


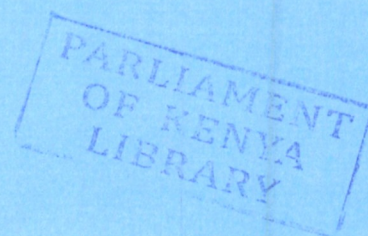
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 <b>REPORT</b>	
THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 31 JUL 2019	DAY: Wed
TABLED BY: Hon. Benjamin Wanjiku Cmaboniti WMP	OF
GENERAL PRE-TABLE: Halima Ahmed	<b>THE AUDITOR-GENERAL</b>



ON

**THE FINANCIAL STATEMENTS OF  
CONSOLIDATED FUND SERVICES – PUBLIC  
DEBT**

**FOR THE YEAR ENDED  
30 JUNE 2018**

**THE NATIONAL TREASURY**





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**NATIONAL GOVERNMENT ENTITY**  
*(NATIONAL TREASURY)*

**REPORTS AND FINANCIAL STATEMENTS  
OF CONSOLIDATED FUND SERVICES-PUBLIC DEBT**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2018**

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



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

	Page
Table of Contents	
I. NATIONAL TREASURY INFORMATION AND MANAGEMENT .....	1
II. FORWARD BY THE CABINET SECRETARY .....	4
III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES .....	7
IV. REPORT OF THE INDEPENDENT AUDITORS ON THE <i>ENTITY</i> (NATIONAL TREASURY – PUBLIC DEBT).....	8
V. STATEMENT OF RECEIPTS AND PAYMENTS .....	9
VI. STATEMENT OF ASSETS AND LIABILITIES .....	10
VII. STATEMENT OF CASH FLOWS .....	11
VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED .....	12
IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT .....	13
X. SIGNIFICANT ACCOUNTING POLICIES .....	14
XI. NOTES TO THE FINANCIAL STATEMENTS .....	18
XII. OTHER IMPORTANT DISCLOSURES .....	21
XIII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS .....	22



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

**Vision**

An institution of excellence in economic and public financial management.

**Mission**

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

**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, Teamwork and Staff as key asset, Equity, Fairness and Inclusion.

*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;



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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- 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 encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

**(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 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. The Principal Secretary is the Accounting Officer for Vote 1071 – NT.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**Organizational structure of the National Treasury**

The National Treasury is organized into four (4) technical Directorates headed by Directors General and one (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising of 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.

**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

**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).



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**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



**NATIONAL TREASURY-PUBLIC DEBT****Reports and Financial Statements****For the year ended June 30, 2018****(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

<b>NO.</b>	<b>Designation</b>	<b>Name</b>
1.	Chief Administrative Secretary	Hon. Nelson Gaichuhie
2.	Principal Secretary	Dr. Kamau Thugge, CBS
3.	Secretary Administration	Mr. Musyimi S.K, CBS
4.	Principal Administrative Secretary, CBS, SS	Mutua Kilaka, CBS,SS
5.	Director General, BFEA	Dr. Geoffrey Mwau, EBS
6.	Director General, Accounting Services & Quality Assurance	Mr. Bernard Ndung'u, MBS
7.	Director General, PIPM	Ms. Esther Koimett, CBS
8.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
9.	Director, Budget Department	Mr. Francis Anyona, OGW
10.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Ag. Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Internal Auditor General	Mr. Alfayo Mogaka
14.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
15.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director Government Digital Payments	Mr. Harry Mwangi
17.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
18.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
19.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
20.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
21.	Director, Pensions Department	Mr. Shem Nyakutu
22.	Ag. Director General Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
23.	Director, Debt Policy, Strategy & Risk Management Department	Mr. Daniel Ndolo
24.	Ag Director, Debt Recording and Settlement Department	Mrs. Felister Kivisi
25.	Head, Accounts Division	Mr. George Gichuru
26.	Head, Finance	Mr. Kimathi Mugambi, HSC
27.	Head, SCM	Mr. Peter Momanyi
28.	Head, Internal Audit Unit	Mr. John Kariuki
29.	Director, Human Resource Management & Development	Ms. Susan Mucheru
30.	Ag Director, Information Communication and Technology	Mr. George Kariuki
31.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
32.	Head, Public Communications	Mr. Maina Kigaga
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Ag. Director, Government Clearing Agency	Mr. Felix Ateng



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**(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 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 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.

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.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**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 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](mailto:info@treasury.go.ke)  
Website: [www.treasury.go.ke](http://www.treasury.go.ke)

**(g) The National Treasury Bankers**

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

**(h) Independent Auditors**

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

**(i) Principal Legal Adviser**

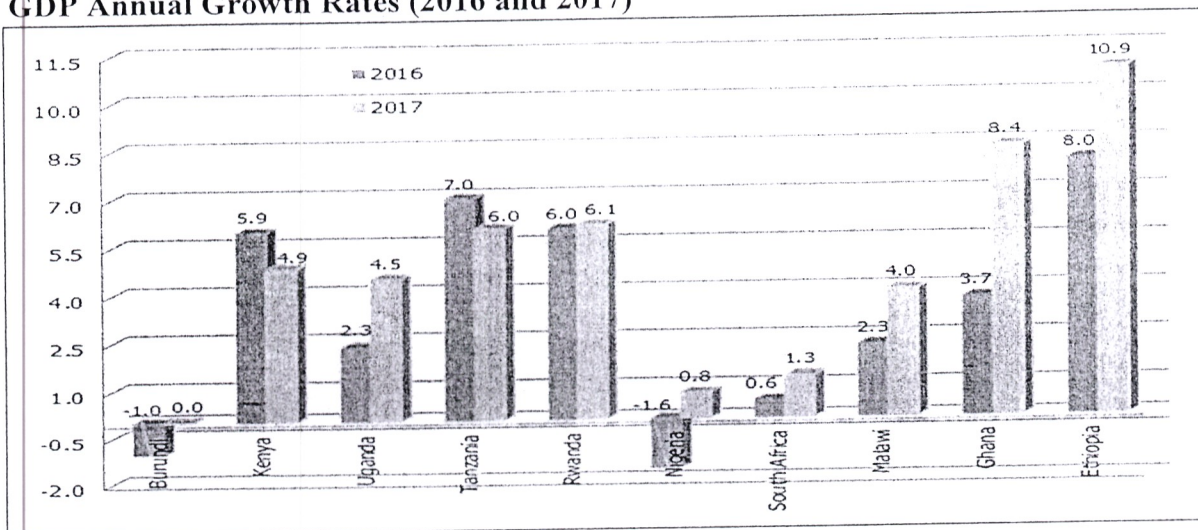
The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya



**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 bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-saharan Africa.

