

REPUBLIC OF KENYA

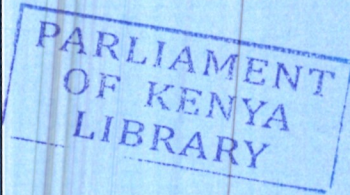


**OFFICE OF THE AUDITOR-GENERAL**

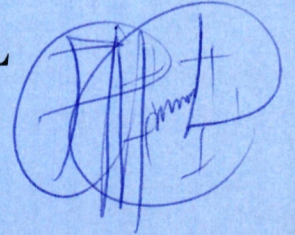
**REPORT**

*Paper laid on the  
Table of the House  
by the Deputy  
Majority Leader on  
Tuesday 28<sup>th</sup> August  
2018.*

**OF**



**THE AUDITOR-GENERAL**



**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA REVENUE AUTHORITY**

**FOR THE YEAR ENDED  
30 JUNE 2017**



KENYA REVENUE  
AUTHORITY

OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30088 - 00100, NAIROBI  
29 SEP 2017  
RECEIVED

**ANNUAL REPORT &  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**



## **KEY INFORMATION AND MANAGEMENT**

### **(a) Background Information**

Kenya Revenue Authority (KRA) is a statutory body established by an Act of Parliament, KRA Act Cap 469 of 1995.

**MISSION** Building Trust through Facilitation so as to foster Compliance with Tax and Customs Legislation.

**VISION** To facilitate Kenya's Transformation through Innovative, Professional and Customer-Focused Tax Administration.

### **CORE VALUES**

- Trustworthy
- Ethical
- Competent
- Helpful

### **(b) Principal Activities**

The Authority's objectives are the assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the Act.

### **(c) Key Management**

The Authority's day-to-day management is under the following key organs;

- Office of the Commissioner General
- Domestic Taxes Department
- Customs & Border Control Department
- Corporate Support Services Department
- Investigations and Enforcement Department
- Strategy Innovation & Risk Management Department
- Legal Service & Board Coordination Department

### **(d) Fiduciary Management**

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

- |   |                         |
|---|-------------------------|
| - Commissioner General                              | <b>John K. Njiraini</b> |
| - Domestic Taxes Department                         | <b>Benson Korongo</b>   |
| - Customs Border Control Department                 | <b>Julius Musyoki</b>   |
| - Corporate Support Services Department             | <b>Ezekiel Saina</b>    |
| - Investigations and Enforcement Department         | <b>David Yego</b>       |
| - Strategy, Innovation & Risk Management Department | <b>Mohamed Omar</b>     |
| - Legal Services & Board Coordination Department    | <b>Wairimu Nganga</b>   |
| - Intelligence & Strategic Operations               | <b>James Mburu</b>      |

**(e) Headquarters**

Times Tower Building,  
Haile Selassie Avenue,  
P.O. Box 48240 – 00100, Nairobi, Kenya.

**(f) Contacts**

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Email [callcentre@kra.go.ke](mailto:callcentre@kra.go.ke) , [cic@kra.go.ke](mailto:cic@kra.go.ke)  
Website [www.kra.go.ke](http://www.kra.go.ke)

**(g) Bankers**

National Bank of Kenya Ltd,  
Harambee Avenue Branch,  
P.O. Box 41862-00100 Nairobi, Kenya

**(h) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**(i) Principal Legal Advisor**

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

## **BOARD OF DIRECTORS**

### **Dr. Edward Sambili, CBS**

Dr Sambili is an economist (Doctor of Philosophy (Ph.D) in Economics.) with experience and expertise in sustainable development, national planning and poverty analysis, human security and governance; macroeconomic issues including fiscal and monetary policies, debt and risk Management.

He has worked in Public sector reforms on Result Based Management, policy formulation, implementation and monitoring and evaluation. .

He directed Kenya's African Peer Review Mechanism (APRM), a comprehensive Governance system covering Private and Public Sectors reforms.

He has regulatory knowledge and practice of the money and Financial Markets. And has excellent knowledge and experience of development challenges in higher education and human resource development in sub-Saharan Africa.

Wide experience and track record in executive leadership and management in the public sector.

### **Amb. Dr. Rasid Ali**

He was appointed on 7<sup>th</sup> November, 2017. Ambassador Rashid has had an expansive work experience in both Private and Public Sectors. Worked as a Director of the Kenya National Chamber of Commerce and Industry since July 2016 and as the Commissioner at Kenya Meat Commission.

Worked as an Ambassador of the Republic of Kenya to Islamic Republic of Iran from April 2010 to April 2014. He holds a Doctor of Philosophy (PhD) in Public Administration. Masters of Science (MSc) in Commerce and Bachelor of Commerce.

### **Hon. Rose Waruhiu**

She graduated with honours in Economics from Makerere University, and pursued postgraduate training in Management of Higher Education in 1975. She was appointed Fellow at the Institute of Politics, Kennedy School of Government, and Harvard University for the spring semester in 1990.

She has competency in management of organizations, capacity building and public policy formulation and documentation.

