

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
PROVIDENT FUND

FOR THE YEAR  
ENDED 30 JUNE 2016

PARLIAMENT  
OF KENYA  
LIBRARY



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Majority party  
Whip  
Wednesday  
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JSP*



**FUND NAME: THE NATIONAL TREASURY PROVIDENT FUND ACCOUNT**

**IMPLEMENTING ENTITY: NATIONAL TREASURY**

**FUND NUMBER.....903**

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2016**

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

**PROVIDENT FUND ACCOUNT**  
*Statement of Budget Performance*  
*For the year ended June 30, 2016*

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<b>S/N</b>	<b>CONTENTS</b>	<b>PAGE</b>
1.	NATIONAL TREASURY INFORMATION AND MANAGEMENT	1
2.	STATEMENT OF THE PENSION FUND MANAGEMENT RESPONSIBILITIES	7
3.	REPORT OF THE INDEPENDENT AUDITORS ON THE PROVIDENT FUND	8
4.	STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE, 2016	9
5.	STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30 <sup>TH</sup> JUNE, 2016	10
6.	STATEMENT OF CASHFLOW FOR THE PERIOD 30 <sup>TH</sup> JUNE, 2016	11
7.	SIGNIFICANT ACCOUNTING POLICIES	12
8.	NOTES TO THE FINANCIAL STATEMENTS	14
9.	PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	15

## **1. NATIONAL TREASURY INFORMATION AND MANAGEMENT**

### **(a) Background Information**

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

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

### **(b) Key Management**

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

#### **Office of the Principal Secretary**

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

#### **Organizational structure of the National Treasury**

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

#### **Directorate of Budget, Fiscal and Economic Affairs**

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

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

#### **Directorate of Accounting Services and Quality Assurance**

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

- Government Accounting Services;
- Internal Auditor Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

**Directorate of Portfolio Management**

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

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

**Directorate of Public Debt Management**

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

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

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

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into eleven (11) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury. The functions include:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility were:-

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, AS&QA	Mr. Bernard Ndung'u
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
7.	Ag. Director, Macro & Fiscal Affairs Department	Mr. Wanyambura Mwambia, OGW
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Ag. Director, Financial and Sectoral Affairs Department	Mr. Nzomo Mutuku
10.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	Internal Auditor General	Mr. Alfayo Mogaka
12.	Ag. Director, Accounting Services Department	Mr. Wala Jona
13.	Ag. Director, National Sub County Treasuries	Mr. Tom Khakhame
14.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
15.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
16.	Ag. Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
17.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
18.	Secretary/Director, Pensions Department	Mr. Shem Nyakutu
19.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui
20.	Director of Administration	Mr David Oleshege, OGW
21.	Head, Accounts Division	Mr. George K. Gichuru
22.	Head Finance Division	Mr. Kimathi Mugambi
23.	Head, Supplies Chain Management	Mr. Peter Momanyi
24.	Director, Human Resource Management and Development	Mrs. Susan Mucheru
25.	Head, Information Communication and Technology	Mr. Edward Rutere
26.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
27.	Head, Public Communications	Mr. Maina Kigaga
28.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua

**(d) Fiduciary Oversight Arrangements**

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

**Internal Audit Unit**

The National Treasury has a well-resourced internal Audit Unit. The Unit is charged with the responsibility of conducting risk based, value for money and systems audit, providing assurance that appropriate institutional policies, procedures and business practices are being followed; verifying the existence of assets administered by the Ministry, and evaluating the adequacy and reliability of information available to the management. The Unit reports directly to the accounting officers on a regular basis.

## **PROVIDENT FUND ACCOUNT**

### **Statement of Budget Performance**

**For the year ended June 30, 2016**

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#### **Audit Committee**

The Audit Committee forms a key element in the governance process and its principle role is that of providing oversight of financial reporting, risk management and internal controls. The National Treasury established an audit committee comprising officers from all departments of the Ministry. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee ensures that audit queries and external audit recommendations are fully addressed.

#### **Budget Implementation Committee**

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

#### **Monitoring and Evaluation**

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

**(a) The National Treasury Headquarters**

P.O. BOX 30007- 00100,  
Treasury Building,  
Harambee, Avenue  
**Nairobi, Kenya**

**(b) The National Treasury Contacts**

Telephone: (254)020-2252299  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)  
Website: [www.treasury.go.ke](http://www.treasury.go.ke)

**(c) The National Treasury Banker**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000-00200  
**Nairobi, Kenya**

**(d) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers  
P.O. Box 30084-00100  
**Nairobi, Kenya**

**(e) Principal Legal Adviser**

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

## II. FORWARD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the Country. As a result of consistent implementation of the bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. This strong growth was supported by positive growth in agriculture, forestry and fishing (4.8 percent), mining and quarrying (6.9 percent), electricity and water supply (8.5 percent), wholesale and retail trade (7.3 percent), accommodation and restaurant (12.1 percent) and information and communication (9.7 percent). Growth in other sectors, particularly manufacturing, construction, finance and insurance and real estate remained robust.