**GDP Annual Growth Rates (2016 and 2017)**



Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to maintain macro-economic stability, which is key in enhancing investor confidence. The Country made notable progress in 2017 in improving the ease of doing business, thereby providing a conducive business environment for both domestic and foreign investors. These reforms have seen Kenya being ranked favourably in the ease of doing business and as a top investment destination. For two consecutive years (2016 and 2017 World Bank’s Doing Business Reports), Kenya emerged as the third most reformed country in the world, and in the 2018 Report, as the third best in sub-Saharan Africa and position 80 overall.

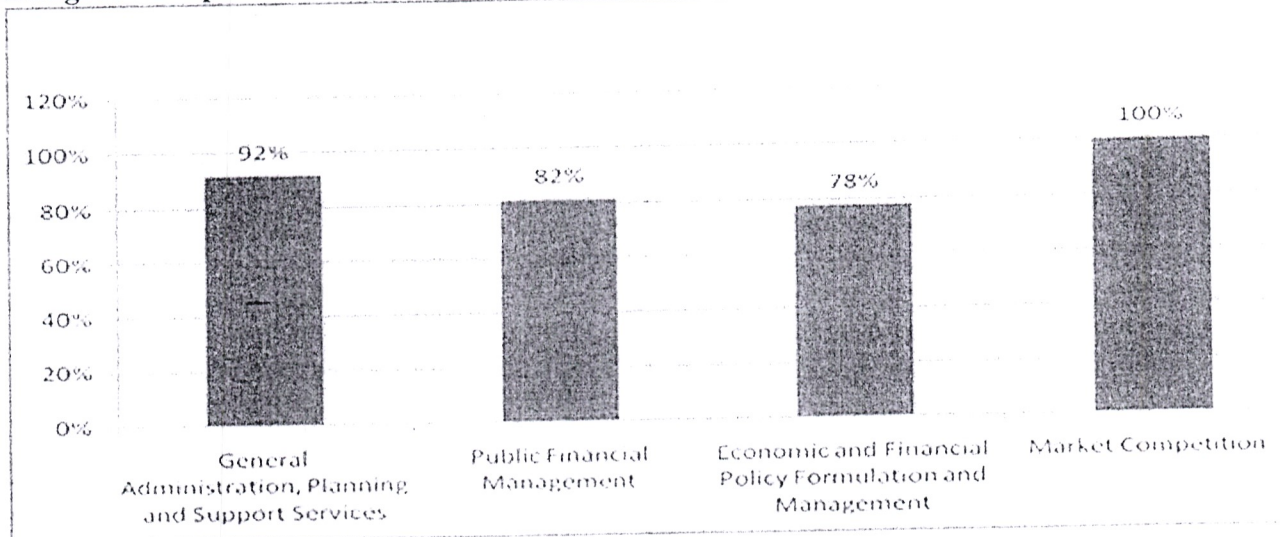
The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred investment destination in East Africa, with the majority of investors being attracted by the good infrastructure, ease of doing business, and strong economic growth and prospects.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

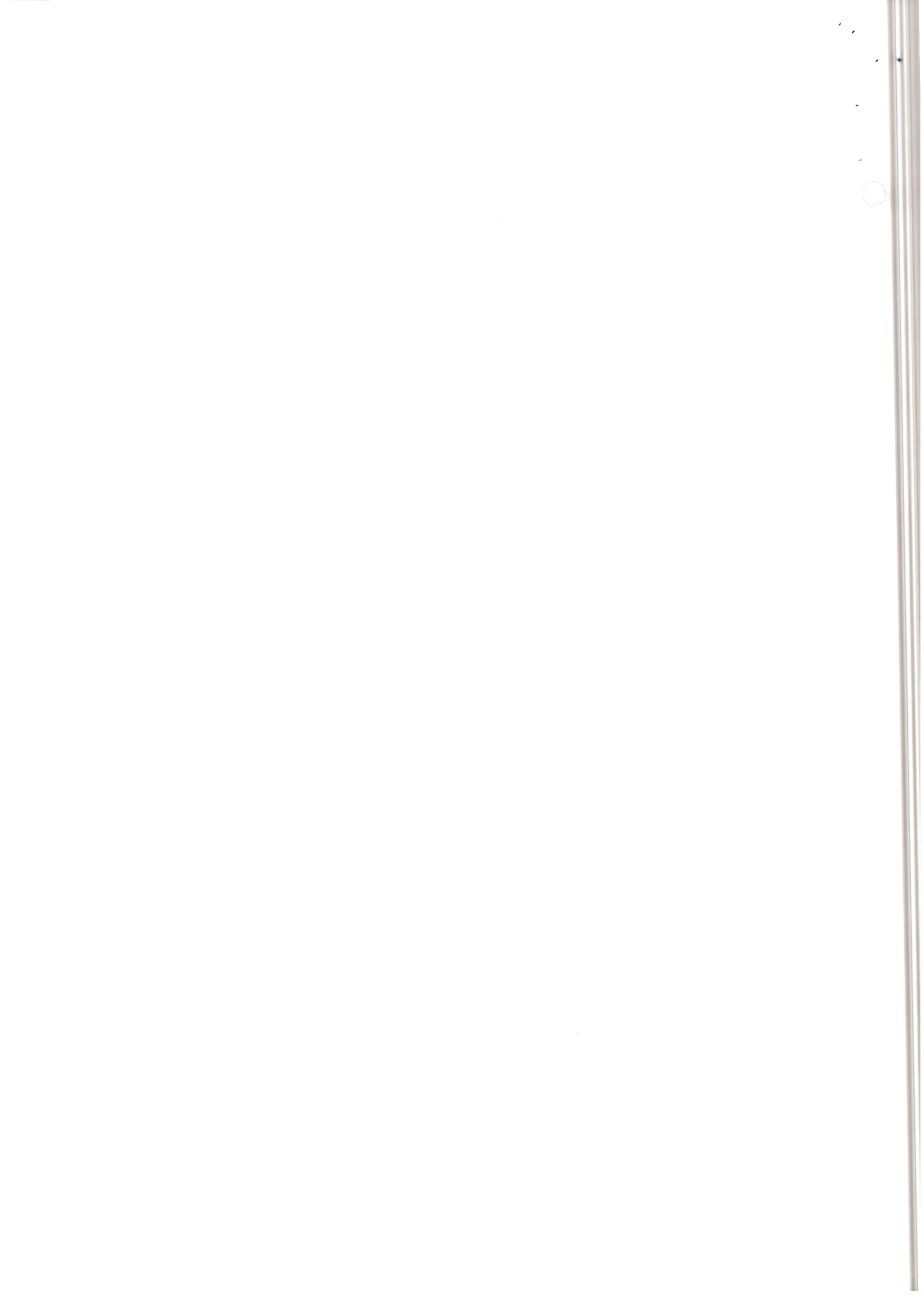
In terms of budget performance, the National Treasury expenditure stood at Kshs.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs.9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%. The National Treasury implemented the 2017/18 budget within four economic classification/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 the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 81.7% and Economic and Financial Policy Formulation and Management (78%).

