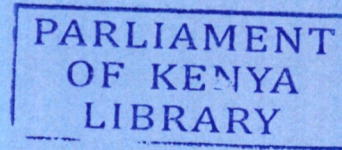


REPUBLIC OF KENYA



*Paper laid by
Leader of
Majority Party
Hon. Duale
Tuesday 12/6/2018
A/S*

OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE RECEIVER OF REVENUE
(RECURRENT)**

**FOR THE YEAR ENDED
30 JUNE 2017**

THE NATIONAL TREASURY



**RECEIVER OF REVENUE
THE NATIONAL TREASURY**

REVENUE STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

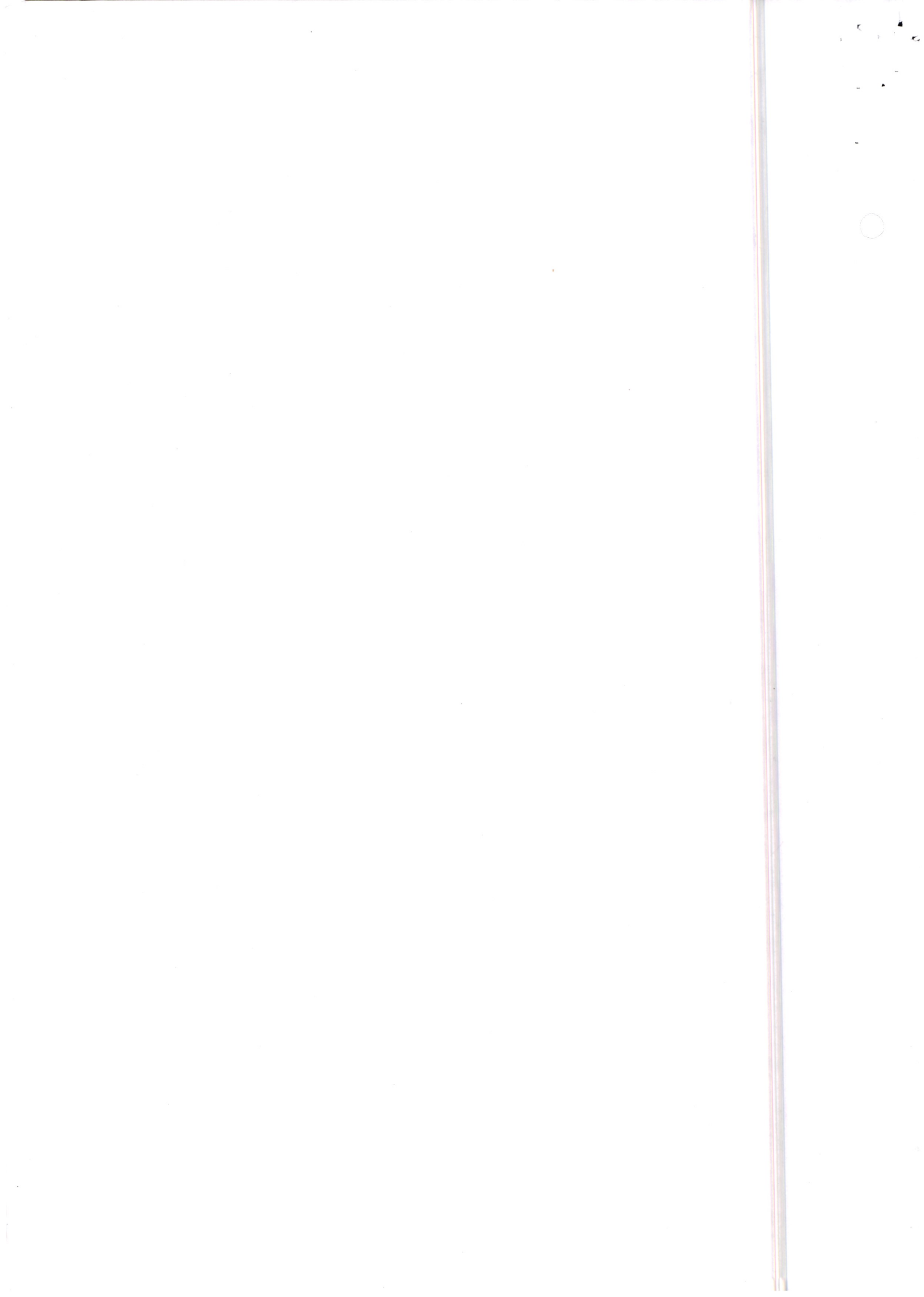
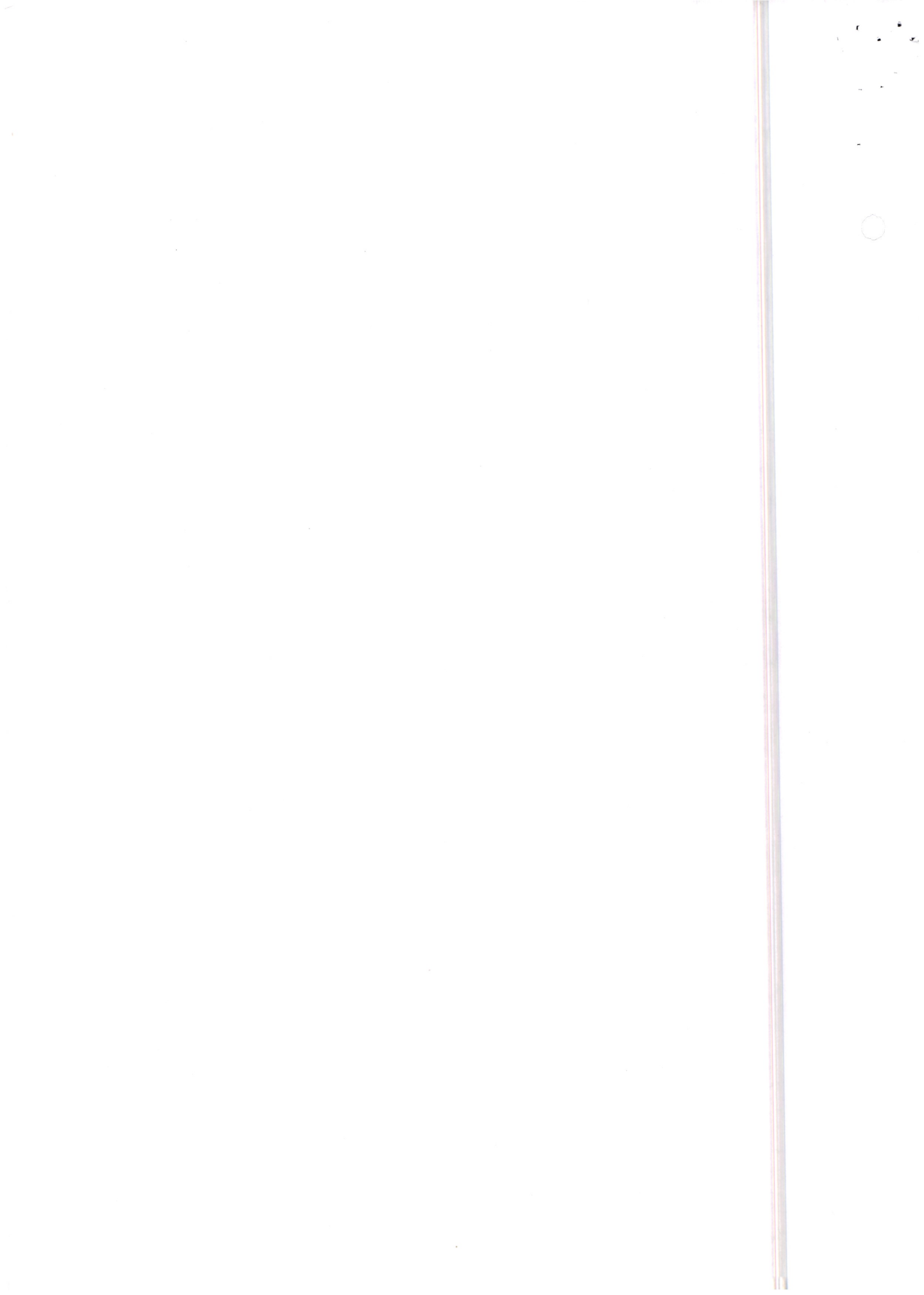


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KEY ENTITY INFORMATION AND MANAGEMENT

1. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

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

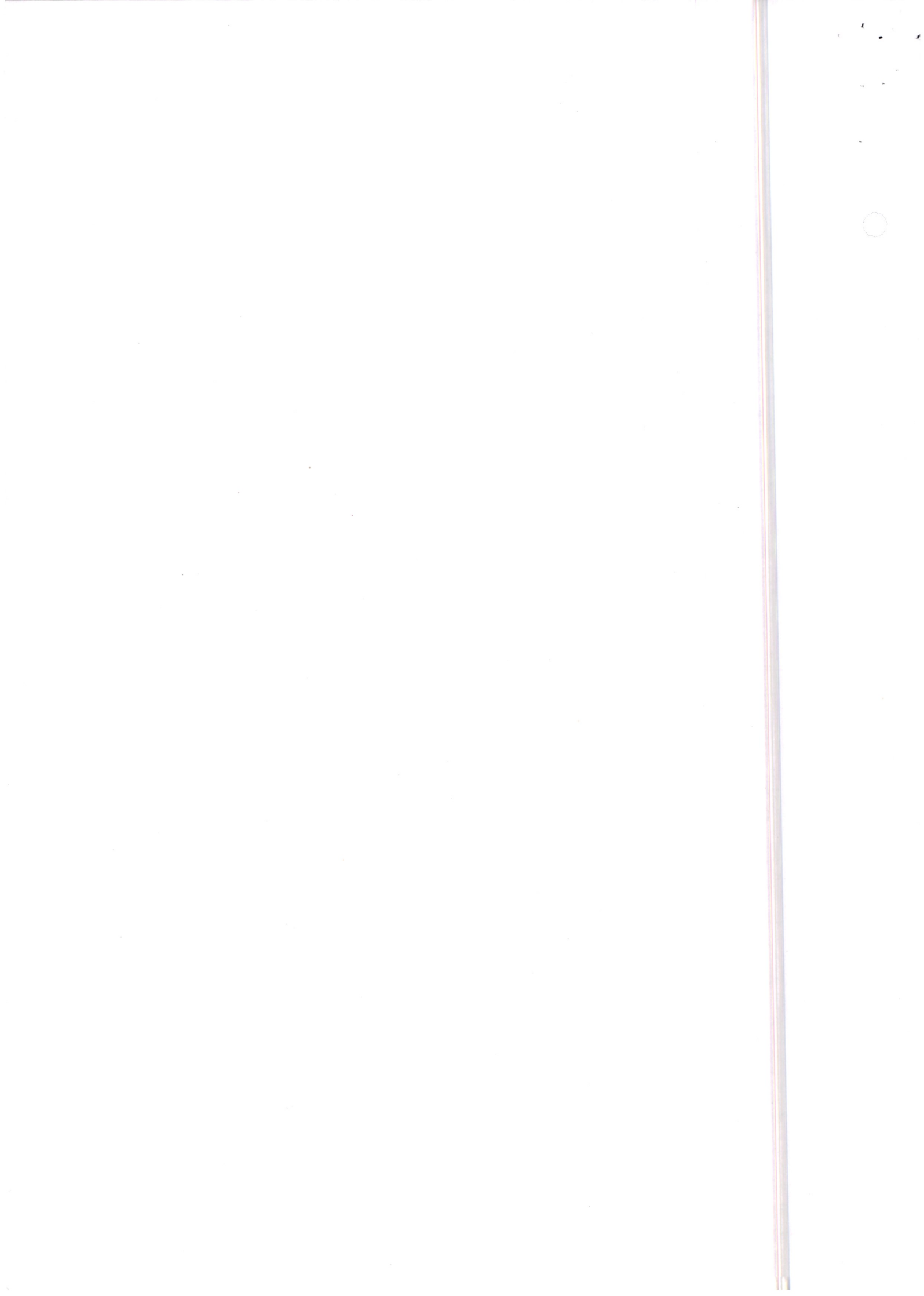
The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

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 Order No.2/2013. 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.

(b) Key Management

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

Office of the Principal Secretary

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

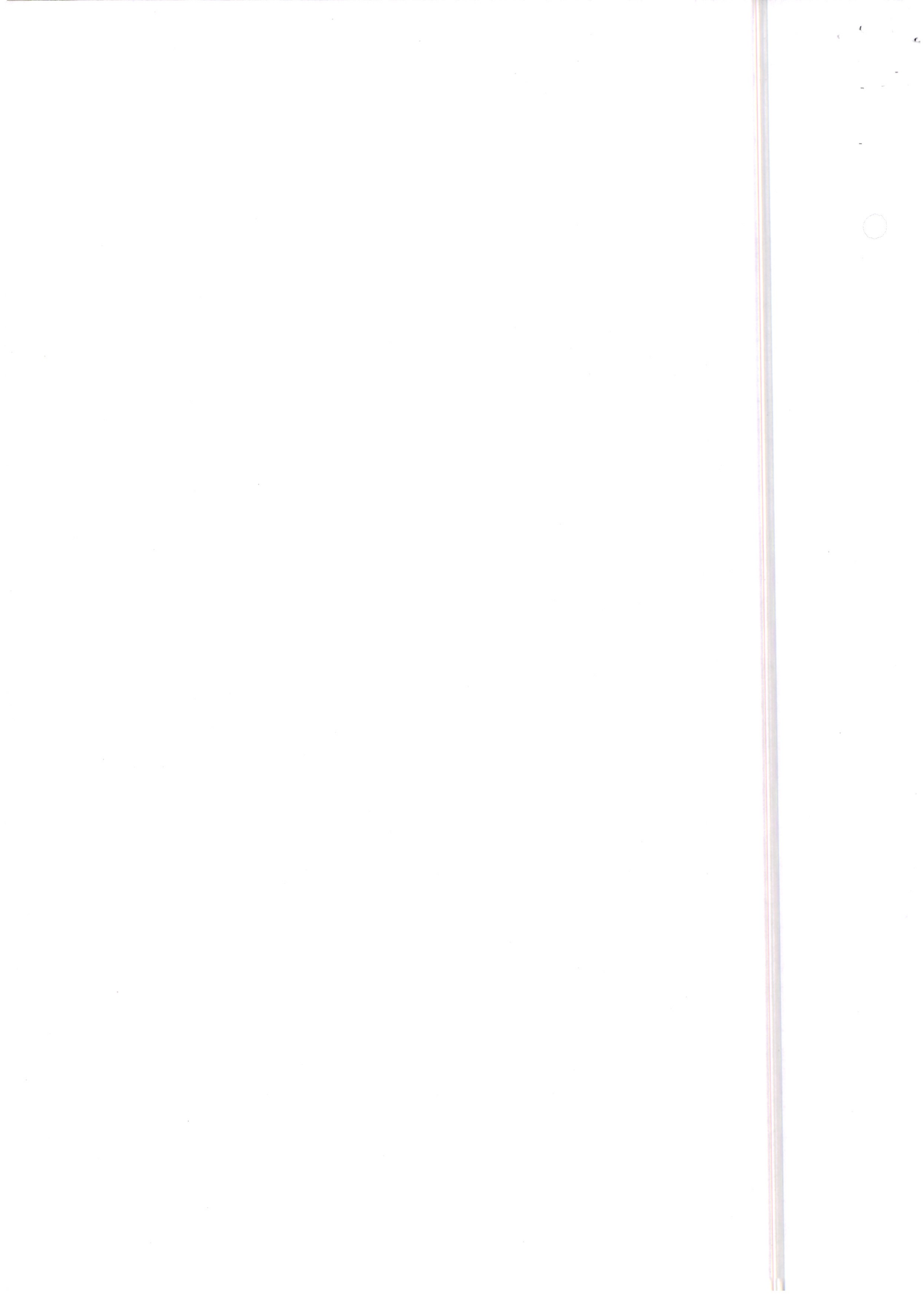
Organizational structure of the National Treasury

