (CFS) Limited – Mombasa

Audit inspection undertaken at M/S Portside Freight Terminal Station (CFS) Limited during the month of August 2016 revealed the following unsatisfactory matters:-

9.5.1 Diversion of Transit Goods Into Local Market

Examination of records in KRA Simba system in respect to M/S Portside Freight Terminal Station(CFS) for vehicles and goods in transit to regional market indicated that assorted goods and vehicles were delivered and received into M/S Portside (CFS) from Kilindini Port through CAMIS . However, there was no documentary evidence to show that the goods/vehicles were indeed sighted and released at the exit point of exportation and at the same time there was no export certificates/rotation numbers from border station (Malaba) to confirm that the goods actually left the country.

In the absence of exit export certificates as evidence of exportation, it is deemed that the goods were diverted into local market without payment of respective duties totaling Kshs.14,516,162 in contravention of the East African Community Customs Management Regulation 2010 section 104 (7) and 104 (16)

Uncancelled Security Bond

Examination of documents at KRA in relation to security bonds in the Simba system revealed that security bond amounting to Kshs. 18,627,324 which is equivalent to bond in force (BIF) were lodged in respect to various transit vehicles/goods and became overdue but have not been realized into revenue nor were they cancelled. No documentary evidence were provided to indicate exportation of the good. As a result of the un-cancelled security bond, lack of evidence of exportation and lack of evidence of payment of duty, goods with customs value of Kshs. 52,836,816 attracting bond in force for Kshs. 18,627,325 may have been diverted into the local market without payment of tax. Therefore the Government may have lost revenue amounting to Kshs.18, 627,323 as a result contrary to Regulation 65 of the Customs and Excise Act CAP 472.

9.6 Interpel – Container Freight Station (CFS) Limited –Mombasa

Audit inspection undertaken at M/s Interpel – Container Freight Station_CFS) Limited during the month of August 2016 revealed the following unsatisfactory matters.

9.6.1 Diversion of Transit Goods Into the Local Market

Examination of records in KRA Simba system in respect to M/s Interpel Container Freight Station (CFS) for vehicles and goods in transit to regional market indicated that assorted goods and vehicles were delivered and received into M/s Interpel (CFS) from Kilindini Port through CAMIS (Cargo Management Information System). However, there was no documentary evidence to show that the goods/vehicles were indeed sighted and released at the exit point of exportation and at the same time there was no export certificates/rotation numbers from border station (Malaba) to confirm that the goods actually left the country.

In the absence of export certificates as evidence of exportation, the export of good may not be confirmed and therefore the duty of Kshs. 8,429,633 worth Customs value of Kshs.19,053,929 was not paid contrary to East African Community Customs Management Regulation 2010 section 104 (7) and regulation 104 (16).

9.6.2 Un-cancelled Security Bond

Examination of the security bonds at KRA Simba system revealed that security bond amounting to Kshs. 21,710,901 which is equivalent to bond in force (BIF) were lodged in respect to various transit vehicles/goods and became overdue have not been realized into revenue. KRA management have not provided any documentary evidence of exportation or valid explanation on the issue. As a result of the un-cancelled security bond, goods with customs value of Kshs. 2,702,876,791 attracting bond in force of Kshs.21,710,901 has not been realized into revenue. This is contrary to Customs and Excise Act CAP 472 regulation 65. Therefore the Government may have lost Kshs. 21,710,901.

9.7 Autoport Container Freight Station (CFS) Limited – Mombasa

Audit inspection carried out during the months of August and September 2016 at Autoport Container Freight Station (CFS) Limited revealed the following unsatisfactory matters:

9.7.1 Customs Warehouse Rent (CWR)

Examination of entries at KRA Simba system revealed that some entries were not entered within the stipulated time period of 21 days after commencement of cargo discharge from the vessel and it is not clear whether the goods were deposited in the customs warehouse. With these observations, it therefore means that the goods attracted customs warehouse rent after the 21 days till when the goods were finally entered and released at the CFS. There has been no documentary evidence provided that payment was actually done. As a result, the government might have lost Kshs. 2,852,399 as revenue contrary to the East Africa Customs Management Regulation 84 (1) and East Africa Community Customs Management Act (EACCMA) Regulation 34 (1).

9.7.2 Undervaluation of Motor Vehicles

A number of second hand motor vehicles imports were found under-valued due to use of wrong depreciation rate. In most instances, declarants applied depreciation rates lower than applicable rates depending on the age of the vehicles. As a result of using wrong depreciation rate, revenue amounting to Kshs.1,025,202 was not collected although a demand note for taxes was sent vide letter ref. C&BCD/AUT/Demand/2017/01 of 17/1/2017. The tax due has not been corrected and management has not given reasons for the same.

9.7.3 Use of Wrong Identification Tariff

Examination of entry 5527644 which is part of IDF E1505054360 in relation to importation of cooking oil revealed that the declarations were done using the wrong Tariff Identification (T.I) number 15111000 which did not attract import duty at a rate of 25% and no action was taken. As a result of the use of wrong tariff miss-declaration, revenue amounting to Kshs.2,006,954.907 was not collected. Although a demand note was issued to the importer vide letter ref. No. CSD/AUT/Demands/2017/32, no evidence has been provided by KRA that indeed the revenue was collected by the time of the audit.

