REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

FINANCIAL STATEMENTS OF CONSOLIDATED FUND SERVICES- SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

FOR THE YEAR ENDED 30 JUNE 2018

NATIONAL TREASURY

Revised Template 30th June 2018

THE NATIONAL TREASURY

SALARIES, ALLOWANCES AND MISCELLANEOUS SERVICES

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018

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

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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

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 t following core values: Customer Focus, Results Oriented, Stakeholder Participat Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key a Equity, Fairness and Inclusion.

Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Publ Management Act 2012 and the Executive Orders No.2/2013 and No.1/2018. Th Treasury will be executing its mandate in consistency with any other legislatio developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal prov

- Formulate, implement and monitor macro-economic policies involvir revenue;
- Manage the level and composition of national public debt, national financial obligations of national government;
- Formulate, evaluate and promote economic and financial polici and economic development in conjunction with other national go

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c Finance
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as may be

sions include:

g expenditure and

guarantees and other

s that facilitate social
ernment entities;

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

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:-

- Strengthen financial and fiscal relations between the National Government and County Governments and encourage support for county governments in performing their functions.
- Assist county governments to develop their capacity for efficient, effective and transparent financial management.
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill.
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations.
- Coordinate the development and implementation of financial recovery plans for county governments that are in financial distress.
- Coordinate capacity building of County Governments on public finance management matters.

(b) Key Management

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

Office of the Principal Secretary

This office is responsible for the administration of the National Treasury 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

(c) 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.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director Government Digital Payments	Mr. Harry Mwangi
17.	Ag Director, Financial Management Information System	Mr. Stanley Kamanguya
18.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
19.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
20.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
21.	Director, Pensions Department	Mr.Shem Nyakutu
22.	Ag.Director General Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
23.	Director, Debt Policy, Strategy&Risk Management Department	Mr. Daniel Ndolo
24.	Ag Director, Debt Recording and Settlement Department	Mrs. Felister Kivisi
25.	Head, Accounts Division	Mr. George Gichuru
26.	Head, Finance	Mr. Kimathi Mugambi, HSC
27.	Head, SCM	Mr. Peter Momanyi
28.	Head, Internal Audit Unit	Mr. John Kariuki
29.	Director, Human Resource Management &Development	Ms. Susan Mucheru
30.	Ag Director, Information Communication and Technology	Mr. George Kariuki
31.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
32.	Head, Public Communications	Mr. Maina Kigaga
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Ag. Director, Government Clearing Agency	Mr. Felix Ateng

(d) Fiduciary Oversight Arrangements

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

Internal Audit Unit

The National Treasury has a well-resourced internal Audit Unit. The unit is charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk based audits. The Unit reports directly to the accounting 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.

(e) The National Treasury Headquarters
P.O. Box 30007- 00100,
Treasury Building,
Harambee, Avenue
Nairobi Kenya

(f) The National Treasury Contacts
Telephone: (254)020-2252299
Email:info@treasury.go.ke
Website: www.treasury.go.ke

(g) The National Treasury Bankers
Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

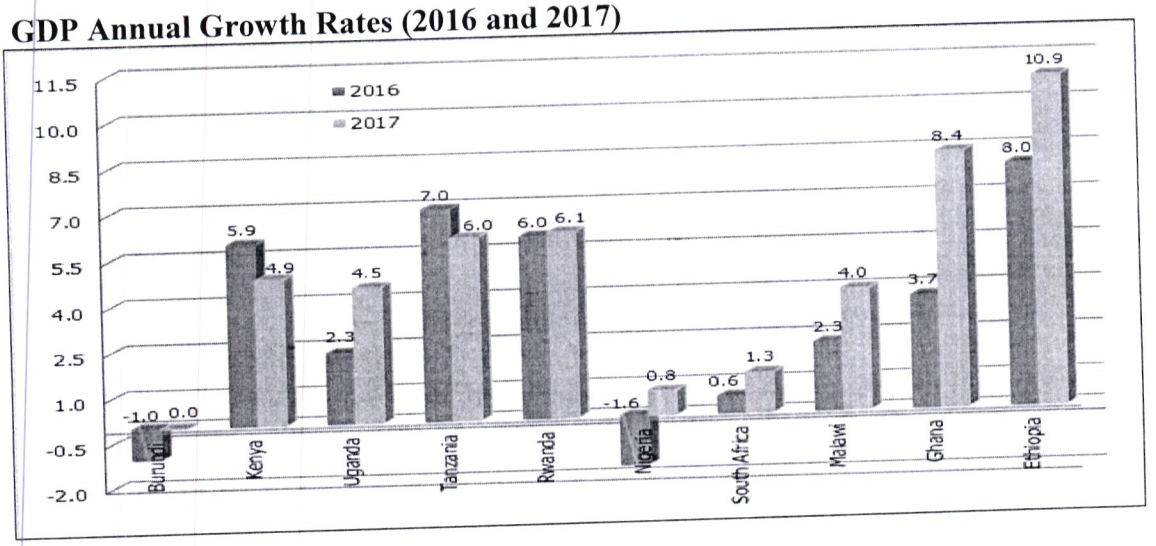
(h) Independent Auditors
Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O Box 30084
GPO 00100
Nairobi, Kenya