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

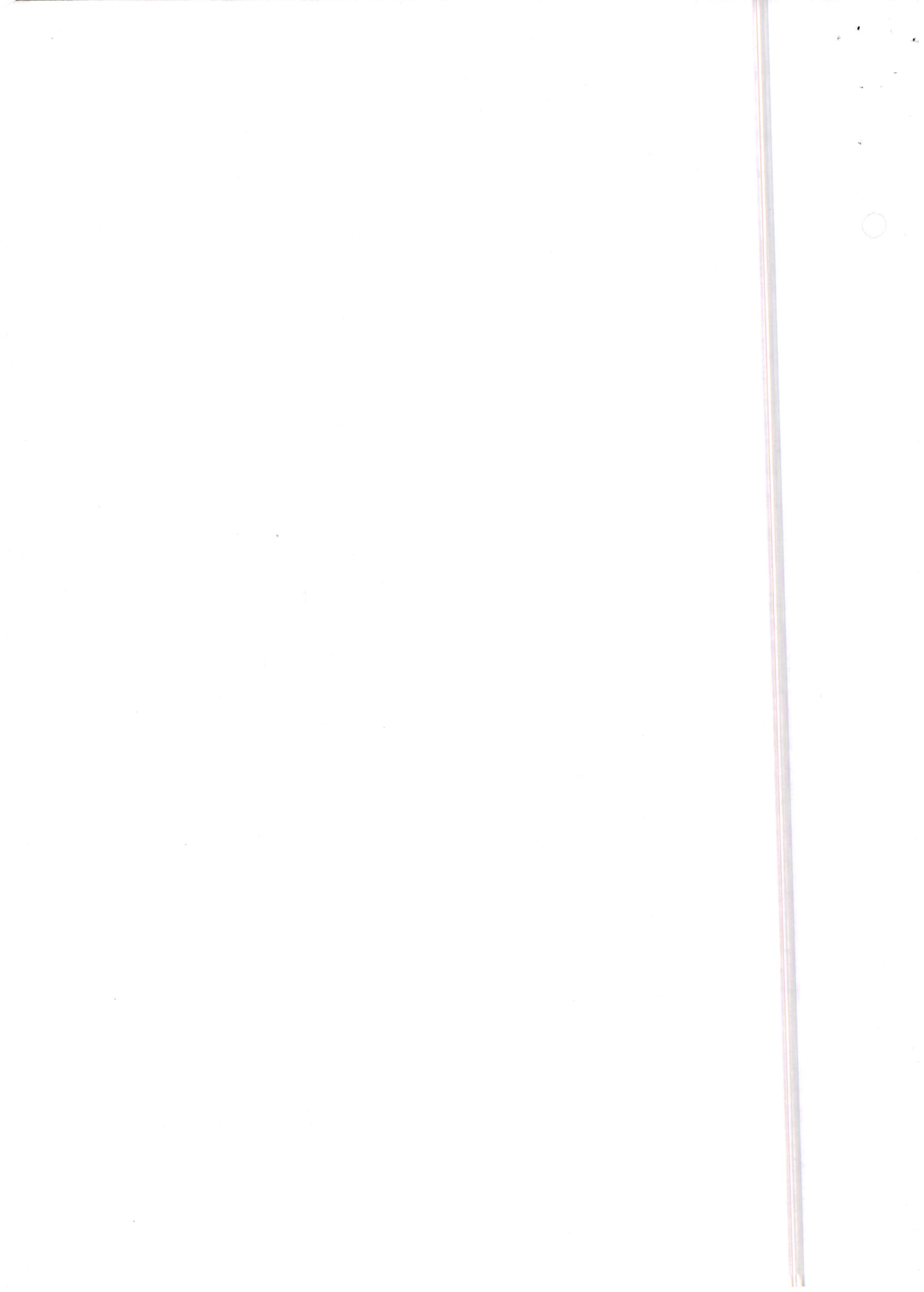
The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- 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

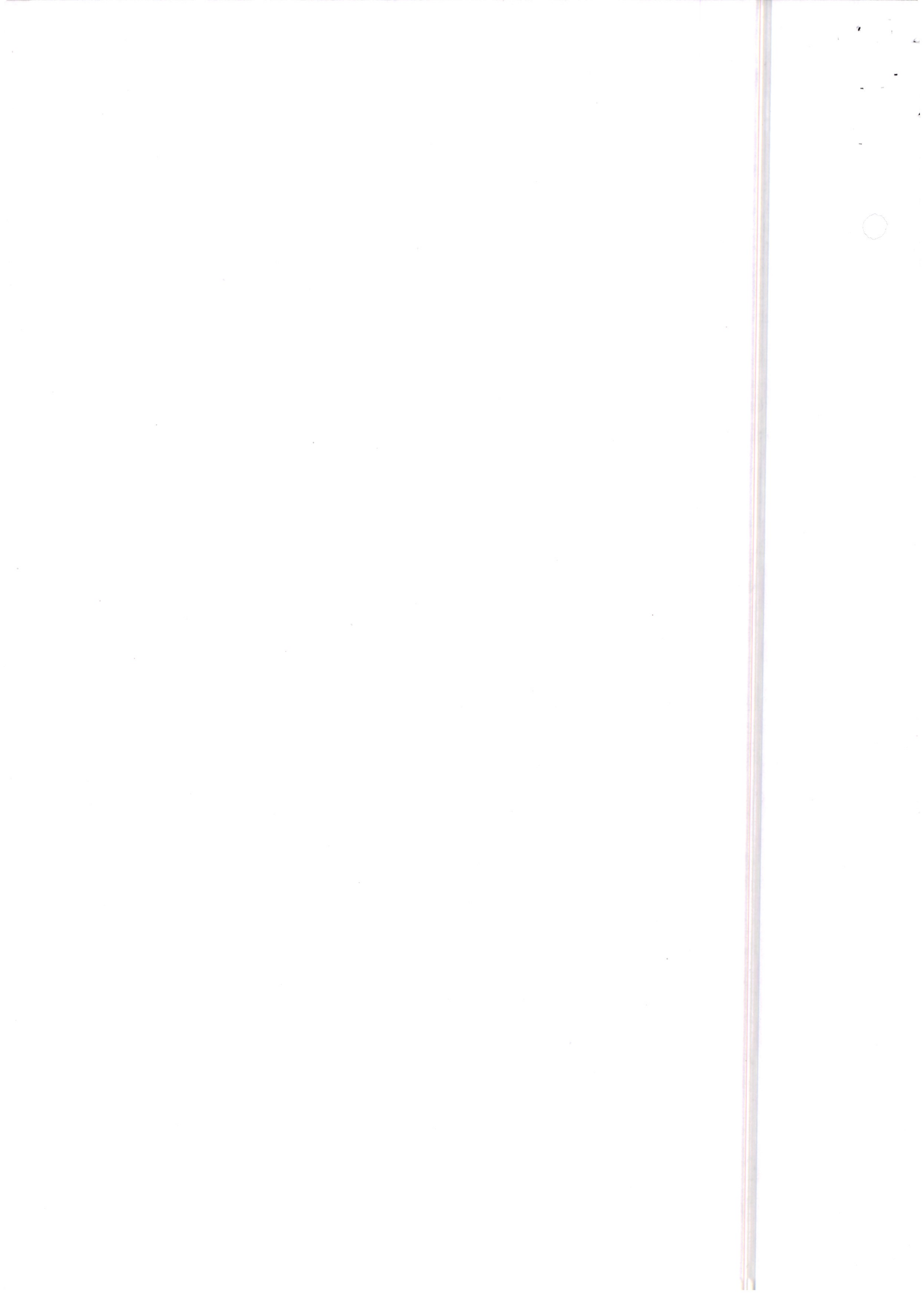


THE NATIONAL TREASURY
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

(c) Fiduciary Management

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

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



(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 officers 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 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.

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

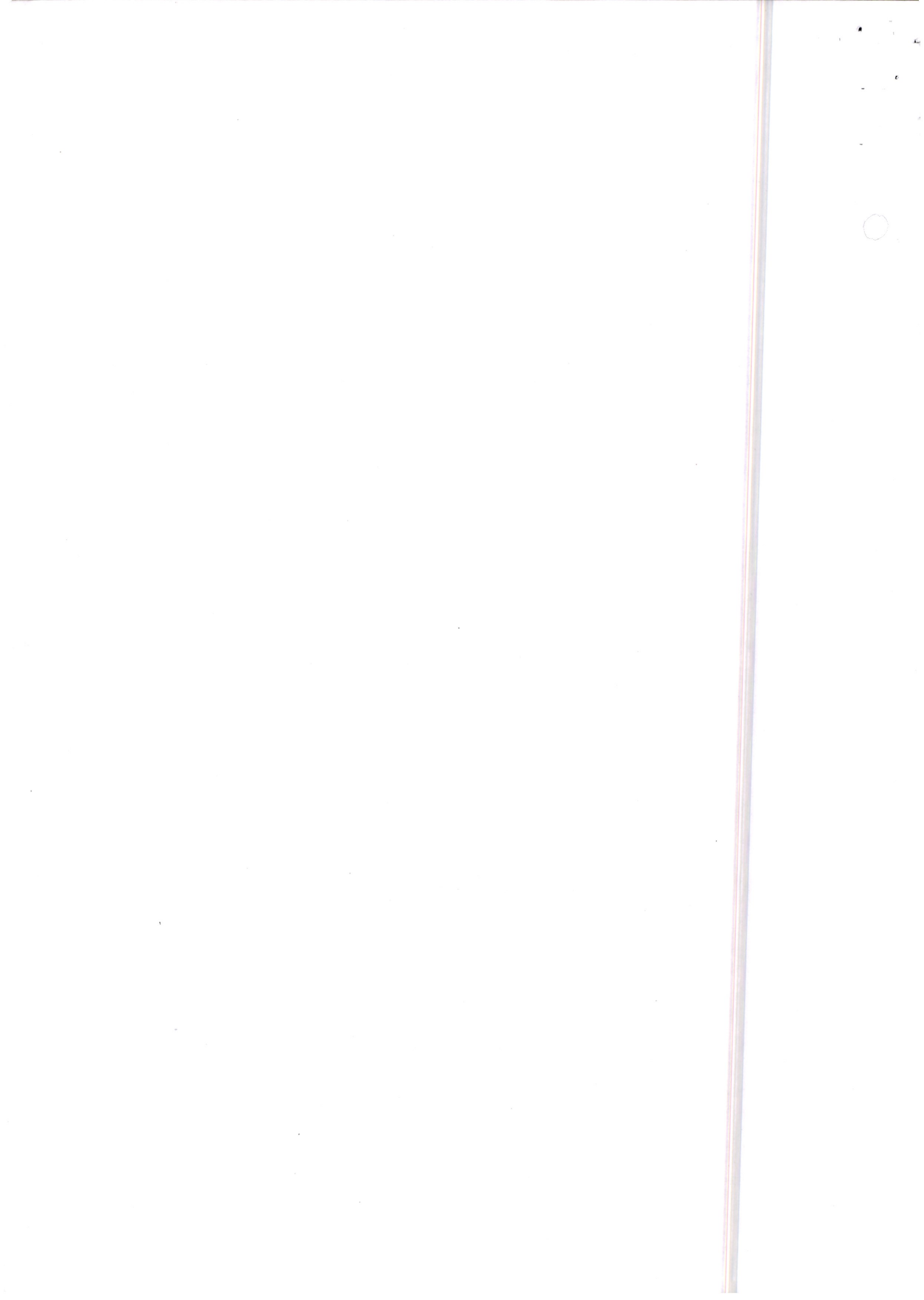
To facilitate the implementation of financial management reforms, the National Treasury has appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the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



e) The National Treasury Headquarters

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

The National Treasury Contacts

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

(f) The National Treasury Bankers

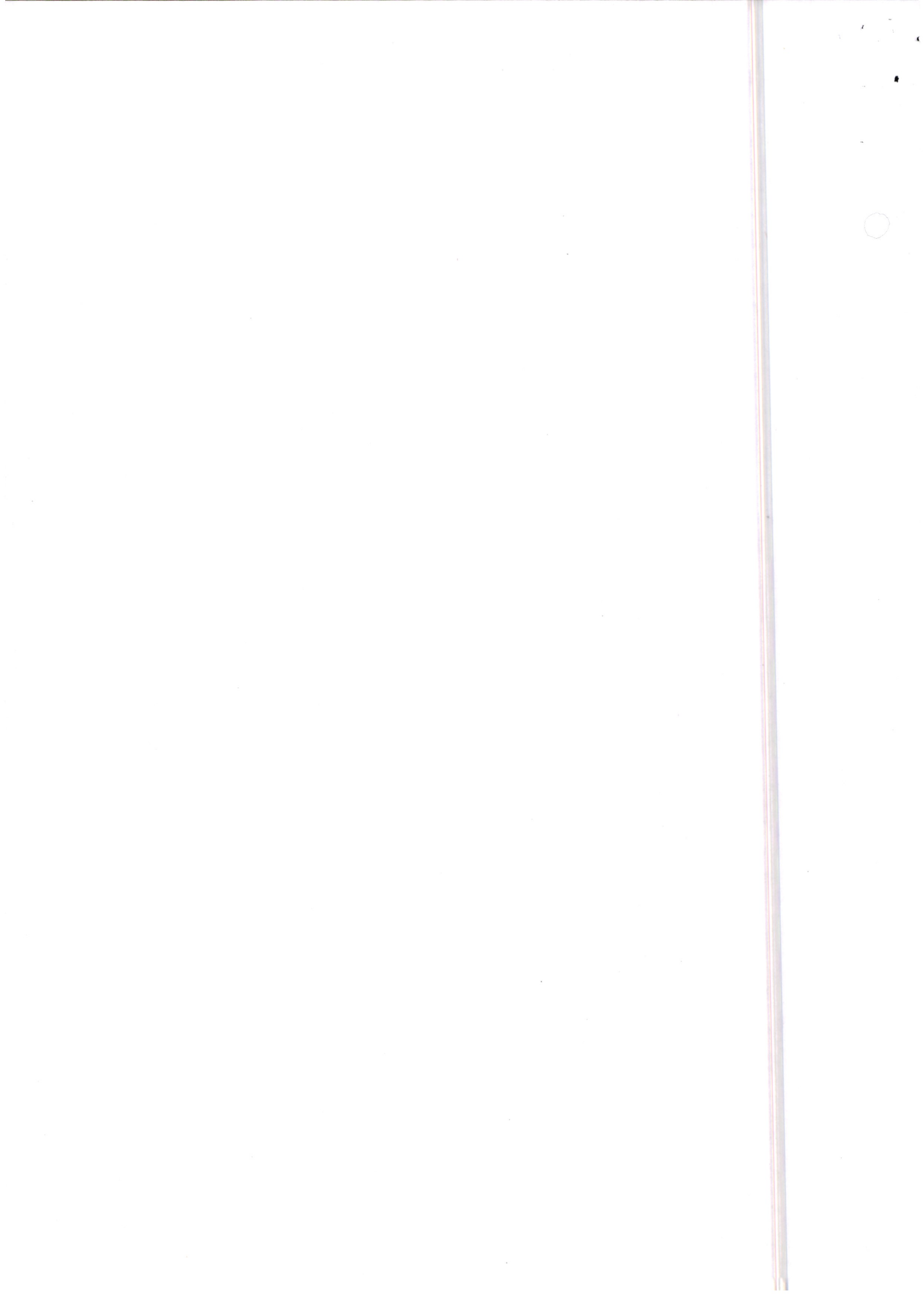
Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