**Budget Absorption rate by Economic Classification/Programmes**



Other key achievements during the period under review are:-

- The National Treasury continued to implement its mandate of supporting the devolved system of Government. In terms of payments, the County Governments received a total of Kshs.327 billion in 2017/2018 up from Kshs.302.2 billion in 2016/2017. Since their establishment in March 2013, County Governments have received more than Kshs.1.3 trillion from the National Government.
- In line with its commitment to enhance the County Governments capacity, the National Treasury developed the County Governments (Revenue Raising Regulation Process) Bill. The Bill is geared towards addressing the challenges County Governments are encountering in revenue collection, mitigating their negative effects and assisting the Counties to optimize own-sources revenue.
- The National Treasury successfully priced a new \$2 billion Eurobond Transaction. This issue was 7 times oversubscribed thus making it one of the highest order book for an issue from Africa, and providing a dollar yield curve stretching out to 30 years. This made Kenya one of a handful of Governments to achieve this. Specifically with the 30 year yield, international investors demonstrated their long term belief that Kenya is a stable economy in which long-term investments are safe.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. 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.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthen financial and fiscal relations between the national government and county governments
6. 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.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



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**HENRY K. ROTICH, EGH**  
**CABINET SECRETARY**



**NATIONAL TREASURY-PUBLIC DEBT**

**• Reports and Financial Statements  
For the year ended June 30, 2018**

**III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES**

Section 81 (1) of the Public Finance 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 relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

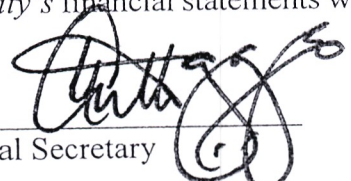
The Accounting Officer in charge of the (*indicate actual name of the entity*) is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 20XX. 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 financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Accounting Officer in charge of the (*name of the entity*) accepts responsibility for the entity'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 (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 20XX, and of the entity's financial position as at that date. The Accounting Officer charge of the (*name of the entity*) further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the (*name of the entity*) confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

**Approval of the financial statements**

The *entity's* financial statements were approved and signed by the Accounting Officer on 30<sup>th</sup> Sept 2018  
20XX.

  
Principal Secretary  
Name:

  
Principal Accountant  
Name:

ICPAK Member Number: 10442



# REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED FUND SERVICES - PUBLIC DEBT FOR THE YEAR ENDED 30 JUNE 2018 - THE NATIONAL TREASURY

#### REPORT ON THE FINANCIAL STATEMENTS

##### Adverse Opinion

I have audited the accompanying financial statements of the Consolidated Fund Services-Public Debt set out on pages 9 to 23, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Consolidated Fund Services-Public Debt as at 30 June 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

##### Basis for Adverse Opinion

##### 1. Accuracy of the Financial Statements

The Financial Statements' balances for the following items were found to be misstated after casting procedures were carried out. Details of the misstatement and the respective differences are as shown below:

Item Description	Financial Statement Balance Kshs.	Confirmed/casted Balance Kshs.	Difference Kshs.
Total receipts-Statement of receipts and payments	517,166,531,951.00	517,161,876,534.00	4,655,417.00
Total payments-Statement of receipts and payments	516,955,293,342.00	516,547,494,884.00	407,799,458.00
Actual total payments-Statement of Appropriation	516,955,293,342.00	516,351,021,786.00	604,271,556.00
Cash and Cash equivalent at the beginning of the year - Cash flow statement	757,714,555.00	1,741,262,569.90	983,548,014.90

*Report of the Auditor General for the financial statement of Consolidated Fund Services - Public Debt for the year ended 30 June 2018- The National Treasury*

Further, a comparison of the statement of receipts and payments and the ledger for the period under review reflects different account balances in respect to the same items as indicated:

Item Description	Financial Statement Balance Kshs.	Ledger Balance Kshs.	Variance Kshs.
Interest Payments on Foreign Borrowings	84,357,487,111	84,725,600,971	368,113,860
Principal Repayment on Domestic Loans	111,700,845,296	294,836,376,343	183,135,531,047
CBK -Pre-1997 Loans	1,110,000,000	2,220,000,000	1,110,000,000
Repayment of Principal from Foreign Lending and On-Lending	141,532,524,729	141,360,882,966	171,641,763
Exchequer Releases	517,161,876,534	-	517,161,876,534

The management has however not provided any analysis and supporting documents to support the adjustments. The accuracy of the balances reflected in the financial statements could therefore not be confirmed.

## 2. Unsupported Balances

The Statement of Assets and Liabilities for the year ended 30 June 2018 reflects a prior year adjustment balance of Kshs.27,251,420,599 which has not been supported by any journal voucher or notes to the financial statement. Further, the general ledger under payment reflect a balance of Kshs.516,547,493,884 which includes a credit balance of Kshs.1,244,520,000 under Debut International SVRNG Bond (USD 2.75 BN). The balance is not supported by any documentary evidence. Further, the Ledger reflects expenditure for new loans and new administrative costs of Kshs.7,919,757,971.05 and Kshs.59,894,313,392.70 respectively. The details of these payments have not been provided. Consequently, the accuracy of the balances could not be confirmed in the absence of the relevant supporting documents.

## 3. Outstanding Loan Balance

The summary statement of public debt reflects an outstanding loan balance of Kshs.4,801,416,851,482 as at 30 June 2018. The statement also shows opening public debt loan balance of Kshs.4,194,102,152,577 as at 1 July 2017 and an amount of cumulative debt repaid of Kshs.588,472,106,190 as at 30 June 2018. The statement does not however disclose amounts of disbursements and repayments during the period under review, making it difficult to confirm the correctness of the closing balance. In the absence of details on the loans, it has not been possible to confirm accuracy of the loan balances reported of Kshs.4,801,416,851,482.

