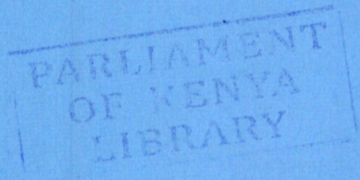
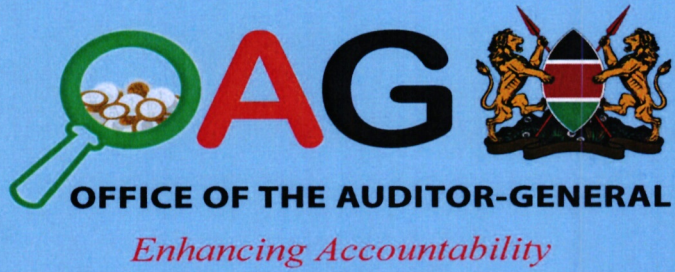


REPUBLIC OF KENYA



REPORT

OF

THE AUDITOR-GENERAL

ON

THE NATIONAL TREASURY

**FOR THE YEAR ENDED
30 JUNE, 2019**



THE NATIONAL TREASURY – MAIN REPORT

AMENDED REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2019

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

THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2019

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I. NATIONAL TREASURY INFORMATION AND MANAGEMENT

(a) Background Information

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

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

Vision

“Excellence in economic and public financial management, and development planning”

Mission

“To provide leadership in economic and public financial management, and development planning for shared growth through formulation, implementation and monitoring of economic, financial and development policies”

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 and Teamwork.

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

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- 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 support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- Provide logistical support to intergovernmental institutions overseeing inter-governmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

(b) Key Management

The National Treasury's 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.

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 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.

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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.
- Government Digital Payments Unit.

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.
- Public Investment Management 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;

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- ICT
- Government Clearing Agency

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Francis Musyimi, CBS
3.	Director General, BFEA	Mr. Albert Mwenda, HSC
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Ag. Director General, PIPM	Eng. Stanley Kamau
6.	Director General, PDMO	Dr. Haron Sirma, OGW
7.	Ag. 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.	Director, Public Procurement Department	Mr. Eric Korir
11.	Ag 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. Francis Kariuki
15.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
16.	Ag. Director, Public Private Partnership Unit	Mrs. Judy Nyakawa
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.	Ag. Director of Administration	Ms. Margaret Muiru, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Head, Finance	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Mulavu
27.	Head, Internal Audit Unit	Ms. Esther Ngeru
28.	Director, Human Resource Management and Development	Ms. Susan Mucheru
29.	Ag Director, Information Communication and Technology	Mr. George Kariuki
30.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
31.	Head, Public Communications	Mr. Maina Kigaga
32.	Head, Legal Unit	Mr. James Mwenda
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua

(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:

Audit Committee

The purpose of the Audit Committee is to assist the ministry's management in fulfilling their mandates. The committee undertakes the responsibilities of ensuring existence of adequate financial reporting

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processes, strong systems of internal controls and efficient operational activities carried out under existing laws and regulations for the ministry to achieve its intended objectives.

The National Treasury and Planning Audit Committee was launched on 22nd March 2019 and has met three times by end of June 2019. It has five members with the Internal Audit Unit as the Secretariat.

Internal Audit Unit

The National Treasury has an Internal Audit Unit 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 Query 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.

Parliamentary Activities

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

Development Partner Oversight

To effectively manage Official Development Assistance to the Government, the National Treasury has under the Public Debt Management Office; a Department responsible for all matters relating to Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

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 the 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 60000-00200
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

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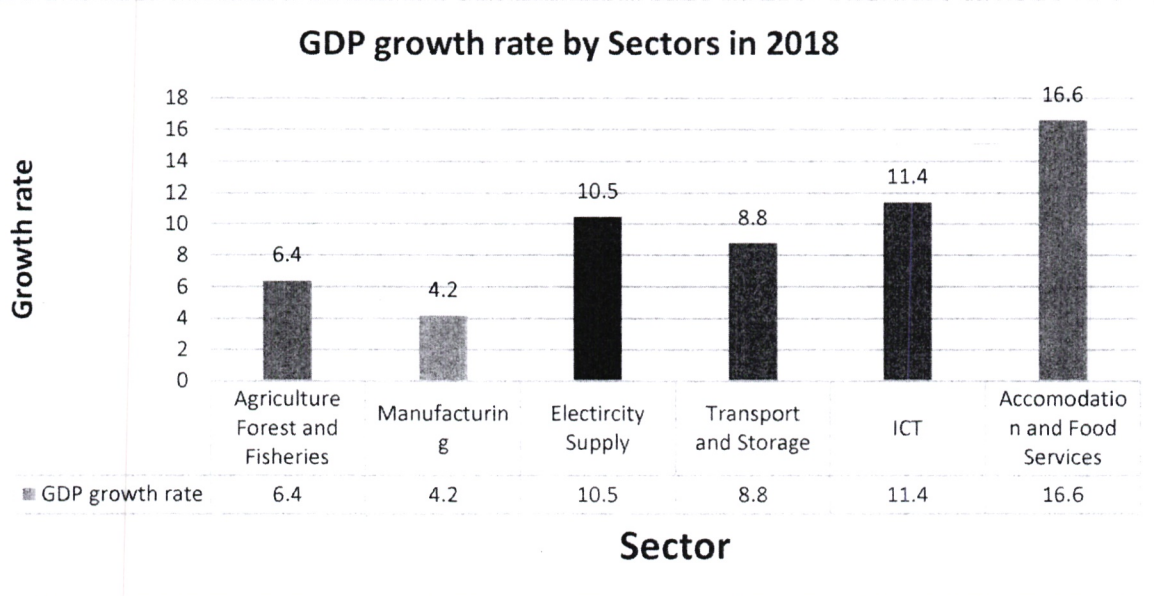
P.O. Box 40112
 City Square 00200
 Nairobi, Kenya

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, Economic growth remained resilient and broad based averaging 5.7% in the past 6 years and generating a total of around 5 million new jobs since 2013. Growth accelerated to 6.3% in 2018 from 4.9% in 2017. This growth is the highest to have been recorded for the past 8 years and well above the sub Saharan Africa region average growth of 3.0 percent and the global average of 3.6 percent. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transport and vibrant service sector activities. As a result of this economic growth, 860,000 new jobs were generated in the economy in 2018. Inflation remained within target, interest rates were stable, and exchange rates were competitive with adequate foreign exchange reserves equivalent to 6.2 months of import cover at the end of fiscal year 2018/19. The figure below shows the contribution of the GDP Growth rate by Sectors.