Hon. Rose Waruhiu is an experienced public servant who has served as a Member of the Kenyan Parliament, and more recently served in the Assembly of the revived East Africa Community (EALA).

She has held leadership positions in the Women's Organizations and Civil Society serving as Chair/Convener of several initiatives in the pro-democracy movement in Kenya.

As a development Consultant in the private sector, she has a wealth of experience in organization management and analytical skills.

She has also served as a member of the Kenya National Committee of United World Colleges and as chairperson of the League of Friends Kenyatta National Hospital.

#### **Mr. Evans Kakai**

He was first appointed on 3rd October, 2013. He holds a Bachelor's Degree in Business Administration from Catholic University and a Master's of Business Administration (Strategic Management) from University of Eastern and Southern African Management Institute and is also a Certified Public Accountant of Kenya (CPA-K), Certified Public Accountants of Uganda and Institute of Chartered Arbitrators. He is the Managing Director of EKV Consultants Limited, a consultancy firm offering consultancy services in Kenya, Uganda, Tanzania and South Sudan. He is a UN agency Certified Auditor, undertaking donor confirmation assignments in Kenya, Uganda and South Sudan for various international UN Agencies.

He is a reliable and hardworking professional with a practical hands-on approach, who always perseveres to achieve the best results, with ability to collect and analyse information and quickly grasp what needs to be done.

#### **Ms. Constantine Kandie**

She was appointed on 15<sup>th</sup> August, 2013. She holds a Masters in Business Administration Degree (Marketing) from United States International University and a Bachelor's Degree in Business Administration from the same University. She has wide experience in governance, strategic management and leadership. She has experience in management of staff teams across a broad spectrum of professionals and specialties in enterprise development.

She has served as Council Member and Chair of Disciplinary Committee, Management University of Africa (MUA) and as a Board Member, Professional Women Empowered (ILO). She has also served as a Board Member, Eastern Africa Regional Board-Practical Action International (Integrated Technology Development Group) and as the Executive Director, Eastern Africa Grain Council, Coordinator, Economic and Social Development (Soroptimist International Service Club for Women), Director at World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT).

She holds a Master's Degree in Business Administration (Marketing).

**Mr. Paul Icharia**

He was appointed on 7<sup>th</sup> November, 2017. Mr. Paul Icharia is resourceful, detail-oriented professional with extensive experience in financial services, business development and social services development.

He holds a Bachelor of Science (BSc.) in Finance, and a Master of Business Administration (MBA) in Global Management.

He has worked with the Royal Bank of Canada (RBC), Vancouver BC, and Citigroup in, Dallas, Texas USA as an Account's executive.

He has demonstrated success in leading and mentoring teams in developing and executing marketing plans and has strong ability to motivate and influence employees in rapidly changing work environments plus building rapport with clients and individuals at all levels of the organization.

**Mr. Abdi Bare Duale**

He was first appointed on 3<sup>rd</sup> June, 2014. He holds a Master's degree in Business Administration from Edith Cowan University and High School Diploma from Penn Foster College.

Currently he is a Managing director of Medina Chemicals Ltd. and the Executive Chairman of Nomad Palace hotel limited. Previously, he held the position of the General Manager of Medina Pharmacy Ltd. He has held several directorship positions in both public and private entities including Kenya Bureau of Standards and Nerix Pharma Ltd.

**Commissioner General - Mr. John K. Njiraini, MBS**

He was appointed Commissioner General of Kenya Revenue Authority on 3<sup>rd</sup> March, 2012. Previously, he served as the Commissioner of Domestic Taxes in charge of Large Taxpayers Office, since April 2006.

He holds a Bachelor of Commerce and Master of Business Administration (MBA) degrees from the University of Nairobi. Prior to joining KRA, he served as the Chief Executive of the Institute of Certified Public Accountants of Kenya (ICPAK) between 1996 and 2006. Mr. Njiraini also served as Lecturer, Department of Accounting, and University of Nairobi between 1984 to 1994. He had previously worked in various audit capacities with both Deloitte Haskins & Sells (now Deloitte) and Price Waterhouse (now PricewaterhouseCoopers).

He has also served in various Government Boards and Task Forces including the Permanent Public Service Remuneration Review Board, Local Authorities Transfer

Fund Advisory Board, Registration of Accountants Board and the Pending Bills Closing Committee, among others.

### **EX OFFICIO MEMBERS**

#### **Attorney General – Hon. Prof. Githu Muigai, FCI Arb, MP**

He holds a Bachelor's Degree in Law (LLB) from the University of Nairobi, a Master's Degree in International Law (LLM) from the Columbia University, School of Law, New York and a Doctorate in Constitutional Law from the University of Nairobi.

He is a member of the Law Society of Kenya, East African Law Society, Commonwealth Lawyers Association, Institute of Public Secretaries (K), International Commission of Jurists (ICJ), International Bar Association and a Fellow of the Chartered Institute of Arbitrators (UK).

He was appointed as Attorney-General of the Republic of Kenya on 29<sup>th</sup> August, 2011. Prior to this, he was a senior partner in the law firm of Mohamed Muigai Advocates; he served as an Associate Professor of Law of the University of Nairobi, School of Law and a Commissioner in the Constitution of Kenya Review Commission.