## 4. Failure to Prepare Monthly Bank Reconciliation Statements

The statement of Cash Flows reflect bank balance of Kshs.968,953,164 as at 30 June 2018. The Bank Reconciliation Statements for the period under review have not been

availed for audit and the balance of Kshs.968,953,164 is therefore not supported. In the absence of such records, the accuracy of the financial statement cash balance of Kshs.968,953,164 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated Fund Services-Public Debt in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

### **Key Audit Matters**

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

### **Other Matter**

#### **Outstanding Loan Balance**

The Summary Statement of Consolidated Fund Services-Public Debt reflects an outstanding loan balance of Kshs.4,801,416,851,482 as at 30 June 2018. The outstanding loan balance increased by Kshs.607,314,698,905 from the previous year balance of Kshs.4,194,102,152,577. This represents 14.48% increase in the outstanding loans.

My opinion is not qualified in respect of this matter.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standard requires that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

### **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

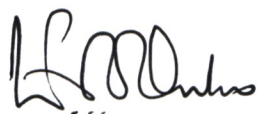
is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the National Treasury's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the sustainability of services basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Treasury's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the 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 National Treasury to cease to continue as a going concern or 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 National Treasury 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.



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

**Nairobi**

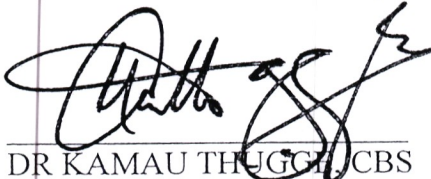
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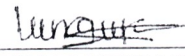
NATIONAL TREASURY-PUBLIC DEBT  
 Reports and Financial Statements  
 For the year ended June 30, 2018

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-2018 KShs	2016-2017 KShs
<b>RECEIPTS</b>			
Exchequer releases	1	517,161,876,534	435,716,953,824
<b>TOTAL RECEIPTS</b>		<b>517,166,531,951</b>	<b>435,716,953,824</b>
<b>PAYMENTS</b>			
Transfers	2	196,472,098	362,830,853
Finance Costs, including Loan Interest	4	262,007,651,761	215,179,745,379
Repayment of principal on Domestic and Foreign borrowing	5	254,343,370,025	220,174,538,145
<b>TOTAL PAYMENTS</b>		<b>516,955,293,342</b>	<b>435,717,114,376</b>
<b>SURPLUS/DEFICIT</b>		<b>614,382,650</b>	<b>(160,552)</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30<sup>th</sup> Sept 2018 and signed by:

  
 DR KAMAU THUGCHI, CBS  
 Principal Secretary

  
 CPA LILIAN WANJIKU DISHON  
 Principal Accountant  
 ICPAK Member Number: 10442




NATIONAL TREASURY-PUBLIC DEBT  
 Reports and Financial Statements  
 For the year ended June 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018 KShs	2016-2017 KShs
<b>FINANCIAL ASSETS</b>			
Cash and Cash Equivalents			
Bank Balances	5	968,953,164	757,714,555
<b>Total Cash and cash equivalent</b>		<b>968,953,164</b>	<b>757,714,555</b>
Accounts receivables – Outstanding Imprests		-	-
<b>TOTAL FINANCIAL ASSETS</b>		<b>968,953,164</b>	<b>757,714,555</b>
<b>FINANCIAL LIABILITIES</b>			
Accounts Payables – Deposits and retentions	6	-	27,654,564,640
<b>NET FINANCIAL ASSETS</b>		<b>968,953,164</b>	<b>(26,896,850,085)</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd	9	(26,896,850,085)	(26,896,689,533)
Prior year adjustment	8	27,251,420,599	-
Surplus/Deficit for the year		614,382,650	(160,552)
<b>NET FINANCIAL POSITION</b>	7	<b>968,953,164</b>	<b>(26,896,850,085)</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30<sup>th</sup> Sept 2018 and signed by:

  
 DR KAMAU THUGGE, CBS  
 Principal Secretary

  
 CPA LILIAN WANJIKU DISHON  
 Principal Accountant  
 ICPAK Member Number: 10442

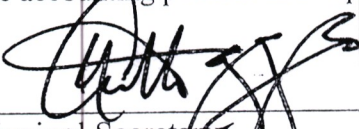


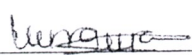
NATIONAL TREASURY-PUBLIC DEBT  
 Reports and Financial Statements  
 For the year ended June 30, 2018

VII. STATEMENT OF CASH FLOWS

		2017/-20 18	20 16 -20 17
		KShs	KShs
<b>Receipts for operating income</b>			
Exchequer Releases	1	517,161,876,534	435,716,953,824
		517,161,876,534	435,716,953,824
<b>Payments for operating expenses</b>			
Transfers Back to Exchequer	2	196,472,098	-
Transfers to R-52	2		362,830,853
Finance Costs, including Loan Interest	3	262,007,651,761	215,179,745,379
<b>Adjusted for:</b>			
Change in receivables		-	-
Payables		(27,654,564,640)	
Adjustments during the year		27,251,420,599	-
<b>Net cash flow from operating activities</b>		<b>262,204,123,858</b>	<b>220,174,377,592</b>
<b>Cash flow from borrowing Activities</b>			
Repayment of principal on Domestic and Foreign borrowing	4	254,343,370,025	220,174,538,145
<b>Net cash flow from financing activities</b>		<b>254,343,370,025</b>	<b>220,174,538,145</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		<b>211,238,609</b>	<b>160,553</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>		<b>757,714,555</b>	<b>757,875,107</b>
<b>Cash and cash equivalent at END of the year</b>	5	<b>968,953,164</b>	<b>757,714,554</b>