9.7.4 Failure to Export Goods Under C56 Regime

Examination of records at Autoport Container Freight Station (CFS) Limited Indicated that 9,391,420 kg of cooking oil with a customs value of Kshs. 620,756,108 was imported under C491 which enjoyed remission of duty under C56 regime by M/S Haddo Industries Limited, Skylink Oil Limited, Sea View Oil Limited and Gulf Skytop Limited for the period 2014, 2015 and 2016.

Examination of self -assessment records available for individual importers in i-Tax for monthly value added tax returns to back import and export claims for the year 2014 and income tax returns to back annual business turnover for the year 2015, indicates discrepancies on information submitted by the taxpayers.

Duty remission manual clearly states the stringent application procedures and guidelines that the duty remission committee would rely on whenever vetting applicants for duty remission is done. The application as indicated above do not comply to procedures and guidelines as clearly stated in the manual.

Therefore, due to lack of accurate self-assessment returns clearly stating import and export entries to back claims of exports by the manufacturers, the Government may lose Kshs.293,307,261 as tax remission.

9.7.5 Diversion of Transit Goods into the Local Market

Examination of records in the Simba System revealed that goods with Bond in Force (B.I.F) value of Kshs. 284,711,299 had not been issued with export certificates and no exit reports at the border station were input in the Simba system implying that the good may not have been exported. This is contrary to the East Africa Customs Management Regulation 104 (7) and Regulation 104(17). As a result, the Government may have lost Kshs. 284,711,299 in duty since the goods might have been diverted into the local market without payment of duty.

Responsibilities of Management and Those Charged with Governance for the Revenue Accountability Statement

Management is responsible for the preparation and fair presentation of this revenue accountability statement in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Auditor-General's Responsibilities for the Audit of the Revenue Accountability Statement

The audit objectives are to obtain reasonable assurance about whether the revenue accountability statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this revenue statement.

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 revenue accountability statement, 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue sustaining services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the revenue accountability statement 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 Authority to cease to continue sustaining services.
- Evaluate the overall presentation, structure and content of the revenue accountability statement, including the disclosures, and whether the revenue accountability statement

represents 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 Authority to express an opinion on the revenue accountability statement.
- 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

13 July 2018

9. STATEMENT OF REVENUE COLLECTION AND TRANSFERS

Collection of Treasury Tax by Tax Head For Financial Year ended 30th June, 2017

	Notes	Actual Receipts for period ended 30th June 2017	Actual Receipts for period ended 30th June 2016
		KShs	KShs
Collections			
1 Treasury collections			
Taxes on Income, Profits and Capital Gains(<i>PAYE, Corporation Tax, and Capital gain</i>)	14.1	630,466,861,216	564,830,535,657
Taxes on Property	14.2	860,894,102	1,201,198,116
Taxes on Goods and Services	14.3	515,772,091,507	461,269,116,363
Taxes on International Trade & Transactions	14.4	111,647,243,398	107,117,175,181
Other Taxes (Stamp Duty)	14.5	8,614,660,367	10,416,783,068
Sales of Goods and Services(Traffic Revenue)	14.6	3,059,861,430	2,859,225,149
Other revenue (Other receipts not classified elsewhere - RDL)	14.7	18,902,516,338	17,273,369,562
Total Treasury Collections	11	1,289,324,128,358	1,164,967,403,096
2 Agency collections	11	92,126,116,068	63,164,852,157
3 AIA-Revenue	11	83,003,417	161,156,663
Gross Revenue Collections - Treasury & Agency	11	1,381,533,247,842	1,228,293,411,916
Transfers			
Transfers to Treasury	14.8	1,273,827,746,661	1,147,386,526,292
Transfers to Principals	14.9(A)	89,520,429,665	61,386,239,345
Agency commissions (Inclusive of VAT)	14.10	2,137,325,893	1,465,424,570
Payments	14.11	13,358,642,486	16,885,171,034
AIA-Revenue	14.9(B)	83,206,672	161,046,838
Total transfers and commission		1,378,927,351,377	1,227,284,408,080
Balances for Transfer		2,605,896,465	1,009,003,836

10. STATEMENT OF FINANCIAL POSITION**Statement of Financial Position as at 30th June, 2017**

	Notes	As at 30 th June 2017	As at 30 th June 2016
		KShs	KShs
Cash and cash equivalent			
Closing Balance- Exchequer	14.12(A)	7,091,206,261	10,171,271,679
Closing Balance- Agency	14.12(B)	1,183,268,324	714,907,814
Closing Balance- Refund Payment Account	14.15	9,921,213,485	4,703,408,858
Closing Balance- AIA	14.12(C)	758,310	961,565
Total cash and cash equivalent		18,196,446,381	15,590,549,916
Represented by Cash in Transit:			
Opening Balances- Exchequer	14.13(A)	10,171,271,679	10,344,394,875
Opening Balances- Agency	14.13(B)	714,907,814	401,719,573
Opening Balances- Refund Payment Account	14.15	4,703,408,858	3,834,579,892
Opening Balances-AIA	14.13(C)	961,565	851,740
Balances for Transfer (C.I.T)		2,605,896,465	1,009,003,836
Total closing balances		18,196,446,381	15,590,549,916

11. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY TAX HEAD AND AGENCY

	Target - Treasury	Actual Receipts for period ended 30th June 2017	% target realized for period ended 30th June 2017	Actual Receipts for period ended 30th June 2016	Year on year Growth
	KShs	KShs	%	KShs	%
Collections					
Treasury collections					
Taxes on Income, Profits and Capital Gains	663,334,906,831	630,466,861,216	95%	564,830,535,657	12%
Taxes on Property	1,542,908,837	860,894,102	56%	1,201,198,116	-28%
Taxes on Goods and Services	537,264,717,960	515,772,091,507	96%	461,269,116,363	12%
Taxes on International Trade & Transactions	119,943,244,153	111,647,243,398	93%	107,117,175,181	4%
Other Taxes (Stamp duty)	12,651,026,947	8,614,660,367	68%	10,416,783,068	-17%
Sale of goods and Services (Traffic Revenue)	4,801,906,558	3,059,861,430	64%	2,859,225,149	7%
Railway Development Levy	18,898,593,925	18,902,516,338	100%	17,273,369,562	9%
Total Treasury Collections	1,358,437,305,212	1,289,324,128,358	95%	1,164,967,403,096	11%
Less: Prov. for Refunds (DTD)	18,062,838,431	13,464,000,001	75%	14,680,944,000	-8%
Less: Prov. for Refunds (CSD)	2,800,000,000	2,800,000,000	100%	2,700,000,000	4%
Net total Exchequer	1,337,574,466,781	1,273,060,128,357	95%	1,147,586,459,096	11%
Agency collections					
Airport Revenue	6,604,305,756	11,199,227,642	170%	6,570,162,063	70%
Aviation Revenue	4,427,705,830	4,854,261,105	110%	4,121,973,768	18%
Petroleum Development Fund	1,821,700,846	2,167,775,822	119%	1,974,216,940	10%
Road Maintenance Levy	75,521,748,044	69,556,921,492	92%	45,407,364,240	53%
K.A.A. Concession			106%		11%

Fees	120,475,357	127,310,088		114,428,833	
Road Transit Toll Levy	715,600,407	737,105,165	103%	673,901,776	9%
Sugar Levy	1,529,524,749	114,599,625	7%	1,356,512,858	-92%
Petroleum Regulatory Levy	735,281,804	497,737,887	68%	485,199,741	3%
Merchant Superintendent Shipping Levy	1,121,753,689	1,327,589,190	118%	934,436,781	42%
KEBS Levy	482,870,074	501,312,318	104%	474,553,260	6%
Traffic Fees-Agency	1,189,830,965	1,042,275,733	88%	1,052,101,896	-1%
Total Agency Collections	94,270,797,521	92,126,116,068	98%	63,164,852,157	46%
AIA Revenue (Miscellaneous)	-	83,003,417	0%	161,156,663	-48%
Sub-totals (agency & AIA revenue)	94,270,797,521	92,209,119,485	98%	63,326,008,820	46%
Total Revenue Collections	1,431,845,264,302	1,365,269,247,841	95%	1,210,912,467,916	13%

12. STATEMENT OF TARGET VS ACTUAL PERFORMANCE BY DEPARTMENT

	Target - Treasury	Actual Receipts FY 2016/17	% Target realized FY 2015/16	Actual Receipts FY 2015/16	Year on year Growth
	KShs	KShs	%	KShs	%
Revenue collection					
1 Treasury collections					
Customs Services Department					
Gross CSD Treasury Collections	373,371,178,559	355,738,879,014	95%	338,725,250,292	5%
Less: Prov. for Refunds	2,800,000,000	2,800,000,000	100%	2,700,000,000	4%
Net CSD Treasury Collections	370,571,178,559	352,938,879,014	95%	336,025,250,292	5%
Domestic Taxes Department					

Kenya Revenue Authority
Annual Report and Revenue Accountability Financial Statements For the Financial Year ended
30th June 2017

	Gross DTD Treasury Collections	980,264,220,094	930,525,387,914	95%	823,382,927,655	13%
	Less: Prov. for Refunds	18,062,838,431	13,464,000,001	75%	14,680,944,000	-8%
	Net DTD Treasury Collections	962,201,381,663	917,061,387,913	95%	808,701,983,655	13%
	Traffic Revenues	4,801,906,558	3,059,861,430	64%	2,859,225,149	7%
	Total Treasury collections	1,337,574,466,781	1,273,060,128,357	95%	1,147,586,459,096	11%
2	Agency collections					
	Customs Services Department	91,466,272,226	90,585,497,282	99%	60,730,677,070	49%
	Domestic Taxes Department	1,614,694,330	581,346,469	36%	1,543,229,854	-62%
	Traffic Revenues	1,189,830,965	1,042,275,733	88%	1,052,101,896	-1%
	Total Agency collections	94,270,797,521	92,209,119,485	98%	63,326,008,820	46%
	Total Revenue Collections	1,431,845,264,302	1,365,269,247,841	95%	1,210,912,467,916	13%

13. ACCOUNTING POLICIES

a. Reporting Entity

The Revenue Accountability Statements has been prepared by the Kenya Revenue Authority.

b. Basis of Preparation

The financial statements comply with the requirements of the Public Financial Management Act of 2012 and the cash basis of International Public Sector Accounting Standards.

