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By the Leader of Majority
Party, Hon. Azan Duarte
on Wednesday, 27/9/17
Priang'o

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
CONSOLIDATED FUND SERVICES
PENSION AND GRATUITIES**

**FOR THE YEAR ENDED
30 JUNE 2016**

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

30 SEP 2016

RECEIVED



PENSION FUND NAME: CONSOLIDATED FUND SERVICES: PENSION AND GRATUITIES

IMPLEMENTING ENTITY: NATIONAL TREASURY

FUND IDENTIFICATION NUMBER: 051

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

*Consolidated Fund Services: Pension and Gratuities
Reports and Financial Statements
for the financial year ended June 30, 2016*

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I 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

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Reports and Financial Statements
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.

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

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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.

(e) The National Treasury Headquarters

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

(f) The National Treasury Contacts

Telephone: (254)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

(g) The National Treasury Banker

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

(h) Independent Auditors

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

(i) 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.38,735,101,627.00** against an approved budget of **Kshs.40,667,213,863.00** in recurrent while Development expenditure stood at **Kshs.43,784,489,609.00** against an approved budget of **Kshs.45,836,475,797** giving an overall absorption rate of 95.4%.

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.

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

1. STATEMENT OF THE PENSION FUND MANAGEMENT RESPONSIBILITIES

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

The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for ***the Consolidated Fund Services – Pension and Gratuities*** are responsible for the preparation and presentation of the Pension Fund's financial statements, which give a true and fair view of the state of affairs of the Pension Fund for Asian officers Family Pension Fund and as at the end of the financial year ended on June 30, 2016.

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

The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General

for ***the Consolidated Fund Services – Pension and Gratuities*** accept responsibility for the Pension 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.

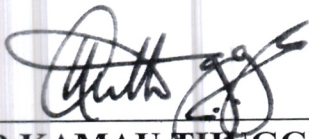
The *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for ***the Consolidated Fund Services – Pension and Gratuities*** are of the opinion that the Pension Fund's financial statements give a true and fair view of the state of Pension Fund's transactions during the financial year ended June 30, 2016, and of the Pension Fund's financial position as at that date. The *Principal Secretary* for National Treasury and the Senior Assistant Accountant General for ***the Consolidated Fund Services – Pension and Gratuities*** further confirm the completeness of the accounting records maintained for the Pension Fund, which have been relied upon in

the preparation of the Pension Fund financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the Pension Fund financial statements

The Pension Fund financial statements were approved by the *Principal Secretary* for the National Treasury and the Senior Assistant Accountant General for *the Consolidated Fund Services – Pension and Gratuities* on 29/9/16 2016 and signed by them.



DR KAMAU THUGGE, CBS
Principal Secretary

29/9/16
Date



GEORGE K. GICHURU
Senior Assistant Accountant General

29/9/16
Date

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NAIROBI



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONSOLIDATED FUND SERVICES- PENSION AND GRATUITIES FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Consolidated Fund Services-Pension and Gratuities set out on pages 10 to 18, which comprise the statement of financial assets and liabilities as at 30 June 2016, and the statement of receipts and payments, statement of comparative budget and actual amounts 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 Accounting Officer 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. 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

Report of the Auditor-General on the Financial Statements of Consolidated Fund Services – Pension and Gratuities for the year ended 30 June 2016

of the financial statements, whether due to fraud or error. 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 Fund'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

1.0. Un-reconciled Ledger and Trial Balance Figure

The statement of receipts and payments reflects total expenditure of Kshs.51,250,699,449.00 for the year ended 30 June 2016. The amount includes civil pension payments totalling Kshs.19,503,027,865.00 which agree with the trial balance figure as at 30 June 2016. The ledger, however, shows a balance of Kshs.19,505,843,027.70 under the same item as at 30 June 2016. The difference of Kshs.2,815,162.70 between the two set of records which should ordinarily agree has not been explained or reconciled.