He served as a United Nations Special Rapporteur on Contemporary Forms of Racism, Racial Discrimination, Xenophobia and Related Intolerance from between 2008 and 2011; and as a judge in the African Court on Human Rights and People Rights between 2008 and 2010.

He has also served as a Judge in the African Court of Justice.

#### **Mary Ann Muthoni Njau-Kimani**

She is an advocate of the High Court of Kenya with thirty (30) years' post admission experience both in private and public law practice. She also holds a Master's degree in Business and Administration from the University of Nairobi.

She is the Senior Deputy Solicitor General and the Secretary Justice and Constitutional Affairs, the current Head of the State Department of Justice, Office of the Attorney General & Department of Justice.

She is an accredited mediator and a certified Justice Rapid Response UN- Women SGBV Justice Expert, with management, financial, research, consultancy and training experience and skills.

She is the alternate director to the Attorney General.

#### **Cabinet Secretary, the National Treasury– Mr. Henry K. Rotich**

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School,

Harvard University. He also holds Masters and Bachelor degrees in Economics from the University of Nairobi. Prior to his appointment, he had worked at the Treasury, Ministry of Finance and the Central Bank of Kenya. He had been earlier attached to the International Monetary Fund (IMF) local office in Nairobi.

He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

**Mr. Bernard Ndung'u**, Director General, Accounting Services – (Alternate Director to the Principal Secretary, the National Treasury).

## **MANAGEMENT TEAM**

### **1. John Njiraini, MBS**

He was appointed the Commissioner General of Kenya Revenue Authority on 3<sup>rd</sup> March, 2012 for a period of three (3) years. The contract was renewed for a further three (3) years. The contract will expire on 4<sup>th</sup> March, 2018.

### **2. Julius Musyoki**

He was appointed as appointed Acting Commissioner, Customs & Border Control Department from 1<sup>st</sup> December, 2014. He was later confirmed as the substantive Commissioner in August, 2015. His contract will expire in July, 2018.

### **3. Benson Korongo**

He was appointed Acting Commissioner, Domestic Taxes Department from 1<sup>st</sup> May, 2016. He was later confirmed as the substantive Commissioner on 1<sup>st</sup> June, 2016.

### **4. Beatrice Memo, HSC**

She was appointed Head of Kenya School of Revenue Administration from February, 2015. Her contract will expire in January, 2018.

### **5. Ezekiel Saina, HSC**

He was appointed Acting Commissioner, Corporate Support Services from 16<sup>th</sup> July, 2016. He was later confirmed as the substantive Commissioner on 1<sup>st</sup> June, 2016.

### **6. Mohamed Mohamud**

Mr. Mohamud appointed Commissioner, Strategy Innovation & Risk Management from 1<sup>st</sup> October, 2015. The contract will expire on 10<sup>th</sup> September, 2018.

### **7. Wairimu Ng'ang'a**

She was appointed Commissioner, Legal Services & Board Coordination from 1<sup>st</sup> January, 2016.

### **8. David Yego**

He was appointed Acting Commissioner, Investigations & Enforcement Department from 11<sup>th</sup> February, 2016. He was later confirmed as the substantive Commissioner from 22<sup>nd</sup> March, 2017.

### **9. James Mburu**

Mr. James Mburu was appointed Commissioner, Intelligence & Strategic Operations Department with effect from 3<sup>rd</sup> April, 2017.

# CHAIRMAN'S STATEMENT

## Foreword

It's my pleasure to present the Annual Report and Financial Statements of the Kenya Revenue Authority for the Financial Year 2016/17. This is the second Annual Report prepared within the implementation period of the Authority's **Sixth Corporate Plan (2015/2016 - 2017/2018)** whose theme is **"Building taxpayer trust through facilitation for enhanced tax compliance"**.

The year under review was characterized by constrained global trade and subdued investments, increased policy uncertainties associated with United Kingdom withdrawal from European Union and the closely contested US elections but boosted by continued strong growth in sub-Saharan Africa. In addition, the campaigns for the Kenya's second general elections under the Constitution of Kenya 2010 kicked off during the last quarter of the financial year. The country was host to two major international conferences namely United Nations Conference on Trade and Development (UNCTAD), The Tokyo International Conference on African Development (TICAD VI) summit. Besides putting Kenya on the limelight and engaging with prospective investors, the conferences further boosted the tourism sector earning Kenya the much needed foreign exchange and associated tax revenues accruing from the activities.

## Kenya Economy

The Economy was estimated to have grown by an average of **5.5% in 2016/17** while in the East Africa Community (EAC) region it is estimated to have grown by **6.1%** according to Kenya Economic Survey 2017. The growth was attributed to public infrastructure investment, buoyant private consumption and low oil prices.

The Kenya Economic survey 2017 further reported that the manufacturing sector recorded a real growth of 3.5 per cent in 2016 compared to a revised growth of 3.6 per cent in 2015. This growth was as a result of reduced cost of production, increased volume of output, reduced cost of electricity and stability in the price of imported raw materials.

