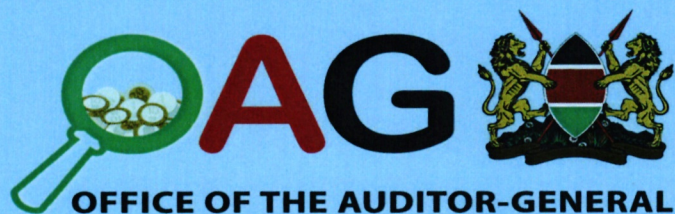


REPUBLIC OF KENYA



Enhancing Accountability

REPORT

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 02 MAR 2021

DAY:

TUESDAY

OF

TABLED
BY:

Chief Whip
- Majority

CLERK-AT
THE-TABLE:

Noses Lemuna

PARLIAMENT
OF KENYA
LIBRARY

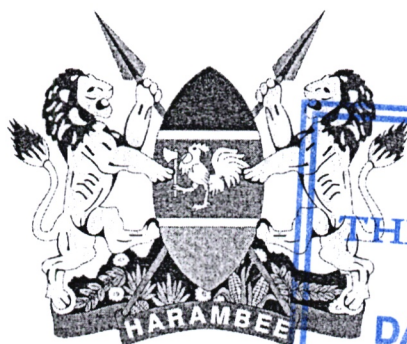
THE AUDITOR-GENERAL

ON

RAILWAY DEVELOPMENT LEVY FUND HOLDING ACCOUNT

FOR THE YEAR ENDED 30 JUNE, 2019

THE NATIONAL TREASURY



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 MAR 2021	DAY:
TABLED BY:	
THE TABLE:	

THE NATIONAL TREASURY

Financial Statements for the Railway Development Levy Fund Holding Account

For the Financial Year ended 30th June 2019

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

The National Treasury
Financial Statements for the Railway Development Levy Fund Holding Account
For the Financial Year ended 30th June 2019

Table of contents.	Page No.
1.The National Treasury information management	i
2.Forward by the Cabinet Secretary	ix
3 Overview of the Railway Development Levy Fund Holding Account.....	xii
3.1 Background of the Fund	xii
3.2 Administration of the Fund	xii
3.3 Key Management and reporting arrangement for the Holding Account of the Fund	xii
3.4 Commentary on the financial statements of the Fund	xiv
4 Statement of Responsibility.....	xv
5 Report of the Independent Auditors	xvi
6 Receipts and Payment Statements for the year ended 30th June 2019	1
7 Statement of Assets and Liabilities as at 30th June 2019	2
8 Statement of Cash Flow for the year ended 30th June 2019	3
9 Summary of Budget versus Actual Performance for the year ended 30th June 2019	4
10 Notes to the Financial Statements.....	5
10.1 Significant Accounting Policies.....	5
10.2 Receipts from Kenya Revenue Authority.....	6
10.3 Transfers to State Department of Transport.....	6
10.4 Bank balance.....	7
11 Reconciliation of receipts between KRA and the National Treasury	7
12 Progress on follow up of Auditor's Recommendations	8

1. The National Treasury information 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 National Treasury and Planning, who is responsible for the general policy and strategic direction of the Ministry.

Vision

“Excellence in economic and public financial management, and development planning”

Mission

“To provide leadership in economic and public financial management, and development planning for shared growth through formulation, implementation and monitoring of economic, financial and development policies”

Core Values

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency and Teamwork.

Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance Management Act 2012 and the Executive Orders No.2/2013 and No.1/2018. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

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

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;

- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments
- Assist county governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

Role of the National Treasury in the Devolved System of Government

- The National Treasury is mandated by law to:-
- Strengthen financial and fiscal relations between the National Government and County Governments and support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- Provide logistical support to intergovernmental institutions overseeing inter-governmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

(b) Key Management

The National Treasury's 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 operations. In addition, the Principal Secretary is charged with the responsibility of providing advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility.

Organizational structure of the National Treasury

The National Treasury 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 Audit Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.
- Government Digital Payments Unit.