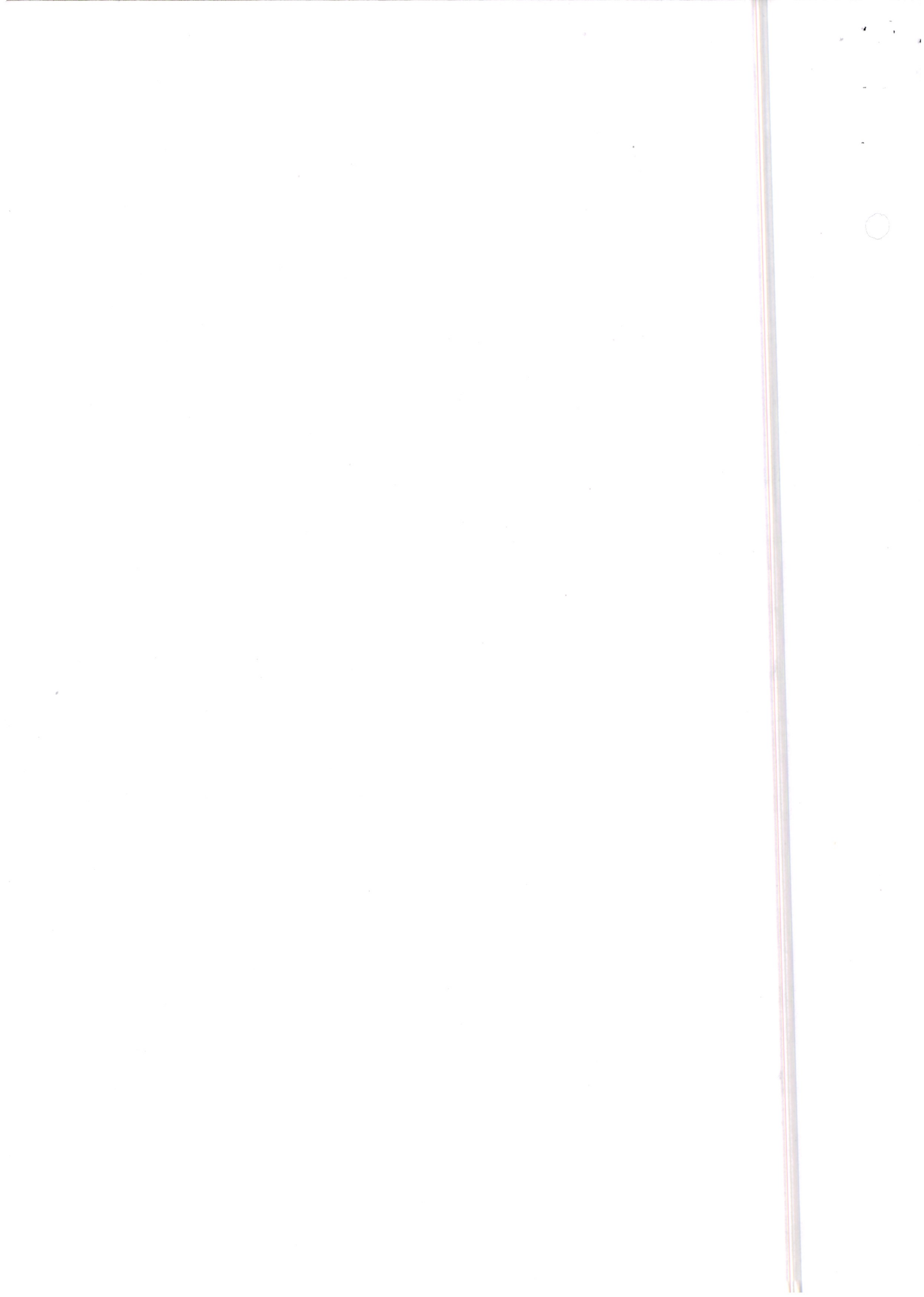


II. FORWARD BY THE CABINET SECRETARY

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 grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub-Saharan Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

The annual inflation rate was 8.1% in June 2017 compared to 6.5% in the same period in June 2016. This was largely on account of high food prices following adverse weather conditions. The Kenya shilling exchange rate however continued to display relatively less volatility compared to the East African currencies while the official foreign exchange reserves held by the Central Bank grew to **US\$ 8,500 million** (5.7 month of import cover) in June 2017 from **US\$ 8,267 million** (5.4 months of import cover) in the same period in 2016. The economic growth and stable macroeconomic environment led to the creation of 832,900 new jobs in 2016 broken down into 85,600 jobs in the modern sector and 747,300 jobs in the informal sector. Cumulatively, the economy is estimated to have generated 3,217,200 new jobs between 2013-2016

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 up from **Kshs.275.1 billion** in 2015/2016. Since their establishment in March 2013, County Governments have received more than **Kshs.1 trillion** from the National Government. The National Treasury submitted to Parliament the Equalization Fund Appropriations bill which has since been enacted and further conducted public participation to identify projects to be implemented under this fund. In addition the National Treasury trained over 800 officers from County Governments on Public Financial Management in 2016/17.



REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Other key achievements during the period under review are;

- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23rd March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre- Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.
- The National Treasury hosted the 2nd High Level Meeting on Global Partnership on Economic Development Conference in Nairobi from 28th November to 1st December 2016, where ministers and high level representatives of developing and developed countries as well as heads of multilateral and bilateral development agencies committed to effective development cooperation as a means to achieve the universal Sustainable Development Goals (SDGs).

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

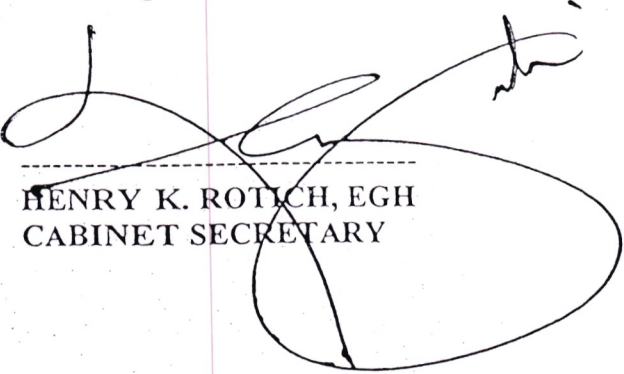
1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulations and related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



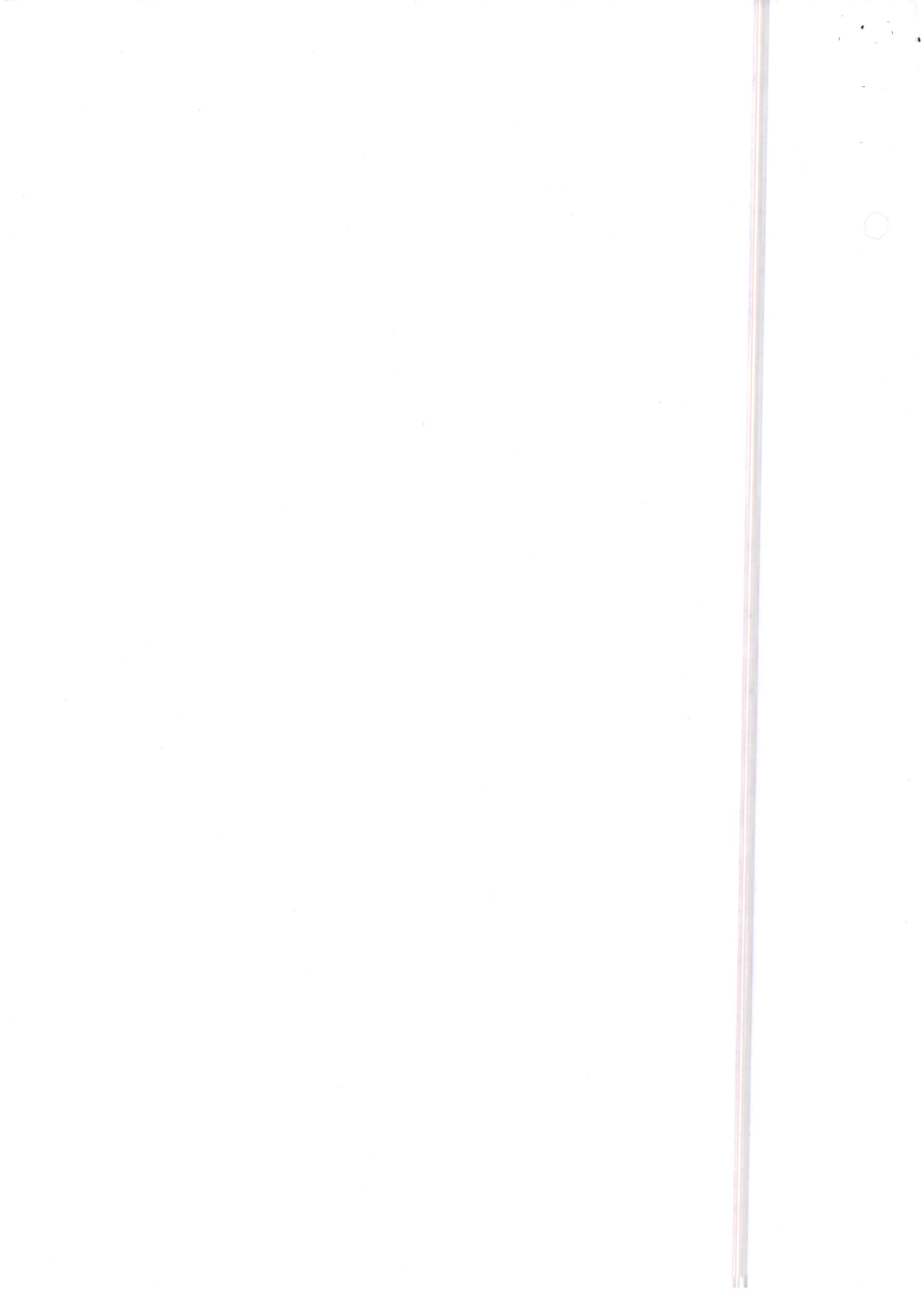
THE NATIONAL TREASURY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017 (KSHS)

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

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. 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.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY



III. STATEMENT OF RECEIVER OF REVENUE'S RESPONSIBILITIES

Section 82 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, a receiver of revenue shall prepare an account of the revenue received and collected by that receiver during that financial year.

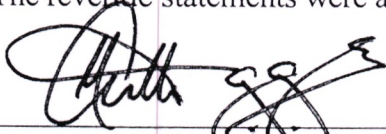
The Principal Secretary in charge of the National Treasury is responsible for the preparation and presentation of the receiver of revenue report which gives a true and fair view of the state of affairs of the National Treasury for and as at the end of the financial year ended on June 30, 2017. This responsibility 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 financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the National Treasury; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary in charge of The National Treasury accepts responsibility for the National Treasury's revenue reports and 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) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the National Treasury's revenue statements gives a true and fair view of the state of The National Treasury's revenue performance 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 by The National Treasury, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Principal Secretary in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and the funds collected during the year were transferred to the Exchequer account. Further the Principal Secretary 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.

Approval of the Revenue Statements

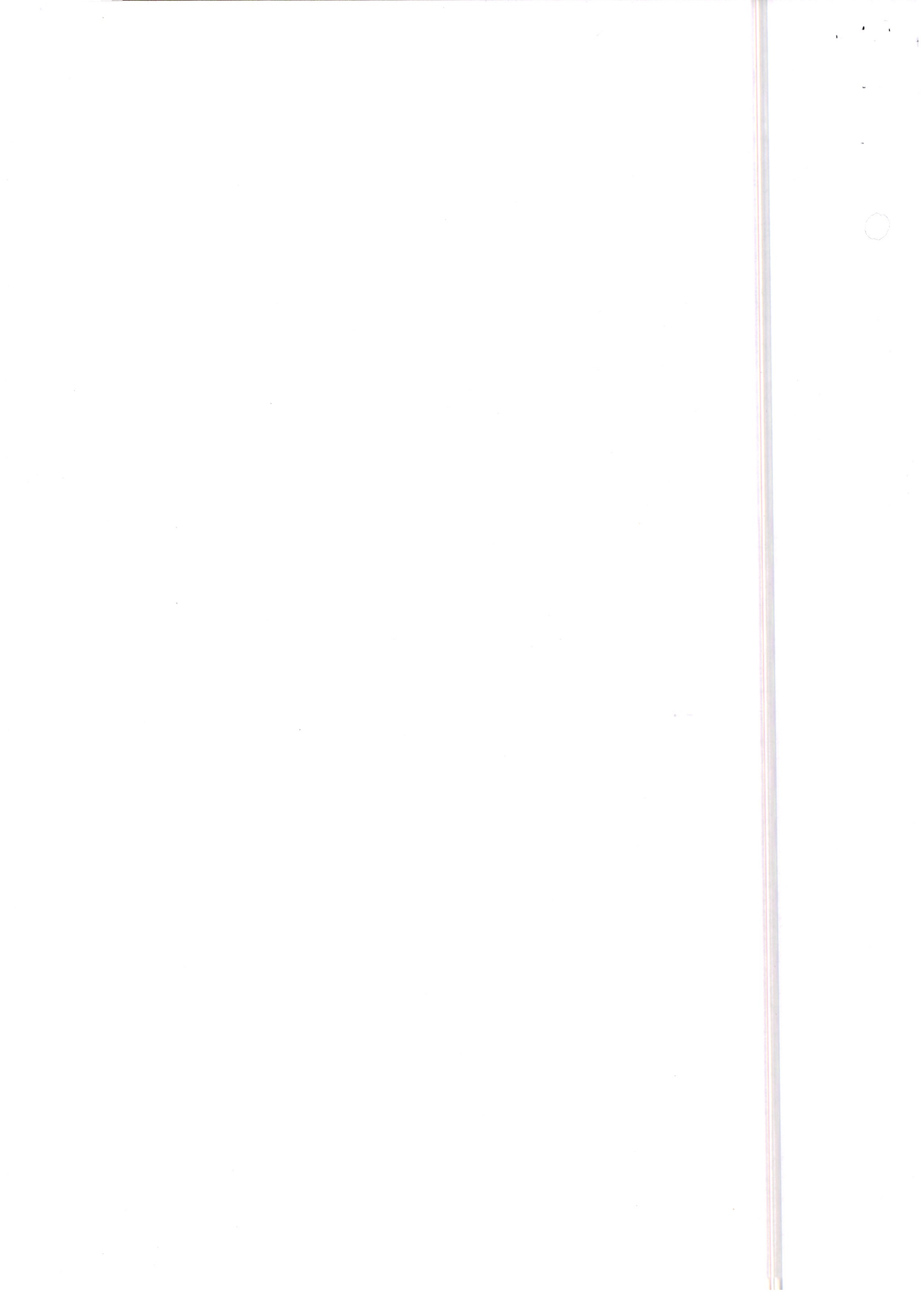
The revenue statements were approved and signed by the Principal Secretary on... 4/5/2018



DR.KAMAU THUGOE, CBS
PRINCIPAL SECRETARY



GEORGE .K.GICHURU
ICPAK Member Number: 9262
HEAD OF ACCOUNTING UNIT



REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE RECEIVER OF REVENUE (RECURRENT) – THE NATIONAL TREASURY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE REVENUE STATEMENTS

Qualified Opinion

I have audited the accompanying revenue statements of the Receiver of Revenue (Recurrent)-The National Treasury set out on pages 12 to 27, which comprise the statement of arrears of revenue as at 30 June 2017, and the statement of revenue and transfers and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the basis for Qualified Opinion section of my report, the revenue statement presents fairly, in all material respects, the financial performance of the recurrent revenue of The National Treasury for the year ended 30 June 2017, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

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

Basis for Qualified Opinion

Arrears of Revenue

The statement of arrears of revenue reflects revenue receipts amounting to Kshs.193,997,651,702 as at 30 June 2017, which though budgeted for has remained uncollected. The balance constitutes arrears for PAYE, Other Income Tax, VAT and Excise Taxes, loan redemptions and loan interests. Although the amount reconciles with the respective statement of arrears of revenue by the collector of revenue, the Kenya Revenue Authority, management has not accounted for the movement of the arrears from the earlier balance of Kshs.380,600,178,374 (2016) and Kshs.194,951,716,541 (2015) recorded during the previous periods.