With regard to the agricultural sector, Coffee exports increased by 12.2% from US \$ 214.96 Million in FY 2015/16 to US\$ 240.23 Million in FY 2016/17. Tea exports declined by 5.3% from US \$ 1296.55 Million to 1228 million in 2016/17. Horticultural exports declined by 1.6% from US\$ 1179.46 million to US\$ 1160 million in 2016/17.

The Financial Intermediation sector on the other hand, posted the slowest growth since 2012 to stand at 6.9% in 2016 compared to 9.4% in 2015. This underperformance can be explained by decelerated growth of 6.7% in earnings from banking sector partly due to uncertainty associated with the capping of interest rates that came into effect in September 2016. However, the sector's growth was boosted by the insurance sub-sector which recorded a growth rate of 5.3% in 2016 compared to 5.0% in 2015.

Information, Communication and Technology sector is estimated to have expanded by an average of 10% during the Financial year 2016/17 compared to a growth rate of 8.2% in 2015/16.

Average inflation increased from **6.47%** in FY 2015/16 to **8.10%** in FY 2016/17 largely attributed to increased food prices as a result of the prolonged drought experienced throughout the country. The Exchange rate of Kenya Shilling to US Dollar averaged at 102.46 during the Financial Year.

Total exports declined by **19.1%** from **US \$ 5,969 million** in 2015/16 to **US \$ 4,819 million** in 2016/17 while total imports increased by **4.7%** from **US\$ 14,985 million** to **US\$ 15,595 million**. The decrease in exports was attributed to decrease in tea and horticultural products while the increase in imports value was majorly attributed to increased import value of petroleum products.

The Kenya Economic Survey 2017 further noted that the overall basic employment grew at **3.2%** which was below the recent past trend of 4.56% in spite of the positive growth in GDP.

### **Global Economy**

The global economy is projected to have grown by **2.9%** in 2016 compared to a revised growth of **3.1%** in 2015. Growth in developed economies expanded by **2.1%** in 2016 compared to **1.9%** in 2015. The United States of America recorded a growth of **1.5%** in 2016 compared to **2.6%** in 2015, majorly attributed to reduced exports, subdued investments and uncertainty surrounding the 2016 elections. Growth in China contracted as a result of slowed investment as the economy tilted towards services and consumption. In Japan, growth was contributed by private consumer spending, signaling improved consumer purchasing power after two years of contraction.

The Sub-Saharan Africa's real gross domestic product is estimated to have grown by **1.5%** in 2016 compared to **3.8%** growth registered in 2015. The slow growth was explained by low commodity prices for metal exporting countries, domestic shocks from a generally less supportive global economic environment, decelerated growth in South Africa and considerable drop in international oil prices that affected growth in oil exporting countries.

### **Revenue Performance**

During the financial year 2016/17, the Authority collected sh. **1.365 trillion** against a target of **Sh1.431 trillion**. This performance represents a growth of **13.8%** over **Kshs. 1.200 trillion** collected in financial year 2015/16. This year's growth indicates an improvement over last year's performance of **12%** growth in revenue collection. It is also the highest growth for the period 2014/15 -2016/17.

#### **Exchequer Revenue**

The Authority collected a total of **Kshs. 1,273,060 Million** against a target of **Kshs. 1,358,437 million** translating to a performance rate of **94%**.

## Agency Revenue

**Kshs. 92,209 Million** was collected as Agency revenue against a target of **Kshs. 57,168 million** translating to a performance rate of **97.8%**.

## Future Outlook

### Globally

The IMF in its World Economic Outlook for April 2017 posits that with optimistic financial markets and a long-awaited cyclical recovery in manufacturing and trade, global economic growth is estimated to rise from **3.1 %** in 2016 to **3.5 %** in 2017 and **3.6 %** in 2018. However, structural challenges continue to hold back a stronger recovery, with these risks pointing to a bleak future over the medium term. With persistent structural problems, such as low productivity growth and high income inequality, pressures for inward-looking policies are increasing in advanced economies. These impede global economic integration and the cooperative global economic order that has served the world economy, especially emerging market and developing economies. In view of this, economic policies have an important role to play in countering off the risks and secure the recovery. Further, multilateral effort is also needed to tackle common challenges in an integrated global economy.

### Kenya

The Budget Policy Statement (BPS) 2017, projects that during FY 2017/18, Kenya's real GDP shall expand by **6.2%** up from **6.0%** projected in FY 2016/17. This growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. However, the World Economic Outlook, October 2016 project that average Inflation will reach **9.0%**.

The Authority will expect more pressure in 2017/18 to collect more revenue to finance expenditures of strategic interest to the Nation's economic transformation agenda, the Third Medium Term Plan of the Vision 2030 especially public investments in infrastructure development, and social spending like the second phase of the Standard Gauge Railway and the social safety net program among others. Specifically, the Treasury revenue target for the financial year 2017/18 is **Kshs 1,614,800 million**, of which **Kshs. 1,506,987 million<sup>1</sup> (93.3%)** is Exchequer revenues and **Kshs 107,913 billion (6.7%)** representing various agency revenues that KRA collects. The Treasury target represents a growth of **18.3%** over the revenue collection in FY 2016/17 while the Exchequer target represents a growth of **20.2%**.