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

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 twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but 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
- Government Clearing Agency

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

NO.	Designation	Name
1.	Principal Secretary	Dr.KamauThugge, CBS
2.	Principal Administrative Secretary	Mr.Francis Musyimi,CBS
3.	Director General, BFEA	Mr.Albert Mwenda, HSC
4.	Director General, Accounting Services	Mr.Bernard Ndung'u, MBS
5.	Ag. Director General, PIPM	Eng. Stanley Kamau
6.	Director General, PDMO	Dr.Haron Sirma,OGW
7.	Ag. Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
8.	Director, Budget Department	Mr. Francis Anyona,OGW
9.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
10.	Director, Public Procurement Department	Mr. Eric Korir
11.	Ag Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
12.	Internal Auditor General	Mr. Alfayo Mogaka
13.	Ag Director, Government Accounting Services Department	Mr. JonaWala
14.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
15.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
16.	Ag. Director, Public Private Partnership Unit	Mrs. Judy Nyakawa
17.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
18.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
19.	Director, Pensions Department	Mr.Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr.JacksonKinyanjui,OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, Debt Recording and Settlement Department	Mrs.FelisterKivisi
23.	Ag. Director of Administration	Ms.Margaret Muiiru, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Head, Finance	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Mulavu
27.	Head, Internal Audit Unit	Ms. Esther Ngeru
28.	Director, Human Resource Management and Development	Ms. Susan Mucheru
29.	Ag Director, Information Communication and Technology	Mr. George Kariuki
30.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
31.	Head, Public Communications	Mr. Maina Kigaga
32.	Head, Legal Unit	Mr. James Mwenda
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Deputy Accountant General	Ms. Jane W N Macharia

(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:

Audit Committee

The purpose of the Audit Committee is to assist the ministry's management in fulfilling their mandates. The committee undertakes the responsibilities of ensuring existence of adequate financial reporting processes, strong systems of internal controls and efficient operational activities carried out under existing laws and regulations for the ministry to achieve its intended objectives.

The National Treasury and Planning Audit Committee was launched on 22nd March 2019 and has met three times by end of June 2019. It has five members with the Internal Audit Unit as the Secretariat.

Internal Audit Unit

The National Treasury has an Internal Audit Unit charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting officer on a regular basis.

Audit Query Committee

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

Project Implementation Committee

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

Parliamentary Activities

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

Development Partner Oversight

To effectively manage Official Development Assistance to the Government, the National Treasury has under the Public Debt Management Office; a Department responsible for all matters relating to Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