The public may lose colossal sums of money through non-collection of the budgeted revenue as well as the arrears if not effectively followed up and enforced by the collector of revenue, Kenya Revenue Authority. Besides the failure to collect the arrears, the National Treasury

Report of the Auditor-General on the Financial Statements of the Receiver of Revenue (Recurrent)-The National Treasury for the year ended 30 June 2017

has not explained satisfactorily how it is addressing the persistent increase in arrears of revenue over the years.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Receiver of Revenue –The National Treasury 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 revenue statement in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the revenue statement of the current year. Except for the matter described in the Basis for Qualified Opinion section, I have determined that there are no Key Audit Matters to communicate in my report.

Responsibilities of Management and Those Charged with Governance for the Revenue Statement

Management is responsible for the preparation and fair presentation of these revenue 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 revenues statement that are free from material misstatement, whether due to fraud or error.

In preparing the revenue statements, management is responsible for assessing the National Treasury's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting.

Management is also responsible for the submission of the revenue 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 of the Revenue Statement

The audit objectives are to obtain reasonable assurance about whether the revenue 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. Misstatement 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 revenue statement.

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 revenue 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 going concern 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 sustaining 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 revenue statement 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 not to continue sustaining its services.
- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the revenue statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the revenue information and business activities of the National Treasury to express an opinion on the revenue 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

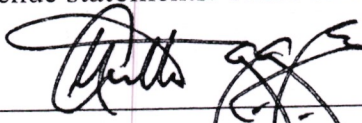
17 May 2018


THE NATIONAL TREASURY
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

IV. STATEMENT OF RECEIPTS AND TRANSFERS

	Note	2016/17 Kshs	2015/16 Kshs
TAX RECEIPTS			
Taxes on Income, Profits and Capital Gains	1	627,469,093,794.15	564,572,172,084.20
Taxes on Goods and Services	2	504,507,993,929.80	429,425,876,090.30
Taxes on International Trade & Transactions	3	112,890,047,204.80	104,819,796,814.00
Other Taxes	4	8,595,580,578.90	10,275,603,609.75
TOTAL TAX RECEIPTS		1,253,462,715,507.65	1,109,093,448,598.25
NON TAX RECEIPTS			
Fees on use of Goods/Services	5	4,974,802,302.30	1,970,459,216.95
Social Security Contributions	6	390,144,130.50	-
Property Income	7	29,798,232,404.05	20,441,303,895.65
Other Receipts	8	964,130,520.35	1,943,003,578.70
Sale of Goods and Services	9	76,000.00	2,827,242,102.50
Receipts From Sale of Non Financial Assets	10	13,540,439.00	
Loan repayment and interest on loans	11	4,965,742,063.85	4,989,579,073.85
Proceeds from foreign grants(Amison)	12	7,335,658,437.05	4,756,650,865.80
TOTAL NON TAX RECEIPTS		48,442,326,297.10	36,928,238,733.45
TOTAL RECEIPTS COLLECTED		1,301,905,041,804.75	1,146,021,687,331.70
TRANSFERS TO THE EXCHEQUER ACCOUNT	13	1,299,685,404,832.65	1,144,051,228,114.75
TRANSFERS TO PDL FUND	14	2,137,500,000.00	1,394,700,000.00
BALANCE BROUGHT FORWARD		3,570,991,331.65	2,995,232,114.70
PRIOR YEAR ADJUSTMENT	15	(1,908,009,592.75)	
BALANCE CARRIED FORWARD		1,745,118,711.00	3,570,991,331.65

The accounting policies and explanatory notes to these revenue statements form an integral part of the revenue statements. These revenue statements were approved on 4/12/2018 and signed by:

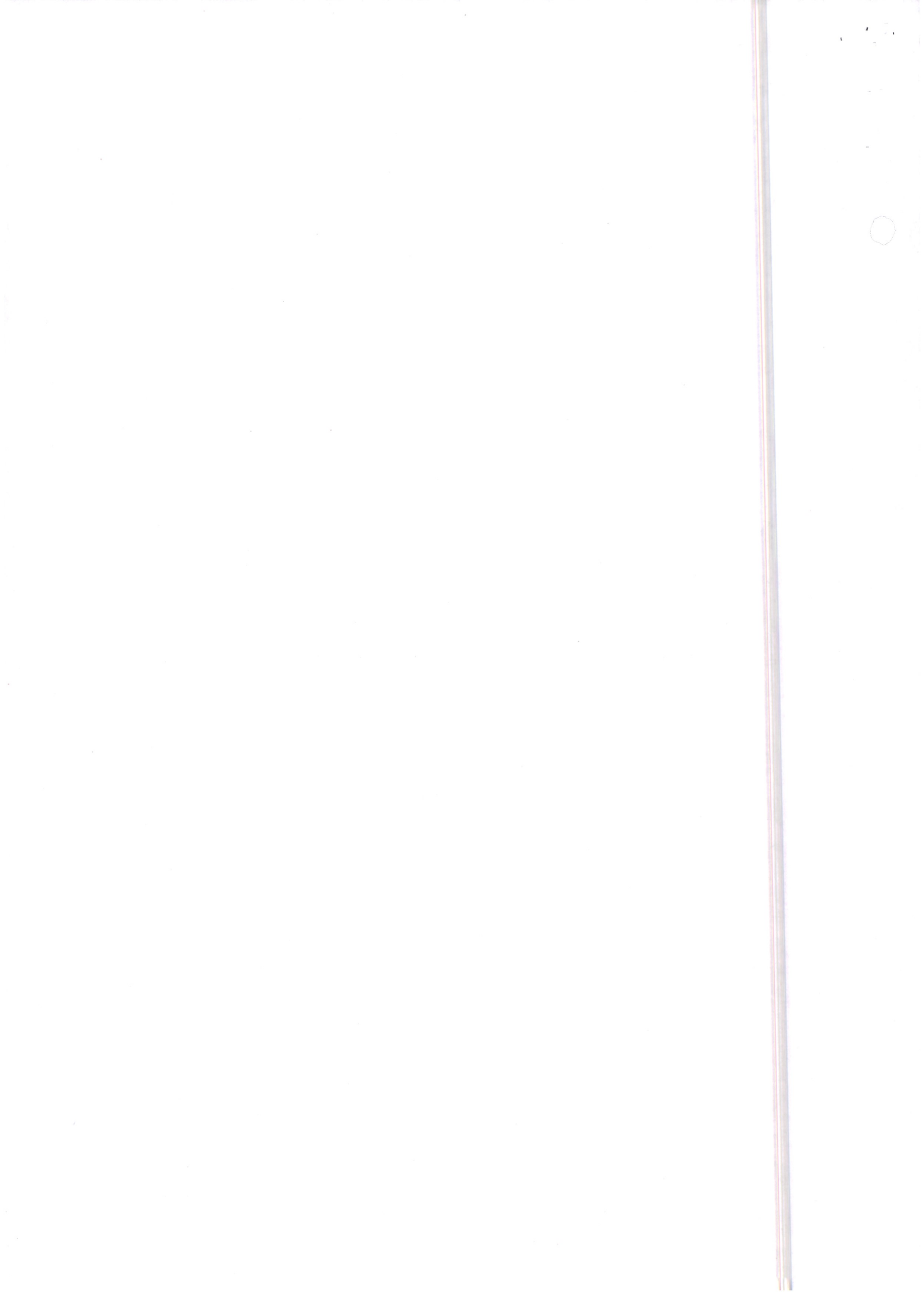

DR. KAMAU THUGGE CBS
PRINCIPAL SECRETARY


GEORGE K. GICHURU
ICPAK Member Number: 9262
HEAD OF ACCOUNTING UNIT

THE NATIONAL TREASURY
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

V. STATEMENT OF ARREARS IN REVENUE AS AT 30 JUNE 2017

Classification of Revenue	Accumulated amount in arrear from prior periods to June 2015 (a)	Amount in arrears for the immediate previous year to 30 June 2016 (b)	Amount in arrears for the current year to June 30 2017 (c)	Measures taken to recover the arrears	Assessment of the recoverability of arrears
Tax Revenues					
Taxes on income profits and capital gains	133,765,089,650	161,331,089,072	168,882,445,114	1. Penalties 2. Waivers 3. Caveat and charges on debtors properties 4. Collection by Distraint	
Taxes on property					
Taxes on goods and services	24,243,119,585	23,474,046,944	23,407,850,495	1. Penalties 2. Waivers 3. Caveat and charges on debtors properties 4. Collection by Distraint	
Taxes on International Trade and Transactions					
Sub total	158,008,209,235	184,805,136,016	192,290,295,609		
Non Tax Revenues					
Loan Redemption		13,003,682,477.59	265,720,854	Demand letters issued and follow up	
Interest Receipt		24,783,150,645.47	1,441,635,239	Demand letters	

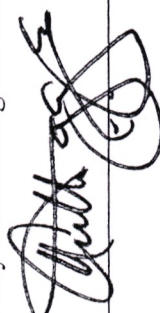


**REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Property Income				issued and follow up
Fines, penalties and Forfeitures				
Receipts from sale of non financial assets				
Sub total	37,786,833,123	1,707,356,093		
TOTAL	158,008,209,235	222,591,969,139	193,997,651,702	

Collection of arrears is a continuous process but at the same time additional debts arise through the following:

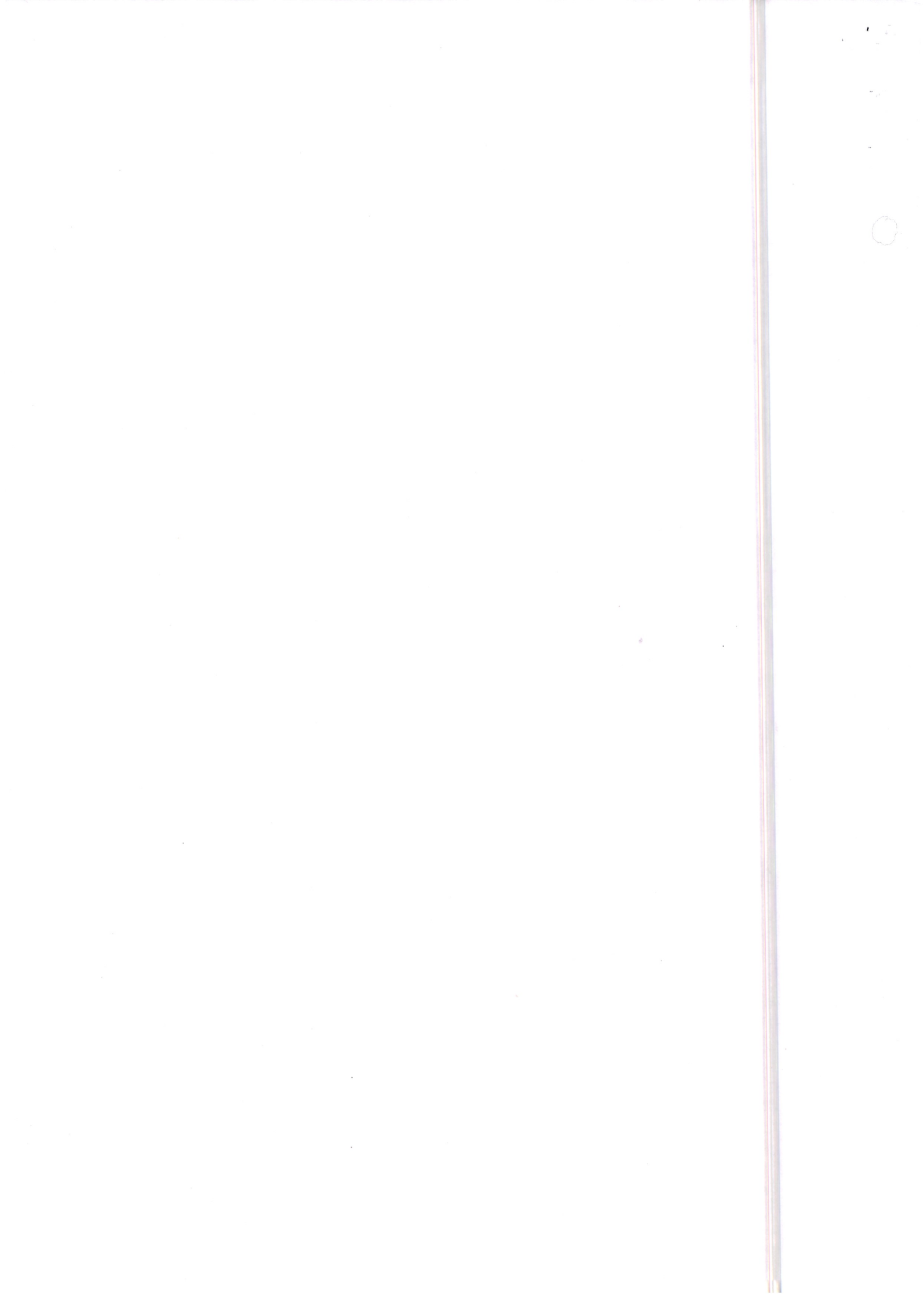
1. Self assessment/ Vat Penalties
 - a) When returns of income are submitted, debt is created and debited in the period year of income for income tax. Applicable interest and penalties are appropriately charged.
 - b) Default penalties are charged on monthly basis where returns have not been submitted for VAT
2. Additional Assessments
 - a) Additional assessments are issued when tax audits and investigations are concluded in various tax heads.
3. Estimated Assessments
 - a) Estimated Assessment are issued when taxpayers have not submitted self assessment return or have not made declarations of income and tax due
4. Accrual Of Interest
 - a) For any outstanding tax balances, Interest continue to accrue at 2% per month compounded up to 100% of the outstanding principal



