

REPUBLIC OF KENYA



*paper laid by the  
Leader of Majority  
on 06/06/2018  
Dhinda*



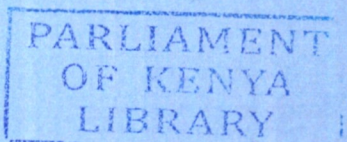
OFFICE OF THE AUDITOR-GENERAL

**REPORT**



**OF**

**THE AUDITOR-GENERAL**



**ON**

**THE FINANCIAL STATEMENTS OF  
THE STATEMENT OF OUTSTANDING  
OBLIGATIONS GUARANTEED BY  
THE KENYA GOVERNMENT**

**FOR THE YEAR ENDED  
30 JUNE 2017**

REPUBLIC OF KENYA



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**FOR THE YEAR ENDED  
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# REPUBLIC OF KENYA

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT AS AT 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Qualified Opinion**

I have audited the accompanying financial Statement of Outstanding Obligations Guaranteed by the Kenya Government set out as at 30 June 2017, 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 statement present fairly, in all material respects, the financial position of statement of Outstanding Obligations Guaranteed by the Kenya Government as at June 30, 2017 and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Basis for Qualified Opinion section of my report, 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**

##### **Long Outstanding Balances**

The statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2017 reflects long outstanding contingent liabilities totalling Kshs.164,132,745.60 made up of Kshs.11,814,920.20 and Kshs.152,317,825.00 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Settlement of these liabilities appears to be uncertain because the National Treasury has indicated that their clearance is dependent on redemption of bonds issued by Kenya Railway Corporation and completion of winding up process of the Cereal and Sugar Finance Corporation.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Outstanding Obligations Guaranteed by the Kenya Government in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements

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*Report of the Auditor-General on the Financial Statements of Statement of Outstanding Obligations Guaranteed by the Government of Kenya for the year ended 30 June 2017*

in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

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

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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

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

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

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

### **Auditor-General's Responsibilities for the Audit of the Financial Statements**

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

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

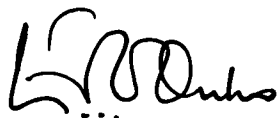
- Identify and assess the risks of material misstatement of the statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material 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 Ministry'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 Ministry'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 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 Ministry to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the statement, 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 Ministry to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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


**Nairobi**

**08 May 2018**

# THE NATIONAL TREASURY

## STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT AT 30TH JUNE 2017

| Organization to which guarantee is given | Obligation guaranteed                                     | F.Y. 2016/17<br>KSH.  | F.Y. 2015/16<br>KSH.  |
|--|---|-----------------------|-----------------------|
| Bond Holders                             | Loan of K£ 480,000 to Kenya Railways Corporation          | 513,100.00            | 513,100.00            |
| Bond Holders                             | Loan of K£ 18,816 to Kenya Railways Corporation           | 11,301,820.00         | 11,301,820.00         |
| Lenders/2                                | Capital and interest owed by cereals and Sugar Finance Co | 152,317,825.00        | 152,317,825.00        |
| <b>TOTAL</b>                             |   | <b>164,132,745.00</b> | <b>164,132,745.00</b> |

  
**Dr. KAMAU NJUGGE CBS**  
 ACCOUNTING OFFICER

Date:.....

2/5/18



**GEORGE KIHARA GICHURU**  
 SENIOR DEPUTY ACCOUNTANT GENERAL  
 ICPAK Member Number: 9296

Date:.....

4/5/18