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

Senior Management Committee

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

Public Financial Management Sector Working Group

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

Budget Implementation Committee

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

(e) The National Treasury Headquarters

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

The National Treasury Contacts

Telephone: (254)020-2252299

Email: info@treasury.go.ke

Website: www.treasury.go.ke

(f) The National Treasury Bankers

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000-00200

Nairobi, Kenya

(g) Independent Auditors

Auditor General

Office of The Auditor General

Anniversary Towers, University Way

P.O Box 30084

GPO 00100

Nairobi, Kenya

(h) Principal Legal Adviser

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

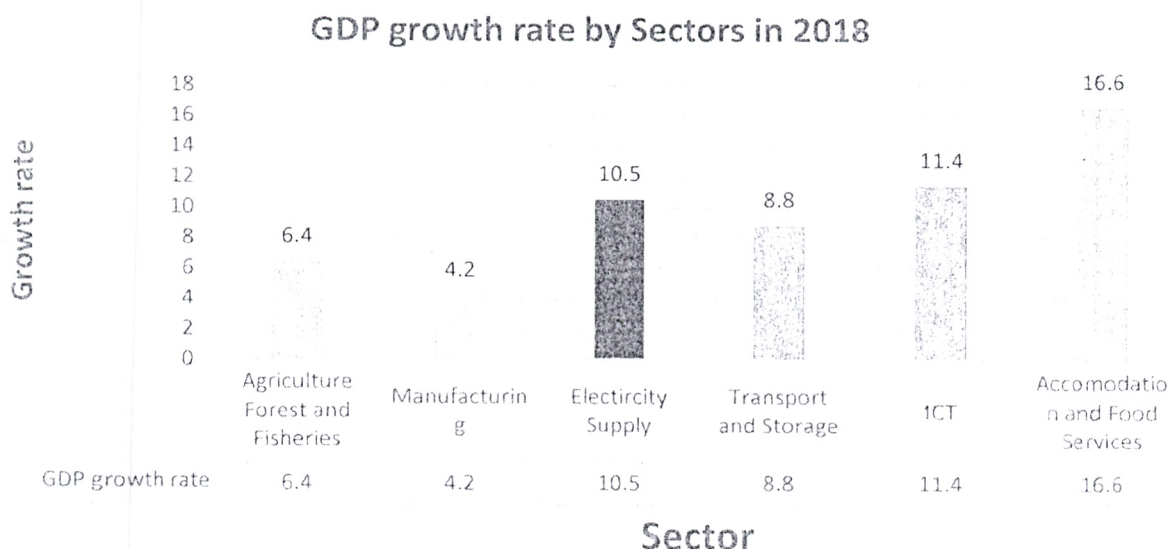
Nairobi, Kenya

2. 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 bold economic policies, structural reforms and sound macroeconomic management, Economic growth remained resilient and broad based averaging 5.7% in the past 6 years and generating a total of around 5 million new jobs since 2013. Growth accelerated to 6.3% in 2018 from 4.9% in 2017. This growth is the highest to have been recorded for the past 8 years and well above the sub Saharan Africa region average growth of 3.0 percent and the global average of 3.6 percent. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transport and vibrant service sector activities. As a result of this economic growth, 860,000 new jobs were generated in the economy in 2018. Inflation remained within target, interest rates were stable, and exchange rates were competitive with adequate foreign exchange reserves equivalent to 6.2 months of import cover at the end of fiscal year 2018/19. The figure below shows the contribution of the GDP Growth rate by Sectors.

Figure 1: GDP Growth Rate by Sectors in 2018



In FY 2018/19, County Governments received **Ksh.314 billion** as their equitable share of revenue raised nationally. This represents 100 percent of the appropriation as per the CARA, 2018. In addition to the equitable share, the Counties received Ksh.46.1 billion in FY 2018/19, which comprised of:-

- Conditional allocation worth more than **Ksh.15 billion** derived from the National Government's equitable revenue share;
- Ksh.7.4 billion** from the Roads Maintenance Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and,
- Proceeds from external loans and grants totalling Ksh.23.6 billion earmarked to supplement financing of devolved functions.

Based on the above aggregate, payments to County government in FY 2018/19 amounted to Kshs.360.1 billion, representing 96 percent of the CARA, 2018 allocations. Including the FY 2018/19 payments, county governments have now received an estimated Kshs.1.7 trillion cumulatively since their establishment.

In all years, County Governments' equitable revenue share has been well above the minimum threshold defined in Article 203 (2) of the Constitution. Moreover, counties' equitable revenue share allocation has been fully disbursed in accordance with Article 219 of the Constitution, even when the shareable revenue outturn was less than projected revenue used in the Division of Revenue Act.

The National Treasury and Planning, successfully priced a new US dollar 2.1 billion, dual tranche Eurobond of 7-year and 12-year tenors on 15th May 2019 in London, United Kingdom. This is the third time Kenya has been in the International Debt Capital Markets. The first was in June 2014, when we launched the debut bond of US dollar 2.0 billion and tapped for a further US dollar 750 million, while the second was in February 2018 when a dual-tranche of US\$ 2.0 billion was issued (10-year tenor of US\$1.0 billion and 30-year tenor of US\$ 1.0 billion).