DR.KAMAU THUGGE, CBS
PRINCIPAL SECRETARY



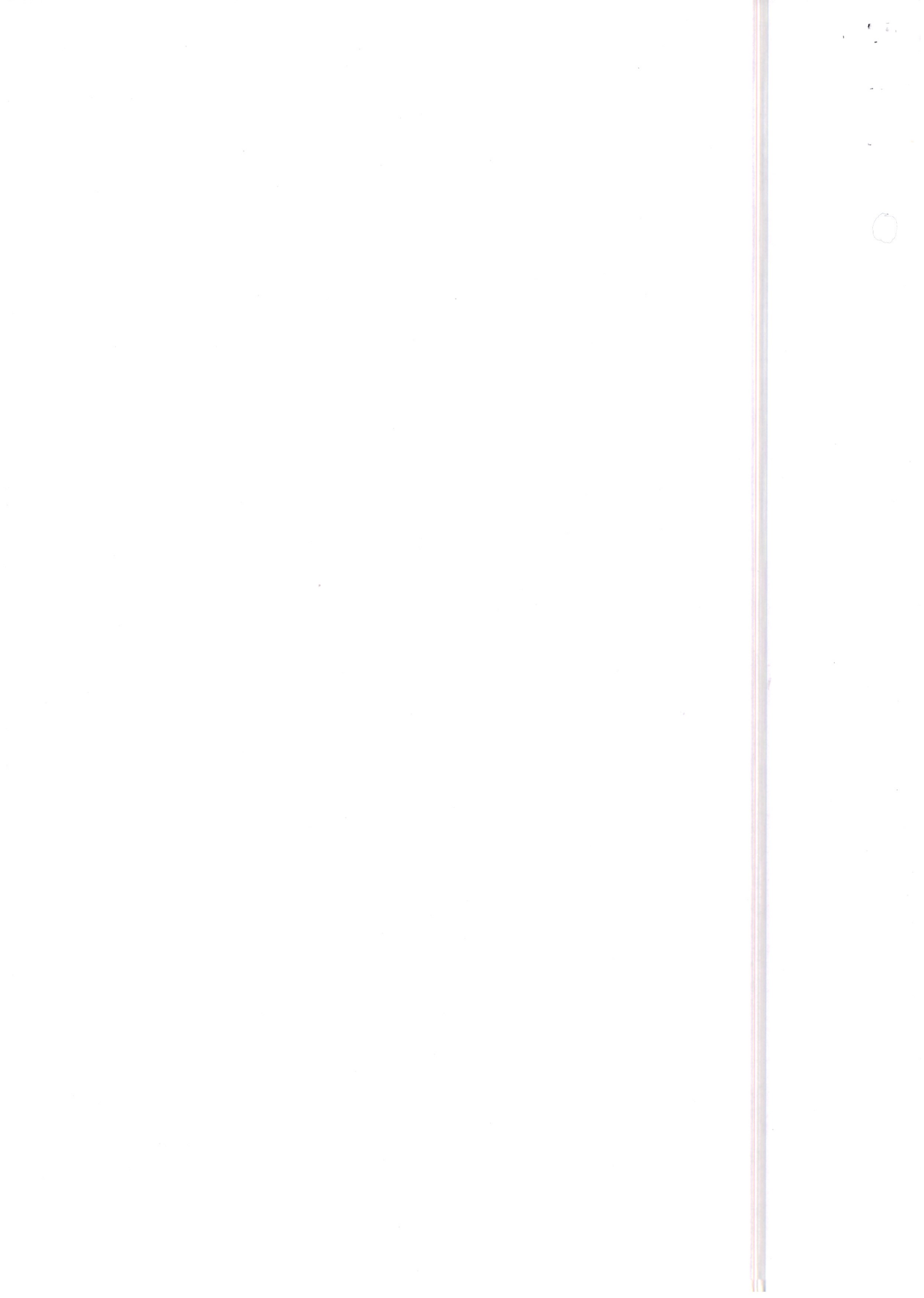
GEORGE .K.GICHURU
ICPAK MEMBER NUMBER: 9262
HEAD ACCOUNTING UNIT



REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

VI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference		Performance Percenta	
	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs	2016-2017	Kshs
Revenue												
Taxes on income, profits and capital gains	677,150,302,694		(14,296,227,900)		662,854,074,794		627,469,093,794		35,384,980,999		94.6	
Taxes on Goods and Services	514,892,318,689		2,154,553,081		517,046,871,770		504,507,993,929		12,538,877,778		97.5	
Taxes on International Trade & Transactions	126,813,070,207		(7,169,826,052)		119,643,244,155		112,890,047,20		6,753,196,950		94.3	
Other Taxes	13,070,798,359		(1,080,700,976)		11,990,097,383		8,595,580,578		3,394,516,804		71.7	
Total tax receipts	1,333,846,786,934		(20,142,048,464)		1,313,694,738,419		1,253,462,715,507		64,863,105,962		95.1	
Non tax receipts												
Fees on use of Goods/Services	5,683,203,640		556,601,510		6,239,805,150		4,974,802,302		1,265,002,847		79.7	
Social Security Contributions	147,487,548		(337,514,446)		485,001,994		390,144,130		94,857,863		80.4	
Property Income	21,562,796,514		11,633,458,425		33,196,254,939		29,798,232,404		3,398,000,534		89.8	
Other Receipts	3,864,788,427		(287,572,826)		3,577,215,601		964,130,520		2,613,085,080		26.9	
Sale of Goods and Services	1,370,537		691,493		1,370,537		76,000		615,493		10.9	
Receipts from sale of Non Financial Assets	6,578,636,929		(2,004,888,476)		4,573,748,453		13,540,439		(12,169,902)		987.8	
Loan repayment and interest on loans	6,440,000,000		-		6,440,000,000		4,965,742,063		(391,993,610)		108.4	
Proceeds from foreign grants (Amisom)	44,276,913,058		9,560,775,680		54,514,088,167		7,335,658,437.05		(895,658,437)		113.9	
Total Non tax receipts	13,382,744,782,992		(10,581,272,784)		1,372,839,909,637		48,542,663,903		5,971,424,263		89.05	
TOTAL							1,302,005,379,411		70,834,530,225		94.80	



**REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

OTHER TAXES (NOT ELSEWHERE CLASSIFIED)

1160101- Stamp duty – Revised estimate of Kshs.11.9 billion against the actual of Kshs. 8.6 billion implies a deficit of Kshs. 3.3 billion. This shortfall of 28% of the target is significant and is attributable to noncompliance which is being rectified through twinning of stamp duty and capital gains tax.

FEEES ON USE OF GOODS AND ON PERMISSION TO USE GOODS OR TO PERFORM SERVICES AND ACTIVITIES

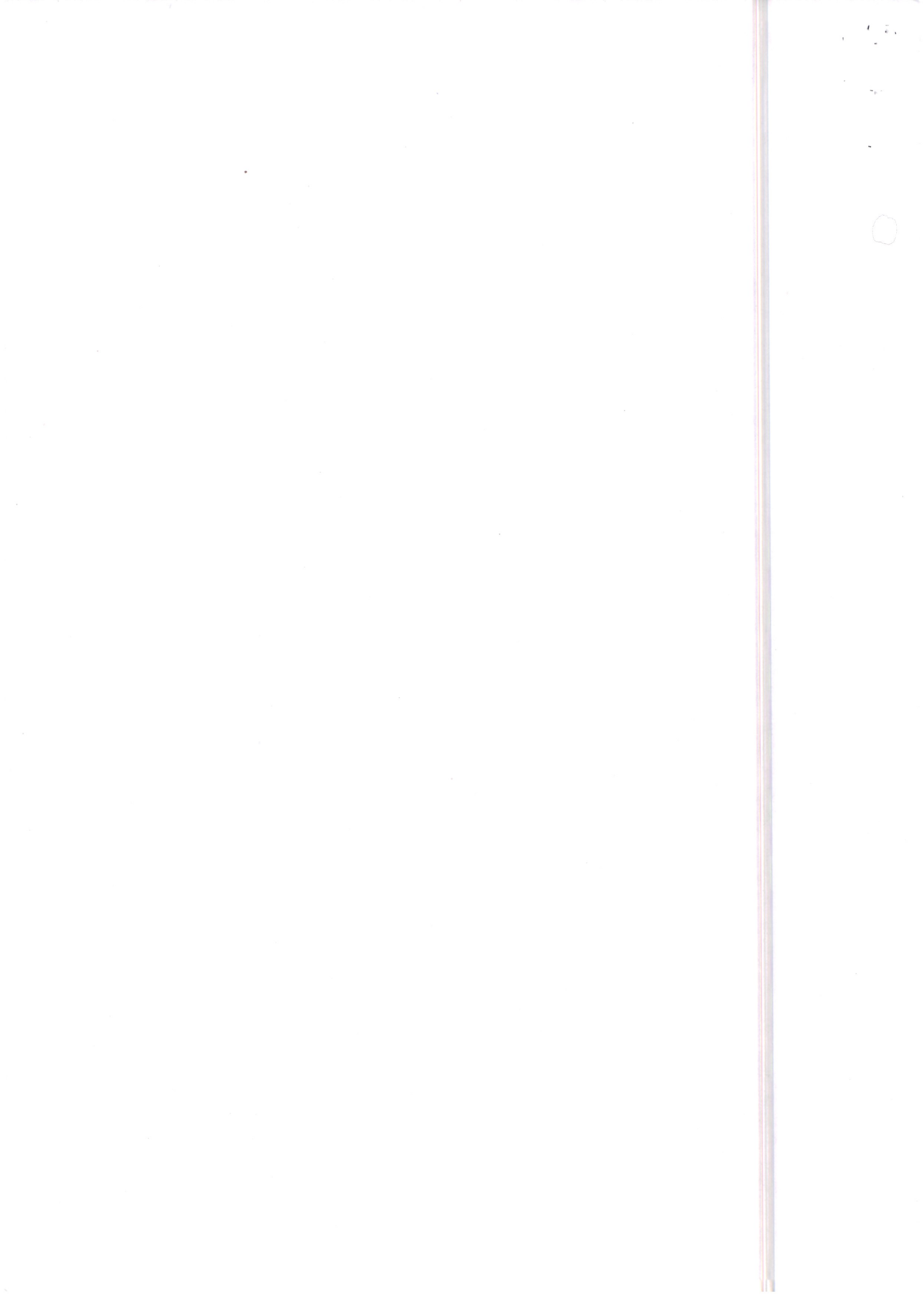
1420201-Fees under Traffic Act, 1140506 – License under Traffic Act, Motor Drivers Licences Revised estimate of Kshs. 4.8 billion against the actual of Kshs. 2.8 billion which gives a shortfall of Kshs. 2.0 billion while Petroleum Development Levy (PDL) – Revised estimate of Kshs. 2.1 billion against the actual of Kshs. 2.2 billion. This implies a slight over performance of Kshs. 01.billion equivalent to 4.7% of the estimate which is within the allowable margin of estimation error. The overall underutilization is 20% and this is attributed to over estimation on the part of license under the traffic act.

SOCIAL SECURITY CONTRIBUTIONS

Contribution from Government Employees to Social and Welfare Schemes within Government -Revised estimate of Kshs. 485 million against the actual of Kshs. 390 million implies an under performance of Kshs. 95 million equivalent to 19.6% of the estimate. This shortfall is attributed to inclusion of other social contributions in the targets.

PROPERTY INCOME

Other profits and dividend revised estimate of 26.0 billion against actual of 23 billion ,a shortfall of 9% .Surplus funds from regulatory authority revised estimate of 5.3 billion against actual of 5.4 billion which is an over collection of 1.9 which is within target. Rent of land revised estimate of 1.8 billion against actual of 0.9 billion the overall shortfall against the target is 10.9% and this is attributed to challenges within the ministry of lands and due to some revenues being collected by county governments.



OTHER TAXES NOT CLASSIFIED ELSEWHERE

1450101- Miscellaneous Revenue- Revised estimate of Kshs. 3.6 billion against the actual receipts of Kshs. 964 million. This shows a deficit of Kshs. 2.6 million (26.4% against the target). This revenue item is forecasted as a holding for any receipts not envisaged at budget time. It is usually assigned a conservative figure based on historical trends.

SALE OF GOODS AND SERVICES

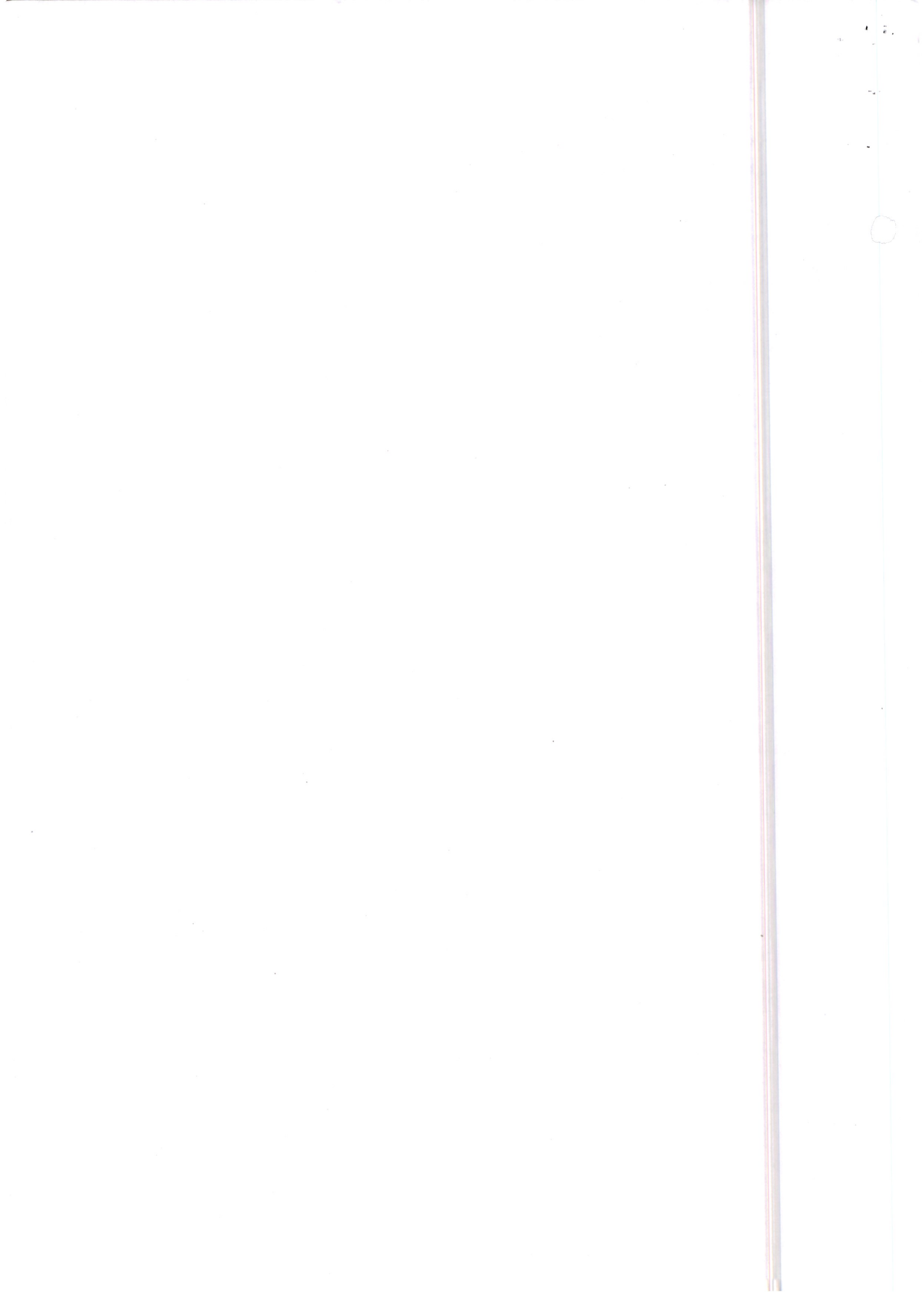
1420601- Sale of Tender Documents- Revised estimates of Kshs. 97,497 against the actual of ksh. 76,000 shows an underperformance of Kshs.21, 497 (equivalent to 22.05% against the target). This item revenue is also forecasted as a holding for receipts not envisaged at budget time and often assigned figures based on historical trends.