(i) Principal Legal Adviser
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

II. FORWARD BY THE CABINET SECRETARY

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

GDP Annual Growth Rates (2016 and 2017)

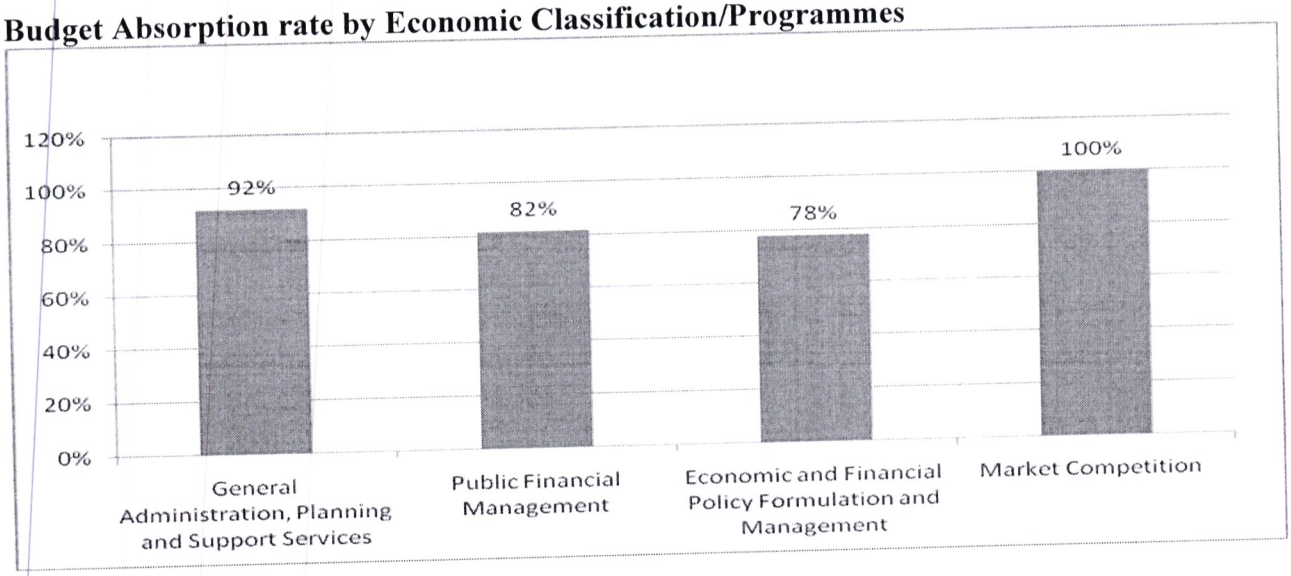


Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to 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 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 $2 billion 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.

Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthen financial and fiscal relations between the national government and county governments
6. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.

HENRY K. ROTICH, EGH
CABINET SECRETARY

II. 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, Salaries, Allowances and Miscellaneous Services*** is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (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 entity; (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, Salaries, Allowances and Miscellaneous Services*** accepts responsibility for the entity's 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 *entity's* financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Accounting Officer charge of The ***National Treasury, Salaries, Allowances and Miscellaneous Services*** further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of The ***National Treasury, Salaries, Allowances and Miscellaneous Services*** confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity'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 entity'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 *entity's* financial statements were approved and signed by the Accounting Officer on 30th Sept, 2018.

