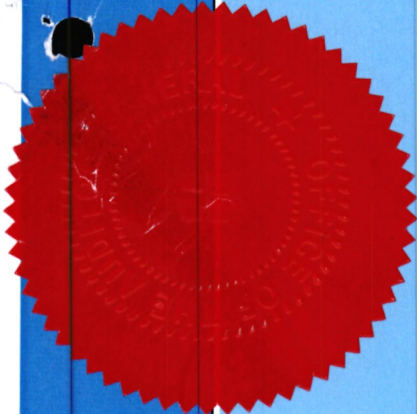
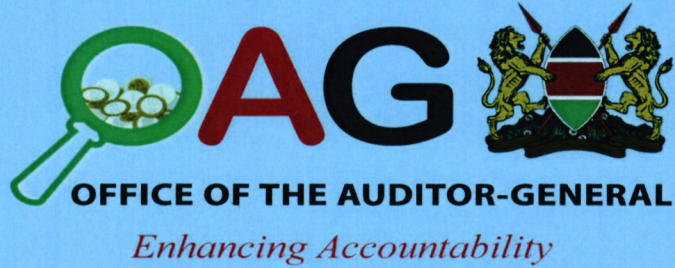


REPUBLIC OF KENYA



**REPORT**

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DATE: 04 MAR 2021	O.A.V. chure
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**THE AUDITOR-GENERAL**

**ON**

**AFRICAN UNION AND OTHER  
INTERNATIONAL ORGANIZATIONS  
SUBSCRIPTION FUND**

**FOR THE FIVE (5) MONTHS PERIOD  
ENDED 30 JUNE, 2017**

**THE NATIONAL TREASURY**



---

## **THE NATIONAL TREASURY**

### **Financial Statement for African Union and Other International Organization Subscription Fund For the Five Months period ending 30<sup>th</sup> June 2017**

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

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## **1. The National Treasury Information Management**

### **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.1/2017. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

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

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

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

#### **Role of the National Treasury in the Devolved System of Government**

The National Treasury is mandated by law to:-

- Strengthen financial and fiscal relations between the National Government and County Governments and 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.

## **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.

### **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).

### **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

### Fiduciary Management

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

NO.	Designation	Name
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.	Senior Assistant Accountant General	Ms. Jane W N Macharia
16.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
17.	Director Government Digital Payments	Mr. Harry Mwangi
18.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
19.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
20.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
21.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
22.	Director, Pensions Department	Mr. Shem Nyakutu
23.	Ag. Director General Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
24.	Director, Debt Policy, Strategy & Risk Management Department	Mr. Daniel Ndolo
25.	Ag Director, Debt Recording and Settlement Department	Mrs. Felister Kivisi
26.	Head, Accounts Division	Mr. George Gichuru
27.	Head, Finance	Mr. Kimathi Mugambi, HSC
28.	Head, SCM	Mr. Peter Momanyi
29.	Head, Internal Audit Unit	Mr. John Kariuki
30.	Director, Human Resource Management & Development	Ms. Susan Mucheru
31.	Ag Director, Information Communication and Technology	Mr. George Kariuki
32.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
33.	Head, Public Communications	Mr. Maina Kigaga
34.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
35.	Ag. Director, Government Clearing Agency	Mr. Felix Ateng