The annual inflation rate was 6.4 percent by June 2016 compared 6.5 percent in June 2015, and was therefore, within the current allowable margin of 2.5 percent on either side of the target of 5.0 percent. The Kenya shilling continued to display relatively less volatility compared with the major regional currencies due to improved Diaspora remittances and the narrowing of the current account deficit while official foreign exchange reserves held by the Central Bank grew to US\$ 7,648 million (equivalent to 5.1 months of import cover) by June 2016 from US\$ 7,212 million (4.5 months of import cover) in June 2015.

In budget performance, the National Treasury expenditure stood at **Kshs.38,523,924,151** against an approved budget of **Kshs.40,667,213,863** in recurrent while Development expenditure stood at **Kshs.43,832,593,224** against an approved budget of **Kshs.45,836,475,797** giving an overall absorption rate of 95.2%.

Other key achievements during the year under review are:-

- The National Treasury mobilized external resources amounting to Kshs.366.67 billion. This included Kshs.320.23 billion in loans and Kshs.46.44billion in grants.
- The National Treasury continued to support Kenya Revenue Authority to achieve its target in revenue collection and simplification of the tax system. This included the implementation of the *i-tax* platform.
- In its commitment to deepen the Financial Markets, the Ministry finalized the Financial Services Authority bill and disseminated to stakeholders for comments and prepared the draft Nairobi International Financial Centre Bill.
- The National Treasury developed a pipeline of 65 bankable Public Private Partnership projects ready for investment. Other achievements in promoting PPP include continuous financial, technical and legal support to MDAs in the preparation of PPP projects, development of standardized documentation framework to support implementation of PPP and development of a template on PPP project submission.
- The National Treasury continued to build capacity on Public Financial Management in Ministries, Departments, Agencies as well as County Governments. 1,297 officers were trained over the financial year 2015/16 across the country.

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

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Some of the challenges the National Treasury faced while implementing the budget 2015/16 include:-

1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulation and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.

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

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
3. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
4. Ensure constant collaboration between the National Treasury and all the Stakeholders.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.



HENRY K. RONCH, EGH  
CABINET SECRETARY

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

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**1. STATEMENT OF PENSION FUND MANAGEMENT RESPONSIBILITIES**

The *Principal Secretary* for the National Treasury and the Head Accounting Unit, National Treasury are responsible for the preparation and presentation of the Pension funds financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* for the National Treasury and the Head Accounting Unit, National Treasury accept responsibility for the Provident fund's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the for the National Treasury and the Head Accounting Unit, National Treasury are of the opinion that the Provident fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year/period ended June 30, 2016, and of the Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the Head Accounting Unit, National Treasury further confirm the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

The *Principal Secretary* for the National Treasury and the Head Accounting Unit, National Treasury Confirm that the **Provident Fund** has complied fully with applicable Government Regulations and the terms of external financing covenants, and that the funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

**Approval of the Project financial statements**

The Provident fund financial statements were approved by the *Principal Secretary* for the National Treasury and the Head Accounting Unit, National Treasury on 30/09/2016 and signed by them.

  
\_\_\_\_\_  
**DR. KAMAU THUGGE, CBS**  
Principal Secretary

Date

30/09/16

  
\_\_\_\_\_  
**GEORGE K. GICHURU**  
Senior Assistant Accountant General

Date

30/09/2016

# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE 2016

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#### REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Provident Fund set out on pages 9 to 16, which comprise the statement of financial assets and liabilities as at 30 June 2016, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

#### **Management's Responsibility for the Financial Statements**

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

The 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

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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*Report of the Auditor-General on the Financial Statements of Provident Fund for the year ended 30 June 2016*

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

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

### **Basis for Qualified Opinion**

#### **1. Missing Investment Certificates**

The statement of financial assets and liabilities reflects investment in shares of Kshs.45,860,478.00 representing the gross book value of ordinary share investments in two publicly quoted companies. Out of this balance, a sum of Kshs.14,807,299.00 represents Kshs.7,540,140 ordinary shares held in the East African Breweries Company Limited. However, only share certificates for 1,960,118 shares relating to the company valued at Kshs.9,547,660.00 were presented for audit. Therefore it has not been possible to confirm whether the balance of 5,580,022 shares valued at Kshs.5,259,639.00 invested in the company exist. In view of these discrepancies, it has not been possible to confirm the completeness, value and accuracy of the net investment balance of Kshs.45,860,478.00 reflected in the statement of financial assets and liabilities.