Dr. Kamau Thugge, CBS
Pricipal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED FUND SERVICES-SALARIES ALLOWANCES AND MISCELLANEOUS SERVICES FOR THE YEAR ENDED 30 JUNE 2018-NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of Consolidated Fund Services - Salaries Allowances and Miscellaneous Services set out on pages 14 to 29, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments and statement of cash flows 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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Consolidated Fund Services - Salaries Allowances and Miscellaneous Services 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 do not complies with the Public Finance Management Act, 2012.

Basis for Adverse Opinion

1. Accuracy of the financial statements and Records

A review of various balances reflected in the financial statements under review revealed that different records maintained by management reflects balances which do not tally/agree though relating to the same item as highlighted below:

i) The statement of cash flow for the year ended 30 June 2018 shows a comparative Prior year adjustments of Kshs.31,142,627 while statement of assets and liabilities for the same period shows a comparative prior year adjustment of Kshs.26,919,334 The difference of Kshs.4,223,293 has not been explained.

ii) The statement of receipts and payments for the year ended 30 June 2018 reflect compensation of employee's expenditure of Kshs.2,685,214,290. The Trial Balance reflects a credit balance of Kshs.3,217,869,377 on the same item while the payroll and payment vouchers show a total expenditure of Kshs.2,675,257,162. The differences between the three sets of records have not been reconciled.

iii) An analysis of the 'off payroll' payments reflect an expenditure of Kshs.256,036,689 while the physical vouchers availed and examined for the period indicates a total expenditure of Kshs.254,479,596. An expenditure of Kshs.1,557,093 could not therefore be vouched.

iv) The expenditure on Teachers Service Commissioners as per the supporting schedules to the statement of receipts and payments for the year under consideration is Kshs.70,500,744 while the Ledger reflects a balance of Kshs.55,586,543 for the same period. The difference of Kshs.14,914,201 has not been explained.

v) Examination of schedules supporting the Independent Electoral and Boundaries Commission expenditure in the statement of receipts and payments reflect a closing balance of Kshs.61,788,248 while the payroll reflects an amount of Kshs.51,679,730 The difference of Kshs.10,108,518.20 has not been explained. In addition, the amount has not been recorded in the Ledger and Trial Balance.

vi) Examination of payment vouchers revealed that an amount of Kshs.23,705,120.80 paid to two retired officers of the National Gender and Equality Commission (NGEC) was wrongly charged to National Police Service Commission (NPSC) expenditure item. No adjustment has been done to correct the anomaly.

vii) The Ledger reflects expenditure for the National Cohesion and Integration Commission as Kshs.100,210,801.2 while the payment vouchers examined indicates a total of Kshs.97,017,530.10. The difference of Kshs.3,193,271.10 has not been explained/reconciled.

viii) The Trial Balance provided for audit include balances which have not been identified as either debits or credits. Whereas the Trial Balance represent a prima facie evidence on the accuracy in the recording of all the transactions affecting an entity, it has therefore been difficult to establish whether the two sides of the Trial Balance would balance as at 30 June 2018. Apparently, the accuracy of the financial statements' figures cannot therefore be ascertained without confirming the balancing of the Trial Balance. Therefore without a balanced Trial Balance, the financial statements from unbalanced trial balance could result to grossly misstated financial statements and therefore may not reflect a true and fair operations of the entity.

2. Unsupported Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflect a prior year adjustment of Kshs.18,420,097 (2017: Kshs.26,919,334 and 2016: Kshs.8,883,205,334) which has not been supported. As similarly been reported during the previous years' audit reports, the management has not explained the genesis of such adjustment or provided any records by way of journal vouchers or entries in the ledger. Apparently, the management may have resorted to using the 'prior year adjustments' as way of balancing items as compensation for other undisclosed recording inaccuracies and inconsistencies in the

financial records. In absence of sufficient verifiable supporting documents and records, the authenticity of such adjustments in the financial statements cannot be ascertained.

3. Lack of Bank Reconciliation statements

The Management did not avail all the monthly bank reconciliation statements for the period under review as required by the Public Finance Management Regulations. The management however provided bank reconciliation for the month of June 2018 only which revealed the following unsatisfactory matters:

i) Receipts in the Bank Statement not in the Cashbook

The reconciliation statement provided for audit indicates receipts in the bank statement not reflected in the cashbook of Kshs.645,092 which related to periods between 8 January 2014 and 1 February 2018.

ii) Payments in the Cashbook not reflected in the Bank Statement

The reconciliation statements indicates an amount of Kshs.48,454,895 as payments in the cashbook not shown in the bank statement. The amount of Kshs.48,454,895 include Kshs.2,079,388.20 relating to periods between 30 June 2015 and 30 November 2017.