Figure 1: GDP Growth Rate by Sectors in 2018



In FY 2018/19, County Governments received **Ksh.314 billion** as their equitable share of revenue raised nationally. This represents 100 percent of the appropriation as per the CARA, 2018. In addition to the equitable share, the Counties received Ksh.46.1 billion in FY 2018/19, which comprised of:-

- a) Conditional allocation worth more than **Ksh.15 billion** derived from the National Government's equitable revenue share;
- b) **Ksh.7.4 billion** from the Roads Maintenance Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and,

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- c) Proceeds from external loans and grants totalling **Ksh.23.6 billion** earmarked to supplement financing of devolved functions.

Based on the above aggregate, payments to County government in FY 2018/19 amounted to **Kshs.360.1 billion**, representing 96 percent of the CARA, 2018 allocations. Including the FY 2018/19 payments, county governments have now received an estimated **Kshs.1.7 trillion** cumulatively since their establishment.

In all years, County Governments' equitable revenue share has been well above the minimum threshold defined in Article 203 (2) of the Constitution. Moreover, counties' equitable revenue share allocation has been fully disbursed in accordance with Article 219 of the Constitution, even when the shareable revenue outturn was less than projected revenue used in the Division of Revenue Act.

The National Treasury and Planning, successfully priced a new US dollar 2.1 billion, dual tranche Eurobond of 7-year and 12-year tenors on 15th May 2019 in London, United Kingdom. This is the third time Kenya has been in the International Debt Capital Markets. The first was in June 2014, when we launched the debut bond of US dollar 2.0 billion and tapped for a further US dollar 750 million, while the second was in February 2018 when a dual-tranche of US\$ 2.0 billion was issued (10-year tenor of US\$1.0 billion and 30-year tenor of US\$ 1.0 billion).

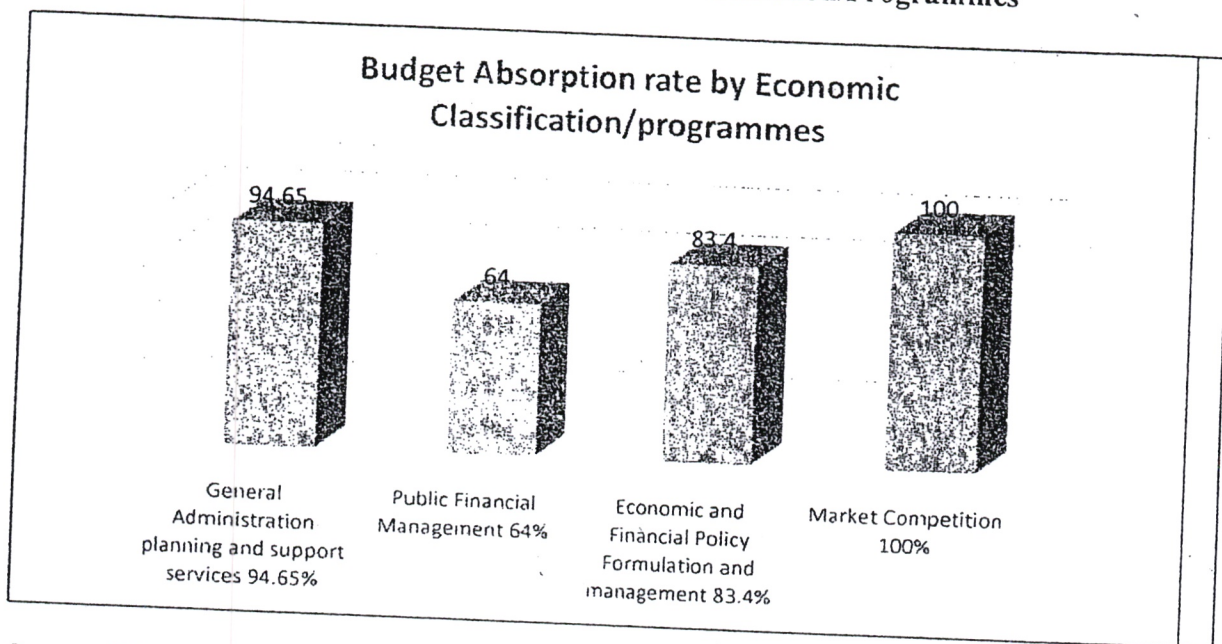
The announcement of Kenya issuance triggered an overwhelming response from investors that amounted to an order book of US\$ 9.5 billion, an oversubscription of 4.5 times. This overwhelming interest in Kenya's bond issue confirms the strong investor confidence in Kenya's economic policy management and prospects going forward.

The proceeds from this issuance will be used to (i) finance some of the development infrastructure projects, (ii) the general budgetary expenditure in accordance with the applicable legal requirements and (iii) to refinance part or all of the obligations outstanding under the US\$ 750 million (2014 Eurobond).

The National Treasury and Planning in its contribution to the Affordable Housing Agenda under the Big Four Plan launched the Kenya Mortgage Refinance Company (KMRC) in May 2019. This is a Public Private Partnership arrangement with majority private sector owned. KMRC will extend long term loans at fixed interest rate to financial institutions secured against mortgages so that they can extend the maturity of their housing loans to end borrowers hence increasing affordability. Given Kenya's urbanization rates, there is critical need to deliver housing at the lower end of the income spectrum in order to improve housing conditions for the average Kenyan. KMRC will seek to catalyze growth of the mortgage market in Kenya by targeting households that fall within the mortgage gap and lower middle-income categories which represents about 95% of the formally employed population.

In terms of budget performance, the National Treasury expenditure stood at Kshs.55,104b against an approved budget of **Kshs.64.865b**. The National Treasury implemented the 2018/19 budget within four economic classifications/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 figure 2 below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 94.65%, Economic and Financial Policy Formulation and Management (83.4%) and Public Financial Management Programme at 64%.

Figure 2: Budget Absorption rate by Economic Classification/Programmes

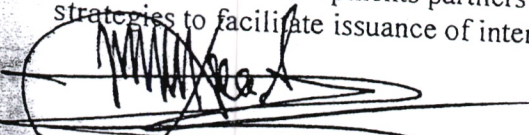


Some of the challenges the National Treasury faced while implementing the 2018/19 budget include:-

- Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
- Low absorption of Official Development Assistance (ODA).
- Inadequate Exchequer issues thus contributing to the pending bill increment from Kshs.29.3b to Kshs.64.7b in FY2018/19.
- Inadequate capacity of staff in some key technical Departments.

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects and prepared draft Public Investment Management Regulations.
- Strengthened capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthened financial and fiscal relations between the national government and county governments.
- Enhanced 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.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to facilitate issuance of international bonds to finance government projects.