#### **2. Cash Deposit – Cereals and Sugar Finance Corporation**

The statement of financial assets and liabilities also reflects other receivables balance of Kshs.3,796,226.00 representing a cash deposit held in the insolvent Cereals and Sugar Corporation. As reported previously, the Cabinet gave approval on 13 September 2007 for the winding-up of the Corporation and directed the National Treasury to take over its assets and liabilities. However the winding up process had not been finalized as at 30 June, 2016. In the circumstance, realization of the balance of Kshs.3,976,226 is still doubtful.

#### **3. Un-analyzed Balance**

The statement of financial assets and liabilities also reflects other pending payables balance of Kshs.9,715,111.00 made up of Kshs.9,622,726.00 and Kshs.92,385.00 relating to surplus cash remitted by Departments and interest due from National Government entities respectively. These balances have repeatedly been brought forward from previous years but without any supporting

analyses. In the absence of analyses, it has not been possible to confirm the accuracy, validity and completeness of the balances.

### **Qualified Opinion**

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Provident Fund as at 30 June, 2016, and of its performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.



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

**Nairobi**

**17 March 2017**

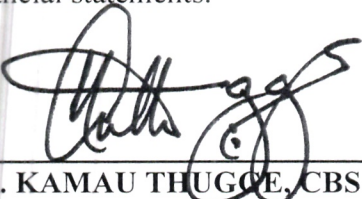
*Provident fund Account*

*Statement of Budget Performance  
For the year ended June 30, 2016*


**3. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2016**

	Note	2016 Kshs	2015 Kshs
<b>RECEIPTS</b>			
Dividend Income	7.1	<u>107,058,721</u>	<u>101,831,345</u>
Total receipts		<u>107,058,721</u>	<u>101,831,345</u>
<b>PAYMENTS</b>			
Payments of Pensions		Nil	Nil
<b>SURPLUS FOR THE YEAR</b>		<u>107,058,721</u>	<u>101,831,345</u>
Less: Dividend Receivable for 2013/2014		Nil	45,321,709
<b>NET SURPLUS FOR THE YEAR</b>		<u>107,058,721</u>	<u>56,509,636</u>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

  
\_\_\_\_\_  
DR. KAMAU THUGOE, CBS  
Principal Secretary

30/9/16  
Date

  
\_\_\_\_\_  
GEORGE K. GICHURU  
Senior Assistant Accountant General

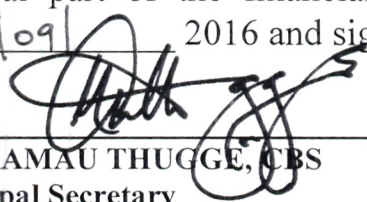
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**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

**4. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30<sup>TH</sup> JUNE 2016**

		<b>2016</b>	<b>2015</b>
		<b>Kshs</b>	<b>Kshs</b>
<b>NON CURRENT ASSETS</b>			
Investments	7.2	45,860,478	45,860,478
<b>CURRENT ASSETS</b>			
Other Receivable	7.3	3,796,226	4,793,882
Bank Balances	7.4	<u>637,243,954</u>	<u>529,187,577</u>
		<u>641,040,180</u>	<u>533,981,459</u>
<b>TOTAL FINANCIAL ASSETS</b>		<u><b>686,900,658</b></u>	<u><b>579,841,937</b></u>
<b>LIABILITIES</b>			
Other Pending Payables	7.5	9,715,111	9,715,111
<b>NET ASSETS</b>		<u><b>677,185,547</b></u>	<u><b>570,126,826</b></u>
<b>FINANCED BY:</b>			
Capital contribution		50,567,565	50,567,565
Accumulated surpluses B/F		519,559,261	463,049,625
Add net surplus for the year		<u>107,058,721</u>	<u>56,509,636</u>
Net Financial position		<u><b>677,185,547</b></u>	<u><b>570,126,826</b></u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 30/09/2016 2016 and signed by:

  
 DR. KAMAU THUGGE, CBS  
 Principal Secretary

Date

30/09/16

  
 GEORGE K. GICHURU  
 Senior Assistant Accountant General

Date

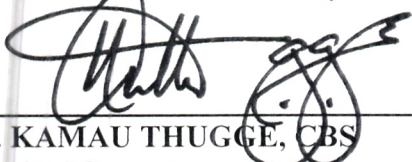
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**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**


**5. STATEMENT OF CASHFLOW FOR THE PERIOD 30<sup>TH</sup> JUNE 2016**

	Notes	2016 Kshs	2015 Kshs
<b>Receipts for operating income</b>			
Dividend Income	7.1	107,058,721	101,831,345
Less Payments		Nil	Nil
<b>Cash flow from Investing activities</b>		<b>107,058,721</b>	<b>101,831,345</b>
Refund received from The National Treasury		997,656	(482,047)
<b>Net cash flows from operatives Activities</b>		<b><u>108,056,377</u></b>	<b><u>101,349,298</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>			
<b>Cash and cash equivalent at BEGINNING of the year</b>		529,187,577	427,838,279
<b>Cash and cash equivalent at END of the year</b>		<b><u>637,243,954</u></b>	<b><u>529,187,577</u></b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30/09/ 2016 and signed by:

  
 DR. KAMAU THUGGE, CBS  
 Principal Secretary

30/9/16  
 Date

  
 GEORGE K. GICHURU  
 Senior Assistant Accountant General

30/09/2016  
 Date

## **6. SIGNIFICANT ACCOUNT POLICIES**

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

### **6.1 Statement of compliance and basis of preparation**

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Project and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

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

### **6.2 Recognition of revenue and expenses**

The Project recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the Project. In addition, the Project recognises all expenses when the event occurs and the related cash has actually been paid out by the Project.

### **6.3 In-kind donations**

In-kind donations are contributions made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Project includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.

### **6.4 Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year/period.

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

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**6.5 Pending bills**

Pending bills consist of unpaid liabilities at the end of the financial year/period arising from contracted goods or services during the year/period or in past years/periods. As pending bills do not involve the payment of cash in the reporting period, they are simply disclosed as an Annex to the financial statements. When the pending bills are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

**6.6 Budget**

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Project's actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

**6.7 Exchange rate differences**

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

**6.8 Comparative figures**

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

**6.9 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, 2016.

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

**7. NOTES TO THE FINANCIAL STATEMENTS**

**7.1 MISCELLANEOUS RECEIPTS**

	2016 KShs	2015 KShs
Dividend Income	107,058,721	101,831,345

*The receipts relate to dividend income from Kenya Power and Lighting Company and East African breweries Limited*

**7.2 INVESTMENTS**

	2016 KShs	2015 KShs
Shares	45,860,478	45,378,431
Add: Back Provision on investment		482,047
	45,860,478	45,860,478

*The shares relate to Kenya Power and Lighting Company and East African breweries Limited Shares*

**7.3 OTHER RECEIVABLES**

	<b>2016</b>	<b>2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Dividend receivable from Department of government investment and public enterprises		
Joint consolidated fund (Defunct East African Community)	997,656	997,656
Cash Received from National Treasury	(997,656)	
Cereals and sugar finance corporation	<u>3,796,226</u>	<u>3,796,226</u>

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

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**7.4 CASH AND CASH EQUIVALENTS**

	<b>2016</b>	<b>2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Central Bank of Kenya	<u>637,243,954</u>	<u>529,187,577</u>

**7.5 PENDING BILLS**

	<b>2016</b>	<b>2015</b>
	<b>Kshs</b>	<b>Kshs</b>
Amounts due to national government entities	9,622,725	9,622,725
Amounts due to national government entities	<u>92,385</u>	<u>92,385</u>
	<u>9,715,111</u>	<u>9,715,111</u>

**PROVIDENT FUND ACCOUNT**  
**Statement of Budget Performance**  
**For the year ended June 30, 2016**

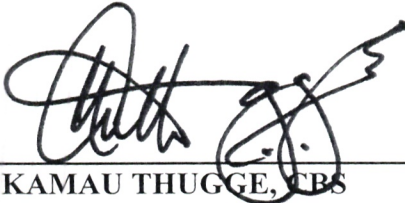
**8. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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)
69	Cash on deposit JCF	The fund got a refund of Kshs.997,656.00 from exchequer	Shem O. Nyakutu Director Pensions	Resolved	

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

  
 DR. KAMAU THUGGE, CBS  
 Principal Secretary

30/09/16  
 Date

  
 GEORGE K. GICHURU  
 Senior Assistant Accountant General

30/09/2016  
 Date