The receipts and payments reflected in the reconciliation statement have been outstanding for long and ought to have been recorded in the cashbook/bank or reversed. Consequently, the accuracy of the bank balance of Kshs.158,864,022 reflected in the statement of assets and liabilities could not be ascertained.

4.0 Prior Years' Audit Matters

The following prior year audit matters have not been addressed and resolved by management to date.

4.1 Account Balances not Recorded in Ledger

The financial statements reflected balances of individual items as indicated below that were not reflected in the ledger of the fund for the financial year 2016/2017.

Exchequer releases	3,905,744,684.00
Transfers from other government Entities	362,830,853.00
Other Receipts	18,420,097.00

Upon review of the current position, it was noted that management has not explained the source of the balances and therefore the figures in the financial statements in respect to the specific items could not be authenticated.

4.2 Unsupported Restatement of Balances

The financial statements for the year ended 30 June 2016 had reflected balance brought forward under Fund balance, compensation of employees and account receivables of Kshs.8,566,405,035, Kshs.2,416,693,457 and nil balance respectively and which had been re-stated from Kshs.397,382,932, Kshs.2,418,352,317 and 8,663,621,032 respectively, reflected in the audited financial statements for 2014/2015. The statement of financial position also shows clearance of outstanding item of Kshs.11,980,334. The National Treasury has not yet explained or provided details of the said adjustments. Consequently, the accuracy of the balances reflected in the financial statements cannot be confirmed.

4.3 Suspense Balance

The statement of Financial Assets and Liabilities reflects a balance of Kshs.4,456,673 referred to as a difference. The management have not explained what this difference is and therefore it is not possible to confirm the suspense account balances as presented in the financial statements. Further the balance has been eliminated in the financial year 2017/2018. Management has not explained the basis of removal.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Consolidated Fund Services - Salaries Allowances and Miscellaneous Services 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.

Other Matter

Disclosure on budgetary Provisions

A review of the summary statement of Appropriation for Recurrent Vote shows a budget provision on Miscellaneous Services of Kshs.128,000,000 for the year ended 30 June 2018. A similar budget provision of Kshs.128,000,000 was made during the financial year 2016/2017. There has however been no expenditure incurred under the item during the two financial years. The management has not disclosed or explained the activities which are anticipated to be funded under the Miscellaneous Services.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm that public resources have not been applied lawfully and in an effective way.

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, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, based on the audit procedures performed, I confirm 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 standard requires 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 such 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.

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

unless the management either intends to liquidate the National Treasury or to cease operations, or have no realistic alternative but to do so.

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

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

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.

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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the National Treasury's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the sustainability of services basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Treasury's ability to continue 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 National Treasury 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 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.

FCPA Edward R. O. Ouko, CBS

AUDITOR-GENERAL

Nairobi

11 April 2019

IV. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-2018 Kshs	2016-2017 Kshs
RECEIPTS			
Exchequer releases	1	3,829,178,171	3,905,744,683
Transfer from other Entities	2	-	362,830,853
Other Receipts	3	5,951,981	18,420,097
TOTAL RECEIPTS		**3,835,130,152**	**4,286,995,633**
PAYMENTS			
Compensation of Employees	4	2,685,214,290	2,891,492,532
Finance Costs, including Loan Interest	5	61,486,944	108,158,694
Repayment of principal on Domestic and Foreign borrowing	6	987,806,909	1,335,103,114
Other Payments	7	3,947,637	-
TOTAL PAYMENTS		**3,738,455,780**	**4,334,752,295**
SURPLUS/DEFICIT		**96,674,372**	**(47,756,662)**

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, 2018 and signed by:

Dr. Kamau Thugge, OBS
Pricipal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442

V. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018 Kshs	2016-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances		-	-
Cash Balances	8	158,864,022	62,189,652
Total Cash and cash equivalent		**158,864,022**	**62,189,652**
Accounts receivables – Outstanding Imprests		-	-
TOTAL FINANCIAL ASSETS		**158,864,022**	**62,189,652**
FINANCIAL LIABILITIES			
Accounts Payables – Deposits and retentions	9		18,420,097
NET FINANCIAL ASSETS		**158,864,022**	**43,769,555**
REPRESENTED BY			
Fund balance b/fwd	10	**43,769,555**	**118,445,551**
Prior year adjustment	11	18,420,097	(26,919,334)
Difference			4,456,673
Surplus/Deficit for the year		**96,674,372**	(47,756,662)
NET FINANCIAL POSITION		**158,864,022**	**43,769,555**

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 Sep, 2018 and signed by:

Dr. Kamau Thugge, (CBS)
Pricipal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442

VI. STATEMENT OF CASH FLOWS

		2017-2018 Kshs	2016-2017 Kshs
Receipts for operating income			
Exchequer Releases	1	3,829,178,171	3,905,744,683
Transfers from Other Government Entities	2	-	362,830,853
Other receipts	3	5,951,981	18,420,097
		3,835,130,152	**4,286,995,633**
Payments for operating expenses			
Compensation of Employees	4	2,685,214,290	2,891,492,532
Finance Costs, including Loan Interest	5	61,486,944	108,156,650
Other payments	7	3,947,637	-
		2,750,648,871	**2,999,649,181**
Adjusted for:			
Change in Receivables		-	(233,380)
Change in Payables		(18,420,097)	18,420,097
Adjustments during the year	11	18,420,097	(31,142,627)
Net cash flow from operating activities		**1,084,481,281**	**1,274,390,542**
Cash flow from borrowing Activities			
Repayment of principal on Foreign guaranteed debt	6	987,806,909	1,335,103,114
Net cash flow from financing activities		(987,806,909)	1,335,103,114
NET INCREASE IN CASH AND CASH EQUIVALENT		**96,674,372**	**(60,712,571)**
Cash and cash equivalent at BEGINNING of the year		**62,189,652**	**118,445,551**
Difference			**4,456,673**
Cash and cash equivalent at END of the year		**158,864,024**	**62,189,652**

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity's financial statements were approved on 30th Sept, 2018 and signed by:

Dr. Kamau Thugge, (CBS)
Principal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442

VII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	5,564,893,962	-	5,564,893,982	3,829,178,171	1,735,715,791	69%
Transfers from Other Government Entities	-	-	-	-	-	-
Other Receipts	-	-	-	5,951,981	-	100%
PAYMENTS						
Compensation of Employees	(4,148,978,495)	-	(4,148,978,495)	(2,685,214,290)	1,463,764,205	65%
Miscellaneous Services	(128,000,000)	-	(128,000,000)	-		
Finance Costs, including Loan Interest	(52,523,304)	-	(52,523,304)	(61,486,944)	(8,963,640)	117%
Repayment of principal on Domestic and Foreign borrowing	(1,235,392,163)	-	(1,235,392,163)	(987,806,909)	247,585,254	80%
Other payments	-	-	-	(3,947,637)		
Totals	**(5,564,893,962)**	-	**(5,564,893,962)**	**(3,738,455,780)**		**67%**
Surplus/Deficit	-	-	-	**96,674,372**		

Notes

1. There was under expenditure at 67% of the budget due to over budgeting in most of the independent institutions and lack of filling of vacant posts for the commissioners in real time after the previous commissioners contracts expires.
2. There was an over expenditure in salaries and Remuneration commission of Kshs 19, 810,469 representing 25% over-utilisation.
3. The judiciary underspent their Budget by Kshs 953,389,248 representing 35% under-utilization. This is attributed to slow progress of building new courts in the counties hence recruitment of new magistrates was put on hold.
4. National Gender and Equity Commission had no budget allocation and their expenditure was charged under National Police Service.

The entity financial statements were approved on 30th September, 2018 and signed by:

Dr. Kamau Thugge, (CBS)
Principal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442

VIII. 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 IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy notes 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 receivables and payables are disclosed in the Statement of Assets and Liabilities. The Statement of Assets and Liabilities is not mandatory statement under the IPSAS Cash basis but is encouraged in order to disclose information on assets and liabilities.

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

2. Reporting entity

The financial statements are for The National Treasury, Salaries, Allowances and Miscellaneous Services. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012. ***The entity did not implement any development Projects in the reporting period.***

3. Recognition of receipts and payments

a) Recognition of receipts

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the entity.