HON. A.M.B. UKUR YATTANI, EGH
AG. CABINET SECRETARY

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

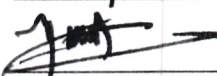
The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of its financial statements, which give a true and fair view of the state of affairs of The National Treasury for and as at the end of the financial year (period) ended on June 30, 2019. This 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 National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of The National Treasury; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of The National Treasury accepts responsibility for The National Treasury financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that The National Treasury's financial statements give a true and fair view of the state of The National Treasury's transactions during the financial year ended June 30, 2019, and of The National Treasury's financial position as at that date. The Accounting Officer charge of The National Treasury further confirms the completeness of the accounting records maintained for The National Treasury which have been relied upon in the preparation of The National Treasury's financial statements as well as the adequacy of the systems of internal financial control.

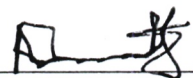
The Accounting Officer in charge of The National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants, and that the The National Treasury's funds received during the year under audit were used for the eligible purposes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

Approval of the financial statements

The *National Treasury* financial statements were approved and signed by the Accounting Officer on 30th sept. 2019



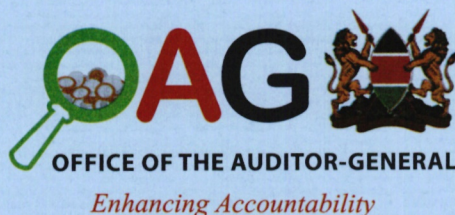
DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY



NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



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

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL TREASURY FOR THE YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The National Treasury set out on pages 12 to 37, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation-recurrent and development combined 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 effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of The National Treasury as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Variance Between Financial Statements and IFMIS Balances

The financial statements presented for audit and the Integrated Financial Management Information Systems (IFMIS) Trial Balance presented in support had variances as detailed below: -

Component	Financial statements Balance (Kshs.)	IFMIS Balance (Kshs.)	Variance (Kshs.)
Bank Balances	2,248,780,788	116,580,445,030	(114,331,664,242)
Cash Balances	1,020,917	5,066,314	(4,045,397)
Accounts Receivable	899,585,508	902,182,669	(2,597,161)
Accounts Payable	80,200,064	173,301,104,441	(173,220,904,377)
Fund Balance b/fwd	2,056,688,154	(290,027,754,295)	292,084,442,449
Prior year adjustments	(32,282,003)	0	(32,282,003)

Further, the reported accounts payable balance of Kshs.80,200,064 includes returned payments under the development vote of Kshs.6,913,831. This differs with IFMIS report balances of Kshs.8,085,150 resulting to an unexplained variance of Kshs.1,171,319.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June, 2019 could not be confirmed.

2. Compensation to Employees

As disclosed under Note 5 to the financial statements, the statement of receipts and payments reflects compensation to employees of Kshs.2,524,328,336;(2018-Kshs. 2,308,812,613). However, the IFMIS payroll report in support of the balance reflects an amount of Kshs.2,275,019,969 resulting to an unexplained variance of Kshs.249,308,367. Similarly, payment vouchers supporting the expenditure on compensation to employees reflects an amount of Kshs.2,287,104,986 resulting to a variance of Kshs.237,223,350. The variances between the three (3) sets of records have not been reconciled.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of National Treasury Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

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

Other Matter

1. Budgetary Control and Performance

The summary statement of appropriation- recurrent and development combined reflects final receipts budget and actual on comparative basis of Kshs.64,865,387,441 and Kshs.56,209,005,073 respectively resulting to an underfunding of Kshs.8,656,382,368 or 13% of the approved budget. Of the underfunding, Kshs.6,508,245,168 and Kshs.2,148,137,200 relate to recurrent and development votes respectively. Further, of the realized budget receipts of Kshs.56,209,005,073 only Kshs.55,164,224,075 was absorbed resulting to an under absorption of Kshs.1,044,780,998.

The underfunding and failure to absorb the realized receipts affected the planned activities and projects which may have impacted negatively on service delivery for the citizens.

2. Pending Bills

Note 18.1 to the financial statements reflects pending bills amounting to Kshs.241,957,497; (2018-Kshs.563,474,303). The balance comprises of opening balance of Kshs.2,035,366 and bills incurred during the year of Kshs.239,922,131. Failure to settle bills during the year in which they relate to adversely affects the provisions of the subsequent year to which they have to be charged.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Contracts for Renovation of the Treasury Building, Bima and Herufi House

The National Treasury entered into a contract for rehabilitation, plumbing, drainage and sanitary appliances, amongst others, at the Treasury Building, Bima and Herufi Houses following tendering during the 2016/2017 financial year vide tender number TNT/012/2015-2016. The contract was awarded for a sum of Kshs.88,956,951 with the contractor taking possession of the site on 5 April, 2017. As at December, 2018 and more than one and half years later, no significant progress had been made due a number of reasons, amongst them, the need for the contractor to undertake additional works. This occasioned an additional contract to be awarded to the same contractor using direct procurement method.

As at 22 May, 2019 two (2) years into the contract and after its expiry, progress was at 4.17% of the total contract works. The contractor has subsequently been granted multiple extension of time contracts but had not completed the renovation works as at the time of the audit.

Available information indicates that three (3) other contracts were subsequently awarded to other contractors with total value of Kshs.90,644,783 and which are related to some of the works under the above initial contract. This could be indicative of duplicate awards. No explanation has been given on the subsequent awards and

actions being taken against the first contractor to fully discharge the contract as per the contract terms.

Under the circumstances, it has not been possible to confirm if value for money will be realized from the four contracts valued at Kshs.179,621,734.

2. Consultancy Contracts

On 12 September, 2016, the National Treasury contracted three (3) professional accounting firms for consultancy services on the preparation of financial reports of National Government entities, State Agencies and County Governments at total cost of Kshs.425,100,219. As at 30 June, 2019 a sum of Kshs.403,617,347 had been paid out to the three (3) firms from the contract price of Kshs.425,100,219. However, the audits of the National Government entities, State Agencies and County Governments financial statements for the financial years 2017/2018 and 2018/2019 reported numerous gaps on accounting, disclosures and presentation of financial statements.

Under the circumstances, it has not been possible to confirm whether value for money has been realized from the award of contract and payment totalling Kshs.425,100,219 for consultancy services to the three (3) professional firms.