The accounting policies have been consistently applied to all the years presented.

The financial statements are presented in Kenya Shillings (KShs), being the currency of legal tender in Kenya which is the functional and reporting currency of the Government of Kenya.

c. Reporting periods

The Government of Kenya Fiscal Year runs from 1st July to 30th June. The financial statements cover the period 1st July 2016 to 30th June 2017. The comparative figures reflect the 12 months ended 30th June 2017.

d. Significant accounting policies

The Financial Statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated:

(a) Receipts

Revenue is recognized at the point of collection. Only taxes billed/assessed and collected are recognized as receipts under the cash basis of accounting. Revenue billed/assessed during the year but not yet collected is disclosed as receivable for purposes of disclosure.

(b) Transfers

The transfers relates to payments made from the collection accounts to the Treasury receiver of revenue account. It also related to transfers made to the various principals.

(c) Provisioning for refund

A total of Kshs **18,576,447,114.00** was set aside for purpose of refund of claims on items specified under table 14.15 below. During the year, additional fund of Ksh. 7,091,841,894.00 was received from The National Treasury to cater for Pre December 2013 outstanding VAT refund cases.

(d) Agency commission

The Authority receives an allocation from The National Treasury as determined by the Cabinet Secretary each year, not exceeding 2% of the revenue estimated in the Financial Estimates for each financial year to be collected by the Authority. This is the main source of revenue for recurrent expenditure of KRA.

In addition, the Authority also charges a commission of 2% on collections made on behalf of other principals. The commission is deducted at source plus 16% vat thereon before remittance to the principals.

(e) Cash and equivalents

Cash and equivalents comprises of cash in transit.

(f) 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 June 30, 2017.

14. NOTES TO THE REVENUE ACCOUNTABILITY STATEMENT

14.1. Taxes on Income, Profits and Capital Gains

		Actual Receipts for period ended 30 th June 2017	FY 2015/16	Actual Receipts for period ended 30 th June 2016
	KShs	KShs	KShs	KShs
1	Income Tax from Individuals (PAYE)			
		336,596,366,498		312,031,647,287
2	Income Tax from Corporations			
	a) Other Income Taxes	287,342,722,975.85	246,569,950,718.31	
	b) Turnover Tax	101,582,146.30	385,276,038.22	
	c) Capital Gains Tax	2,418,718,265.55	3,810,537,740.50	
	d) Rental Income	4,007,471,331.09	2,033,123,873.00	252,798,888,370
	Total	630,466,861,216		564,830,535,657

14.2. Taxes on Property

		FY 2016/17	FY 2015/16
		KShs	KShs
	Land Rent	860,894,102	1,201,198,116

14.3. Taxes on Goods and Services

		FY 2016/17	FY 2015/16
		KShs	KShs
1	VAT on Domestic Goods and Services	206,545,137,254	174,050,915,589
2	VAT on Imported Goods and Services	143,491,206,171	142,227,019,941
3	Excise Receipts (Air time + domestic + import+Fin.services)	165,735,748,082	144,991,180,833

14.4. Taxes on International Trade & Transactions

		FY 2016/17	FY 2015/16
		KShs	KShs
1	Customs Duties(Import Duty)	87,161,153,323	81,266,483,020
2	Other Taxes on International Trade and Transactions (IDF Fee)	24,486,090,075	25,850,692,161
	Total	111,647,243,398	107,117,175,181

14.5. Other Taxes not elsewhere classified

		FY 2016/17	FY 2015/16
		KShs	KShs
	Other Taxes not elsewhere classified (Stamp Duty)	8,614,660,367	10,416,783,068

14.6. Sales of Goods and Services

		FY 2016/17	FY 2015/16
		KShs	KShs
	Traffic revenue	3,059,861,430	2,859,225,149

14.7. Railway Development Levy

		FY 2016/17	FY 2015/16
		KShs	KShs
	Railway Development Levy	18,902,516,338	17,273,369,562

14.8. Transfers to Receivers of Revenue - Treasury

The following is a breakdown of funds transfer from the collections accounts to the Treasury Account E312 Account:

	Name of bank account by tax head	CBK Account Number	Funds transferred to Treasury FY 2016/17	Funds transferred to Treasury FY FY 2015/16
			KShs	KShs
1	Income Tax from Individuals (PAYE)	1000009877	337,063,037,248	315,209,585,752
2	Income Tax from Corporations	1000007338 1000008938	290,555,554,930	252,709,279,920

