

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 13 MAR 2019	DAY: Wed. PM
REPORT TABLED BY:	LEADER OF THE MAJORITY PARTY - Hon. A. DUKU NDW
CLERK-AT THE-TABLE:	

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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
RAILWAY DEVELOPMENT LEVY FUND

FOR THE YEAR ENDED
30 JUNE 2018

NATIONAL TREASURY



THE NATIONAL TREASURY

**Financial Statements for the Railway Development
Levy Fund Holding Account**

For the Financial Year ended 30th June 2018

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

The National Treasury
Financial Statements for the Railway Development Levy Fund Holding Account
For the Financial Year ended 30th June 2018

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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.1/2018. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

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

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

- 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 30th 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.	Jane W N Macharia	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

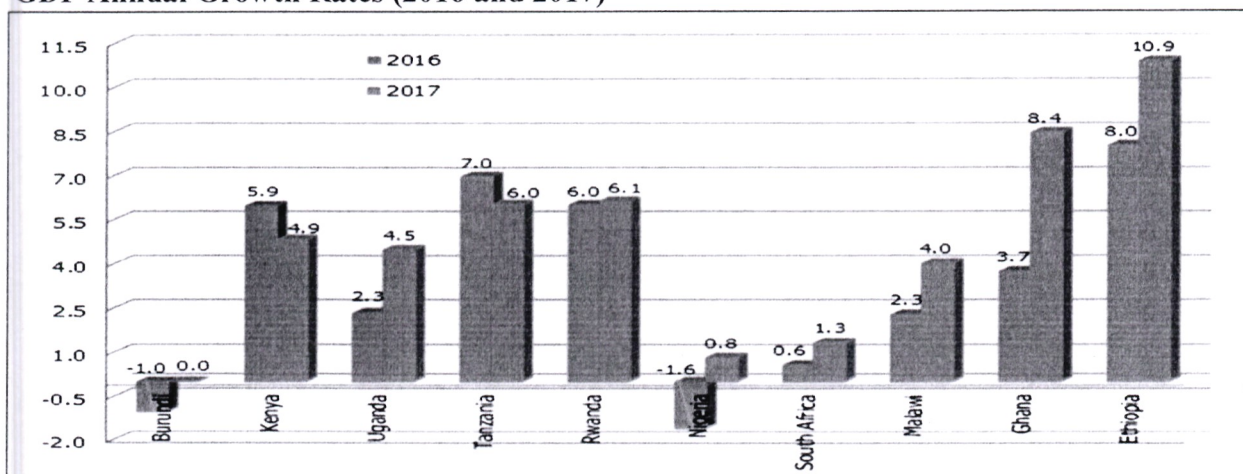
The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

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 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-Saharan Africa.

GDP Annual Growth Rates (2016 and 2017)



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

The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred

The National Treasury

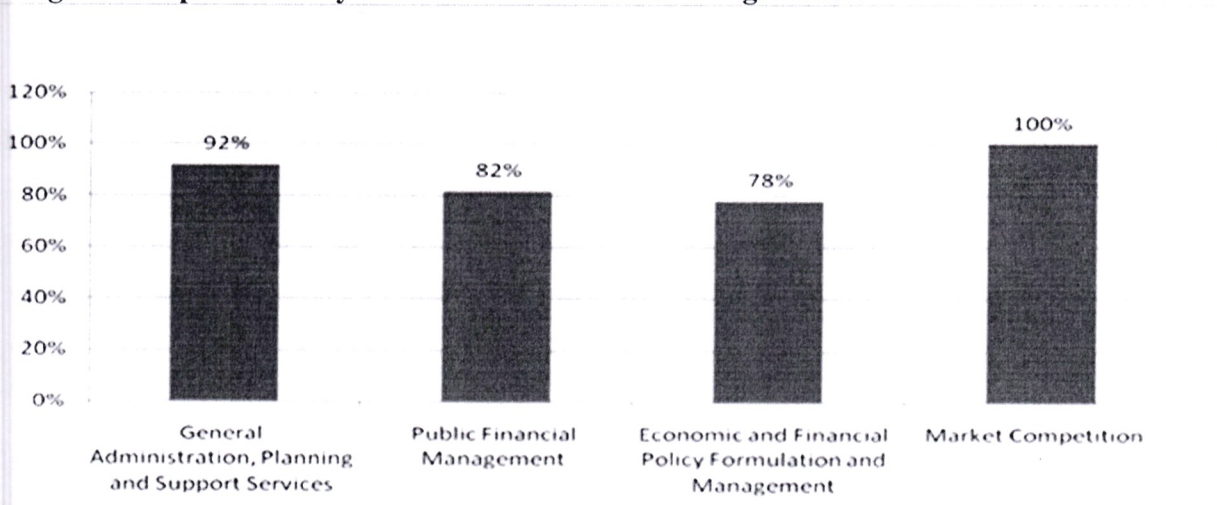
Financial Statements for the Railway Development Levy Fund Holding Account For the Financial Year ended 30th June 2018

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.