Tax receipts

Tax Receipts is 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 (Continued)

Transfers from the Exchequer
Transfer from Exchequer is 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 receiving entity.

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

Donations and grants
Grants and donations 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 recipient entity or by the beneficiary. In case of grant/donation 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.

Proceeds from borrowing
Borrowing includes Treasury bill, treasury bonds, corporate bonds; sovereign bonds and external loans acquired by the entity or any other debt the Entity may take on will be treated on cash basis and recognized as receipts during the year of receipt.

Undrawn external assistance
These are loans and grants at reporting date as specified in a binding agreement and relate to funding for projects currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. During the year ended 30th June 2017, 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 entity recognises all expenses when the event occurs and the related cash has actually been paid out by the entity.

Compensation of employees
Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of goods and services
Goods and services are recognized as payments in the period when the goods/services are consumed and 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 incurred and paid for.

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 each public entity and a summary provided for purposes of disclosure. This summary is disclosed as an annexure to the entity's financial statements.

4. **In-kind contributions**
In-kind contributions are donations that are made to the *entity* 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 *entity* includes such value in the statement of receipts and payments both as receipts and as an expense in equal and opposite amounts; otherwise, the contribution is not recorded.

5. **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 2017.

There were no other restrictions on cash during the year

6. 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.

IX. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

Description	2017-2018	2016-2017
	Kshs	Kshs
Total Exchequer Releases for quarter 1	904,423,198	490,000,000
Total Exchequer Releases for quarter 2	1,269,724,288	1,220,951,414
Total Exchequer Releases for quarter 3	1,040,030,685	1,044,691,573
Total Exchequer Releases for quarter 4	615,000,000	1,150,101,696
Total	**3,829,178,171**	**3,905,744,683**

(The budgeted exchequer was Ksh.5,564,893,962 against actual received exchequer amounting to Kshs. 3,829,178,171 Out of the budget of Kshs. 5.5b, only 69% was funded as per Exchequer request).

2 TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Description	2017-2018	2016-2017
	Kshs	Kshs
Transfers from Central government entities (Transfer from public Debt)	-	362,830,853
TOTAL	**-**	**362,830,853**

The above transfers were received from the following self-reporting entities in the year

2a) TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Description	Recurrent	Development	2017-2018	2016-2017
	Kshs	Kshs	Kshs	Kshs
Transfers from Central government entities				
Public Debt	-	-	-	362.830,853
TOTAL	-	-	-	362,830,853

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 OTHER RECEIPTS

	2017-2018	2016-2017
	Kshs	Kshs
Other Receipts Not Classified Elsewhere- The National Assembly	-	17,696,543
Other Receipts	5,951,981	723,555
Total	**5,951,981**	**18,420,097**

These are erroneous direct deposits into the entity`s bank account relating to 3% commission from various entities.

4 COMPENSATION OF EMPLOYEES

	2017-2018	2016-2017
	Kshs	Kshs
Basic salaries of permanent employees	2,685,214,290	2,891,492,532
Basic wages of temporary employees	-	-
Personal allowances paid as part of salary	-	-
Total	**2,685,214,290**	**2,891,492,532**

5 FINANCE COSTS, INCLUDING LOAN INTEREST

Explanation	2017-2018	2016-2017
	Kshs	Kshs
Interest Payments on Foreign Borrowings	-	-
Interest Payments on Guaranteed Debt by Govt	61,486,944	108,158,694
Interest on Domestic Borrowings (Non-Govt)	-	-
Interest on Borrowings from Other Government Units	-	-
Total	**61,486,944**	**108,158,694**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. REPAYMENT OF PRINCIPAL ON FOREIGN LENDING AND ON-LENDING

Explanation	2017-2018	2016-2017
	Kshs	Kshs
Principal repayments on domestic loans	-	-
Principal repayments on Guaranteed Debt by Government	987,806,909	1,335,103,114
Repayments on borrowings from other domestic creditors	-	-
Repayment of Principal from Foreign Lending & On – Lending	-	-
Total	**987,806,909**	**1,335,103,114**

7. OTHER PAYMENTS

	2017-2018	2016-2017
	Kshs	Kshs
Budget Reserves	-	-
Civil Contingency Reserves	-	-
Other payments to other entities	3,947,637	-
	3,947,637	**-**

8. 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)	2017-2018	2016-2017
				Kshs	Kshs
Central Bank of Kenya 1000204419 (Kes)		-	-	158,864,022	62,189,652
Total				**158,864,022**	**62,189,652**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. ACCOUNTS PAYABLE

Description	2017-2018	2016-2017
	Kshs	Kshs
The National Assembly	-	17,696,543
Other Deposits	-	723,555
Total	**-**	**18,420,097**

Account payable from last financial statement have been adjusted as they were erroneously carried in IPSAS Cash erroneously. The amounts had been received from various government institutions and were eventually paid to deposit and exchequer.