It is expected that the completed phase one of the standard gauge railway from Mombasa to Nairobi will hugely impact on the movement of cargo from Mombasa to Nairobi and onward through the Northern Corridor to Uganda, Rwanda, South Sudan and Burundi. This will have a positive impact on the Kenyan economy thus generating

<sup>1</sup> Excludes Railway Development Levy

additional tax revenue and reduced cost of operation to investors. Further, setting up of special economic zones including privately owned ones for example the SEZ in Eldoret is expected to spur employment by creating direct and indirect jobs.

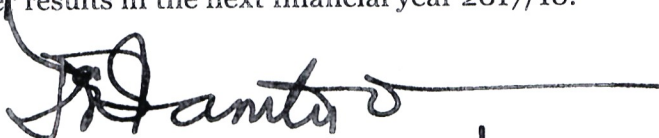
According to the Budget policy statement 2017/18, main threats to the outlook for FY 2017/18 and the medium term emanate from both external and domestic sources. Externally, the threats include weaker growth in the global economy, continued low demand in advanced and emerging market economies, the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates, Britain's exit from the European Union and persistent geopolitical uncertainty in the international oil markets as well as the low commodity prices that may impact negatively on our exports and tourism activities. Internally, adverse weather conditions, and uncertainties in the financial sector due to the impact of capping of interest rates pose significant threats to achievement of the projected economic growth.

### **Appreciation**

The Board of Directors is pleased with the management and staff of the Authority for their continued hard work, commitment and dedication in ensuring that KRA increased revenue collection in FY 2016/17 by **Ksh. 155 billion**, the highest increase recorded so far. We wish to also thank all the compliant taxpayers (individuals and Non individuals, large, medium and small) who registered for all their relevant tax obligations, provided the correct relevant tax information, filed their taxes on time and timely paid their taxes. We also wish to thank all the strategic stakeholders who have partnered with us to make KRA a distinguished revenue authority in the region. We are optimistic that with your continued support, KRA will be able to continue to effectively carry out its mandate. That is trade facilitation, regional integration, improving Kenya's business climate as well as providing the resources for the Government to deliver on its obligations and commitments.

In my capacity as the Chairman of the Board, I wish to take this opportunity, on behalf of other Board members, to thank H. E. The President, the whole of National Government, the National Treasury, Counties, and Parliament for their invaluable support we continue to receive from you in the performance of our noble duty of revenue administration.

Lastly, I wish to extend my gratitude to my fellow Board Members for their unending commitment and hard work during the year. It's my belief that the team will post even better results in the next financial year 2017/18.



**DR. EDWARD SAMBILI, CBS  
CHAIRMAN**

# COMMISSIONER GENERAL'S STATEMENT

## Introduction

It gives me great pleasure to present to you the highlights of the Kenya Revenue Authority performance for FY 2016/17 which is the second year of implementation of the Authority's Sixth Corporate Plan (FY 2015/16 - 2017/18). The Plan advocates for change in our business approach and re-orientes our focus more on customer facilitation to enhance tax compliance. This call is aptly captured in the Plan's Strategic Theme; **"Building Taxpayer Trust through Facilitation for enhanced tax compliance"**. To achieve KRA's primary mandate of tax administration, the Plan outlines four strategic priorities all aimed at enhancing revenue collection. These are, enhancing revenue mobilization through a raft of measures, organizational change and business process optimization to strengthen revenue administrative capacity, professional and customer-focused staff, and operational efficiency leveraging technology and benchmarking against best practice.

## Operating Environment

Kenya's GDP growth rate was estimated at 6.0% in FY 2016/17 and is expected to rise to 6.2% in FY 2017/18.

Key elements of the macro-economic environment included the following:

- Inflation rate which was projected to average at 6.3 % started at 6.39 % in July 2016, peaking at 11.7 % in May, 2017 and closing the Financial Year at 9.21 %.
- The Exchange rate of Kenya Shilling to US Dollar averaged at 102.46 during the Financial Year.
- Total exports declined by 19.0% from Ksh 609,228 million in 2015/16 to KSh 493,761 million in 2016/17 while total imports increased by 5.1% from Ksh 1,520,376 million to 1,597,912 million during the same period.
- Average 91-Day Treasury Bill rates began the Financial Year at 6.16 %, peaked at 8.77 % in April, 2017 and closed the Financial Year at 8.4 %.
- The NSE 20-share index started off at 3,489 points, dipping to 2,794 points in January 2017 and closing the year at 6,609 points indicating a steady improvement in the investment environment in the economy.