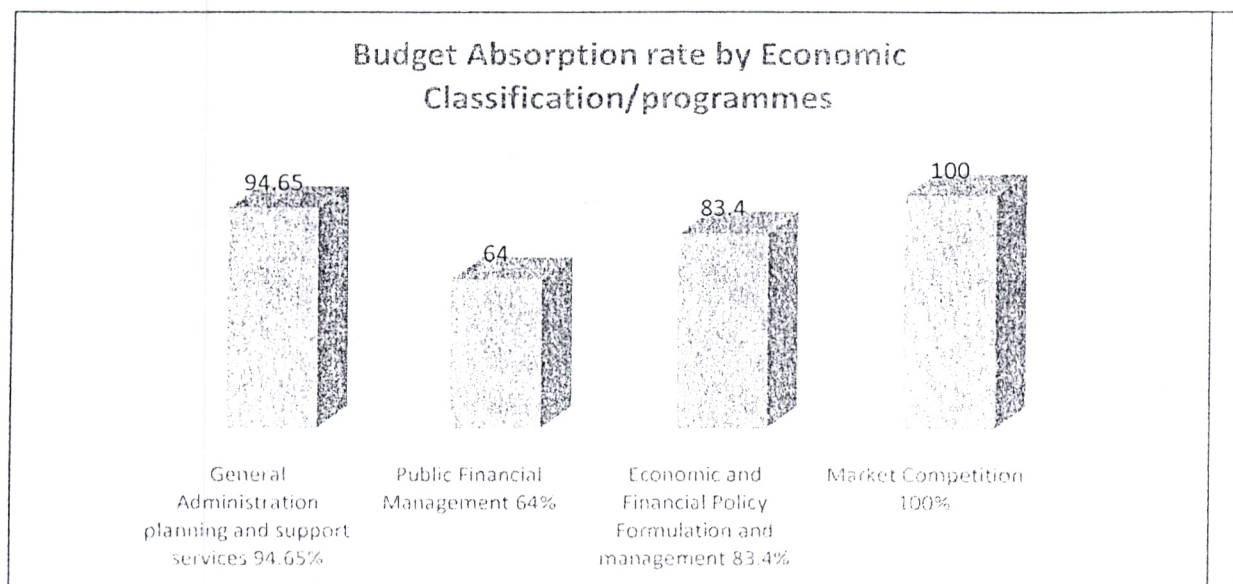
The announcement of Kenya issuance triggered an overwhelming response from investors that amounted to an order book of US\$ 9.5 billion, an oversubscription of 4.5 times. This overwhelming interest in Kenya's bond issue confirms the strong investor confidence in Kenya's economic policy management and prospects going forward.

The proceeds from this issuance will be used to (i) finance some of the development infrastructure projects, (ii) the general budgetary expenditure in accordance with the applicable legal requirements and (iii) to refinance part or all of the obligations outstanding under the US\$ 750 million (2014 Eurobond).

The National Treasury and Planning in its contribution to the Affordable Housing Agenda under the Big Four Plan launched the Kenya Mortgage Refinance Company (KMRC) in May 2019. This is a Public Private Partnership arrangement with majority private sector owned. KMRC will extend long term loans at fixed interest rate to financial institutions secured against mortgages so that they can extend the maturity of their housing loans to end borrowers hence increasing affordability. Given Kenya's urbanization rates, there is critical need to deliver housing at the lower end of the income spectrum in order to improve housing conditions for the average Kenyan. KMRC will seek to catalyze growth of the mortgage market in Kenya by targeting households that fall within the mortgage gap and lower middle-income categories which represents about 95% of the formally employed population.

In terms of budget performance, the National Treasury expenditure stood at Kshs.54.417b against an approved budget of **Kshs.64.865b**. The National Treasury implemented the 2018/19 budget within four economic classifications/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in figure 2 below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 94.65%, Economic and Financial Policy Formulation and Management (83.4%) and Public Financial Management Programme at 64%.