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 overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the National Treasury to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's

report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause The National Treasury to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of The National Treasury to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


Nancy Gathungu
AUDITOR-GENERAL

Nairobi

18 December, 2020

THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2019

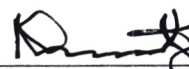
V. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30-JUN-2019

	Note	2019-2018 Kshs	2018-2019 Kshs
RECEIPTS			
Proceeds from Domestic and Foreign Grants	1	4,636,032,038	9,241,651,686
Exchequer releases	2	51,042,594,480	48,955,503,674
Proceeds from Foreign Borrowings	3	530,378,555	391,414,899
TOTAL RECEIPTS		56,209,005,073	58,588,570,259
PAYMENTS			
Compensation of Employees	4	2,524,328,336	2,308,812,613
Use of goods and services	5	16,950,551,898	20,396,995,275
Subsidies	6	300,000,000	1,137,078,335
Transfers to Other Government Units	7	27,255,222,636	28,852,301,349
Other grants and transfers	8	3,808,539,372	1,069,476,594
Acquisition of Assets	9	3,825,581,833	4,656,053,462
Other Payments	10	500,000,000	-
TOTAL PAYMENTS		55,164,224,075	58,420,717,628
SURPLUS/DEFICIT		1,044,780,998	167,852,631

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th sept. 2019 and signed by:



DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY



NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT


THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2019

vi STATEMENT OF ASSETS AND LIABILITIES AS AT 30-JUN-2019

	Note	2019-2018 Kshs	2018-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	13A	1,251,228,388	1,390,758,926
Cash Balances	13B	1,020,917	741,626
Total Cash and cash equivalent		1,252,249,305	1,391,500,552
Accounts receivable	14	899,585,508	820,124,196
TOTAL FINANCIAL ASSETS		2,151,834,813	2,211,624,748
FINANCIAL LIABILITIES			
Account Payables	15	80,200,064	154,936,594
NET FINANCIAL ASSETS		2,071,634,749	2,056,688,154
REPRESENTED BY			
Fund balance b/fwd	16	2,056,688,154	2,304,964,475
Surplus/Deficit for the year		1,044,780,998	167,852,631
Prior year adjustment	17	(1,029,834,403)	(416,128,952)
NET FINANCIAL POSITION		2,071,634,749	2,056,688,154

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th sept. 2019 and signed by:


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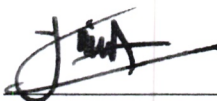

NEMWEL M. MOTANYA
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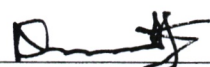
THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2019

VI. STATEMENT OF CASH FLOWS

	Note	2019-2018 Kshs	2018-201 Ksh
Receipts for operating income			
Proceeds from Domestic and Foreign Grants	1	4,636,032,038	9,241,651,686
Exchequer Releases	2	51,042,594,480	48,955,503,67
		55,678,626,518	58,197,155,36
Payments for operating expenses			
Compensation of Employees	5	2,524,328,336	2,308,812,613
Use of goods and services	6	16,950,551,898	
Subsidies	7	300,000,000	1,137,078,335
Transfers to Other Government Units	8	27,255,222,636	28,852,301,349
Other grants and transfers	9	3,808,539,372	1,069,476,594
Other payments	11	500,000,000	-
Net cash flow from operating activities		51,338,642,242	53,764,664,160
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	10	3,825,581,833	4,656,053,462
Net cash flows from Investing Activities		3,825,581,833	4,656,053,462
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	3	530,378,555	391,414,899
Net cash flow from borrowing activities		530,378,555	391,414,899
NET INCREASE IN CASH AND CASH EQUIVALENT		1,044,780,998	167,852,631
Cash and cash equivalent at BEGINNING of the year		1,391,500,552	1,782,737,490
Change in Receivables		(79,461,312)	(181,564,202)
Change in Payables		(74,736,530)	38,603,585
Prior Year adjustment	17	(1,029,834,403)	(416,128,952)
Cash and cash equivalent at the END of the Year		1,252,249,304	1,391,500,552

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th sept. 2019 and signed by:


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NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

VII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

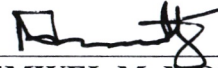
Receipt/Payment Item	Vote	Original Budget	Adjustments	Final Budget	Expenditure on Comparable Basis	Budget Utilization Difference	% of Utilization
RECEIPTS							
Proceeds from Domestic and Foreign Grants	1	11,880,741,067	(6,232,006,826)	5,648,734,241	4,636,032,038	1,012,702,202	82.0%
Exchequer releases	2	62,869,641,255	(4,255,981,997)	58,613,659,258	51,042,594,480	7,571,064,778	87.0%
Proceeds from Foreign Borrowings	3	522,800,684	80,193,258	602,993,942	530,378,555	72,615,387	88.0%
Other Receipt	4						
TOTAL RECEIPTS		75,273,183,006	10,407,795,565	64,865,387,441	56,209,005,073	8,656,382,368	87.0%
PAYMENTS							
Compensation of Employees	5	16,623,676,312	(13,977,193,829)	2,646,482,483	2,524,328,336	122,154,147	95.0%
Use of goods and services	6	21,088,187,395	(2,491,341,242)	18,596,846,153	16,950,551,898	1,646,294,255	91%
Subsidies	7	300,000,000.00		300,000,000	300,000,000	-	100%
Transfers to Other Government Units	8	23,211,427,173	8,752,113,425	31,963,540,597	27,255,222,636	4,708,317,961	85.0%
Other grants and transfers	9	4,144,040,778	338,000,000	4,482,040,778	3,808,539,372	673,501,406	85.0%
Acquisition of Assets	10	4,904,939,594	1,469,714,326	6,374,653,920	3,825,581,833	2,549,072,087	60.0%
Social Security Benefits	11	911,755	911,755)	1,823,510.00	0.00	1,823,510	0.00%
Other Payments	12	5,000,000,000	(4,500,000,000)	500,000,000	500,000,000		100%
TOTAL PAYMENTS		75,273,183,006	(10,407,795,565)	64,865,387,441	55,164,224,075	9,701,163,366	85.0%
Surplus/ Deficit					1,044,780,998		

- i. *Proceeds from Domestic and Foreign Grants(AIA) 82%- There were delay in procurement process caused by stringent donor conditions.*
- ii. *Proceeds from Foreign Borrowing(AIA) 87%- There were delay in Procurement process caused by stringent donor conditions.*
- iii. *Transfers to other Government Units 85%. There was a budgetary provision to cater for new MDAs established during the reorganisation of Government that had not been utilised by close of financial year.*
- Iv. *Other Grants and Transfers 85. %- The under expenditure was due to delay in submission of invoices from the Institutions Government subscribes to.*
- v. *Acquisition of Assets 59%- Goods ordered had not been delivered by the closure of the financial year.*

The National Treasury financial statements were approved on 30th sept 2019 and signed by:



DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY



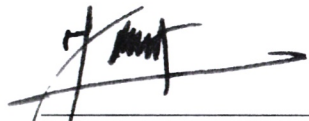
NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