2.0. Unsupported Payments-Crown Agent

The statement of receipts and payments reflects total expenditure of Kshs.51,250,699,446.00 for the year ended 30 June 2016. The amount includes payments of pension through Crown Agent to dependents residing in United Kingdom totalling Kshs.24,427,260.00. The expenditure has not been supported by any schedule showing the payee and their respective pension amount. In the absence of the supporting documents, it has not been possible to confirm the propriety of this expenditure.

3.0. Cash and Cash Equivalent

(i) Bank Balance

The statement of financial assets and liabilities reflects a bank balance of Kshs.246,703,998.00 as at 30 June 2016 while the cashbook, bank reconciliation and board of survey report reflect a balance of Kshs.3,184,292.65 as at 30 June 2016. The resulting difference of Kshs.243,519,705.35 has not been reconciled or explained.

(ii) Bank Reconciliation Statement for CFS Cashbook-Account No 01-010-R050

a) Payments in Cashbook not in Bank Statement

The bank reconciliation statement as at 30 June 2016 shows payments in cashbook not reflected in the bank statement of Kshs.993,199,715.20. The payments included amounts paid to the Chief Accountant of Kshs.5,056,540.95. The pensions department has not explained why payments to the Chief Accountant have not been effected in the bank statement. The reconciliation also shows tax recovered (PAYE) from pensioners and income tax department totalling Kshs.3,299,730.15 and Kshs.104,531,554.40 respectively paid in the cashbook but not reflected in the bank statement. No explanation has been provided for non-remission of the said taxes.

b) Receipts in Bank Statement not in Cashbook

The bank reconciliation as at 30 June 2016 reflects receipts in the bank statement not posted to the cashbook totalling Kshs. 147,667,376.80. The receipts include direct credits with some dating back to year 2009 as analyzed below.

Year	Amount Kshs.
2009	5,307,517.80
2010	46,718,599.60
2011	16,060,150.25
2012	7,887,183.95
2013	28,784,218.10
2014	21,872,702.50
2015	10,396,182.00
2016	10,640,822.60
Grand Total	<u>147,667,376.80</u>

No explanation has been provided as to why the receipts were not posted to the cashbook by 30 June 2016.

c) Payments in the Bank Statement not in the Cashbook

The bank reconciliation statement reflects payments in the bank statement not in the cashbook totalling Kshs.61,038,785.40 in respect of cheques fraudulently paid by pension's department employees and third parties. The payments relate to period between July 2008 and May 2016. Further, the reconciliation includes items

described as fake cheques, unpaid cheques, payment to individuals, FT drawer signature and TRFS of Kshs.12,423,395.45, Kshs.792,940.40, Kshs.7,829,921.30, Kshs.544,630.50 and Kshs.27,666,777.55 respectively. Management has not provided explanations as to what some of the payments represent and why they have remained outstanding for long without being recorded in the cashbook.

d) Receipts in the Cashbook not in the Bank Statement

The bank reconciliation statement reflects receipts in the cashbook not in bank statement as analyzed below.

Year	Amount Kshs.
2007	58,075.90
2008	4,140.15
2010	42,720,886.40
2011	16,392,275.15
2012	14,293,699.20
2013	5,585,712.45
2014	8,794,163.10
2015	24,552,052.00
2016	42,013,884.10
Grand Total	<u>154,414,888.45</u>

No reconciliations have been provided for these receipts. The accuracy of the bank balance of Kshs.246,703,998.00 reflected in the financial statements could therefore not be ascertained.

4.0. Payables

4.1. Re-credited Cheques

The statement of financial assets and liabilities reflects account payables balance of Kshs.2,853,521,960.00 as disclosed under Note 8.4. This is the amount returned unpaid due to various reasons such as incorrect bank accounts, closed bank accounts and incorrect bank codes. Although the pensions department has

implemented several measures like encouraging pensioners to give correct information, obtaining mobile telephone numbers for pensioners or dependents as contacts and having inbuilt bank codes in the Pension Management Information System (PMIS) among others, the balance of re-credited cheques continues to increase significantly each year and the measures implemented to ensure subsequent payment of the returned pension appears ineffective. The year 2014/2015 balance was Kshs.2,300,281,209.00.