		1000223577		
3	Land Rent	1000008741	879,351,899	1,190,265,213
4	VAT on Domestic Goods and Services	1000007354 1000220023	192,965,995,329	159,534,575,262
5	VAT on Imported Goods and Services	1000007427	144,820,612,994	141,094,957,892
6	Excise on Domestic Goods & Services	1000008482	55,499,960,092	48,986,573,257
7	Excise on Airtime	1000007915	15,963,809,161	14,884,353,356
8	Excise on Financial Services	1000007923	12,581,311,066	9,012,674,488
9	Excise on Imports	1000007419	80,294,494,743	68,223,013,437
10	Customs Duties (Import Duties)	1000007408	88,000,518,471	80,502,656,321
11	Import Declaration Fees (IDF)	1000007443	24,780,448,028	25,764,418,393
12	Stamp Duty	1000008318	8,610,496,579	10,340,353,672
13	Railway Development Levy	1000180536	18,935,096,554	17,180,745,621
14	Traffic revenue	1000007478 /1000008148	2,877,059,567	2,753,073,707
	Total		1,273,827,746,661	1,147,386,526,292

14.9. Transfers to Principals

(A) Transfers by Bank Account

The following is a breakdown of the transfers from holding accounts to principals:

	AGENCY ACCOUNTS	ACCOUNT NUMBER	FY 2016/17 KShs	FY 2015/16 KShs
1	Airport Revenue (APSC)	1000007451	10,941,509,395	6,446,149,456
2	Petroleum Development Fund (PDF LEVY)	1000007435	2,108,926,131	1,921,208,076
3	Road Transit Toll Levy	1000007818	738,248,791	651,020,638
4	Sugar Development Levy (SDL)	1000007729/1000008113	111,940,914	1,326,041,760
5	K.A.A. Concession Fees	1000008121	127,730,085	108,767,601

Kenya Revenue Authority
Annual Report and Revenue Accountability Financial Statements For the Financial Year ended
30th June 2017

5	K.A.A. Concession Fees	1000008121	127,730,085	108,767,601
6	Aviation Revenue (DCA Aviation)	1000007826	4,756,185,012	4,022,004,421
7	Petroleum Regulatory Levy	1000009004	484,537,709	469,845,509
8	Merchant Superintendent Shipping Levy (MSS)	1000007443	1,296,789,121	912,757,847
9	Road Maintenance Levy (RML)	1000007516	67,438,287,835	43,828,482,787
10	KEBSLEVY	1000007702	490,413,941	670,131,760
11	Traffic Fees - AGENCY	1000007486	1,025,860,731	1,029,829,490
	Total		89,520,429,665	61,386,239,345

(B) Transfers to KRA (AIA)

AIA	ACCOUNT NUMBER	FY 2016/17	FY 2015/16
		KShs	KShs
Miscellaneous	1000008598	83,206,672	161,046,838

(C) Transfers by Principal

The following is the breakdown of the principals to whom funds were transferred to during the year:

	Name of Principal	Funds Transferred to Principals FY 2016/17	Funds Transferred to Principals FY 2015/16
		KShs	KShs
1	Kenya Airports Authority	10,941,509,395	6,446,945,601
2	Treasury/Ministry of Energy	2,108,926,131	1,921,208,076
3	Kenya Roads Board	738,248,791	651,020,638
4	Sugar Directorate (Agriculture and Food Authority)	111,940,914	1,326,041,760
5	Kenya Airports Authority	127,730,085	108,767,601
6	Kenya Civil Aviation Authority	4,756,185,012	4,022,004,421
7	Energy Regulatory Commission	484,537,709	469,845,509
8	Kenya Maritime Authority	1,296,789,121	912,757,847
9	Kenya Roads Board	67,438,287,835	43,828,482,787
10	Kenya Bureau of Standards	490,413,941	670,131,760
11	National Transport & Safety Authority	1,025,860,731	1,029,829,490

Total	89,520,429,665	61,386,239,345
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14.10. Agency commission

The following is a breakdown of the agency fees analyzed by Principal:

	AGENCY ACCOUNTS	FY 2016/17	FY 2015/16
		KShs	KShs
1	Airport Revenue (APSC)	259,822,081	152,427,760
2	Petroleum Development Fund (PDF LEVY)	50,292,399	45,801,833
3	RDL LEVY	-	-
4	Road Transit Toll Levy	17,100,840	15,634,521
5	Sugar Development Levy (SDL)	2,658,711	31,471,098
6	MISCELLENEOUS	-	-
7	K.A.A. Concession Fees	2,953,594	2,654,749
8	Aviation Revenue (DCA Aviation)	112,618,85	95,629,791
9	Petroleum Regulatory Levy	11,547,519	11,256,634
10	Merchant Superintendent Shipping Levy (MSS)	30,800,069	21,678,933
11	Road Maintenance Levy (RML)	1,613,720,579	1,053,450,850
12	KEBS - Levy	11,630,446	11,009,636
13	Traffic Fees - AGENCY	24,180,797	24,408,764
	Total	2,137,325,893	1,465,424,570