VIII SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipts/Payments	Vote	Original Budget	Adjustment	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
		₱	₱	₱	₱	₱	Rate %
RECEIPTS							
Proceeds from Domestic and Foreign Grants	1						
Exchequer releases	2	36,695,706,248	7,435,793,752	44,131,500,000	41,983,362,800	2,148,137,200	95.0%
Proceeds from Domestic Borrowings	3						
Other Receipts	4						
TOTAL RECEIPTS		36,695,706,248	7,435,793,752	44,131,500,000	41,983,362,800	2,148,137,200	95.0%
PAYMENTS							
Compensation of Employees	5	16,570,620,000	(13,981,809,237)	2,588,810,763	2,477,976,200	110,834,563	96.0%
Use of goods and services	6	6,078,910,844	6,684,487,898	12,763,398,742	11,775,834,898	987,563,843	92.0%
Subsidies	7						
Transfers to Other Government Units	8	9,130,701,373	13,889,571,843	23,020,273,215	22,979,869,889	40,403,326	99.0%
Other grants and transfers	9	4,144,040,778		4,144,040,778	3,470,539,372	673,501,406	84.0%
Acquisition of Assets	10	770,521,499	842,631,493	1,613,152,992	426,091,680	1,187,061,312	26.0%
Social Security Benefits	11	911,755.00	911,755	1,823,510.00	0.00	1,823,510.00	0.00%
Other Payments	12						
TOTAL PAYMENTS		36,695,706,248	7,435,793,752	44,131,500,000	41,130,312,039	3,001,187,961	93%
Surplus/Deficit					853,050,761		

- i. *Other Grants and Transfers 84%- The under expenditure was due to delay in submission of invoices from the Institutions Government subscribes to.*
- ii. *Acquisition of Assets 26%- Goods ordered had not been delivered by the closure of the financial year.*
- iii Social security benefits 0.00%-During the year no officer was eligible for security benefit payout.

The National Treasury financial statements were approved on 30th sept. 2019 and signed by:



DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY



NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

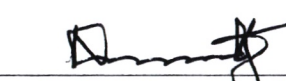
X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipts/Payments Item	Code	Original Budget	Adjustments	Final Budget	Actual on Commitments Basis	Budget Utilization Difference	% of Utilization
RECEIPTS							
Proceeds from Domestic and Foreign Grants	1	11,880,741,067	(6,232,006,826)	5,648,734,241	4,636,032,038	1,073,505,397	73.0%
Exchequer releases	2	26,173,935,007	(11,691,775,749)	14,482,159,258	9,059,231,680	5,422,927,578	63.0%
Proceeds from Foreign Borrowings	3	522,800,684	80,193,258	602,993,942	530,378,555	72,079,137	88.0%
Other Receipts	4						
TOTAL RECEIPTS		38,577,476,758	(17,843,589,317)	20,733,887,441	14,225,642,373	7,032,749,737	66.0%
PAYMENTS							
Compensation of Employees	5	53,056,312	4,615,408	57,671,720	46,352,136	11,319,584	80.0%
Use of goods and services	6	15,009,276,551	(9,175,829,140)	5,833,447,411	5,174,717,000	658,730,411	89.0%
Subsidies	7	300,000,000.00		300,000,000	300,000,000	-	100%
Transfers to Other Government Units	8	14,080,725,800	(5,137,458,418)	8,943,267,382	4,275,352,747	4,667,914,635	48.0%
Other grants and transfers	9	0.00	338,000,000	338,000,000	338,000,000	-	100.0%
Acquisition of Assets	10	4,134,418,095	627,082,833	4,761,500,928	3,399,490,153	1,362,010,775	71.0%
Social Security Benefits	11						
Other Payments	12	5,000,000,000	(4,500,000,000.00)	500,000,000	500,000,000		100.0%
TOTAL PAYMENTS		38,577,476,758	(17,843,589,317)	20,733,887,441	14,033,912,036	6,699,975,406	67%
Surplus/Deficit					191,730,337		

- I. Proceeds from Domestic and Foreign Grants(AIA) 82%- There were delay in procurement process caused by stringent donor conditions.*
- II. Exchequer Releases 63%- Due to few invoices received and Austerity measures in place there were fewer Exchequer requisition*
- III. Proceeds from Foreign Borrowing(AIA) 88%- There were delay in Procurement process caused by stringent donor conditions.*
- IV. Compensation of Employees 80%-Anticipated filling of all vacant post in the departments following the approval of the structured staff establishment was not achieved.*
- V. Use of Goods and Services 89%- Austerity measures were put in place to reduce the expenditure on hospitality suppliers and services*
- vi Transfers to other Government Units 48%. There was a budgetary provision to cater for new MDAs established during the reorganisation of Government that had not been utilised by close of financial year*
- vii Acquisition of Asset 71%- Goods ordered had not been delivered by the closure of the Financial year*

The National Treasury financial statements were approved on 30th Sept. 2019 and signed by:


DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY


NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

XI. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget 2019 KSh	Adjustments KSh	Final Budget 2019 KSh	Actual as compared to Budget Date: 2019 KSh	Budget utilization difference KSh
Programme 1					
General Administration Planning And Support Services	39,786,939,086		39,786,939,086	37,644,740,253	2,142,198,833
Programme 2					
Public Financial Management	22,319,821,351		22,319,821,351	15,131,317,778	7,188,503,573
Programme 3					
Economic and Financial Policy Formulation and Management	2,307,690,785		2,307,690,785	1,944,889,804	362,800,981
Programme 4					
Market Competition	387,220,000		387,220,000	387,220,000	0
Programme 5					
Government Clearing Agency	63,716,219		63,716,219	56,056,239	7,659,980
TOTALS	64,865,387,441		64,865,387,441	55,164,224,074	9,701,163,367

XII SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

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

3. Reporting Currency

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

4. Significant Accounting Policies

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

a) Recognition of Receipts

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

- **Tax Receipts**

Tax receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

SIGNIFICANT ACCOUNTING POLICIES

- **Transfers from the Exchequer**

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

- **External Assistance**

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

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

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

During the year ended 30th June 2019, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

- **Use of Goods and Services**

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

- **Interest on Borrowing**

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

SIGNIFICANT ACCOUNTING POLICIES

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

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

- **Acquisition of Fixed Assets**

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

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

5. In-kind contributions

In-kind contributions are donations that are made to The National Treasury in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, The National Treasury includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

6. Third Party Payments

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

7. Cash and Cash Equivalents

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

Restriction on Cash

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

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2019, this amounted to Kshs 73,286,233 compared to Kshs 146,481,242 in prior period as indicated on note 15.

There were no other restrictions on cash during the year.

SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

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

9. Accounts Payable

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

10. Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of The National Treasury at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2017 for the period 1st July 2018 to 30th June 2019 as required by Law and there were two supplementary adjustments to the original budget during the year.

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

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

12. Comparative Figures

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

SIGNIFICANT ACCOUNTING POLICIES

13. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2019.