## REVENUE PERFORMANCE

Table 1: Revenue Collection (Ksh. Billion)

Department	Actual 2016/17	Revised Target 2016/17 <sup>2</sup>	Performance Rate (%)	Actual 2015/16	Growth Over 2015/16 (%)
Customs Services	443.5	462.0	96	386.0	+14.9
Domestic Taxes	917.6	963.8	95.2	810.2	+13.3
Road Transport	4.1	6.0	68.5	3.9	+4.9
<b>Total</b>	<b>1,365.3</b>	<b>1431.8</b>	<b>95.4</b>	<b>1,200.2</b>	<b>+13.8</b>

### 1.1. Customs and Border Control Department

Customs collections during FY 2016/17 amounted to Kshs. 443.5 billion against a target of 462.0 billion translating to a performance rate of 96% and a growth of 14.9% over FY 2015/16. Net import duty grew by 7.3% to **Ksh. 86.9 Billion** while Net Excise duty grew by 13.6 % to **Ksh. 79.2 Billion**. Annual collections in Petroleum Taxes amounted to **Ksh. 139.3 Billion** while Trade Taxes amounted to **Ksh. 286.7 Billion** recording a growth of 29 % and 7.5 % respectively over FY 2015/16.

The recorded performance was buoyed by growth in oil imports to **6.701 billion litres** (6.0 % growth) and number of containers handled for transit cargo to **138,752** (13.8 % growth). However, the number of containers handled for home use cargo declined to **236,253** from **254,870** (7.3 % decline) during the same period. This is partly attributed to the recorded dip in motor vehicle importation in FY 2016/17 i.e. from 83,840 units to 65,130 in FY 2016/17.

### 1.2. Domestic Taxes Department

Domestic taxes collections during FY 2016/17 amounted to Kshs. 917.6 billion against a target of 963.8 billion translating to a performance rate of 95.2% and a growth of 13.3% over FY 2015/16.

Direct domestic taxes collected during the financial year amounted to **Ksh.628.5 Billion** representing a **95.1%** performance rate and growth of **11.8%** over FY 2015/16. Direct domestic taxes included: PAYE-**54%**; Corporate Taxes-**29%**, withholding taxes-**15%**, and the remaining **2%** comprised: individual taxes, Turn-Over-Taxes; Capital Gains Tax and Rental Income Tax.

<sup>2</sup> Original Revenue Target for FY 2016/17 of Ksh. 1,415.6 Billion was revised to Ksh. 1,431.8 Billion

Indirect Taxes collected during the Financial Year amounted to **Ksh. 286.7 Billion** representing 95.6 % performance and a growth of 17.0 % over FY 2015/16. This growth was mainly driven by 21.2 % growth in VAT to **Ksh. 193.1 Billion** and 39.5 % growth in Excise duty on money transfer to **Ksh. 12.6 Billion**.

### 1.3. Transport Department

Transport Revenue accounted for **0.3 %** of the total collections in FY 2016/17 recording a growth of **4.9 %** compared to FY 2015/16.

### REVENUE ADMINISTRATION REFORM AND MODERNIZATION PROGRAMME (RARMP) INITIATIVES

The Authority continued to scale up reforms through the Revenue Administration Reform and Modernization Programme (RARMP) which is aimed at transforming KRA into a modern, fully integrated and client-focused organization. Key reform measures implemented during the year included:

#### iTax

This is a web based system that will enhance domestic tax administration and offers services including electronic registration of taxpayers, electronic filing, payment of taxes, self-service ledger accounts, and back office functions for Domestic Taxes Department staff. It is aimed at providing users with the benefits of an integrated view of a taxpayer which was not possible with the previous system. During this financial year, key achievements included:

- enhanced taxpayer support through a framework utilizing existing channels such as **'report a problem'** functionality and tracking tool (Open Source ticketing). The enhanced support framework will leverage on the CRM solution once it is rolled out through iTax customer support framework and virtual assistance (live chat).
- Audit module: being used by all Regional Audit Centers (RACs), Large Taxpayers' Office (LTO) and Medium Taxpayers' Office (MTO) in dealing with refund cases more efficiently.
- Debt Module: being used for the following functionalities: bankruptcy, write off and waiver.
- Cumulatively, a total of **5,219,100** taxpayers have updated their i-Page of which **3,478,257** are active i.e. paying and/or filing for taxes.
- Cumulatively for the FY 2016/17 **2.44 Million** Income Tax returns were filed compared to **1.58 Million** returns filed in the last financial year, a growth of **54%**.
- In order to support uptake of iTax by taxpayers and enhance the quality of services, a total of 26 iTax regional support service centers were set up in various regions across

the country. In addition, KRA is currently operational in 45 Huduma Centres across the country.

### **Data Warehouse and Business Intelligence Project**

This project is aimed at development of a data warehouse in KRA that is integrated to all relevant departments' information systems to provide fact-based business intelligence that will improve decision-making and monitoring business activities and trends. Data warehousing arises from the need for reliable, consolidated, unique and integrated reporting and analysis of data, at different levels of aggregation. This is all aimed at addressing operational challenges such as low compliance and tax evasion. In a nutshell, full implementation of DWBI will aid in:

- **Fact based decision making** as it will provide a central repository for linking data from multiple KRA systems to enable better reporting, analysis and knowledge based decision making
- **Enhanced tax compliance** by enabling single view of the tax payer and providing access to strategic third party data
- **Enhanced operational efficiency** by enabling fast and easy access to data to increase KRA's fraud detection capacity by providing tools to detect trends and patterns

The Authority received immense technical support from the Swedish Tax Authority (STA) and the South African Revenue Services (SARS) missions who ensured Quality Assurance of the DWBI solution which is currently under piloting.