## **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.

### **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.

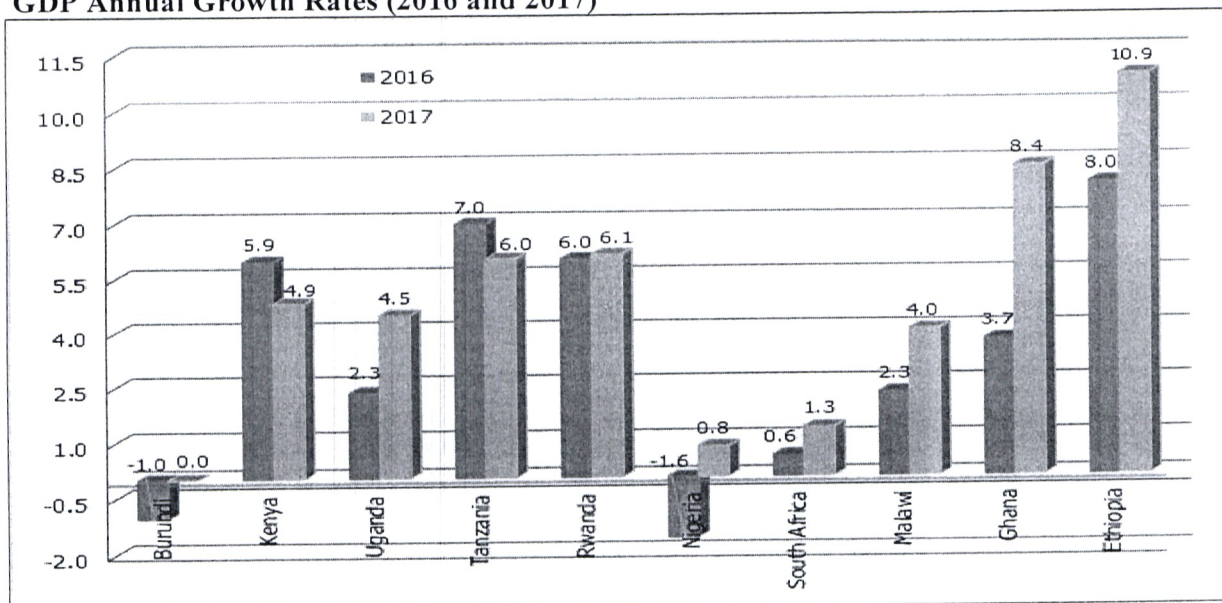
### **Monitoring and Evaluation**

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.

## 2. Forward by The Cabinet Secretary

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, 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 2017, 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 2017 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.

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. 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.

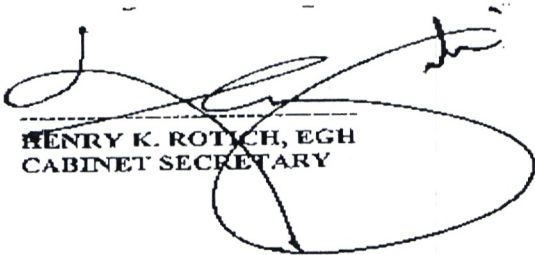
Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

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.



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

### **3. African Union and Other International Organization Subscription Fund Information and Management**

#### **3.1 Establishment of the Fund**

Since the launch of African Union in 2001 Securing reliable, predictable and sustainable funding is one of the key agenda items within the African Union (AU). At different moments, AU actors have expressed concern over the growing reliance on external partners to finance the continental integration and development agenda. The Constitutive Act of the AU promotes the self-reliance of the Union. Similarly, Agenda 2063's Aspiration number 7 wishes for Africa to become a strong, united and influential global player, and to be "fully capable and have the means to finance her development". The Executive Council and the AU Assembly have taken various decisions on finding alternative sources of financing the Union.

The AU Assembly, at its July 2016 Summit in Kigali, considered the report of the High Representative's new proposal. On this occasion, the Assembly decided to "institute and implement a levy on all eligible imported goods into the continent to finance the African Union Operational, Program and Peace Support Operations Budgets starting from the year 2017

The taxable base of the AU import levy will be the value of eligible goods originating from outside the territory of the African Union, and imported and consumed in an AU Member State. The levy shall apply to the Cost Insurance and Freight (CIF) value at the port of arrival for those goods that arrive either by sea or road, and to customs value at the airport of disembarkation for goods arriving by air

Under the Public Finance Management (African Union and other International organization subscription Fund) regulations, 2017 there will be established a fund to be known as the African Union and other International organization subscription Fund. The Fund shall consist of 10% of the Import Declaration fee imposed under section 7 of the miscellaneous fees and levies act 2016 and Monies appropriated by parliament. The purpose of the Fund shall be to make Kenya's contribution to the African Union and any other international organization to which Kenya has a financial obligation.

#### **3.2 Administration of the Fund**

Funds should be transferred from the Holding Account maintained at the National Treasury to cater for African Union and other International Organization Subscription costs. The fund Administrator is expected to be appointed by the Principal Secretary, The National Treasury & Planning to operationalize the fund.

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

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2017 and who had direct fiduciary responsibility were:

#### **The National Treasury Headquarters**

Treasury Building,  
Harambee, Avenue  
Nairobi Kenya

#### **The National Treasury Contacts**

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

#### **The National Treasury Bankers**

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

#### **Independent Auditors**

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

#### **Principal Legal Adviser**

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

### **3.4 Commentary on the financial statements of the Fund**

The Holding Account received Kshs 787,939,623.00 during the financial year 2016/2017. The money was received from the Kenya Revenue Authority as the appointed collector of the revenue for the Fund.

During the year ended 30<sup>th</sup> June 2017, no money had been transferred from the Holding Account to the operations account.

As at 30<sup>th</sup> June 2017, the Holding Account had a cumulative balance of Kshs 787,939,623.00. The funds are held in the holding bank account at the Central Bank of Kenya.