In terms of budget performance, the National Treasury expenditure stood at Kshs.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs.9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%.

The National Treasury implemented the 2017/18 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 81.7% and Economic and Financial Policy Formulation and Management (78%).

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

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

3 Overview of the Railway Development Levy Fund Holding Account

3.1 Background of the Fund

The Railway Development Levy Fund is established under section 6 of the Finance Act, 2013 amending section 117 of the Customs and Excise Act.

The purpose of the Railway Development Levy Fund is to provide funds for the construction of the standard gauge railway in order to facilitate the transportation of goods.

The Fund consists of the proceeds of the Railway Development Levy charged under section 117A of the Customs and Excise Act (Cap 472), grants or donations made to the Fund and any income generated from the proceeds of the Fund.

The Railway Development Levy is collected by the Kenya Revenue Authority on behalf of the government and remitted to the Railway Development Levy Fund Holding Account maintained by the National Treasury at the Central Bank of Kenya.

3.2 Administration of the Fund

The Principal Secretary, State department of Transport, is the Administrator of the Railway Development Levy Fund.

Funds are transferred from the Holding Account to the Railway Development Fund Operations Account, maintained by the State department of Transport based on the approval of the Advisory Committee established under the Customs and Excise (Railway Development Levy Fund) Regulations, 2013.

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

The National Treasury is responsible for preparing reports on the funds deposited into and out of the Holding Account while the State department of Transport on the other hand, is responsible for preparing reports of the Railway Development Levy Fund and submitting to the Auditor-General and deliver a copy of the statements to the National Treasury, Commission on Revenue Allocation and the Controller of Budget not later than three months after the end of each financial year pursuant to Section 24 of PFM Act, 2012.

This report therefore covers the operations of the Railway Development Levy Fund Holding Account for the financial year ended 30th June 2018.

3.4 The National Treasury Headquarters

Treasury Building,
Harambee, Avenue
Nairobi Kenya

3.5 The National Treasury Contacts

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

3.6 The National Treasury Bankers

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

3.7 Independent Auditors

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

3.8 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 20.69 billion during the financial year 2017/2018 compared to Kshs 18.94 billion received in the previous year. The funds were received from the Kenya Revenue Authority as the appointed collector of the revenue for the Fund.

During the year ended 30th June 2018, Kshs 15.55 billion was transferred from the Holding Account to the operations account of the Railway Development Levy Fund, compared to Kshs 23.30 billion transferred during the previous financial year.

As at 30th June 2018, the Holding Account had a cumulative balance of Kshs 15.79 billion compared to the balance of Kshs 10.66 billion as at 30th June 2017. The fund is 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 Railway Development Levy Fund Holding Account, which give a true and fair view of the state of affairs of Fund for and as at the end of the financial year (period) ended on June 30, 2018. 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 Railway Development Levy 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 Railway Development Levy Fund Holding Account give a true and fair view of the performance of the Fund during the financial year ended June 30, 2018. 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 8 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on _____ 2018 by:

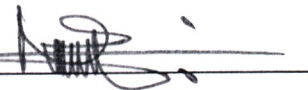
Signature: _____



Dr. Kamau Thugge, CBS
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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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RAILWAY DEVELOPMENT LEVY FUND – HOLDING ACCOUNT FOR THE YEAR ENDED 30 JUNE 2018 – NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Railway Development Levy Fund – Holding Account set out on pages 1 to 8, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows 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, the financial statements present fairly, in all material respects, the financial position of Railway Development Levy Fund – Holding Account as at 30 June 2018 and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (cash basis and comply with the Public Finance Management Act, 2012).

Basis for Opinion

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

Key Audit Matters

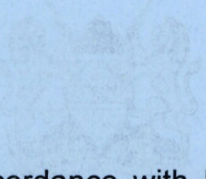
Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

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, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Report of the Auditor-General on the Financial Statements of Railway Development Levy Fund for the year ended 30 June 2018



Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (cash basis and for 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 governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the 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.

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 entity 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 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 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.

