

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



| | | |
|---|--|-----------------------|
| THE NATIONAL ASSEMBLY PAPERS LAID | | DAY: <i>Wednesday</i> |
| DATE: <i>20 MAR 2019</i> | | |
| TABLED BY: <i>Majority Whip</i> | | |
| CLERK-AT-THE-TABLE: <i>Getuade Chebet</i> | | |

REPORT

PARLIAMENT OF KENYA LIBRARY

OF

THE AUDITOR-GENERAL

ON

**STATEMENT OF OUTSTANDING
OBLIGATIONS GUARANTEED BY THE
KENYA GOVERNMENT**

**FOR THE YEAR
ENDED 30 JUNE 2018**



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REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT AS AT 30 JUNE 2018

REPORT ON THE STATEMENTS

Qualified Opinion

I have audited the statement of Outstanding Obligations Guaranteed by the Kenya Government set out on page 1 as at 30 June 2018 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 matters described in the basis for qualification paragraph, the statement present fairly, in all material respects, the financial position of statement of Outstanding Obligations Guaranteed by the Kenya Government as at June 30, 2018 and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding Balances

The statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2018 reflects long outstanding contingent liabilities totalling Kshs. 164,132,7A45.60 made up of Kshs. 11,814,920.20 and Kshs. 152,317,825.00 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Clearance of these balances appears to be uncertain.

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

*Report of the Auditor General on the Statement of Outstanding Obligations Guaranteed by the Government
for the Year Ended 30 June 2018*

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that, nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

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

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

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

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

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

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

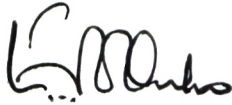
The audit objectives are to obtain reasonable assurance about whether the statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and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

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

- Identify and assess the risks of material misstatement of the 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 Ministry's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the sustainability of services basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ministry's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the 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 Ministry to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the statement, including the disclosures, and whether the statement represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Ministry to express an opinion on the 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

10 December 2018

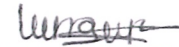
THE NATIONAL TREASURY

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT AT 30TH JUNE 2018

| Organization to which guarantee is given | Obligation guaranteed | F.Y. 2017/18 KSH. | F.Y. 2016/17 KSH. |
|---|--|-----------------------|-----------------------|
| Bond Holders | Loan of K£ 480,000 to Kenya Railways Corporation | 513,100.00 | 513,100.00 |
| Bond Holders | Loan of K£ 18,816 to Kenya Railways Corporation | 11,301,820.00 | 11,301,820.00 |
| Lenders/2 | Capital and Interest owed by cereals and Sugar Finance Co. | 152,317,825.00 | 152,317,825.00 |
| TOTAL | | 164,132,745.00 | 164,132,745.00 |


DR. KAMAU THUGGE CBS
ACCOUNTING OFFICER

Date: 30/9/18


LILIAN W. DISHON
Principal Accountant
ICPAK Member Number:10442

Date: 30th Sept 2018

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

29 SEP 2018

RECEIVED

OUTSTANDING OBLIGATIONS GUARANTEED BY GOVERNMENT OF KENYA AS AT 30TH JUNE, 2017

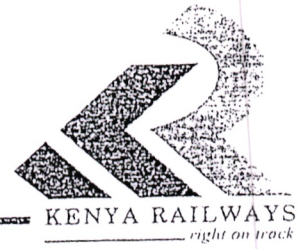
PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Timeframe: (Put a date when you expect the issue to be resolved) |
|---|--|---|---|--|---|
| 1 | Long outstanding balances | Kenya Railways Corporation is unable to provide the maturity dates or details of the Bond Holders. | Livingstone Bumbe Hubert Anyanga | Not resolved | Awaiting P.A.C. recommendation. |
| | | Obligation guaranteed to Cereals and Sugar Finance Corporation is awaiting the winding up of the Corporation. | | Not resolved | On-going |

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Website: www.krc.co.ke

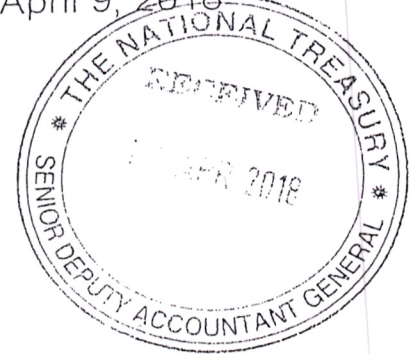
PRINCIPAL SECRETARY
THE NATIONAL TREASURY
P.O. Box 30007-00100, NAIROBI
10 APR 2018



Ref: KRC/FIN/22

April 9, 2018

The Principal Secretary
National Treasury
P.O. Box 30007-00100
NAIROBI



Dear *Sir*

RE: STATEMENT OF OBLIGATION GUARANTEED BY THE GOVERNMENT FOR THE YEAR 2014/15 AND 2015/16

Reference is made to your letter Ref: DMD 4/214 dated 29th March, 2018 on the above subject.

Unfortunately, we do not have any documentation to support the two bonds- Kenya PD 1.0M (1990) 6.75% Ksh.- 513,100.00 and Kenya PD 3.4M (1986) 6.75% Ksh. 11,304,834.00 thus are unable to provide the requested information. The figures have been in our books since 1990 and no claim or communication has been received in the last 10 years.

Yours *Sincerely*

A. K. Maina
MANAGING DIRECTOR

DG-PI
CFO
SDA
for
19/4/18



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Website: www.krc.co.ke

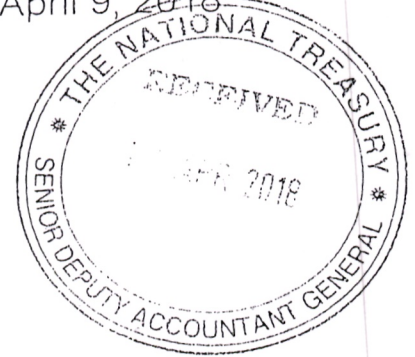
PRINCIPAL SECRETARY
THE NATIONAL TREASURY
RECEIVED
10 APR 2018
P.O. Box 30007-00100, NAIROBI



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National Treasury
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A. K. Maina
MANAGING DIRECTOR

DG-PI
CFO
SDA
for
fin. 10/4/18