By June 2018 we expect the following **transformative areas** (New ways of working) to be operational:

- Centralized Reporting & Analysis
- Dynamic, automated risk profiling and case selection
- Integration with iTax
- Fact based (Data driven) decision making, and
- Corporate Performance Monitoring.

### **Integrated Customs Management System (iCMS)**

The increasing trade volumes across Kenya's boundaries and the attendant risks call for a versatile Customs Management System where stand-alone modules, systems, smart gates, and other security installations are integrated. The iCMS aims at:

- Enhancing trade facilitation in the cargo clearance process
- Streamlining and simplifying Customs processes
- Reducing time take to clear cargo

- Accurate trader information
- Enhanced control and accountability of exemptions
- Automatic and proactive profiling of potential AEO traders based on a holistic assessment from all the tax system (iTax, iCustoms)
- Transparent AEO accreditation process

During the Financial Year, iCMS was integrated with iTax and the following modules rolled out for testing: the Clearance, Manifest Management and Quota Management.

To Streamline and simplify Customs processes, the Risk Management, valuation Management, Trader Registration and Trader Accounting Modules were rolled out having passed the QA Tests.

Outstanding modules before full roll out of the system include: Warehousing & Special Zones, Bonded Warehouses, Advance Passenger Information, and Customs Warehouse and Online Auction modules.

### **iSupport**

To help drive efficiencies, the Authority implemented a core technology application which is aimed at scaling and accelerating organizational decision-making and enhancing business management. This platform will assist KRA transform business operations and to meet the demands of Digital Economy.

This project is aimed at:

- Providing timely and accurate information to support efficient tax administration operations, planning and reporting for the Authority;
- Stimulating integration of financial and operational activities through streamlined and efficient workflows and documents management;
- Providing better business insight; and tracking key operational KPIs on a real time basis, for prompt management information and decision making.
- Building centralised services capability.

During the Financial Year, iSupport system went live on 28th April 2017. Upon full roll out, the iSupport capabilities will include: Payroll management, Travel Management, Performance Management, e-recruitment, Medical Management, learning solutions, and Asset master data and Asset Disposal.

### **Tax Invoice Management System (TIMS)**

Under VAT enhancement strategy, the need for ensuring simplicity and accuracy in input, output, credit VAT information and reconciliation between filed returns and payments is paramount. Implementation of a Tax Invoice Management System is aimed at ensuring:

- Real time validation of invoices at the trader tills prior to issuance to the customer and KRA tax system.

- Standardization of tax invoices and receipts
  - Simplification of return filing in order to enhance voluntary compliance.
  - Improve accuracy of VAT data for transactional purchases and sales information.
- During the Financial Year, systems requirements were signed off, and stakeholders engaged.

### **Regional Electronic Cargo Tracking System (RECTS)**

The RECTS was launched in March 2017 with the aim of boosting security thus curbing diversion of transit cargo along the Northern Corridor among other malpractices. The concept was anchored on the 2014 Northern Corridor directive to Kenya, Rwanda and Uganda to embrace electronic monitoring of cargo across the region. Besides securing the cargo, RECTS also saves on time and cost of doing business since a lot of time was wasted at border points to disarm and arm the seals. However, with this system, once the seal is armed at one point, it will only be disarmed upon reaching the final destination. RECTS and ICMS are set to be integrated to ensure high efficiency in cargo clearance as well as profiling of importers.

### **KEY ACHIEVEMENTS IN THE FINANCIAL YEAR**

Financial Year 2016/17 has been an eventful year for the Kenya Revenue Authority as it was the second and middle year of implementation of our 6<sup>th</sup> Corporate Plan. We reviewed our realization of the medium term aspirations during the second quarter of the Financial Year- quarter ending December, 2016 and the outlook is promising. While much effort in FY 2015/16 went to laying foundations, tempo for realization of these aspirations was set in FY 2016/17. Key highlights of FY 2016/17 include:

#### **Taxpayers Month**

KRA has made it a tradition to organize annual taxpayer's month with a range of activities that culminate into the annual tax summit and recognition of distinguished taxpayers. The summit run under the theme "***Kenyan solution to Kenya's challenges: Taxation as a catalyst for development***", based on the need to tap into the skills and knowledge of Kenya's innovative youthful population for solutions that can create a favorable tax environment for the country's booming economy. Other key activities included 'Good Morning Coffee' where staff served coffee to members of the public along major roads and roundabouts while creating awareness on tax matters and showcasing KRA as approachable and friendly. Various publicity activities were undertaken including live TV interviews, Radio talk shows and road shows (caravans) to educate and assist taxpayers.

## **ISO 9001:2015 Certification**

During the Financial Year, the Authority was re-certified to ISO 9001:2015 to underscore its commitment to performance within universally acceptable standards. Through this certification, the Authority demonstrated its commitment and ability to:

- consistently provide products and services that meet customer and applicable statutory and regulatory requirements, and
- enhance customer satisfaction through effective application and improvement of Quality Management System, and the assurance of conformity to customer and applicable statutory and regulatory requirements.