4.2. Deposit Bank Account

The returned pension is receipted in the Pension Department Recurrent Vote Account and recorded in the books of accounts as payables. The returned pension is not supported with schedules indicating the beneficiaries whose pension was returned nor a deposit bank account balance of the returned pension.

5.0. Funds Transferred to Public Trustee

5.1. Unpaid Death Gratuity

The total expenditure reflected in the statement of receipts and payments of Kshs.51,250,699,446, includes death gratuities payments totalling Kshs.1,195,249,583.00 paid during the year under review. The responsibility of paying death gratuities is vested in the Regional Public Trustees. Verification carried out during the year to confirm receipt of the death gratuities by beneficiaries revealed that an amount of Kshs.245,075,025.65 had not been paid to the beneficiaries. The amount outstanding per region is as indicated below.

	Region	Amount
1	Embu	16,476,061.00
2	Nyeri	42,580,143.00
3	Machakos	14,870,277.55
4	Mombasa	19,172,351.00
5	Kisumu	31,537,124.90
6	Kakamega	23,019,513.35
7	Eldoret	53,877,301.00
8	Nakuru	36,295,378.65
9	Kisii	7,246,875.20
	Total	245,075,025.65

It is not clear why the gratuities transferred to the Public Trustees take long to be paid to the beneficiaries.

5.2. Failure to Provide Records

The Public Trustees offices in various regions did not provide death gratuities files under their custody for audit as indicated below.

Region	Number of Files	Amount Kshs.
Embu	112	105,345,909.00
Machakos	112	97,185,197.00
Total	224	202,531,106.00

It is therefore not possible to authenticate the payments of Kshs. 202,531,106.00.

5.3. Unsupported Payment

The estate/trustee files in Embu and Nyeri regional offices indicated that gratuities totalling Kshs. 3,400,829.60 were disbursed without letters to confirm the beneficiaries of the deceased estate from the respective authorities as per the Pensions Act Cap 189. It is therefore not clear how the files indicated below were processed and paid without the required supporting documents.

Regional Office	File No	Amount Kshs.
Embu	GC0000253742	1,978,542.70
Nyeri	47 Of 2015	1,422,286.90
Total		3,400,829.60

Qualified Opinion

In my opinion, except for the effect 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 Consolidated Fund Services – Pension and Gratuities as at 30 June 2016, 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 and Pensions Act, Cap 189 of the Laws of Kenya.



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

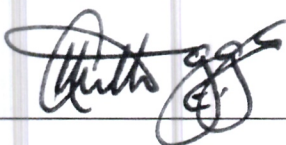
Nairobi

28 July 2017

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

	Note	2016 Kshs	2015 Kshs
Transfer from Government entities	8.1	50,860,000,000	35,081,980,000
Total receipts		50,860,000,000	35,081,980,000
PAYMENTS			
Payment of Pensions	8.2	51,250,699,446	35,270,693,993
TOTAL PAYMENTS		51,250,699,446	35,270,693,993
SURPLUS/DEFICIT FOR THE YEAR		(390,699,446)	(188,713,993)