14. Errors

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

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

15. Related Party Transactions

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

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XIII NOTES TO THE FINANCIAL STATEMENTS

1 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Date received	Amt Foreign Currency	2019-2018	2018-2017
			Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)				
Global Fund-HIV/AIDS			3,925,240,588	3,864,187,043
Global Fund HIV/AIDS			293,593,109	
Global Fund and -TB			157,842,641	157,842,641
Global Fund Special TB			252,354,369	
Global Fund and -Malaria			3,072,612	3,072,612
Technical Support Programme				26,457,440
Study and Capacity Building			3,429,220	4,472,100
Social Policy			499,500	
Totals			4,636,032,039	9,241,651,686

2 EXCHQUER RELEASES

DESCRIPTION	RECURRENT	DEVELOPMENT	TOTALS	TOTALS
	2018-2019	2018-2019	2019-2018	2018-2017
	Kshs	Kshs	Kshs	Kshs
Total Exchequer Releases for quarter 1	7,446,564,600	1,779,119,923	9,225,684,523	6,763,698,474
Total Exchequer Releases for quarter 2	7,448,070,100	1,883,340,400	9,331,410,500	9,271,907,500
Total Exchequer Releases for quarter 3	10,164,206,800	2,213,694,218	12,377,901,018	7,529,930,735
Total Exchequer Releases for quarter 4	16,924,521,300	3,183,077,139	20,107,598,439	25,389,966,965
Total	41,983,362,800	9,059,231,680	51,042,594,480	48,955,503,674

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NOTES TO THE FINANCIAL STATEMENTS (Continued),

3 PROCEEDS FROM FOREIGN BORROWINGS

	2018-2019	2017-2018
	Kshs	Kshs
Foreign Borrowing – Draw-downs Through Exchequer		
Foreign Borrowing - Direct Payments	530,378,555	391,414,899
Foreign Currency and Foreign Deposits		
Total	530,378,555	391,414,899

4 COMPENSATION OF EMPLOYEES

	2019-2018	2018-2017
	Kshs	Kshs
Basic salaries of permanent employees	1,464,048,338	1,406,449,487
Basic wages of temporary employees	216,687,107	129,995,454
Personal allowances paid as part of salary	843,592,891	772,367,672
Total	2,524,328,336	2,308,812,613

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5 USE OF GOODS AND SERVICES

	2019-2018	2018-2017
	Kshs	Kshs
Utilities, supplies and services	145,262,092	120,216,825
Communication, supplies and services	51,404,667	26,390,451
Domestic travel and subsistence	182,632,510	103,364,523
Foreign travel and subsistence	73,785,738	31,415,083
Printing, advertising and information supplies & services	11,102,540	1,528,302
Rentals of produced assets	63,545,463	53,089,394
Training expenses	169,336,553	180,839,621
Hospitality supplies and services	427,105,955	210,697,113
Insurance costs	2,265,920	422,593,844
Specialized materials and services	3,988,785,244	8,663,943,446
Office and general supplies and services	126,158,842	28,848,721
Other operating expenses	11,612,543,191	10,475,401,554
Routine maintenance – vehicles and other transport equipment	33,012,634	33,921,857
Routine maintenance – other assets	33,802,165	12,883,308
Exchange Rate Losses		
Fuel,oil and lubricants	29,808,384	31,861,233
Total	16,950,551,898	20,396,995,275

6 SUBSIDIES

Description	2019-2018	2018-2017
	Kshs	Kshs
Agricultural Finance Corporation	300,000,000	1,137,078,335
Total	300,000,000	1,137,078,335

The payment of Kshs.300,000.00 was part of strategic investment in public enterprise

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7 GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2019-2018	2018-2017
	Kshs	Kshs
Transfers to National Government entities (SCOA Codes 2630100, 2630200, 2640400, 2640500, 2649900, 2820100, 2820200, 2820300)	27,255,222,636	28,852,301,349
See ANNEX XVI		
1		
TOTAL	27,255,222,636	28,852,301,349

8 OTHER GRANTS AND TRANSFERS

Explanation	2019-2018	2018-2017
	Kshs	Kshs
Membership dues and subscriptions to international organizations	3,308,555,540	
Membership dues and subscriptions to international organizations(Continued)	499,983,832	48,779,790.00
African Capacity Building Foundation		42,333,304
Shelter Afrique		355,000,000
United Nations Development Fund		
Common Wealth		
ESAAMLG		
African Economic Research Consortium		
MEFMI		81,363,501
IBRD		542,000,000
Total	3,808,539,372	1,069,476,595

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9 ACQUISITION OF ASSETS

Non Financial Assets	2019-2018	2018-2019
	Kshs	Kshs
Construction of Buildings	295,240,568	37,000,000
Refurbishment of Buildings	105,679,848	102,625,495
Construction and Civil Works		
Overhaul and Refurbishment of Construction and Civil Works		29,784,377
Purchase of Vehicles and Other Transport Equipment	63,000,000	60,220,000
Purchase of Household Furniture and Institutional Equipment		
Purchase of Office Furniture and General Equipment	41,506,703	66,734,575
Purchase of ICT Equipment, Software and Other ICT Assets		
Purchase of Specialized Plant, Equipment and Machinery	165,910,791	448,698,433
Research, Studies, Project Preparation, Design & Supervision	418,145,149	647,191,753
Sub-total	1,089,483,059	1,392,254,633
Financial Assets		
Domestic Public Non-Financial Enterprises	1,936,097,873	1,100,656,025
Domestic Public Financial Institutions		1,279,642,441
Foreign financial Institutions operating Abroad	800,000,900	883,500,363
Sub-total	2,736,098,773	3,263,798,829
Total	3,825,581,832	4,656,053,462

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10 OTHER EXPENSES

	2019-2018	2018-2017
	Kshs	Kshs
Budget Reserves		
Industrial and commercial development corporation	500,000,000	
Other expenses		
Total	500,000,000	

The payment of Kshs.500,000.00 was part of strategic investment in public enterprise

11A: Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate if in foreign currency	2019-2018	2018-2017
				Kshs	Kshs
<i>MINISTRY OF FINANCE OLD A/C</i>		Recurrent			
<i>NATIONAL TREASURY (Annex xii)</i>		Recurrent		834,279,701	1,007,235
<i>MINISTRY OF FINANCE OLD A/C</i>		Development			10,677,332
<i>NATIONAL TREASURY(Annex xiib)</i>		Development		122,365,605	20,436,768
<i>MINISTRY OF FINANCE OLD A/C</i>		Deposit			677,758,270
<i>NATIONAL TREASURY(Annex xiic)</i>		Deposit		294,583,082	371,762,523
Total	-			1,251,228,388	1,390,758,926