Figure 2: Budget Absorption rate by Economic Classification/Programmes

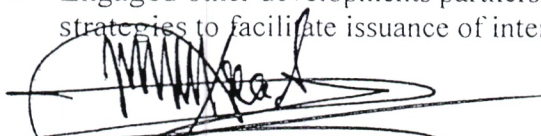


Some of the challenges the National Treasury faced while implementing the 2018/19 budget include:-

- Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
- Low absorption of Official Development Assistance (ODA).
- Inadequate Exchequer issues thus contributing to the pending bill increment from **Kshs.29.3b** to **Kshs.64.7b** in FY2018/19.
- Inadequate capacity of staff in some key technical Departments.

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects and prepared draft Public Investment Management Regulations.
- Strengthened capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthened financial and fiscal relations between the national government and county governments.
- Enhanced 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.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to facilitate issuance of international bonds to finance government projects.


HON. A.M.B. UKUR YATTANI, EGH
AG. CABINET SECRETARY

3 Overview of the Railway Development Levy Fund Holding Account

3.1 Background of the Fund

The Railway Development Levy Fund is established under section 6 of the Finance Act, 2013 amending section 117 of the Customs and Excise Act.

The purpose of the Railway Development Levy Fund is to provide funds for the construction of the standard gauge railway in order to facilitate the transportation of goods.

The Fund consists of the proceeds of the Railway Development Levy charged under section 117A of the Customs and Excise Act (Cap 472), grants or donations made to the Fund and any income generated from the proceeds of the Fund.

The Railway Development Levy is collected by the Kenya Revenue Authority on behalf of the government and remitted to the Railway Development Levy Fund Holding Account maintained by the National Treasury at the Central Bank of Kenya.

3.2 Administration of the Fund

The Principal Secretary, State department of Transport, is the Administrator of the Railway Development Levy Fund.

Funds are transferred from the Holding Account to the Railway Development Fund Operations Account, maintained by the State department of Transport based on the approval of the Advisory Committee established under the Customs and Excise (Railway Development Levy Fund) Regulations, 2013.

3.3 Key Management and reporting arrangement for the Holding Account of the Fund

The National Treasury is responsible for preparing reports on the funds deposited into and out of the Holding Account while the State department of Transport on the other hand, is responsible for preparing reports of the Railway Development Levy Fund and submitting to the Auditor-General and deliver a copy of the statements to the National Treasury, Commission on Revenue Allocation and the Controller of Budget not later than three months after the end of each financial year pursuant to Section 24 of PFM Act, 2012.

This report therefore covers the operations of the Railway Development Levy Fund Holding Account for the financial year ended 30th June 2019.

The National Treasury Headquarters

Treasury Building,
Harambee, Avenue
Nairobi Kenya

The National Treasury Contacts

P.O. Box 30007- 00100,
Telephone: (254)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

The National Treasury Bankers

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

Independent Auditors

Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O Box 30084
GPO 00100
Nairobi, Kenya

Principal Legal Adviser

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

3.4 Commentary on the financial statements of the Fund

The Holding Account received Kshs 21.61 billion during the financial year 2018/2019 compared to Kshs 20.69 billion received in the previous year. The funds were received from the Kenya Revenue Authority as the appointed collector of the revenue for the Fund.

During the year ended 30th June 2019, Kshs 31.99 billion was transferred from the Holding Account to the operations account of the Railway Development Levy Fund. This compares to Kshs 15.55 billion transferred during the previous financial year.

As at 30th June 2019, the Holding Account had a cumulative balance of Kshs 5.41 billion compared to the balance Kshs 15.79 billion as at 30th June 2018. The fund is held in the holding bank account at the Central Bank of Kenya.

4 Statement of Responsibility

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Railway Development Levy Fund Holding Account, which give a true and fair view of the state of affairs of Fund for and as at the end of the financial year (period) ended on 30th June, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements 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 status of the Fund by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer in charge of The National Treasury accepts responsibility for the Railway Development Levy Fund Holding Account, which has been prepared on the Cash Basis Method using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the financial statements of the Railway Development Levy Fund Holding Account give a true and fair view of the performance of the Fund during the financial year ended 30th June, 2019. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Accounting Officer confirms that the Fund has complied fully with applicable Government Regulations. Further the Accounting Officer confirms that this report has been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Notes to the financial statements set out on pages 5 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 27th Sept 2019 by:



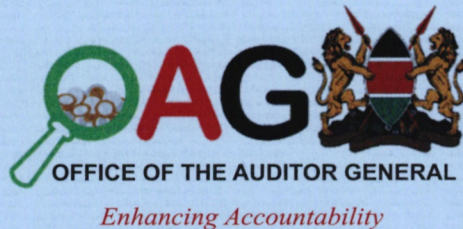
Julius Muia, PHD, EBS
Principal Secretary
The National Treasury



CPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON RAILWAY DEVELOPMENT LEVY FUND HOLDING ACCOUNT FOR THE YEAR ENDED 30 JUNE, 2019- THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Railway Development Levy Fund Holding Account set out on pages 1 to 8 which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and the summary of budget versus actual performance 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 financial statements present fairly, in all material respects, the financial position of Railway Development Levy Fund Holding Account as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

Discrepancies in Reported Receipts

The statement of receipts and payments reflects total receipts of Kshs.21,613,544,290;(2018 – Kshs.20,693,095,047) and as disclosed under Note 10.2 to the financial statements. This differs with the total receipts as per the summary of budget versus actual performance figure of Kshs.5,815,007,463 resulting in an unexplained and unreconciled variance of Kshs.15,798,536,827.

Consequently, the accuracy of the reported receipts of Kshs.5,815,007,463 in the summary of budget versus actual performance cannot be confirmed.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Railway Development Levy Fund Holding Account Management in accordance with ISSAI 130 on Code of Ethics. I have

fulfilled other ethical responsibilities in accordance with 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.

Key Audit Matters

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

Other Matter

Budget Over Expenditure

The summary of budget versus actual performance reflects an approved budget and actual expenditure of Kshs.24,718,591,835 and Kshs.31,999,674,958 resulting in an over expenditure of Kshs.7,281,083,123 or 29.5% of the budget. This is indicative of unauthorized spending and failure to adhere to the set budgetary controls. Management has not rendered satisfactory explanations for the spending without authorization.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective

processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Funds ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Management is aware of the intention to liquidate the Fund or cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 applicable 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 Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

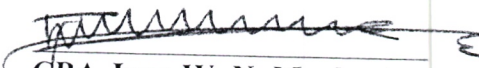
21 January, 2021

6 Receipts and Payment Statements for the year ended 30th June 2019

		2019	2018
	Notes	Kshs	Kshs
Receipts			
Receipts from the Kenya Revenue Authority	10.2	21,613,544,290.00	20,693,095,047.00
Total Receipts		21,613,544,290.00	20,693,095,047.00
Transfers to State Department of Transport	10.3	31,999,674,958.10	15,557,910,690.20
Total transfers		31,999,674,958.10	15,557,910,690.20
Deficit /Surplus		(10,386,130,668.10)	5,135,184,356.80

Notes to the financial statements set out on pages 5 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 29th Sep 2019 by:


CPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance

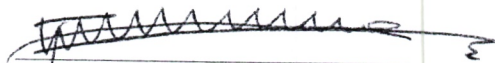

CPA Jane W. N. Macharia
Deputy Accountant General
The National Treasury

7 Statement of Assets and Liabilities as at 30th June 2019

	Note	2019 Kshs	2018 Kshs
Financial Assets			
Cash And Cash Equivalents			
Bank Balances	10.4	5,412,406,159.16	15,798,536,827.26
Total Cash and Cash Equivalents		5,412,406,159.16	15,798,536,827.26
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		5,412,406,159.16	15,798,536,827.26
Financial Liabilities			
Accounts Payables – Deposits And Retentions		-	-
Net Financial Assets		5,412,406,159.16	15,798,536,827.26
Represented By			
Fund Balance B/Fwd		15,798,536,827.26	10,663,352,470.46
Deficit/Surplus for the Year		(10,386,130,668.10)	5,135,184,356.80
Net Financial Position		5,412,406,159.16	15,798,536,827.26