#### 4. Statement of Responsibility

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

The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the African Union and other International Organization Subscription Fund Holding Account, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the status of the Fund by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer in charge of The National Treasury accepts responsibility for the African Union and other International Organization Subscription Fund Holding Account, which has been prepared on the Cash Basis Method using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the financial statements of the African Union and other International Organization Subscription Fund Holding Account give a true and fair view of the performance of the Fund during the financial year ended June 30, 2017. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

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

Notes to the financial statements set out on pages 5 to 6 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 10/2 2020 by:

Signature: \_\_\_\_\_



**Julius Muia, PhD, EBS**  
**Principal Secretary,**

**The National Treasury**

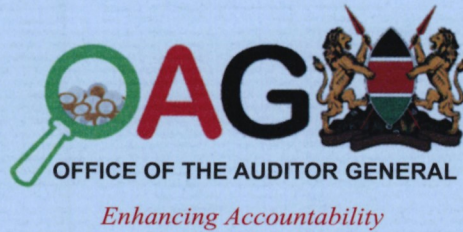
Signature: \_\_\_\_\_



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

# REPUBLIC OF KENYA

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

## **REPORT OF THE AUDITOR-GENERAL ON AFRICAN UNION AND OTHER INTERNATIONAL ORGANIZATIONS SUBSCRIPTION FUND FOR THE FIVE (5) MONTHS PERIOD ENDED 30 JUNE, 2017 – THE NATIONAL TREASURY**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Adverse Opinion**

I have audited the accompanying financial statements of the African Union and Other International Organizations Subscription Fund set out on pages 1 to 7, which comprise the statement of assets and liabilities as at 30 June, 2017, and the statement of receipts and payments, statement of cash flow and the summary of budget versus actual performance for the period 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 African Union and Other International Organizations Subscription Fund as at 30 June, 2017, 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 do not comply with the Public Finance Management Act, 2012.

#### **Basis for Adverse of Opinion**

##### **Lack of Proper Books of Accounts**

The Fund did not maintain proper books of accounts including receipt vouchers, Cash books, ledgers, and bank reconciliation statements. Further, the summary of budget versus actual performance reflects budgeted revenue estimates of Kshs.3,303,802,519 based on 10% of total estimated import declaration fee. However, supporting documents showing how the amount was arrived at were not availed for audit review. In addition, the statement did not indicate the estimated expenditure for the year contrary to Section 2 of the Appropriation Act, 2016.

Consequently, the validity, accuracy and completeness of the financial statements for the year ended 30 June, 2017 as prepared and presented for audit could not be established.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the African Union and Other International Organizations Subscription Fund Management in accordance with ISSAI 130 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.

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

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Late Submission of Financial Statements**

Contrary to the provisions of Section 24 (10) of the Public Finance Management Act, 2012 and Regulation 7(2)(c) of the Public Finance Management (African Union and Other International Organizations Subscription Fund) Regulations, 2017, the financial statements of the Fund for the financial year 2016/17 year were submitted for audit on 6 March, 2019, one and half years late after the prescribed deadline of 30 September, 2017.

Management is in breach of the law to this extent.

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 in compliance, in all material respects, with the authorities that

govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and overall Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

#### **1. Lack of Segregation of Duties**

Contrary to the provisions of Section 68(1) (e) of the Public Finance Management Act, 2012 which requires accounting officers to ensure that all applicable accounting and financial controls and systems are followed, the financial transactions for the Fund were processed by one officer without segregation of duties. Consequently, internal controls were inadequate.

#### **2. Non-Operationalization of the Fund**

The secretariat necessary to operationalize the Fund had not been set up as at 30 June, 2017. This is contrary to Section 7(2) of the Public Finance Management (African Union and Other International Organisations Subscription Fund) Regulations, 2017. The Fund did not therefore, utilize the approved budget for the period.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

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

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

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

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

### **Auditor-General's Responsibilities for the Audit**

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit

Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Fund to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**14 January, 2021**

**1. Statements of Receipts and Payment for the Five Months period ending 30th June 2017**

	Notes	Kshs
<b>Receipts</b>		
Receipts from the Kenya Revenue Authority	11.1	787,939,623.00
<b>Total Receipts</b>		<b>787,939,623.00</b>
Transfers from the Fund holding account		-
<b>Total transfers</b>		<b>-</b>
<b>Deficit /Surplus</b>	11.2	<b>787,939,623.00</b>

Notes to the financial statements set out on pages 6 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 10/12 2020 by:

Signature: \_\_\_\_\_



**Julius Muia, PhD, EBS**  
**Principal Secretary,**  
**The National Treasury**

Signature: \_\_\_\_\_



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

**2. Statement of Assets and Liabilities as at 30th June 2017**

	Note	Kshs
<b>Financial Assets</b>		
<b>Cash And Cash Equivalents</b>		
Bank Balances	11.2	787,939,623.00
<b>Total Cash and Cash Equivalents</b>		<b>787,939,623.00</b>
<b>Accounts Receivables</b>		
Outstanding Imprests		-
<b>Total Financial Assets</b>		<b>787,939,623.00</b>
<b>Financial Liabilities</b>		
Accounts Payables – Deposits And Retentions		-
<b>Net Financial Assets</b>		
<b>Represented By</b>		
<b>Fund Balance B/Fwd</b>		-
Deficit/Surplus for the Year	11.2	787,939,623.00
<b>Net Financial Position</b>	11.2	<b>787,939,623.00</b>