14.11. Provision for Refunds and Payments

	FY 2016/17	FY 2015/16
	KShs	KShs
Opening balance	4,703,408,858	3,834,579,892
Transfers - Provision for Refunds		
CSD - Import Duty provision for refund	300,000,000	300,000,000
CSD - Excise Duty provision for refund	2,400,000,000	2,400,000,000
DTD - VAT Domestic provision for refund	13,464,000,000.00	14,688,000,000
DTD - VAT Domestic provision for refund(Additional funding)	-	-
DTD - Income Tax provision for refund	2,300,000,000	300,000,000
DTD - Excise Duty Domestic provision for refund	-	-
DTD - Stamp Duty provision for refund	82,347,114	6,000,000
RTD-Traffic Revenue Provision for Refund	30,100,000	60,000,000
Total provisioning	18,576,447,114	17,754,000,000
Payment		
Total refunds paid during the year	13,358,642,486	16,885,171,034
Closing balance	9,921,213,485	4,703,408,858
Represented by:		
Bank book balance on Refund accounts	9,921,213,485	4,703,408,858

14.12. Closing balances

The following is the movement in the closing balances:

(A) Treasury Collections

	EXCHEQUER	FY 2016/17	FY 2015/16
		Cash In Transit as at 30th June 2017	Cash In Transit as at 30th June 2016
		KShs	KShs
1	Income Tax from Individuals (PAYE)	212,340,601	679,011,352
2	Income Tax from Corporations	2,536,844,484	1,521,904,695
3	Land Rent	1,705,464	20,163,261
4	VAT on Domestic Goods and Services	273,737,536	158,595,611
5	VAT on Imported Goods and Services	1,673,896,556	3,003,303,379
6	Excise Domestics	50,000	888,516
7	Excise Imports	1,237,186,445	2,249,978,520
8	Excise Financial Services	9,803,610	-
9	Customs Duties(Import)	452,554,427	1,591,919,575
10	IDF Fee	164,843,482	459,201,435
11	Stamp Duty	131,597,281	209,780,608
12	Railway Development Levy	197,793,071	230,373,287
13	Traffic revenue	198,853,305	46,151,442
	TOTAL	7,091,206,261	10,171,271,679

(B) Closing balance Agency Accounts

	AGENCY	FY 2016/17	FY 2015/16
		<i>KShs</i>	<i>KShs</i>
1	Airport Revenue (APSC)	1,866,600	3,970,435
2	Petroleum Development Fund (PDF LEVY)	34,650,565	17,169,359
3	RDL LEVY	-	-
4	Road Transit Toll Levy	2,546,425	20,790,891
5	Sugar Development Levy (SDL)		-
6	K.A.A. Concession Fees	807,250	4,180,841
7	Aviation Revenue (DCA Aviation)	1,733,032	16,275,796
8	Petroleum Regulatory Levy	7,452,431	5,799,772
9	Merchant Superintendent Shipping Levy (MSS)	-	-
10	Road Maintenance Levy (RML)	1,019,700	635,283,622
11	KEBS - Levy	10,088	742,156
12	Traffic Revenue Fees (Agency)	2,929,147	10,694,942
	Total	1,183,268,324	714,907,814

(C) Closing balance analysis - AIA REVENUE

	AIA REVENUE (MISCELLANEOUS)	FY 2016/17	FY 2015/16
		<i>KShs</i>	<i>KShs</i>
6	MISCELLANEOUS	758,310	961,565
	Total	758,310	961,565

14.13. Opening balances

The following are the opening book balances:

(A) Treasury Collections

	EXCHEQUER	FY 2016/17	FY 2015/16
		Cash In Transit as at 30th June 2017	Cash In Transit as at 30th June 2016
		KShs	KShs
1	Income Tax from Individuals (PAYE)	679,011,352	3,856,949,817
2	Income Tax from Corporations	1,521,904,695	1,732,296,245
3	Land Rent	20,163,261	9,230,358
4	VAT on Domestic Goods and Services	158,595,611	330,255,284
5	VAT on Imported Goods and Services	3,003,303,379	1,871,241,330
6	Excise Domestics	888,516	994,391
7	Excise Imports	2,233,768,081	765,306,350
8	Excise Financial Services	16,210,439	
9	Customs Duties	1,591,919,575	1,128,092,875
10	(IDF Fee)	459,201,435	372,927,668
11	Stamp Duty	209,780,608	139,351,212
12	Railway Development Levy	230,373,287	137,749,346
13	Traffic revenue	46,151,442	-
	TOTAL	10,171,271,679	10,344,394,875

(B) Agency Collections

	AGENCY	FY 2016/17	FY 2015/16
		KShs	KShs
1	Airport Revenue (APSC)	3,970,435	32,385,588
2	Petroleum Development Fund (PDF LEVY)	17,169,359	9,962,328
3	RDL Levy		-
4	Road Transit Toll Levy	20,790,891	13,544,274
5	Sugar Development Levy (SDL)		1,000,000
6	K.A.A. Concession Fees	4,180,841	1,174,358
7	Aviation Revenue (DCA Aviation)	16,275,796	11,936,241
8	Petroleum Regulatory Levy	5,799,772	1,702,174

9	Merchant Superintendent Shipping Levy (MSS)		-
10	Road Maintenance Levy (RML)	635,283,622	109,853,019
11	KEBS - Levy	742,156	207,330,291
12	Sugar Development Levy (SDL)	-	-
13	Traffic Revenue Fees (Agency)	10,694,942	12,831,300
	Total	714,907,814	401,719,573