RECEIPTS FROM SALE OF NON FINANCIAL ASSETS

The over collection was a result of sale of boarded vehicles which realised kshs 13,540,439 against a budget amount of kshs 1,370,537 equivalent to 987.8% against the target this item revenue is also forecasted as a holding for receipts not envisaged at budget time and often assigned figures based on historical trends.

PROCEEDS FROM FOREIGN GRANTS

Amisom Grants- Though Revised Estimate of Kshs. 6.4 billion against the actual receipts of Kshs.7.3 billion implies an over collection of 1.0 billion which is 13% above target, the revenue item was on target.



VII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the National Treasury. The accounting policies adopted have been consistently applied to all the years presented.

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

2. Recognition of Revenue

The *National Treasury* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the National Treasury.

3. Budget

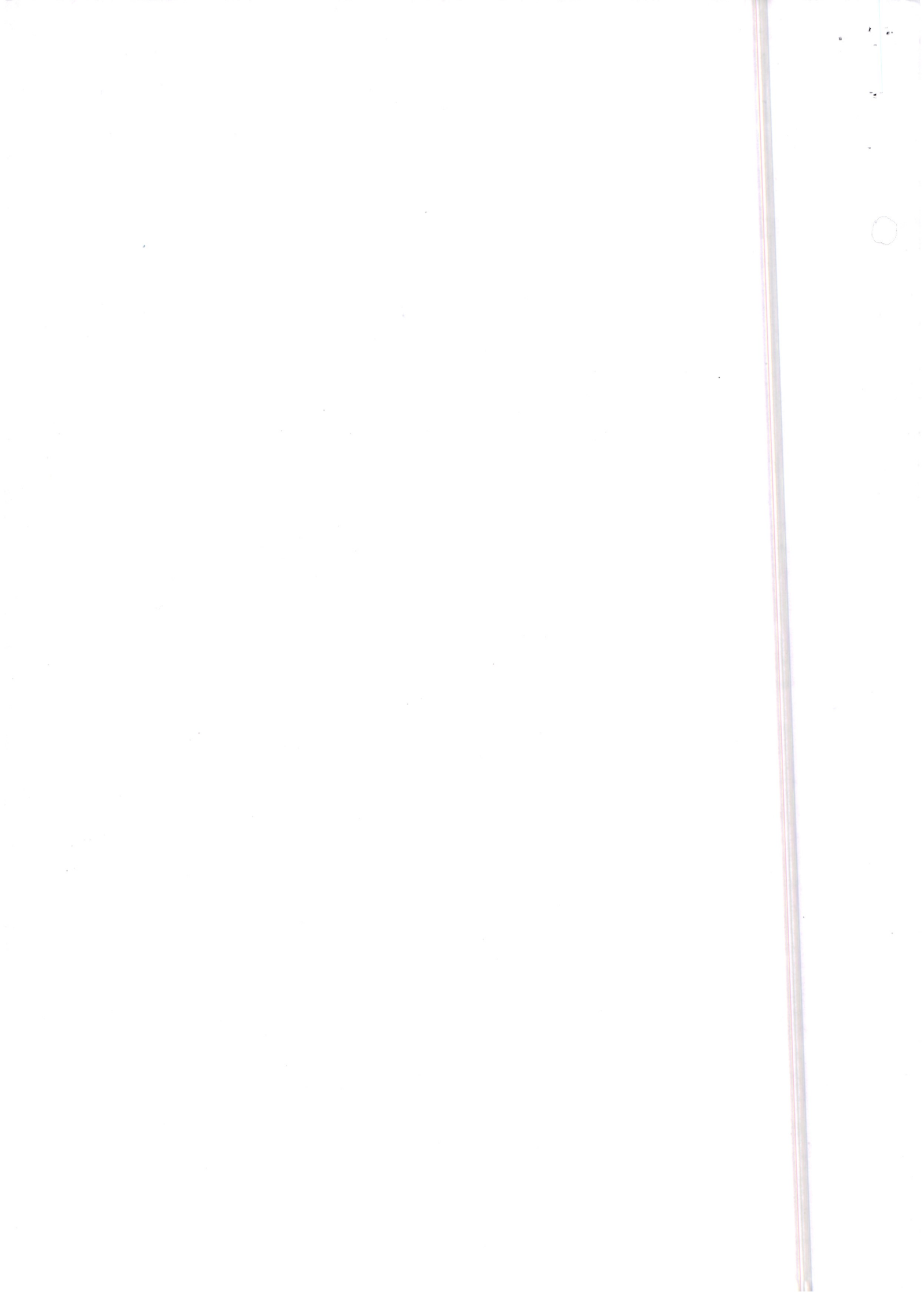
The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the revenue statements. The revenue budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the revenue's actual performance against the comparable budget for the financial year under review has been included as part of notes to these financial statements.

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya.

5. Revenue in Arrears

This relates to revenue due and is yet to be received or collected by the receiver of revenue. The revenue in arrears is as disclosed in the Statement of Revenue in Arrears under section IV of these financial statements.



SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Comparative Figures

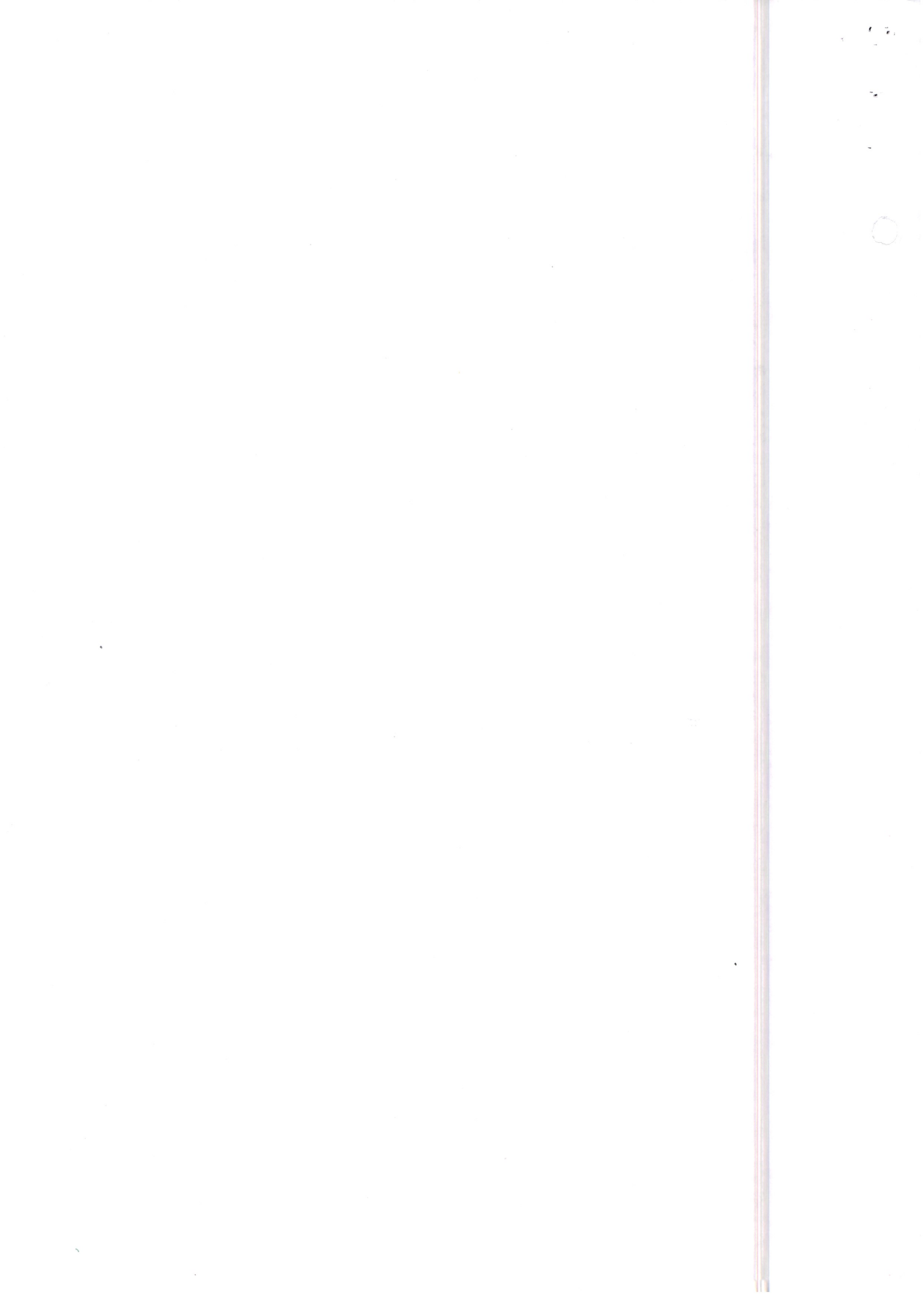
Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

7. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the revenue statements for the year ended June 30, 2017.

8. Statement of Arrears of Revenue

The statement of arrears of revenue is not a requirement as per the IPSAS Cash Standard. The IPSAS Cash Standard encourages disclosure of accrual based balances since it's a transitional standard to accrual basis of accounting. The PFM Act, 2012 section 82,2b and section 69(c) of the PFM Regulations 2015 requires a Receiver of Revenue to prepare a statement on revenue of arrears due but not yet collected at the end of the period. This statement has been disclosed under section IV of these financial statements.



VIII. NOTES TO THE FINANCIAL STATEMENTS

1. TAXES ON INCOME, PROFITS AND CAPITAL GAINS

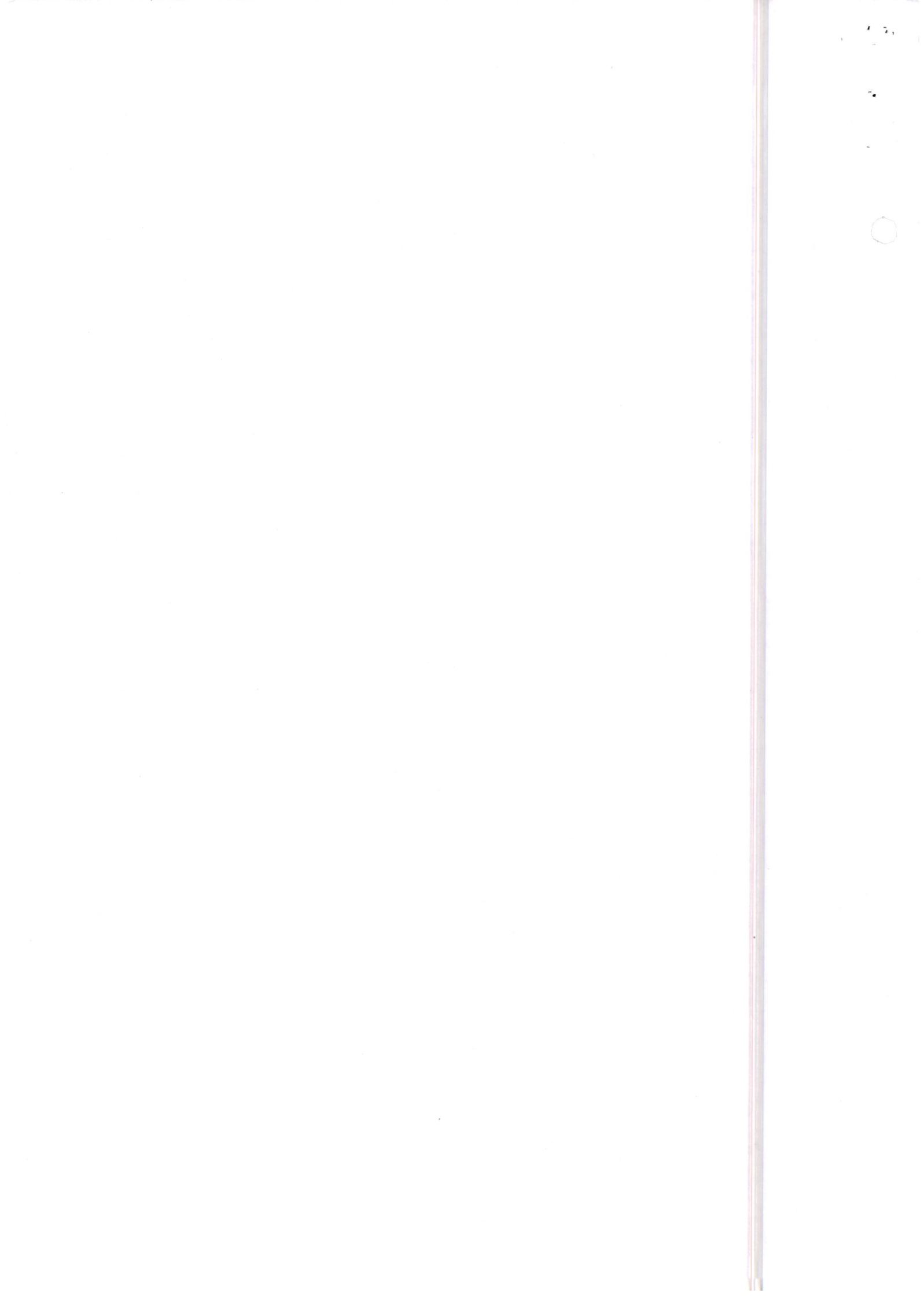
Description	2016-2017	2015-2016
	Kshs	Kshs
Income Tax from Individual (PAYE)	337,661,386,699.50	313,355,508,689.30
Income from Corporative Tax	289,807,707,094.65	251,216,663,394.90
Income share of LATF		
Other Income (Refunds)		
Total Revenue	627,469,093,794.15	564,572,172,084.20

2. TAXES ON GOODS AND SERVICES

Description	2016-2017	2015-2016
	Kshs	Kshs
VAT on Domestic Goods and Services	194,220,322,325.30	160,316,915,523.20
VAT on Imported Goods and Services	144,813,593,483.20	128,896,551,022.55
VAT Refund		
VAT Remissions		
Total VAT	339,033,915,808.50	289,213,466,545.75
Excise Receipts	165,474,078,121.30	140,212,409,544.55
Refunds		
Total Revenue on Goods and Services	504,507,993,929.80	429,425,876,090.30