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



DR KAMAU THUGGE, CBS
 Principal Secretary

29/9/16

Date



GEORGE K. GICHURU
 Senior Assistant Accountant General

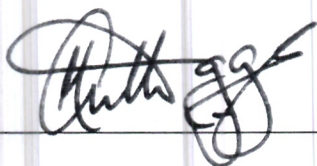
29/9/16

Date

4. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2016

	Note	2016 Kshs	2015 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.3	246,703,998	84,162,693
Accounts Receivables		-	-
TOTAL FINANCIAL ASSETS		246,703,998	84,162,693
LESS FINANCIAL LIABILITIES			
Accounts Payables	8.4	2,853,521,960	2,300,281,209
NET FINANCIAL ASSETS		(2,606,817,962)	(2,216,118,516)
PRESENTED BY			
Fund Balance B/FWD	8.5	(2,216,118,516)	(2,325,293,795)
Surplus /Deficit for the year		(390,699,446)	(188,713,993)
Prior year adjustment		-	297,889,272
Net Financial Position		(2,606,817,962)	(2,216,118,516)

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 29/9 2016 and signed by:



DR KAMAU THUGGE, CBS
Principal Secretary

29/9/16
Date



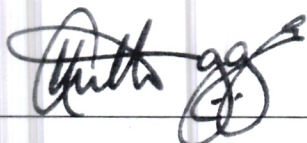
GEORGE K. GICHURU
Senior Assistant Accountant General

29/9/16
Date

5. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2016

	Notes	2016 Kshs	2015 Kshs
Receipts for operating income			
Transfers from other Government Entities	8.1	50,860,000,000	35,081,980,000
Payments for operating expenses			
Payment of Pensions	8.2	<u>51,250,699,446</u> (390,699,446)	<u>35,270,693,993</u> (188,713,393)
Adjusted for:			
Changes in receivables			
Changes in payables		553,240,751	(169,955,437)
Adjustment during the year	8.6		297,889,272
Net cash flow from operating activities		<u>162,541,305</u>	<u>(60,780,158)</u>
CASH FLOW FROM INVESTMENT ACTIVITIES			
Net cash flows from Investment activities	-	-	-
CASHFLOW FROM BORROWING ACTIVITIES			
Net cash flow from financing activities	-	-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		<u>162,541,305</u>	<u>(60,780,158)</u>
Cash and cash equivalent at Beginning of the year		84,162,693	144,942,851
Cash and cash equivalent at End of the year		246,703,998	84,162,693

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 29/9/16 2016 and signed by:



DR KAMAU THUGGE, CBS
 Principal Secretary

Date

29/9/16



GEORGE K. GICHURU
 Senior Assistant Accountant General

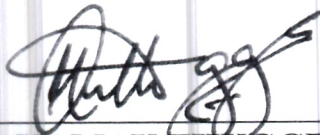
Date

29/9/16

6. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/ Payments Item	Original Budget Kshs	Adjustments Kshs	Final Budget Kshs	Actual on Comparable Basis Kshs	Variance Kshs	% Variance
	a	b	c=a+b	d	e= c- d	f=e/c %
Receipts						
Exchequer Receipts	38,991,127,200	12,700,000,000	51,691,127,200	50,860,000,000	831,127,200	0.02%
Total Receipts	38,991,127,200	12,700,000,000	51,691,127,200	50,860,000,000	831,127,200	0.02%
Payments						
Ordinary Pension	22,871,027,200	4,000,000,000	26,871,027,200	28,770,165,117	(1,899,137,917)	-0.07%
Commuted Pension	15,858,000,000	8,700,000,000	24,558,000,000	22,448,859,717	2,109,140,283	0.09%
Other Pensions	262,100,000		262,100,000	31,674,612	230,425,388	0.9%
Total Payments	38,991,127,200	12,700,000,000	51,691,127,200	51,250,699,446	440,427,754	0.01%
NET TOTAL				390,699,446	390,699,446	

We spent less than the budget by Kshs 390,699,446.00 because the case of the Nakuru teachers had not been finalized and files had not been received from Teachers Service Commission (TSC).


 DR KAMAU THUGGE, CBS
 Principal Secretary

29/9/16
 Date


 GEORGE K. GICHURU
 Senior Assistant Accountant General

29/9/16
 Date

7. SIGNIFICANT ACCOUNTING POLICIES

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

(i) 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 Pension Fund 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.

ii. 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.

iii. 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.

iv. 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.

v. 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.

vi. 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.

vii. 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.

viii. 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.

ix. 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.