10. FUND BALANCE BROUGHT FORWARD

Description	2017-2018	2016-2017
	Kshs	Kshs
Bank accounts	62,189,652	118,445,551
Cash in hand	-	-
Accounts Receivables	-	-
Accounts Payables	(18,420,097)	-
Total	**43,769,555)**	**118,445,551**

11. PRIOR YEAR ADJUSTMENTS

Description of the error	2017-2018	2016-2017
	Kshs	Kshs
Adjustments on bank account balances	-	(31,142,627)
Adjustments on cash in hand	-	-
Adjustments on payables (Annex 1)	18,420,097	-
Adjustments on receivables	-	-
Others (*specify*)	-	-
Total	**18,420,097**	**(31,142,627)**

The adjustment of Kshs 18,420,097 have been carried to correct error made on amount received from MDA's and eventually paid out.

11.1 PRIOR YEAR ADJUSTMENTS

Description	Ref	Audited FY 2016/17	B/F Adjustment 2017/18	Difference
Payables	Annex 1	18,420,097	-	18,420,097
Prior Year adjustment		18,420,097	18,420,097	18,420,097

X. 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)***
1	Unexplained difference of Ksh. 125,671,493.00 between financial statement and the ledger	i.The ledger includes payments amounting to Ksh. 94,528,867.15 to clear erroneous deposits. The corresponding receipts had been omitted in the ledger and have now been captured. ii.The ledger also includes Ksh. 31,142,626.90 that was erroneously omitted from the financial statements. The appropriate prior year adjustment has been made in the subsequent period.	Hubert Anyanga	Not resolved	31.12.2017
2	Variances between ledger the payroll	The two sets of records have been reconciled and variances eliminated.		Resolved	
3	Unsupported Payments under Guarantee Loans Act.	**i.**Kenya Broadcasting Corporation and Tana and Athi Rivers Development Authority have continued to accumulate losses and therefore unable to meet their debt service obligations. **ii.**The organizations requested the Government to settle the defaulted instalments on their behalf.		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)*
		iii. The Government made the payments as a guarantor in line with terms and conditions set out in the PFM Act, 2012.			
4	Prior Year Adjustments	**i.**Prior year adjustment of Ksh. -8,883,205,334.00 is the reversal of accumulated exchequer under issues that had been reported as receivables. Budgets expire at the end of June every year and the accounts are prepared on cash basis. ii.Analysis of fund balance brought forward of Ksh. 8,848,051,762.00 was provided for audit . iii.The statement for financial year 2014/15 reflected bank certificate balance of Ksh. -397,382,932.00. The amount was re-stated to the cash book balance of Ksh.-8,566,405,036.00.		Not resolved	31.12.2017
5	Omitted expenditure and receipts.	**i.**Receipts amounting to Ksh.94,528,867.15 which had been omitted in the ledger have been captured to net off the corresponding payments. ii. Payments amounting to Ksh.181,800.00 had been misposted to Head 976 in the ledger and have been captured under Head 973. iii. The receipts amounting to Ksh. 2,147,326.90 have been analysed and adjusted to Ksh. 1,974,518.75. The net			

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)*
		receipts are outstanding as payables.			
6	Un-spent Appropriation	**i.**The bank certificate balance of Ksh.58,832,636.00 was re-stated to cash book balance of Ksh.172,450,397.00 as at 30th June,2015. The un-spent balance was carried forward and spent in financial year 2015/16. ii. Similarly, the comparative bank certificate balance of Ksh.-397,382,932.00 was re-stated to the corresponding cash book balance of Ksh.-.8,566,405,036.00			

Dr. Kamau Thugge, (CBS)
Principal Secretary

Lilian W. Dishon
Principal Accountant
ICPAK Member Number: 10442