(C) Opening balance AIA

	AIA	FY 2016/17	FY 2015/16
		KShs	KShs
6	MISCELLANEOUS	961,565	851,740

14.14. (A) Statement of Outstanding Revenue

The following is a summary of tax arrears owed by the taxpayers as at 30th June, 2017 and the comparative period:

Particulars	Custom Services Department	Domestic Taxes Department	Total
	KShs	KShs	KShs
Balance brought forward	-	184,805,136,016	184,805,136,016
Current year	-	7,485,159,593	7,485,159,593
Closing balance	-	192,290,295,609	192,290,295,609

14.14. (B) Statement of Outstanding Refund claims as at 30th June 2017

DEPARTMENT	TAX HEAD	NUMBER OF CLAIMS	VALUE
		KShs	KShs
Domestic Taxes	VAT	2,421	15,892,247,513
	Income Tax	52,109	9,641,676,820
	Excise	3	5,515,000

Customs Services	Excise	139	553,517,757
Totals		54,672	26,092,957,090

14.15. Refund/Payment Accounts Movement Schedule for financial year 2016-2017

PAYMENTS

Provision	Opening Bank Balance	Provision for Refund	Returned Payments/ Receipts to the Account	Total Amount available	Refunds/ Remittance	Closing bank Balances
CSD - Import & Excise Duty provision for refund	1,691,283,820	2,700,000,000	4,515,179,652	8,906,463,473	2,859,845,029	6,046,618,444
DTD - Income Tax provision for refund	22,965,143	2,300,000,000		2,322,965,143	1,502,738,510	820,226,634
DTD - VAT Domestic provision for refund	2,791,091,642	13,464,000,000		16,255,091,642	13,263,413,087	2,991,678,555
DTD - Stamp Duty provision for refund	7,019,974	82,347,114		89,367,088	82,642,640	6,724,448
DTD - Excise Domestic provision for refund	2,814,083	-		2,814,083	-	2,814,083
RTD-Traffic Revenue Provision for Refund	188,234,195	30,100,000		218,334,195	165,182,873	53,151,322
TOTAL AGENCY	4,703,408,858	18,576,447,114	4,515,179,652	27,795,035,624	17,873,822,139	9,921,213,485

Refund/Payment Accounts Movement Schedule for financial year 2015-2016

2015-2016

PAYMENTS

Provision	Opening Bank Balance	Provision for Refund	Total Amount available	Refunds	Closing bank Balances
CSD - Import & Excise Duty provision for refund	2,455,539,350	2,700,000,000	5,155,539,350	3,464,255,529	1,691,283,820
DTD - Income Tax provision for refund	156,467	300,000,000	300,156,467	277,191,324	22,965,143
DTD - VAT Domestic provision for refund	1,237,259,674	14,688,000,000	15,925,259,674	13,134,168,031	2,791,091,642
DTD - Stamp Duty provision for refund	3,320,338	6,000,000	9,320,338	2,300,364	7,019,974
DTD - Excise Duty Domestic provision for refund	2,814,083	-	2,814,083	-	2,814,083
RTD-Traffic Revenue Provision for Refund	135,489,981	60,000,000	195,489,981	7,255,786	188,234,195
TOTAL AGENCY	3,834,579,892	17,754,000,000	21,588,579,892	16,885,171,034	4,703,408,858

15. APPENDICES

(i) Customs Services Department

The following is a detailed collection analysis of Customs Services Department:

	Target - Treasury	Actual Receipts FY 2016/17	% Target realised FY 2016/17	Actual Receipts FY 2015/16	Year on year Growth
		as at 30.06.2017		as at 30.06.2016	
Exchequer					
Gross Import Duty	90,697,911,857	87,161,153,323	96%	81,266,483,020	7%
Gross Excise Duty - Imports	86,999,035,292	81,697,913,107	94%	72,107,685,607	13%
VAT - Imports	147,530,305,189	143,491,206,171	97%	142,227,019,941	1%
Import Declaration Fees	29,245,332,296	24,486,090,075	84%	25,850,692,161	-5%
Railway Development Levy	18,898,523,925	18,902,516,338	100%	17,273,369,562	9%
Sub-Gross Total Exchequer	373,371,178,559	355,738,879,014	95%	338,725,250,292	5%
Less: Prov. for Refunds (Import Duty)	300,000,000	300,000,000	100%	300,000,000	0%
Less: Prov. for Refunds (Excise Duty)	2,500,000,000	2,500,000,000	100%	2,400,000,000	4%
Net total Exchequer	370,571,178,559	352,938,879,014	95%	336,025,250,292	5%
Agency					
Airport Revenue	6,604,305,756	11,199,227,642	170%	6,570,162,063	70%
Aviation Revenue	4,427,705,830	4,854,261,105	110%	4,121,973,768	18%
Petroleum Development Fund	1,821,700,846	2,167,775,822	119%	1,974,216,940	10%
Road Maintenance Levy	75,521,748,044	69,556,921,492	92%	45,407,364,240	53%
K.A.A. Concession Fees	120,475,357	127,310,088	106%	114,428,833	11%
Road Transit Toll Levy	715,600,407	737,105,165	103%	673,901,776	9%
Sugar Levy	397,700,493	34,565,474	9%	287,836,265	-88%
Petroleum Regulatory Levy	735,281,804	497,737,887	68%	485,199,741	3%
Merchant Superintendent Shipping Levy	1,121,753,689	1,327,589,190	118%	934,436,781	42%
Miscellaneous	-	83,003,417	0%	161,156,663	-48%
Sub-total Agency	91,466,272,226	90,585,497,282	99%	60,730,677,070	49%
Total CSD	462,037,450,786	443,524,376,296	96%	396,755,927,361	12%