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11B: CASH IN HAND

	2018-2019	2017-2018
	Kshs	Kshs
CASH BOOK RECURRENT	1,020,917	741,626
CASH BOOK OLD/AC DEPOSIT		
Total	1,020,917	741,626

Cash in hand should also be analysed as follows:

	2019-2018	2018-2017
	Kshs	Kshs
Location 1 National Treasury Cash Office	1,020,917	741,626
Total	1,020,917	741,626

14: ACCOUNTS RECEIVABLE

<i>Description</i>	2019-2018	2018-2017
	Kshs	Kshs
Advance to MDAs and Projects (Annex viii)	897,604,882	818,256,370
Government Imprests (Annex ix (a))	918,958	1,136,445
Cash in transit (Annex ix (b))	733,828	
Salary advances (Annex x)	299,085	677,826
District suspense (Annex xi)	28,755	53,555
	899,585,508	820,124,196
Total	899,585,508	820,124,196

12. ACCOUNTS PAYABLE

Description	2019-2018	2018-2017
	Kshs	Kshs
Deposits	73,286,233	146,481,242
Recurrent	6,913,831	7,913,637
Development		541,716
Total	80,200,063	154,936,594

Ksh.80,200,063 represents amounts that are restricted from being used to settle liabilities in subsequent year or used in refunding that party deposits

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13. FUND BALANCE BROUGHT FORWARD

Description	2019-2018	2018-2017
	Kshs	Kshs
Bank accounts	1,390,758,926	1,781,246,794
Cash in hand	741,626	1,490,696
Accounts Receivables	820,124,196	638,559,994
Accounts Payables	(154,936,594)	(116,333,009)
Total	2,056,688,154	2,304,964,475

14. PRIOR YEAR ADJUSTMENTS

Description of the error	2019 – 2018	2018 – 2017
	Kshs	Kshs
Adjustments on receivables (Annex XVIII)	1,029,834,403	416,128,952
TOTALS	1,029,834,403	416,128,952

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. RELATED PARTY DISCLOSURES

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS.

The following comprise of related parties to the (*The National Treasury*)

- Key management personnel that include the Cabinet Secretaries and Accounting Officers
- Other Ministries Departments and Agencies and Development Projects;
- County Governments; and
- State Corporations and Semi-Autonomous Government Agencies.

Related party transactions:

	2019/2018	2018/2017
	Kshs	Kshs
Key Management compensation	198,443,342	2,308,812,613
	=====	=====
Transfers to the Other Ministries Departments and Agencies		
	27,255,222,638	28,852,349,342
Transfers to other State Corporations and Semi-Autonomous Government Agencies		
Transfers to Government Development Projects	14,003,912,035	19,518,158,236
Transfers from other Ministries Departments and Agencies		
	=====	=====

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18. OTHER IMPORTANT DISCLOSURES

18.1: PENDING ACCOUNTS PAYABLE (See Annex 1)

Description	2019 – 2018	2018 – 2017
	Kshs	Kshs
Construction of buildings		
Construction of civil works		
Supply of goods		
Supply of services Annex 1	241,957,496.85	563,474,302.95

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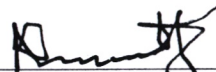
29. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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)
2017/2018	1. Pending bills amounting to ksh. 563,474,303	Was due to late submission of Invoice Paid in FY 2018/2019	Head of Accounting Unit	Resolved	
2017/2018	2. Accuracy of the financial statements	Was due to IFMIS System issues which are being addressed.	Head of Accounting Unit	Unresolved	



DR. JULIUS MUIA, PhD, EBS
PRINCIPAL SECRETARY



NEMWEL M. MOTANYA
ICPAK NUMBER 2367
HEAD OF ACCOUNTING UNIT

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Details	2018 and earlier years	2019 Financial year Bills	Amount (Kshs)
AGPO Bills		643,100	643,100
Non-AGPO Bills	545,551,193	239,661,897	785,213,090
Historical bills	17,923,110	1,652,500	19,575,610
Total	563,474,303	241,957,497	805,431,799



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ANNEX 2 - ANALYSIS OF PENDING STAFF PAYABLES

Name of Staff	Unit Group	Original Amount	Date Payable Computed	Amount Paid To-Date	Outstanding Balance 2018	Outstanding Balance 2017	Comments
		a	b	c	d=a-c		
Senior Management							
1.							
2.							
3.							
Sub-Total							
Middle Management							
4.							
5.							
6.							
Sub-Total							
Unionisable Employees							
7.							
8.							
9.							
Sub-Total							
Others (specify)							
10.							
11.							
12.							
Sub-Total							
Grand Total							

NB// There were no Pending Staff Payables

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ANNEX 3 - ANALYSIS OF OTHER PENDING PAYABLES

Name	Total Transaction Description	Original Amount	Date Payable Contingent	Amount Paid For Date	Outstanding Balance 2018	Outstanding Balance 2019	Comments
		a	b	c	d=a-c		
Amounts due to National Govt Entities							
1.							
2.							
3.							
	Sub-Total						
Amounts due to County Govt Entities							
4.							
5.							
6.							
	Sub-Total						
Amounts due to Third Parties							
7.							
8.							
9.							
	Sub-Total						
Others (specify)							
10.							
11.							
12.							
	Sub-Total						
	Grand Total						

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ANNEX 4 – SUMMARY OF FIXED ASSET REGISTER

Assets	Historical Cost (KSh)	Additions during the year (KSh)	Disposals during the year (KSh)	Historical Cost (KSh) 2018/2019
Land				
Buildings and structures	342,093,932	400,920,416		743,014,348
Transport equipment	159,762,550			159,762,550
Office equipment, furniture and fittings	353,199,363	41,506,703		394,706,066
ICT Equipment, Software and Other ICT Assets				
Other Machinery and Equipment	1,889,294,977	165,910,791		2,055,205,768
Research, Studies, Project preparation, Design		418,145,149		418,145,149
Purchase of Motor vehicles		63,000,000		63,000,000
Sub-Total	2,744,350,822	1,089,483,059		3,833,833,881
FINANCIAL ASSETS				
Domestic equity participation	2,254,642,441			2,254,642,441
Foreign equity participation	6,436,341,552	800,000,900		7,236,342,452
Domestic Lending and on Lending	26,003,748,917	1,936,097,873		27,939,846,790
Sub-Total	34,694,732,910	2,736,098,773		37,430,831,683
Total	37,439,083,732	3,825,581,832		41,264,665,564