Notes to the financial statements set out on pages 6 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 10/12 2020 by:

Signature: \_\_\_\_\_

**Julius Muia, PhD, EBS**  
**Principal Secretary,**

**The National Treasury**

Signature: \_\_\_\_\_

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

**3. Statement of Cash Flow for the Five Months period ending 30th June 2017**

	Note	Kshs
<b>Cash from Operating Activities</b>		
Receipts from The Kenya Revenue Authority	11.1	787,939,623.00
<b>Payments</b>		
Transfer from the Fund holding account		
<b>Net Cash Flow from Operating Activities</b>	<b>11.1</b>	<b>787,939,623.00</b>
<b>Cash flow from Investing Activities</b>		-
<b>Cash flow from Financing Activities</b>		-
<b>Net increase in Cash and Cash Equivalents</b>	<b>11.2</b>	<b>787,939,623.00</b>
Cash and cash equivalents at the beginning of the year		-
<b>Cash and Cash Equivalents at the end of the Year</b>	<b>11.2</b>	<b>787,939,623.00</b>

Notes to the financial statements set out on pages 6 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 10/12 2020 by:

Signature: 

**Julius Muia, PhD, EBS**  
**Principal Secretary,**

**The National Treasury**

Signature: 

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

#### 4. Statement of Comparative Budget and Actual amounts for the Five Months period ending 30th June 2017

The following statement summarizes the outturn against budget:

	Original Estimates Kshs	Adjustments	Revised Estimates Kshs	Total Actual 30 <sup>th</sup> June 2018 Kshs	Difference Kshs	Dev. %
Opening balance				787,939,623.00	(787,939,623.00)	
<b>Receipts</b>						
African Union and other International Organization Subscription Fund	3,303,802,519.00	-	3,303,802,519.00	787,939,623.00	2,515,862,896.00	76.2%
<b>Total</b>	<b>3,303,802,519.00</b>	<b>-</b>	<b>3,303,802,519.00</b>	<b>787,939,623.00</b>	<b>2,515,862,896.00</b>	<b>76.2%</b>
<b>Transfers</b>						
Transfer from the fund holding Account						
<b>Total Transfers</b>				-	-	

Note

1. The African Union and other International Organization Subscription Fund has had no payments since it was established.
2. The revenue estimate was derived from the 10% of the Estimates of Import Declaration Fee of FY2016-2017 as per the Act.

## **5. Significant Accounting Policies.**

### **a) Basis of preparation**

The financial statements of African Union and other International Organization Subscription Fund Holding Account have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) cash based standard as prescribed by the Public Sector Accounting Standard Board (PSASB).

### **b) Reporting entity**

This report relates to financial operations of the African Union and other International Organization Subscription Fund Holding Account maintained at Central Bank of Kenya. The reporting entity is The National Treasury.

### **c) Revenues**

The Fund shall consist of the proceeds of the African Union and other International Organization Subscription Fund charged Under miscellaneous fees and levies act 2016, grants or donations made to the fund and any income generated from the proceeds of the Fund.

### **d) Expenditure and transfers**

The expenditure of the Fund shall be on the basis of, and limited to, the annual work programmes and cost estimates which shall be submitted to the Fund management to be established.

### **e) Cash and cash equivalents**

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

### **f) Presentation currency**

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

## 6. Notes to the Financial Statements

### 11.1 Receipts from Kenya Revenue Authority

An amount of Kshs 787,939,623.00 was received during financial year 2016/2017. The funds were received from the Kenya Revenue Authority.

Description	Kshs
Receipts from Kenya Revenue Authority	787,939,623.00
<b>Total Receipts</b>	<b>787,939,623.00</b>

### 11.2 Bank balance

The bank balance as at 30<sup>th</sup> June 2017 amounted to Kshs 787,939,623.00.

Bank Name and Account	Denomination of Account	Balance as at 30 <sup>th</sup> June 2017
Central Bank of Kenya Acc no. 1000323876	Kshs	787,939,623.00
<b>Total</b>		<b>787,939,623.00</b>

Signature: 

**Julius Muia, PhD, EBS**  
**Principal Secretary,**

**The National Treasury**

Signature: 

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

### 7. Progress on Follow Up of Auditor's Recommendations

There were no noted and outstanding audit matters issues since this is the first Audit

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Unqualified opinion	N/A	N/A	N/A	N/A	N/A