3. TAXES ON INTERNATIONAL TRADE AND TRANSACTIONS (CUSTOMS)

Description	2016-2017	2015-2016
	Kshs	Kshs
Customs Duties	89,943,338,258.75	79,637,853,183.50
Refunds		
Other Taxes on International Trade and Transactions (IDF Fee)	22,946,708,946.05	25,181,943,630.50
Total Revenue	112,890,047,204.80	104,819,796,814.00



REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

4. OTHER TAXES (NOT ELSEWHERE CLASSIFIED)

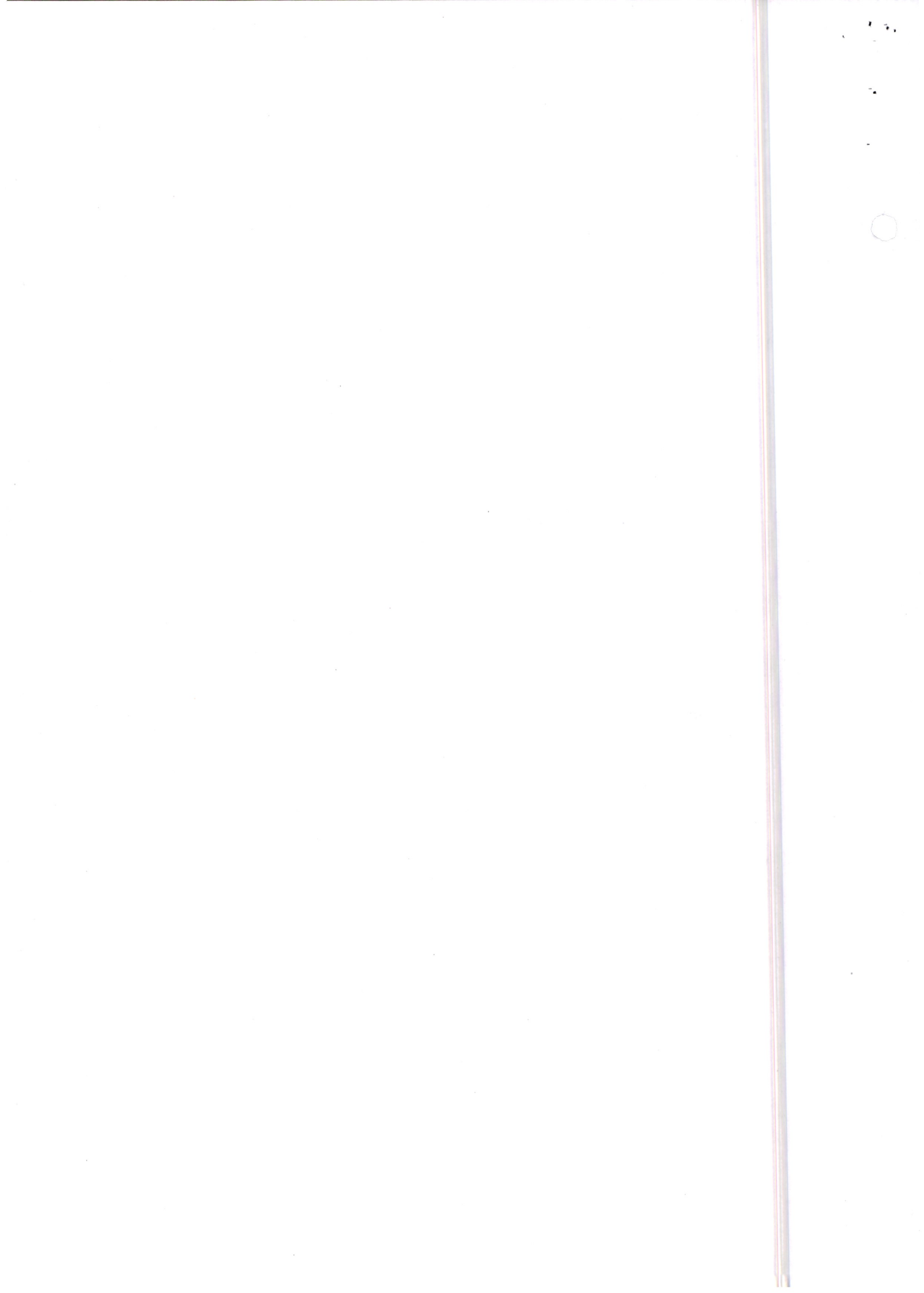
Description	2016-2017	2015-2016
	Kshs	Kshs
Stamp Duty	8,595,580,578.90	10,275,603,609.75
Refunds		
Total Revenue	8,595,580,578.90	10,275,603,685.45

5. FEES ON USE OF GOODS AND ON PERMISSION TO USE GOODS OR TO PERFORM SERVICES AND ACTIVITIES

Description	2016-2017	2015-2016
	Kshs	Kshs
Interest Received		
Licences under Traffic Act	2,755,165,330.20	
Licenses under the Communication Act		
Petroleum Development Levy (PDL)	2,219,636,972.10	1,970,459,216.95
Roads Maintenance Levy (RML)		
Total Fees	4,974,802,302.30	1,970,459,216.95

6. SOCIAL SECURITY CONTRIBUTIONS

Description	2016-2017	2015-2016
	Kshs	Kshs
Contributions from Government Employees to Social and Welfare Schemes within Government	390,144,130.50	NIL
Total Contributions	390,144,130.50	NIL



THE NATIONAL TREASURY
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

7. PROPERTY INCOME

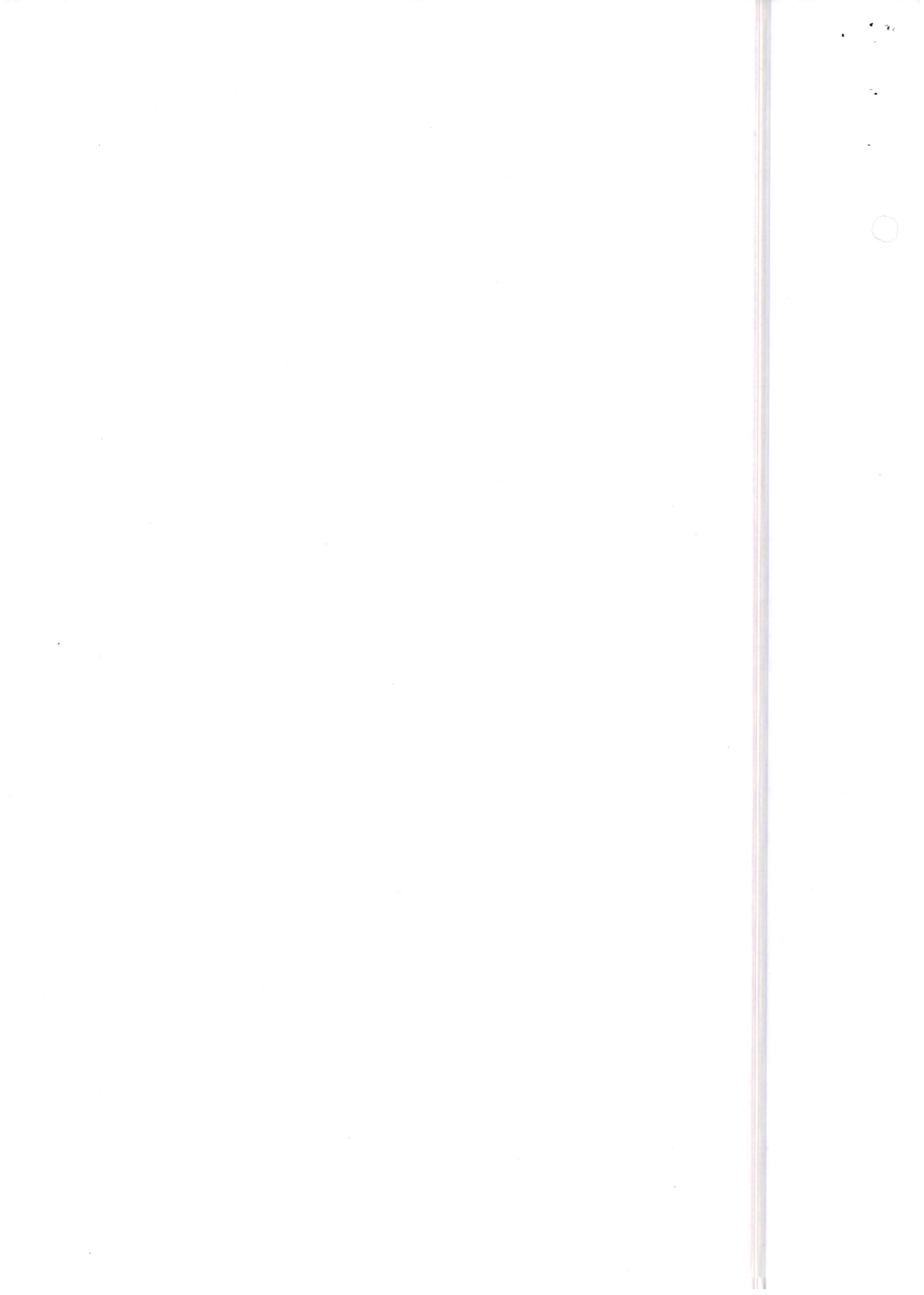
Description	2016-2017	2015-2016
	Kshs	Kshs
Interest		
Other Profits and Dividends (Annex 4)	23,485,454,215.35	15,918,858,212.35
Surplus funds from Regulatory Authorities (Annex 4)	5,393,432,651.50	3,341,437,120.65
Rent of Land	919,345,537.20	1,181,008,562.65
Total Property Income	29,798,232,404.05	20,441,303,895.65

8. OTHER RECEIPTS NOT CLASSIFIED ELSEWHERE

Description	2016-2017	2015-2016
	Kshs	Kshs
Miscellaneous Revenue	964,130,520.35	1,943,003,578.70
Sundry Revenue		
Total Revenue	964,130,520.35	1,943,003,578.70

9. SALE OF GOODS AND SERVICES

Description	2016-2017	2015-2016
	Kshs	Kshs
Administrative Fees and Charges		2,827,128,002.50
Incidental Sales by Non-Market Establishments		19,100.00
Sale of Tender Documents	76,000.00	95,000.00
Total Revenue	76,000.00	2,827,242,102.50



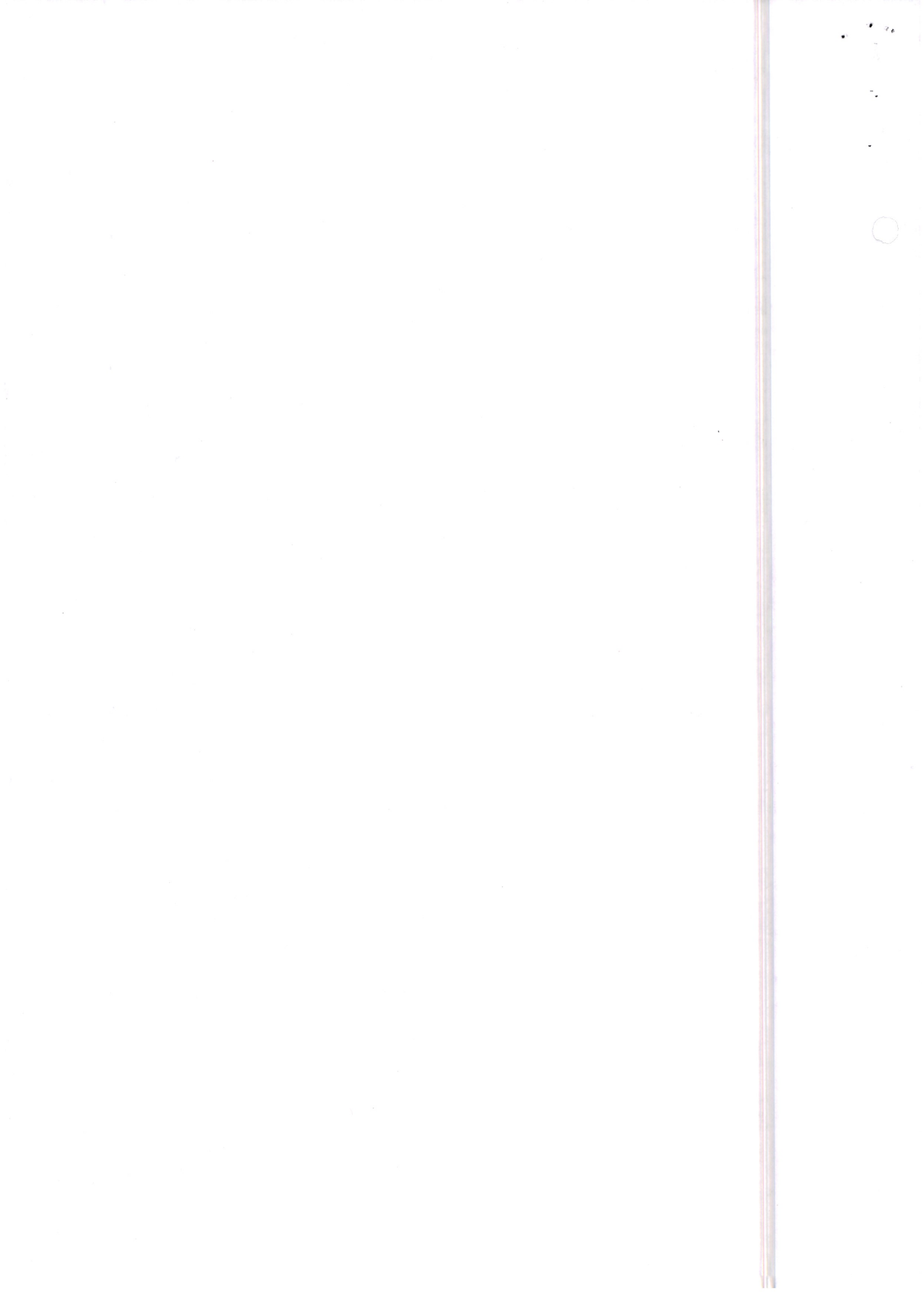
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

10. RECEIPTS FROM SALE OF NON FINANCIAL ASSETS

Description	2016-2017	2015-2016
	Kshs	Kshs
Receipts from the Sale of Buildings		
Receipts from the Sale of Vehicles and Transport Equipment	13,540,439.00	NIL
Receipts from the Sale of Inventories, Stocks and Commodities		
Receipts from the Sale of Intangible Non-Produced Assets		
Total Revenue	13,540,439.00	NIL

11. LOAN REPAYMENT AND INTEREST ON LOANS

Description	2016-2017	2015-2016
	Kshs	Kshs
Loan Redemption (Annex 4)	2,369,247,093.05	2,683,187,574.85
Interest Receipts (Annex 4)	2,596,494,970.80	2,306,391,499.00
Receipts from the Sale of Inventories, Stocks and Commodities		
Receipts from the Sale of Intangible Non-Produced Assets		
Total Revenue	4,965,742,063.85	4,989,579,073.85



NOTES TO THE FINANCIAL STATEMENTS (Continued)