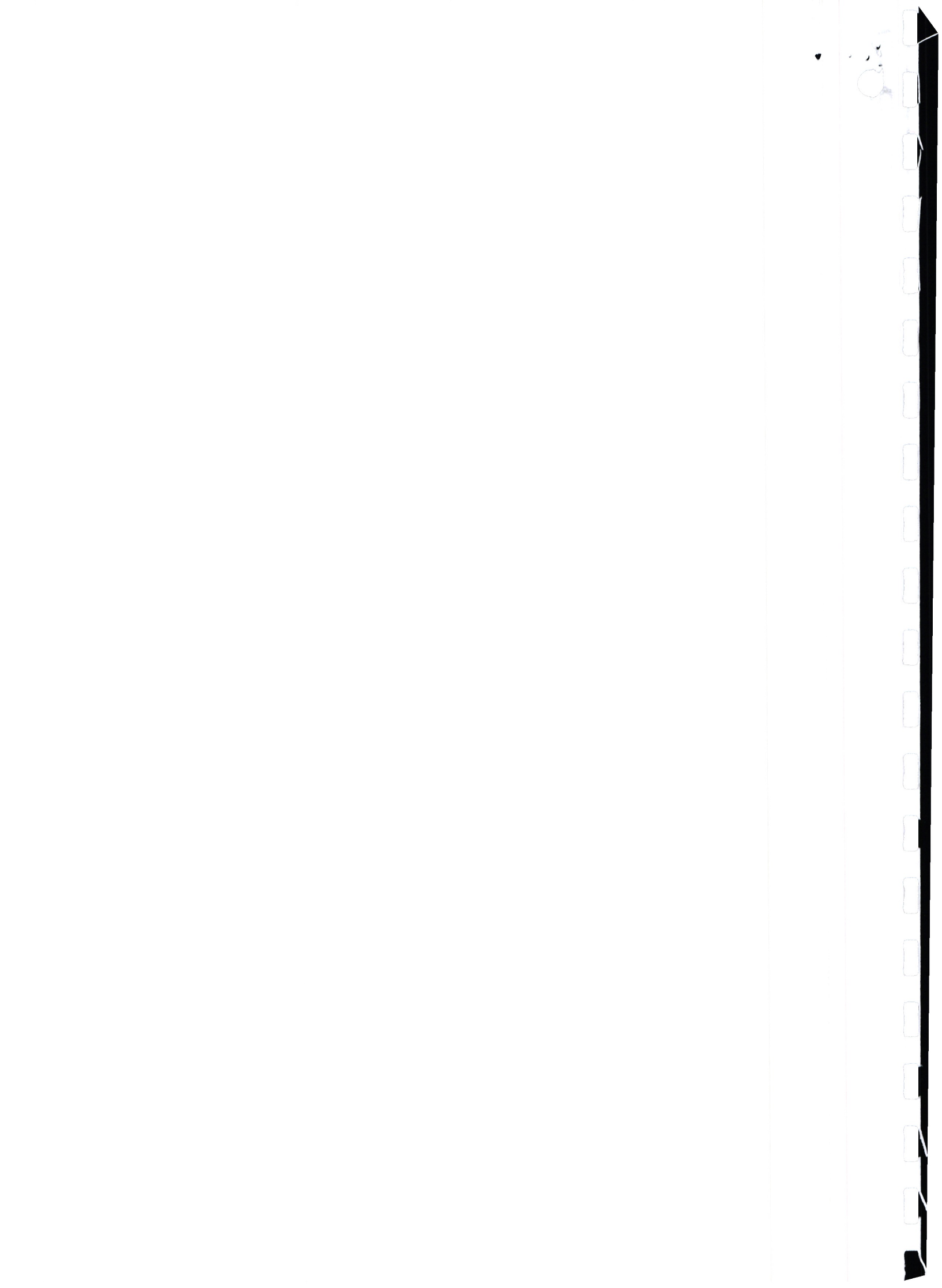


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Asset Class	Historical Cost of (KSh)	Additions during the year (KSh)	Disposals during the year (KSh)	Historical Cost of (KSh)
	2018/2019	2018/2019	2018/2019	2018/2019

5 – LIST OF PROJECTS IMPLEMENTED BY THE ENTITY (*The National Treasury*)

No.	Project Name	Principal Objective of the project	Responsible Officer	Project consolidated in these financial statements (yes/no)
	Aid Effectiveness	Expand care and treatment services to reach universal access by 2013.	Principal Secretary	Prepared their accounts
	Global Fund HIV/AIDS round 7	Control of Mobility and Mortality attributable to Malaria in the epidemiological zones	Principal Secretary	Prepared their accounts
	Global Fund TB round 6	To expand the physical infrastructure for the delivery of TB/HIV services by strengthening Primary health care facilities.	Principal Secretary	Prepared their accounts
	Global Fund Malaria round 10	-To have 100% diagnosed Malaria patient receiving effective treatment by 2019. -To reduce mortality caused by Malaria	Principal Secretary	Prepared their accounts
	Public financial Mgt Reforms	To strengthen public financial management system to enhance Transparency, Accountability and Responsiveness of expenditure to policy priorities and improved service delivery	Principal Secretary	Prepared their accounts
	Profit Programme	-The rural finance outreach and innovation -Accuracy of the financial statements	Principal Secretary	Prepared their accounts
	KEPTAP	To strengthen the capacity of GOK to manage its Petroleum Sector and Wealth for sustainable Developments Impacts	Principal Secretary	Prepared their accounts
	Micro Finance	Promote the Financial deepening in the Banking Sector in order to ensure access to credit by the non banking population of Kenya.	Principal Secretary	Prepared their accounts
	Infrastructure FPP Project	To increase Private Investment in the Kenya infrastructure market	Principal Secretary	Prepared their accounts
	Financial sector support project	To strengthen the Legal Regulatory & Institution Environment for improved	Principal Secretary	Prepared their accounts



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		financial stability, access to and provision of affordable and long-term financing		
	Technical Support Programme	Financing of feasibility studies for project to be financed by AFD	Principal Secretary	Prepared their accounts
	Study & Capacity Building	Financing study and capacity building	Principal Secretary	Prepared their accounts

ANNEX 6 – LIST OF SCs, SAGAs AND PUBLIC FUNDS UNDER THE ENTITY (*The National Treasury*)

Sl. No.	SC, SAGA or Public Funds name	Principal activity/objective	Accounting Officer	Amount transferred during the year	Inter- entity reconciliations done (yes/no)
1	Kenya Revenue Authority	Revenue Collection		19,480,760,814	N/A
2	Competition Authority of Kenya	To control monopoly power and dominance in the specific market		394,220,000	
3	Unclaimed Asset Authority	Management of Unclaimed financial Assets		207,780,000	
4	Pension fund	Managing pension fund		1,687,612,301	
5	Public procurement oversight Authority	Regulatory role on public procurement		587,336,025	
6	Kenya inst. Supplies management	Conducting training for Supplies officers		217,994,909	
7	Kenya Trade Network			610,660,000	
8	Privatization Commission	Regulatory body		201,880,000	