(ii) Domestic Taxes Department

The following is a detailed collection analysis of Domestic Taxes department:

	Target - Treasury	Actual Receipts FY 2016/17	% Target realised FY 2016/17	Actual Receipts FY 2015/16	Year on year Growth
		as at 30.06.2017		as at 30.06.2016	
Exchequer					
VAT-Gross Collection	209,212,717,369	206,545,137,254	99%	174,050,915,589	19%
Less Provision for Refunds	18,062,838,431	13,464,000,001	75%	14,680,944,000	-8%
VAT Domestic	191,149,878,938	193,081,137,252	101%	159,369,971,589	21%
P. A. Y. E	344,257,877,747	336,596,366,498	98%	312,031,647,287	8%
Other Income Taxes	315,605,384,691	291,350,194,307	92%	248,603,074,591	17%
Turnover Tax	420,566,877	101,582,146	24%	385,276,038	-74%
Capital gain Tax	3,051,077,516	2,418,718,266	79%	3,810,537,741	-37%
Excise Duty Domestic	63,326,258,408	55,499,121,577	88%	48,986,467,382	13%
Excise Tax on Airtime	18,691,446,303	15,963,809,161	85%	14,884,353,356	7%
Excise Tax on Financial Services	11,504,955,400	12,574,904,237	109%	9,012,674,488	0%
Stamp Duty	12,651,026,947	8,614,660,367	68%	10,416,783,068	-17%
Land Rent	1,542,908,837	860,894,102	56%	1,201,198,116	-28%
Sub-Total Exchequer Revenue	962,201,381,663	917,061,387,913	95%	808,701,983,655	13%
Agency Revenue					
KEBS - Levy	482,870,074	501,312,318	104%	474,553,260	6%
Sugar Levy	1,131,824,255	80,034,151	7%	1,068,676,593	-93%
Sub Total of Agency Revenue	1,614,694,330	581,346,469	36%	1,543,229,854	-62%
TOTAL DTD	963,816,075,993	917,642,734,382	95%	810,245,213,509	13%
Exchequer					

(iii) Traffic Revenues

The following is a detailed collection analysis of Traffic Revenues department:

	Target - Treasury	Actual Receipts FY 2016/17	% Target realised FY 2016/17	Actual Receipts FY 2015/16	Year on year Growth
Exchequer	4,801,906,558	3,059,861,430	64%	2,859,225,149	7%
Agency	1,189,830,965	1,042,275,733	88%	1,052,101,896	-1%
Total RTD	5,991,737,523	4,102,137,163	68%	3,911,327,045	5%

(iv) Collections trend for the financial years 2012/13 to 2016/17 (All figure in Kshs Millions)

	2012/13		2013/14		2014/15		2015/16		2016/17	
	Actual	Growth (%)	Actual	Growth (%)	Actual	Growth (%)	Actual	Growth (%)	Actual	Growth (%)
C&BC										
Exchequer	220,307	4.7%	289,689	31.5%	313,291	8.1%	325,272	3.8%	352,939	8.5%
Agency	38,408	13.6%	42,142	9.7%	45,132	7.1%	60,731	34.6%	90,585	49.2%
Total C&BC	258,715	5.9%	331,831	28.3%	358,424	8.0%	386,002	7.7%	443,524	14.9%
DTD										
Exchequer	536,820	17.1%	626,335	16.7%	705,718	12.7%	808,702	14.6%	917,061	13.4%
Agency	1,923	1.1%	1,966	2.2%	1,508	-23.3%	1,543	2.3%	581	-62.3%
Total DTD	538,744	17.0%	628,301	16.6%	707,227	12.6%	810,245	14.6%	917,643	13.3%
TRD										
Exchequer	2,384	7.8%	2,959	24.1%	2,964	0.2%	2,859	-3.5%	3,060	7.0%
Agency	643	15.5%	732	13.8%	982	34.2%	1,052	7.1%	1,042	-0.9%
Total DTD	3,027	9.4%	3,691	21.9%	3,947	6.9%	3,911	-0.9%	4,102	4.9%
Total										
Exchequer	759,511	13.2%	918,982	21.0%	1,021,974	11.2%	1,136,833	11.2%	1,273,060	12.0%
Agency	40,975	13.0%	44,841	9.4%	47,623	6.2%	63,326	33.0%	92,209	45.6%
Total	800,486	13.2%	963,823	20.4%	1,069,597	11.0%	1,200,159	12.2%	1,365,269	13.8%