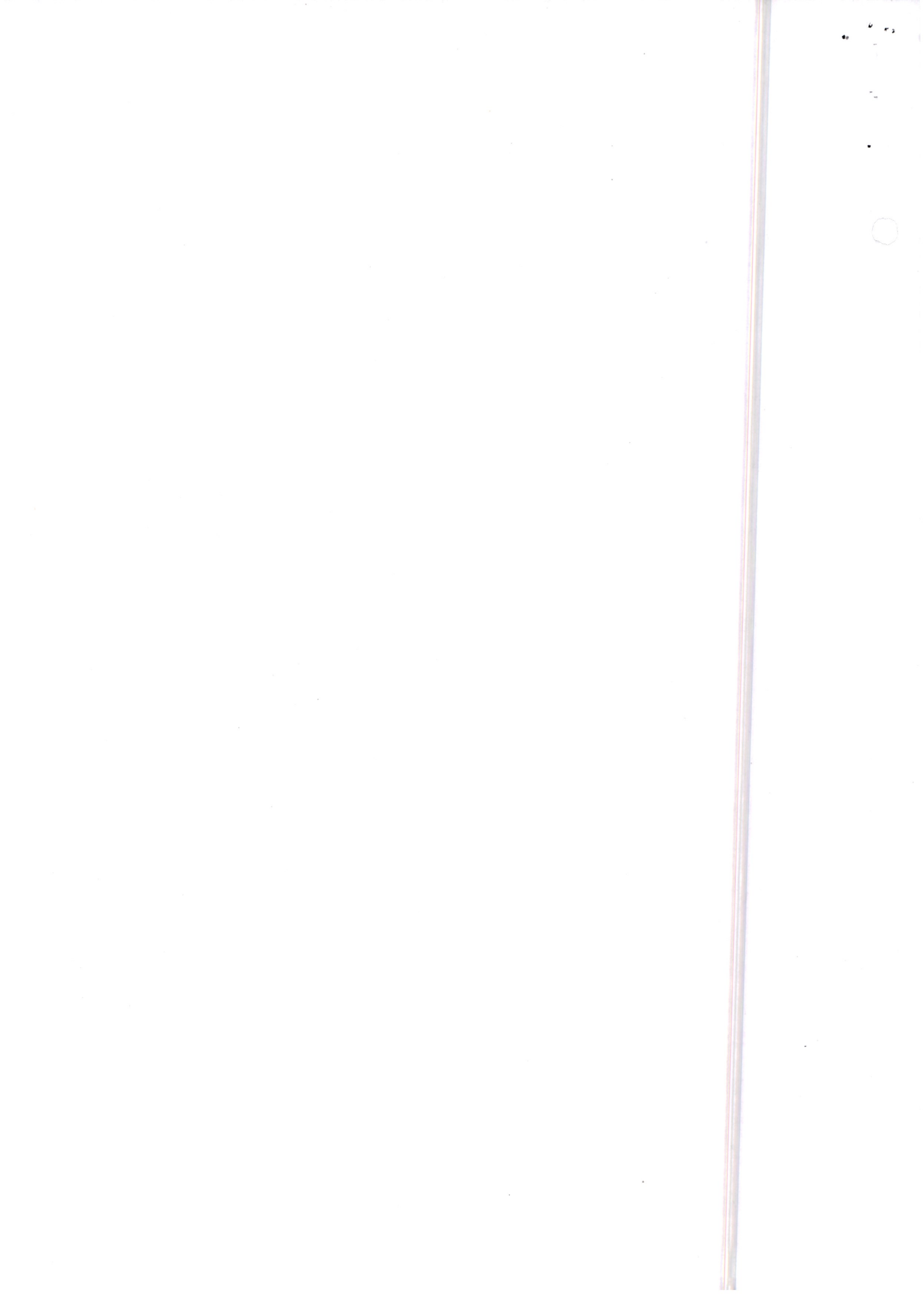
12. PROCEEDS FROM FOREIGN GRANTS

Description	2016-2017	2015-2016
	Kshs	Kshs
Government of Denmark(DANIDA)		
AMISOM Grants	7,335,658,437.05	4,756,650,865.80
Government of Italy		
Government of Japan		
United Kingdom- DFID		
Government of USA(USAID)		
TOTAL AMISOM Grants	7,335,658,437.05	4,756,650,865.80

13. SUMMARY OF TRANSFERS TO EXCHEQUER

	2016/17	2015/16
	Kshs	Kshs
TAX RECEIPTS		
Taxes on Income, Profits and Capital Gains	627,469,093,794.15	564,572,172,084.20
Taxes on Goods and Services	504,507,993,929.80	429,425,876,090.30
Taxes on International Trade & Transactions	112,890,047,204.80	104,819,796,814.00
Other Taxes	8,595,580,578.90	10,275,603,609.75
Fees on use of Goods/Services	2,755,165,330.20	-
Social Security Contributions	390,144,130.50	-
Property Income	29,798,232,404.05	20,441,303,895.65
Other Receipts	964,130,520.35	1,943,003,578.70
Sale of Goods and Services	76,000.00	2,827,242,102.50
Receipts From Sale of Non Financial Assets	13,540,439.00	-
Loan repayment and interest on loans	4,965,742,063.85	4,989,579,073.85
Proceeds from foreign grants(Amison)	7,335,658,437.05	4,756,650,865.80
TOTAL TRANSFERS TO EXCHEQUER	1,299,685,404,832.65	1,144,051,228,114.75

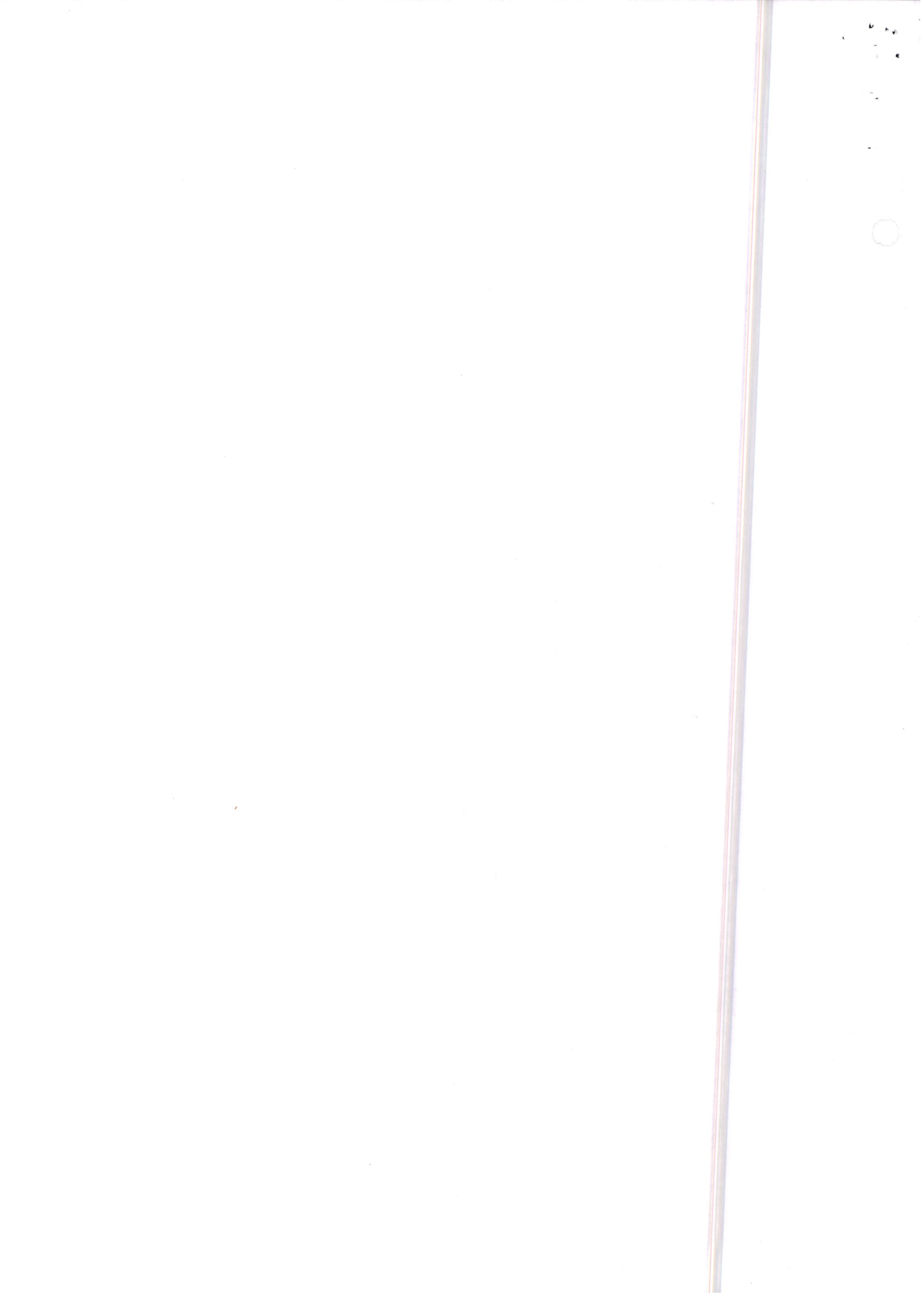
	2016/17	2015/16
	Kshs	Kshs
14. TRANSFERS TO PDL		
PDL Fund Account	2,137,500,000.00	1,394,700,000.00
TOTAL TRANSFERS TO PDL	2,137,500,000.00	1,394,700,000.00



REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

15. PRIOR YEAR ADJUSTMENT

	Kshs	
PDL Adjustments	303,139,187.45	Annex 2(a) PDL Levy Fund Statement
PDL Amount received in 2014 but posted in cash book in 2016/17	(11,393,136.65)	Annex 2(b) PDL reconciliation
PDL Amount received in 2015 but posted in cash book in 2016/17	(13,953,136.65)	Annex 2(b) PDL reconciliation
Adjustment on Revenue Balances	1,630,219,852.10	Annex 2(c) summary of Revenue Adjusted Balances
TOTAL PRIOR YEAR ADJUSTMENTS	1,908,009,592.75	



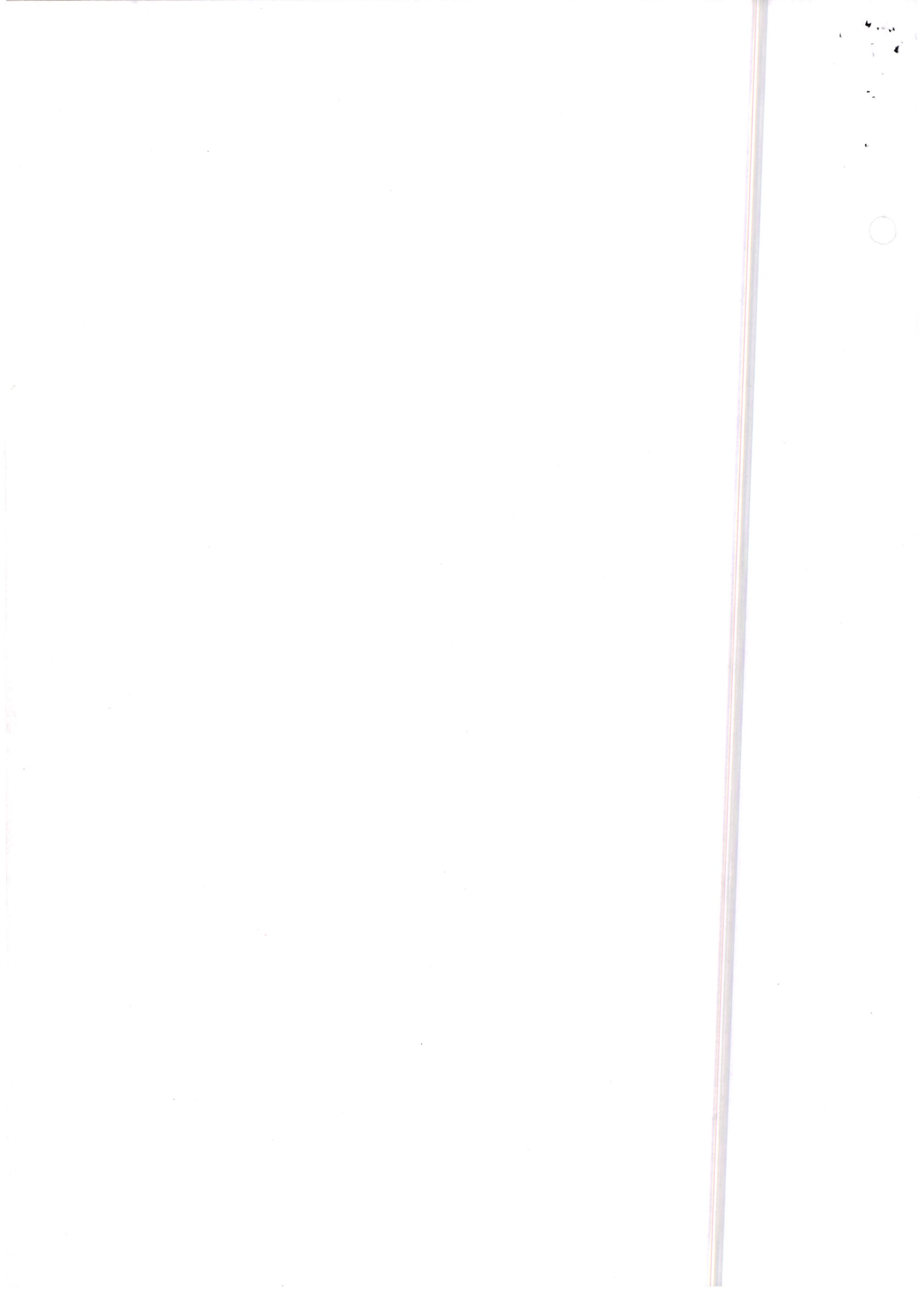
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

APPENDIX 1: A REPORT OF WAIVERS AND VARIATIONS OF TAXES, FEES OR CHARGES GRANTED BY THE RECEIVER OF REVENUE DURING THE YEAR

Name of person / organisation benefitting from waiver/ variation	Year in which waiver/ variation relates	Amount of variation/ waiver	Reasons for waiver/ variation	The law in terms of which the variation was granted
Various-(customs)	2016/17	16,862,724,307	Various- Annex 1 (a)	customs
Various- VAT	2016/17	11,989,369,826	Various- Annex 1(b)	Domestic taxes department
Various -Applications	2016/17	31,560.00	Various-Annex 1 (c)	Domestic revenue department
Various	2016/17	1,397,745,557.04	Various-Annex 1 (d)	Various KRA laws
Totals waivers		30,249,871,250.04		

(This relates to a receiver of revenue that has granted a giver/ remitter of revenue waiver or discount on the revenue to be submitted. Where no waiver has been given, state so under this statement)

(PFM ACT section 82 sub section 4, 5)



**REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

IX. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Balances brought forward from previous years	Taskforce was formed to look into old balances with the aim of resolving the matter	Head of Accounting Unit	The task force was satisfied with the adjustment made and has since forwarded the matter to the office of auditor general for approval	
	Arrears of revenue.	See Annex 3			



DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY



GEORGE .K. GICHURU
ICPAK MEMBER NUMBER: 9262
HEAD ACCOUNTING UNIT