8. NOTES TO THE FINANCIAL STATEMENTS

8.1 RECEIPTS FROM GOVERNMENT OF KENYA

Transfer from Government entities

These represent counterpart funding and other receipts from government as follows:

	2016	2015
	Kshs	Kshs
Counterpart funds Quarter 1	9,400,000,000	5,915,980,000
Counterpart funds Quarter 2	11,995,000,000	7,830,000,000
Counterpart funds Quarter 3	10,912,100,000	10,051,000,000
Counterpart funds Quarter 4	18,552,900,000	11,285,000,000
	50,860,000,000	35,081,980,000

8.2 PAYMENT OF PENSIONS (LUMPSUMS)

	2016	2015
	Kshs	Kshs
ORDINARY PENSIONS		
Civil pension	19,503,027,865	15,121,138,445
Military Pension	3,483,652,322	2,922,941,142
Emergency Pension	-	-
Widows, children and pension dependants	5,566,656,667	4,915,692,304
Ex-gratia pension	-	-
Civil pension -MPS	185,148,263	179,168,090
Civil pension -President	31,680,000	32,794,257
	28,770,165,117	23,171,734,237

COMMUTED PENSION (MONTHLY)

Commuted pension and gratuity	17,937,184,560	8,606,915,398
Military gratuity	3,272,889,968	2,627,827,484
Civil gratuity	1,195,249,583	810,263,024
Commuted pensions -MPs	43,535,606	27,703,270
Commuted pensions -President	-	-
	22,448,859,717	12,072,709,176.00

OTHER PENSION SCHEMES

Refunds and other ex-gratia allowances	7,247,352	5,037,835
Payment to Crown Agents	24,427,260	21,212,745
	31,674,612	26,250,580

Grand Total	51,250,699,446	35,270,693,993
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*Consolidated Fund Services – Pension and Gratuities
Reports and Financial Statements
For the financial year ended June 30, 2016*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3	Bank Accounts (ledger)	2016	2015
		Kshs	Kshs
	<u>Local Currency Accounts</u>		
	Central Bank of Kenya	<u>246,703,998</u>	<u>84,162,693</u>
	Total Cash and Cash Equivalents	<u>246,703,998</u>	84,162,693
	Total bank account balances	<u>246,703,998</u>	<u>84,162,693</u>
8.4	Payables		
	Re-credited cheques	2,853,521,960	2,300,281,209
		<hr/>	<hr/>
		2,853,521,960	2,300,281,209
8.5	FUND BALANCE B/F	2016	2015
		KSHS	KSHS
	Bank	84,162,693	144,942,851
	Account payable	(2,300,281,209)	(2,470,236,646)
		(2,216,118,516)	(2,325,293,795)
8.6	PRIOR ADJUSTMENTS		
	Amount due to Post Bank	-	129,259,140
	Contract Gratuity	-	151,553,515
	Marriage Gratuity	-	727,459
	Retrenchment Gratuity	-	18,709,786
	Stale Cheques	-	(2,360,628)
	Total Amount		297,889,272

Items comprising of Kshs.297,889,272.00 of prior years were journalised back to income.

Consolidated Fund Services- Pension and Gratuities

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

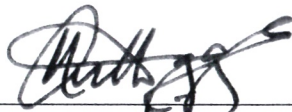
9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS


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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
50	Rising cases of returned pension	The process of beneficiary identification and failure of beneficiaries to report death cases led to rise in returned pension,	Shem O Nyakutu Director Pensions	Not resolved	

Guidance Notes:

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


 DR KAMAU THUGGE, CBS
 Principal Secretary
 Date 29/9/16


 GEORGE K. GICHURU
 Senior Assistant Accountant General
 Date 29/9/16