Notes to the financial statements set out on pages 5 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 27th Sep 2019 by:


CPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance

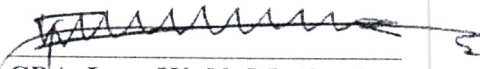

CPA Jane W. N. Macharia
Deputy Accountant General
The National Treasury

8 Statement of Cash Flow for the year ended 30th June 2019

		2019	2018
		Kshs	Kshs
Cash from Operating Activities			
Receipts from The Kenya Revenue Authority	10.2	21,613,544,290.00	20,693,095,047.00
Transfer to State Department of Transport	10.3	31,999,674,958.10	15,557,910,690.20
Net Cash Flow from Operating Activities		(10,386,130,668.10)	5,135,184,356.80
Cash flow from Investing Activities		-	-
Cash flow from Financing Activities		-	-
Net increase in Cash and Cash Equivalents		(10,386,130,668.10)	5,135,184,356.80
Cash and cash equivalents at the beginning of the year		15,798,536,827.26	10,663,352,470.46
Cash and Cash Equivalents at the end of the Year		5,412,406,159.16	15,798,536,827.26

Notes to the financial statements set out on pages 5 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 27th Sep 2019 by:


CPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance


CPA Jane W. N. Macharia
Deputy Accountant General
The National Treasury

9 Summary of Budget versus Actual Performance for the year ended 30th June 2019

The following statement summarizes the outturn against budget:

	Original Estimates	Adjustments	Revised Estimates	Total Actual 30 th June 2019	Difference	Dev.
	Kshs		Kshs	Kshs	Kshs	%
Opening balance	15,798,536,827.26	-	15,798,536,827.26	15,798,536,827.26	-	-
Receipts					-	-
Railway Development Levy Fund	8,920,055,007.74	-	8,920,055,007.74	5,815,007,462.74	(3,105,047,545.00)	-
Total	24,718,591,835.00	-	24,718,591,835.00	21,613,544,290.00	(3,105,047,545.00)	-12.56%
Transfers						
Transfer to State Department of Transport - Mombasa - Nairobi	-	11,954,469,655.00	11,954,469,655.00	11,954,469,655.00	-	-
Transfer to State Department of Transport - Nairobi - Naivasha	24,718,591,835.00	(11,954,469,655.00)	12,764,122,180.00	20,045,205,303.1	7,281,083,123.10	-
Total Transfers	24,718,591,835.00	-	24,718,591,835.00	31,999,674,958.10	7,281,083,123.10	-29.46%

Commentary:

A total of Kshs 21.61 Billion was received into the Railway Development Levy Fund Holding Account against a budget of Kshs 24.71 Billion representing budget deviation of 12.56 %.

A total of Kshs 31.99 Billion was transferred to State Department of Transport for 2018/2019 financial year compared to Kshs 15.55 Billion in the previous financial year. Part of the budget for the year was funded from the opening balance leading to the -29.45% deviation. The combined funds were available for transfers based on the requests submitted by the State Department of Transport on approval by the Advisory Committee.

10 Notes to the Financial Statements

10.1 Significant Accounting Policies.

a) Basis of preparation

The financial statements of Railway Development Levy Fund Holding Account have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) cash based standard as prescribed by the Public Sector Accounting Standard Board (PSASB).

b) Reporting entity

This report relates to financial operations of the Railway Development Levy Fund Holding Account maintained at Central Bank of Kenya. The reporting entity is The National Treasury.

c) Revenues

The Fund shall consist of the proceeds of the Railway Development Levy charged under section 117A of the Customs and Excise Act, grants or donations made to the fund and any income generated from the proceeds of the Fund.

d) Expenditure and transfers

The expenditure of the Fund shall be on the basis of, and limited to, the annual work programmes and cost estimates which shall be submitted to the Advisory Committee for approval before the beginning of the financial year which they relate. All receipts, saving and accruals of the Fund and the balance of the Fund at the close of each financial year shall be retained for the purpose for which the fund is established.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, and short term deposits in money market instruments.

f) Presentation currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

10.2 Receipts from Kenya Revenue Authority

An amount of Kshs 21.61 billion was received during financial year 2018/2019 compared to Kshs 20.69 billion received during financial year 2017/2018. The following is the breakdown on a quarterly basis of the receipts into the Holding Account. The funds were received from the Kenya Revenue Authority.