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

  
 Principal Secretary  
 DR KAMAU THUGGE, CBS

  
 Principal Accountant  
 CPA LILIAN WANJIKU DISHON  
 ICPAK Member Number 10442





**NATIONAL TREASURY-PUBLIC DEBT**

Reports and Financial Statements

For the year ended June 30, 2018

**III. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED**

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c = a + b	Actual on Comparable Basis d	Budget Utilization Difference e = c - d	% of Utilization f = d/c %
<b>RECEIPTS</b>						
Exchequer releases	621,764,127,455	27,632,599,790	649,396,727,245	517,161,876,534	(132,234,850,711)	80%
<b>TOTAL RECEIPTS</b>	621,764,127,455	27,632,599,790	649,396,727,245	517,161,876,534	(132,234,850,711)	80%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	280,719,798,766	24,342,031,711	305,061,830,477	262,007,651,761	(43,054,178,716)	86%
Repayment of principal on Domestic and Foreign borrowing	341,044,328,689	3,290,568,079	344,334,896,768	254,343,370,025	(89,991,526,743)	74%
<b>TOTAL PAYMENTS</b>	<b>621,764,127,455</b>	<b>27,632,599,790</b>	<b>649,396,727,245</b>	<b>516,955,293,342</b>	<b>(132,441,433,903)</b>	<b>80%</b>
<b>Surplus/ Deficit</b>				<b>810,854,748</b>	<b>810,854,748</b>	

*Note:*

*Public debt is direct charge to consolidated fund as per article 214 of the constitution. Sourcing of debt and negotiating for the terms is a process that may extend beyond anticipated timelines. Budget utilization was over 80%*

The entire financial statements were approved on 30<sup>th</sup> Sept. 2018 and signed by:

Principal Secretary  
Dr. KAMAU THUGGE, CBS

Principal Accountant  
CPA LILIAN WANJIKU DISHON  
ICPAK Member Number: 10442





**NATIONAL TREASURY-PUBLIC DEBT**

Reports and Financial Statements

For the year ended June 30, 2018

**IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT**

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c%
<b>RECEIPTS</b>						
Exchequer releases	621,764,127,455	27,632,599,790	649,396,727,245	517,161,876,534	(132,234,850,711)	80%
<b>TOTAL RECEIPTS</b>	621,764,127,455	27,632,599,790	649,396,727,245	517,161,876,534	(132,234,850,711)	80%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	280,719,798,766	24,342,031,711	305,061,830,477	262,007,651,761	(43,054,178,716)	86%
Repayment of principal on Domestic and Foreign borrowing	341,044,328,689	3,290,568,079	344,334,896,768	254,343,370,025	(89,991,526,743)	74%
<b>TOTAL PAYMENTS</b>	<b>621,764,127,455</b>	<b>27,632,599,790</b>	<b>649,396,727,245</b>	<b>516,955,293,342</b>	<b>(132,441,439,996)</b>	<b>80%</b>
<b>Surplus/ Deficit</b>				<b>810,854,748</b>	<b>810,854,748</b>	

*Note:*

*Public debt is direct charge to consolidated fund as per article 214 of the constitution. Sourcing of debt and negotiating for the terms is a process that may extend beyond anticipated timelines. Budget utilization was over 80%*

The entity financial statements were approved on 30<sup>th</sup> Sept 2018 and signed by:



Principal Secretary  
Dr. KAMAU THUGGE, CBS



Principal Accountant  
CPA LILIAN WANJIKU DISHON  
ICPAK Member Number: 10442



**X. SIGNIFICANT ACCOUNTING POLICIES**

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

**1. Statement of Compliance and Basis of Preparation**

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

**2. Reporting Entity**

The financial statements are for the (*National Treasury -Public Debt*). The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

**3. Reporting Currency**

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

**4. Significant Accounting Policies**

The accounting policies set out in this section have been consistently applied by the Entity for all the years presented.

**a) Recognition of Receipts**

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Entity.

• **Transfers from the Exchequer**

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

• **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30<sup>th</sup> June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognized in the financial statements the time associated cash is received.

**b) Recognition of payments**

The Entity recognises all payments when the event occurs and the related cash has actually been paid out by the Entity.

- **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

- **Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

- **Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

- **Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

**5. In-kind contributions**

In-kind contributions are donations that are made to the Entity 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 received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**6. Third Party Payments**

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

**7. 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.

**Restriction on Cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2018, this amounted to Kshs xxx compared to Kshs xxx in prior period as indicated on note xxx.

There were no other restrictions on cash during the year.

**8. Accounts Receivable**

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

**9. Accounts Payable**

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

**10. Pending Bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Entity at the end of the year. 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.

**11. Budget**

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same



**NATIONAL TREASURY-PUBLIC DEBT  
Reports and Financial Statements  
For the year ended June 30, 2018**

period as the financial statements. The original budget was approved by Parliament on June 2016 for the period 1<sup>st</sup> July 2016 to 30<sup>th</sup> June 2017 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

**12. Comparative Figures**

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

**13. 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 30<sup>th</sup> June 2018.

**14. Errors**

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

During the year, errors that have been corrected are disclosed under note 26 explaining the nature and amounts.

**15. Related Party Transactions**

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

**XI. NOTES TO THE FINANCIAL STATEMENTS**

**1 EXCHEQUER RELEASES**

Description	2017-2018	2016-2017
	KShs	KShs
Total Exchequer Releases for quarter 1	75,389,848,766	112,892,902,692
Total Exchequer Releases for quarter 2	140,241,442,195	81,811,847,263
Total Exchequer Releases for quarter 3	93,618,938,463	78,938,987,780
Total Exchequer Releases for quarter 4	207,911,647,110	162,073,216,089
<b>Total</b>	<b>517,161,876,534</b>	<b>435,716,953,824</b>