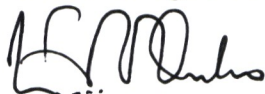
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the 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 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 ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the 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.



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

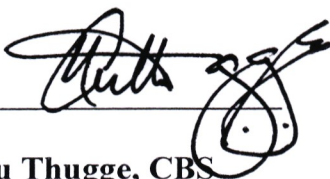
Nairobi

6 February 2019

6 Receipts and Payment Statements for the year ended 30th June 2018

	Notes	FY 2017/2018 Kshs	FY 2016/2017 Kshs
Receipts			
Receipts from the Kenya Revenue Authority	10.2	20,693,095,047.00	18,939,933,523.40
Total Receipts		20,693,095,047.00	18,939,933,523.40
Transfers to State Department of Transport	10.3	15,557,910,690.20	23,299,550,337.94
Total transfers		15,557,910,690.20	23,299,550,337.94
Deficit /Surplus		5,135,184,356.80	(4,359,616,814.54)

Notes to the financial statements set out on pages 5 to 8 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on _____ 2018 by:

Signature: 

Dr. Kamau Thugge, CBS
Principal Secretary,

The National Treasury

Signature: 

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

7 Statement of Assets and Liabilities as at 30th June 2018

	Note	FY 2017/2018 Kshs	FY 2016/2017 Kshs
Financial Assets			
Cash And Cash Equivalents			
Bank Balances	10.4	15,798,536,827.26	10,663,352,470.46
Total Cash and Cash Equivalents		15,798,536,827.26	10,663,352,470.46
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		15,798,536,827.26	10,663,352,470.46
Financial Liabilities			
Accounts Payables – Deposits And Retentions		-	-
Net Financial Assets		15,798,536,827.26	10,663,352,470.46
Represented By			
Fund Balance B/Fwd		10,663,352,470.46	15,022,969,285.00
Deficit/Surplus for the Year		5,135,184,356.80	(4,359,616,814.54)
Net Financial Position		15,798,536,827.26	10,663,352,470.46

Notes to the financial statements set out on pages 5 to 8 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on _____ 2018 by:

Signature: 

Dr. Kamau Thugge, CBS
Principal Secretary,

The National Treasury

Signature: 

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

8 Statement of Cash Flow for the year ended 30th June 2018

		FY 2017/2018	FY 2016/2017
		Kshs	Kshs
Cash from Operating Activities			
Receipts from The Kenya Revenue Authority	10.2	20,693,095,047.00	18,939,933,523.40
Payments			
Transfer to State Department of Transport	10.3	15,557,910,690.20	23,299,550,337.94
Net Cash Flow from Operating Activities		5,135,184,356.80	(4,359,616,814.54)
Cash flow from Investing Activities		-	-
Cash flow from Financing Activities		-	-
Net increase in Cash and Cash Equivalents		5,135,184,356.80	(4,359,616,814.54)
Cash and cash equivalents at the beginning of the year		10,663,352,470.46	15,022,969,285.00
Cash and Cash Equivalents at the end of the Year		15,798,536,827.26	10,663,352,470.46

Notes to the financial statements set out on pages 18 to 22 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on _____ 2018 by:

Signature: _____

Dr. Kamau Thugge, CBS
 Principal Secretary,

The National Treasury

Signature: _____

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

9 Summary of Budget vs Actual Performance for the year ended 30th June 2018

The following statement summarizes the outturn against budget:

	Original Estimates Kshs	Revised Estimates Kshs	Total Actual 30 th June 2018 Kshs	Difference Kshs	Dev. %
					-
Receipts				-	-
Railway Development Levy Fund	21,169,000,000.00	21,169,000,000.00	20,693,095,047.00	475,904,953.00	2.2%
Total	21,169,000,000.00	21,169,000,000.00	20,693,095,047.00	475,904,953.00	
Transfers					
Transfer to State Department of Transport	21,169,000,000.00	21,169,000,000.00	15,557,910,690.20	5,611,089,309.80	26.5%
Total Transfers	21,169,000,000.00	21,169,000,000.00	15,557,910,690.20	5,611,089,309.80	26.5%

Commentary

A total of Kshs 15.55 billion was transferred to State Department of Transport for 2017/2018 financial year compared to Kshs 23.30 billion in the previous financial year. The transfers are made based on the requests submitted by the State Department of Transport on approval by the Advisory Committee. The deviation of 26.5% was as a result of a request of Kshs. 6.36 billion that was received late and hence processed in FY 2018/2019.