Description	Period to 30 th June 2019	Period to 30 th June 2018
	Kshs	Kshs
1 st Quarter	5,298,553,397.00	5,255,016,043.00
2 nd Quarter	4,989,542,619.00	4,615,118,315.00
3 rd Quarter	5,548,391,789.00	5,388,646,460.00
4 th Quarter	5,777,056,485.00	5,434,314,229.00
Total Receipts	21,613,544,290.00	20,693,095,047.00

10.3 Transfers to State Department of Transport

The following is the breakdown of the funds transferred by the National Treasury from the Holding Account to the operational account of the Railway Development Levy Fund following approval from Railway Development Levy Fund Advisory Committee:

Date of transfer	Details	Amount Kshs
09-07-2018	AG/13/79 vol.7/(25) - FT18190DLZ8S	6,363,968,892.70
26-10-2018	AG/13/79 vol.8/(10) - FT18299S2B48	8,020,925,616.05
03-01-2019	AG/13/79 vol.8/(22) - FT19003WQV0X	10,224,479,162.45
11-02-2019	AG/13/79 vol.9/(6) - FT190424RMJH	1,200,000,000.00
18-02-2019	AG/13/79 vol.9/(8) - FT19049D5T2G	964,890,548.00
20-02-2019	AG/13/79 vol.9/(10) - FT19051Y1PDQ	1,732,535,662.00
09-04-2019	AG/13/79 vol.9/(16) - FT190991YTWM	2,295,760,492.00
09-04-2019	AG/13/79 vol.9/(15) - FT190997DBJ2	35,399,604.00
19-06-2019	AG/13/79 vol.10/(3) - FT1917069NDS	161,714,980.90
28-06-2019	AG/13/79 vol.10/(6) - FT19186975P0	1,000,000,000.00
	Total Transfers	31,999,674,958.10

10.4 Bank balance

The bank balance as at 30th June 2019 amounted to Kshs 5.41 billion compared to Kshs 15.78 billion in the previous year.

Bank Name and Account	Denomination of Account	Balance as at 30 th June 2019	Balance as at 30 th June 2018
Central Bank of Kenya Acc no. 1000205067	Kshs	5,412,406,159.16	15,798,536,827.26
Total		5,412,406,159.16	15,798,536,827.26

11 Reconciliation of receipts between KRA and the National Treasury

Details	2018/2019 Kshs.	2017/2018 Kshs.
Total collections as per The Kenya Revenue Authority report	21,303,069,635.00	20,780,085,649.00
Cash in transit as at the beginning of FY.	172,625,668.00	(1,759,449.10)
KRA collections misposted into RDL(KAA, Vat Imports, Excise, IDF, Import duty ,FMV)	179,859,522.50	-
Prior year error corrections effected in FY 2018-2019	72,910,999.00	-
RDL misposted into other KRA Accounts(IDF, Import Duty, RMV,Excise and VAT imports)	(24,521,134.00)	-
Error corrections effected in FY 2018-2019	(1,278,391.00)	-
Cash in transit at the close of FY.	(89,122,009.50)	(85,231,152.90)
Total receipts from The Kenya Revenue Authority (Note 10.2)	21,613,544,290.00	20,693,095,047.00

The Kenya Revenue Authority reported to have received a total of Kshs. 21,303,069,635.00 against one having been reported and received by the National Treasury of Kshs. 21,613,544,290.00 for Financial Year 2018/2019. The differences has been analysed as per the reconciliation above.

12 Progress on follow up of Auditor's 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)
Unqualified opinion	N/A	N/A	N/A	-	N/A



CPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance



CPA Jane W. N. Macharia
Deputy Accountant General
The National Treasury