*(Over 80% of Budgeted amounts was actually absorbed)*

**2 TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

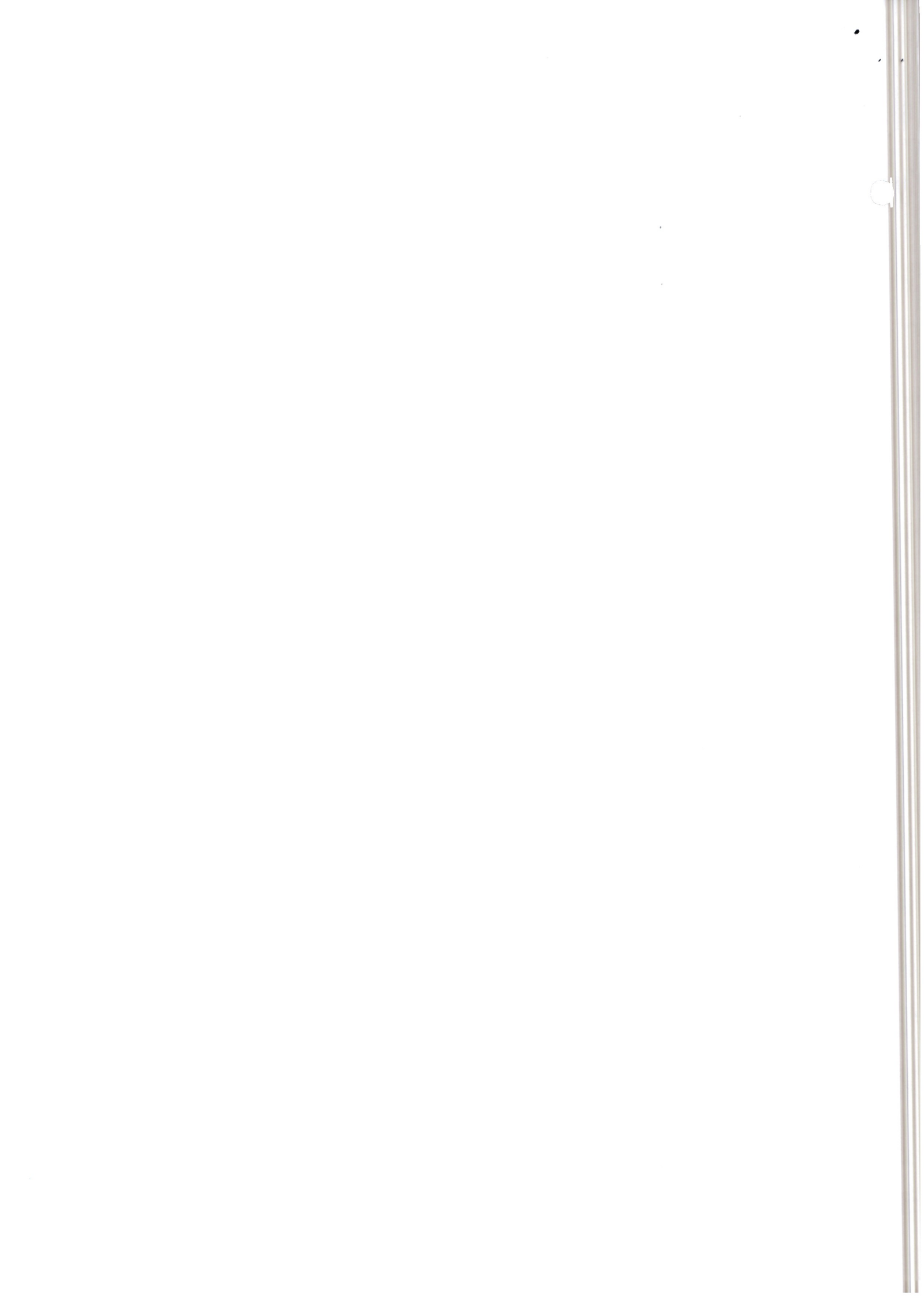
Description	2017-2018	2016-2017
	KShs	KShs
Transfers from R-50 to Exchequer	196,472,098	-
Transfers from R-52 CFS-Salaries & Miscellaneous	-	362,830,853
<b>TOTAL</b>	<b>196,472,098</b>	<b>362,830,853</b>

The above transfer was in relation to a funding erroneously done to R-50 instead of R-52. The amount was transferred back to exchequer vide appendix 1(a) & (b)

**3 FINANCE COSTS, INCLUDING LOAN INTEREST**

Explanation	2017-2018	2016-2017
	KShs	KShs
Interest Payments on Foreign Borrowings	84,357,487,111	58,361,190,715
Interest on CBK Overdraft	2,493,536,827	1,270,482,663
Interest Domestic-T Bonds	138,307,103,161	154,765,529,078
Interest Domestic-T Bills	36,104,826,935	0
Pre- 1997 Interest Domestic	725,206,095	758,506,095
T,bonds & T. Bonds Advertisement costs	19,491,632	24,036,828
<b>Total</b>	<b>262,007,651,761</b>	<b>60,414,216,301</b>

*(Analysis of these figures have been provided in annex 2 below)*



NATIONAL TREASURY-PUBLIC DEBT  
 Reports and Financial Statements  
 For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 REPAYMENT OF PRINCIPAL ON DOMESTIC LENDING AND ON-LENDING

Explanation	2017-2018	2016-2017
	KShs	KShs
Principal repayments on domestic loans	111,700,845,296	183,135,531,048
CBK- Pre-1997 Loans	1,110,000,000	1,110,000,000
Repayment of Principal from Foreign Lending & On - Lending	141,532,524,729	35,929,007,097
<b>Total</b>	<b>254,343,370,025</b>	<b>220,174,538,145</b>

(The analysis of the figure provided above are provided in annex 1 & 5)

5. BANK ACCOUNTS

Name of Bank Account No. & currency	Amount in bank account currency	Indicate whether recurrent Development deposit etc.	Exc rate (if in foreign currency)	2017-2018	2016-2017
				KShs	KShs
1000204378	KSHS	REC		968,953,163	757,714,555
<b>Total</b>				<b>968,953,163</b>	<b>757,714,555</b>

The bank balance as per the bank statement as at 30<sup>th</sup> June 2018 (appendix 3)

6. ACCOUNTS PAYABLE

Description	2017-2018	2016-2017
	KShs	KShs
Balance-Sinking Fund	-	2,093,438
Items awaiting clearance	-	27,652,471,202
<b>Total</b>	<b>-</b>	<b>27,654,564,640</b>

The amounts of payables in 2016/17 were not based on cash based transaction. The figures were erroneously brought in IPSAS cash hence creating a distortion of fund balances. Have now been adjusted in 2017/18 financial statements and brought forward fund balance adjusted appropriately. We had no deposits or retentions for the financial year to be accounted for as Accounts payables.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**7. FUND BALANCE BROUGHT FORWARD**