10 Notes to the Financial Statements

10.1 Significant Accounting Policies.

a) Basis of preparation

The financial statements of Railway Development Levy 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 Railway Development Levy 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 Railway Development Levy charged under section 117A of the Customs and Excise Act, 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 Advisory Committee for approval before the beginning of the financial year which they relate. All receipts, saving and accruals of the Fund and the balance of the Fund at the close of each financial year shall be retained for the purpose for which the fund is 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.

10.2 Receipts from Kenya Revenue Authority

An amount of Kshs 20.69 billion was received during financial year 2017/2018 compared to Kshs 18.94 billion received during financial year 2016/2017. The following is the breakdown on a quarterly basis of the receipts into the Holding Account. The funds were received from the Kenya Revenue Authority.

Description	Period to 30 th June 2018 Kshs	Period to 30 th June 2017 Kshs
1 st Quarter	5,255,016,043.00	4,185,510,863.00
2 nd Quarter	4,615,118,315.00	4,602,695,225.00
3 rd Quarter	5,388,646,460.00	4,838,588,801.00
4 th Quarter	5,434,314,229.00	5,313,138,634.40
Total Receipts	20,693,095,047.00	18,939,933,523.40

10.3 Transfers to State Department of Transport

The following is the breakdown of the funds transferred by the National Treasury from the Holding Account to the operational account of the Railway Development Levy Fund following approval from Railway Development Levy Fund Advisory Committee:

Date of transfer	Details	Amount Kshs
11-08-2017	AG/13/79 vol.5/(14) DD11082017	1,393,731,976.00
04-10-2017	AG/13/79 vol.5/(15) DD11082017	1,515,666,248.00
04-10-2017	AG/13/79 vol.5/(15) DD11082017	1,776,952,667.00
17-10-2017	AG/13/79 vol.6/(02) DD16102017	1,202,126,259.00
18-10-2017	AG/13/79 vol.6/(04) DD18102017	5,236,555,589.10
12-01-2018	AG/13/79 vol.6/(20) DD11012018	844,199,041.60
28-03-2018	AG/13/79 vol.7/(2) DD27032018	500,000,000.00
17-05-2018	AG/13/79 vol.7/(13) DD15052018	3,088,678,909.50
	Total Transfers	15,557,910,690.20

10.4 Bank balance

The bank balance as at 30th June 2018 amounted to Kshs 15.80 billion compared to Kshs 10.66 billion in the previous year.

Bank Name and Account	Denomination of Account	Balance as at 30 th June 2018	Balance as at 30 th June 2017
Central Bank of Kenya Acc no. 1000205067	Kshs	15,798,536,827.26	10,663,352,470.46
Total		15,798,536,827.26	10,663,352,470.46

11 Reconciliation of receipts between KRA and the National Treasury

The Kenya Revenue Authority collected a total of Kshs 20.780 billion and remitted to the **Railway Development Levy Fund Holding Account** an amount of Kshs 20.693 billion during the Financial Year 2017/2018 the difference mainly arising out of timing differences as indicated in the reconciliation below.

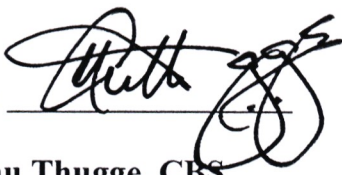
Details	FY 2017/2018	FY 2016/2017
	Kshs	Kshs
Total collections as per The Kenya Revenue Authority Revenue Accountability Report	20,780,085,649.00	18,902,516,338.00
Cash in transit as at the beginning of FY.	(1,759,449.10)	230,373,287.00
Cash in transit at the close of FY.	(85,231,152.90)	(197,793,070.90)
Prior years transfers from commercial banks		4,836,936.30
Total receipts from The Kenya Revenue Authority as per Railway Development Levy Fund Holding Account. (Note 10.2)	20,693,095,047.00	18,939,933,523.40

12 Progress on follow up of Auditor’s 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)
Paragraph I	The National Treasury has no full control of the funds proceeds as the budget is not used as a control tool in implementing the funds operations programme, but solely on approvals from the fund’s advisory committee.	Budget as a control tool to be effected by the Railway Development Levy Fund Advisory Committee.	Railway Development Levy Fund Advisory Committee.	Resolved	2018/2019 Financial year

Signature: _____



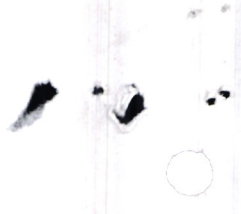
**Dr. Kamau Thugge, CBS
Principal Secretary,**

The National Treasury

Signature: _____



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



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