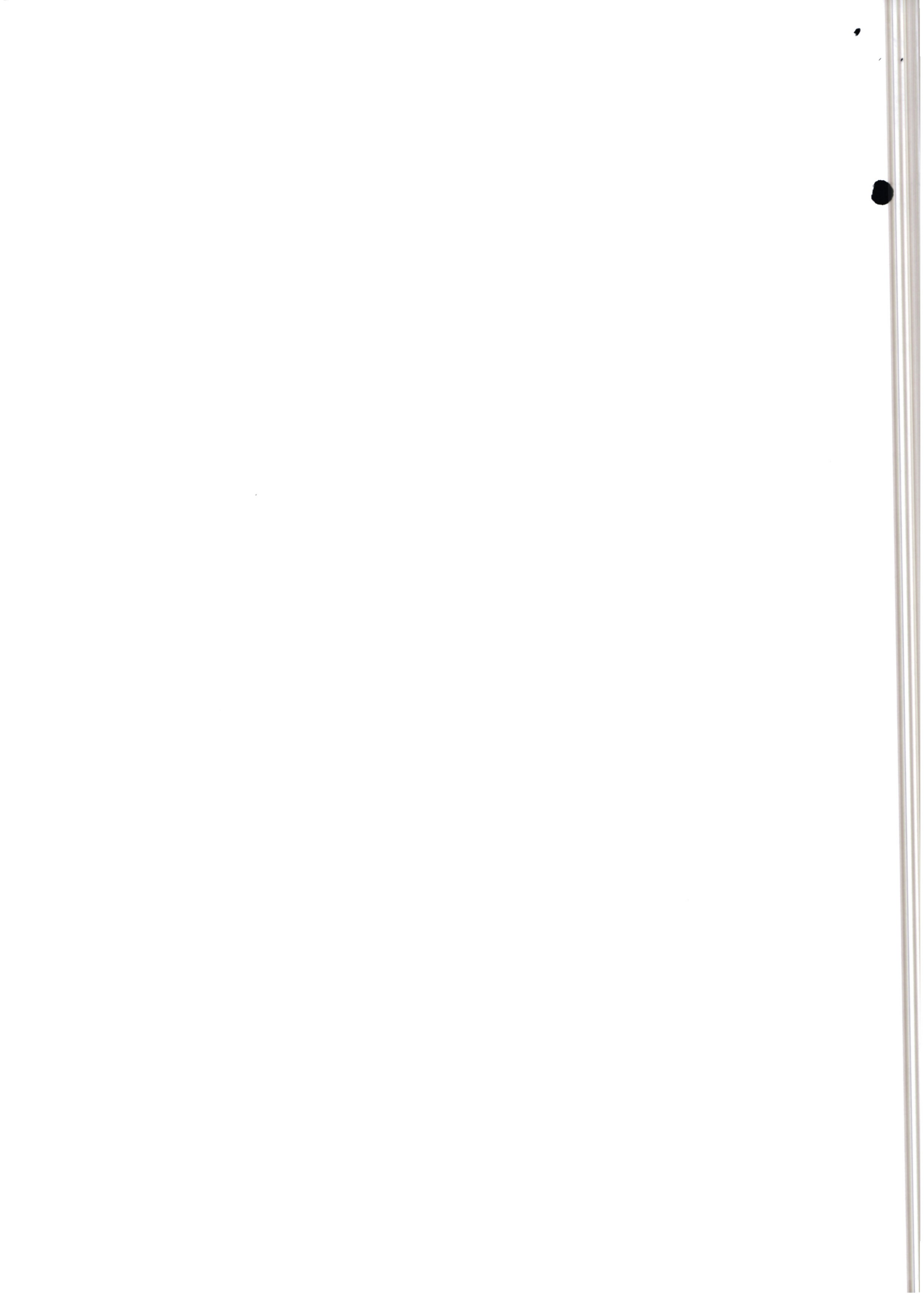
Description	2017-2018	2016-2017
	KShs	KShs
Bank accounts	968,953,164	757,875,107
Accounts Payables –		(27,654,564,640)
<b>Total</b>	<b>968,953,164</b>	<b>(26,896,850,533)</b>

The fund balance of 968,953,163 as at 30<sup>th</sup> June 2018 is equivalent to cash book balance which represents the financial net worth.

**8. PRIOR YEAR ADJUSTMENTS**

	Ref	AUDITED FY 2016/17	B/F ADJUST 2017/18	Difference
Cash & Bank	Note 7	757,714,555	757,714,555	-
Cash Book Adjustment	Annex 10		4,655,417	4,655,417
Cash Book Adjustment	Annex 11		-	-
Payables	Note 6	27,654,564,640	407,799,458	407,799,458
Prior Year adjustment		-	-	-
		26,896,850,085	354,570,514	27,251,420,599

Prior year adjustment relates to items that were raised in the audit report 2016/17 which had remained outstanding and now have appropriately been adjusted. Also have adjusted items that were inadvertently brought in IPSAS cash financial statements as Account payables hence distorting the fund balance thereby having a negative net worth which is infeasible in Cash Based accounting.



**NATIONAL TREASURY-PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended June 30, 2018**

**XII OTHER IMPORTANT DISCLOSURES**

**PENDING ACCOUNTS PAYABLE (See Annex 1)**

Description	2017-2018	2016-2017
	Kshs	Kshs
CBK overdraft – Treasury Bonds (Annex 4)	56,849,237,055	0
	56,849,237,055	0

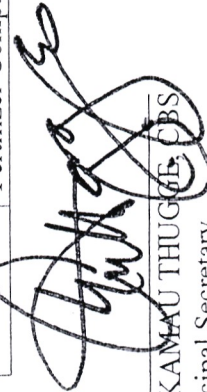
*The total redemption for Treasury Bonds for the financial year 2017/18 was Kshs 138,040,895,296 of which Kshs 111,700,845,296 was funded by the exchequer and the Balance of Kshs 26,340,050,000 was funded by CBK overdraft. The total Treasury bond interest for the financial year was Kshs 168,820,006,443.5 of which Kshs 138,307,103,160.75 was funded through the Exchequer and the balance of Kshs 30,509,187,032.25 through CBK overdraft. However, the overdraft for all the call -ups have been cleared in the current financial year vide exchequer funding, Appendix 5 (a) and amounts transferred to bonds account vide PDS letters Appendix 6(a,b and c) reflected in bank statement vide Appendix 7(a, b and c). The effect of this financial transaction will be reflected in the financial statement for 2018/19.*



**III. 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.

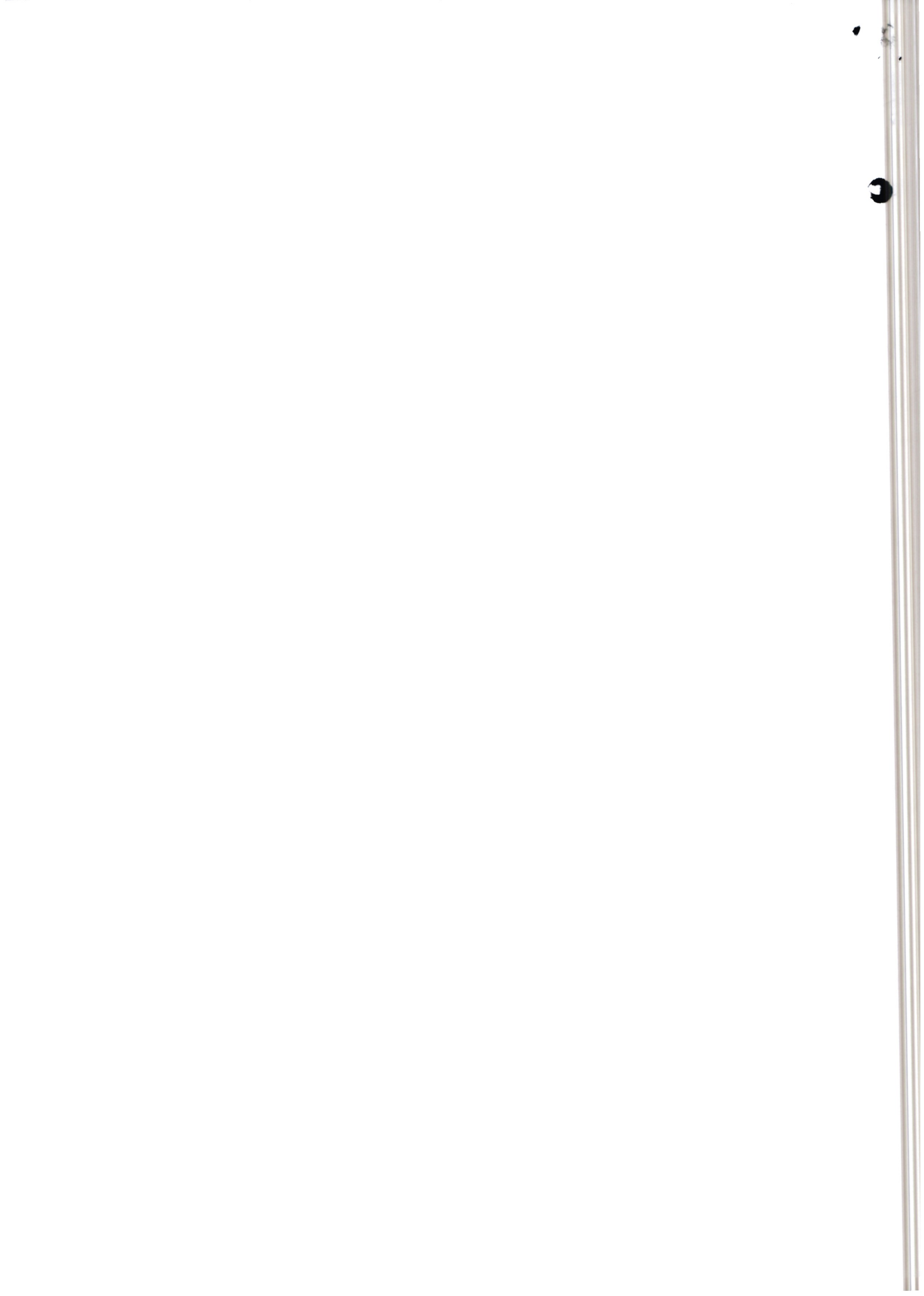
Reference No. on the external audit Report	Issue/ Observations from Auditor	Management comments	Focal Person to resolve the issue (Name and designation)	Status (Resolved/Not Resolved)	Timeframe (Put a date when you expect the issue to be resolved)
1	Understated Treasury Bond Balance	Responded to awaiting Auditor's verification	Minjire/Tonui	Audit response copy attached (appendix 8)	Auditors concurrence awaited
2(a)	Cash and cash equivalent	Responded to awaiting Auditor's verification	Minjire/Dorcas		Auditors concurrence awaited
2(b)	Bank reconciliation	Responded to awaiting Auditor's verification	Anyanga/ Tonui		Auditors concurrence awaited
3	Variances between IFMIS & Financial Statement	Responded to awaiting Auditor's verification	Dorcas/Tonui		Auditors concurrence awaited
4	Prior year adjustments	Responded to awaiting Auditor's verification	Anyanga		Auditors concurrence awaited
<b>Emphasis of Matter</b>					
1	Growth in Public debt	Responded to awaiting Auditor's view	Anyanga/Minjire		Auditors concurrence awaited
2	Ken-Ren Chemical & Fertilizer Company	Responded to awaiting Auditor's view			Auditors concurrence awaited



Dr. KAMAU THUGGE  
 Principal Secretary

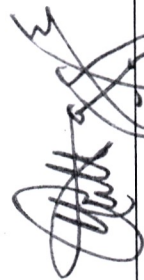


LILIAN WANJIKU DISHON  
 Principal Accountant ICPAK NO: 10442



**THE NATIONAL TREASURY  
DEBT MANAGEMENT DEPARTMENT  
SUMMARY STATEMENT OF PUBLIC DEBT**

		AMOUNT OUTSTANDING AS AT 30-06-2017 Kshs.	AMOUNT REPAID AS AT 30-06-2018 Kshs.	AMOUNT OUTSTANDING AS AT 30-06-2018 Kshs.
<b>EXTERNAL LOANS</b>				
Pound Sterling Loans	Part I	650,142,163	3,336,844,073	271,679,223
US Dollar Loans	Part II	1,786,839,105,884	302,594,665,278	2,092,922,917,126
Euro Loans	Part III	158,743,469,445	55,465,352,568	167,618,909,382
Other Currencies	Part IV	137,046,583,433	114,264,398,976	143,085,596,453
<b>SUB TOTAL</b>		<b>2,083,279,300,924</b>	<b>475,661,260,894</b>	<b>2,403,899,102,184</b>
<b>INTERNAL LOANS</b>				
Pre-1997 Govt. O.D. Debt	Part V	24,448,755,686	1,110,000,000	23,338,755,686
Treasury Bonds		1,338,719,195,967	111,700,845,296	1,495,557,343,612
Short Term Borrowing		747,654,900,000	-	878,621,650,000
<b>SUB TOTAL</b>		<b>2,110,822,851,653</b>	<b>112,810,845,296</b>	<b>2,397,517,749,298</b>
<b>GRAND TOTAL</b>		<b>4,194,102,152,577</b>	<b>588,472,106,190</b>	<b>4,801,416,851,482</b>



**DR. KAMAU THUGGE, CBS**  
PRINCIPAL SECRETARY



**LILIAN W. DISHON**  
PRINCIPAL ACCOUNTANT  
ICPAK Member Number: 10442