## **Culture Change and ATAF Award**

The Authority continued implementation of a Culture Change Programme which is aimed at supporting the ongoing modernization efforts through development of new cultures (new attitudes and behaviors) by focusing on the 'People' aspect of change as well as strengthening the 'Environmental Issues' affecting staff. In addition, the Authority continued the KUWA-TECH campaign to ensure that all members of staff live the Core Values-Trustworthy, Ethical, Competent and Helpful. This is in line with the key guiding thrusts for the 6<sup>th</sup> Corporate Plan. The thrusts are: Improving service accessibility, leveraging technology to enhance service delivery and compliance and reforming staff attitude to shift focus from enforcement to facilitation.

The Authority won the prestigious **Innovation Award by the African Tax Administration Forum (ATAF)** that recognizes member administrations for remarkable implementation of creative and innovative programs which can be used by other states in benchmarking. KRA presented '**Hidden Treasure Hunt**' innovation concept that is aimed at achieving cost effectiveness in the working environment where the Authority uses a lean technique for eliminating wasteful activities from work processes thereby increasing time efficiencies, reducing duplication, improving and simplifying the service process for both the staff and taxpayers

## **Corporate Social Responsibility**

Corporate Social Responsibility (CSR) is a prerequisite for good corporate leadership and governance and as such is deeply rooted within the Authorities core values. During the Financial Year, the Authority developed a Corporate Social Responsibility (CSR) Policy to guide all CSR activities. CSR activities, henceforth, are anchored on 4 pillars: Environment, Sports Marketing, Health and Education. A total of 1,266 KRA members of staff participated in 16 CSR activities, that is: Construction of five (5) classrooms, supported the Faraja Cancer initiative, participated in two (2) Golf tournament, Madoka Marathon, Football tournament, two (2) tree planting events and gave out four (4) donations.

## Memorandum of Understanding (MoUs)

The Authority continues to partner with key institutions to share knowledge in order to enhance service delivery. During the financial year the Authority signed MOUs with the following institutions: **International Business Machines (IBM)** to provide a solution that employs statistical and machine learning techniques to detect fraud in the process of declaration, processing, payment and release of customs shipments; **Innovation for Poverty Action (IPA)** to assess different interventions to raise tax revenues, focusing on VAT for small firms, rental income taxation, and taxation of informal firms using randomized controlled trials; collaboration with **Microsoft** on the use of advanced analytical techniques aimed at increasing the taxpayers' segments thus optimising the tax base; and **the University of Nairobi (UoN)** focusing on Joint scientific research in tax laws, tax compliance, tax analysis and short-term trainings.

## HUMAN RESOURCES REVIEW

Staff Compliment as at 30.06.2017			
	Department	Count	Percentage (%)
1	Corporate Support Services	1,134	22.84%
2	Customs and Border Control	1,606	32.35%
3	Domestic Taxes Department	1,598	32.19%
4	Headquarters		
	Commissioner General's Office	12	0.24%
	Transformation Leadership Office	9	0.18%
5	Internal Audit	37	0.75%
6	Investigation and Enforcement	208	4.19%
7	Intelligence and Strategic Operations	17	0.34%
8	Kenya School of Revenue Administration	53	1.07%
9	Legal Services and Board Coordination	34	0.68%
10	Marketing and Communication	77	1.55%
11	National Treasury	4	0.08%
12	Strategy, Innovation and Risk Management	176	3.54%
	<b>Total</b>	<b>4,965</b>	<b>100.00%</b>

### Senior Staff Changes

1. Mr. James Mburu Githii was appointed Commissioner, Intelligence & Strategic Operations Department with effect from 3<sup>rd</sup> April, 2017.
2. Mr. David Yego was appointed Commissioner, Investigations & Enforcement Department with effect from 22<sup>nd</sup> March, 2017.

### Staff Motivational and Welfare Programmes

In the Financial Year 2016/17, the Authority addressed staff motivation by implementing various welfare activities such as the annual Staff Team building events, staff recognition awards, health promotion activities such as health talks, health hikes, first Aid training Emergency evacuations for staff involved in accidents and terrorism attack, HIV/AIDs and Alcohol and Drugs Abuse Prevention Programs. Other motivational benefits include Mortgage as well as Car and laptops loans disbursed to staff.

### Competency Development

- The Authority facilitated delivery of **297 Training courses** involving 4390 members of staff under the Annual Training Programme, covering revenue, management and support related courses during the financial year.

### Automation of Human Resources Management Systems

The following HR modules were under implementation during the FY 2016/17.

- Organization Management
- Personnel Administration
- Time Management
- Payroll
- Performance Management
- E-Recruitment
- Medical Management

### **FUTURE OUTLOOK**

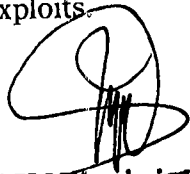
The Treasury revenue target for FY 2017/18 is **Ksh. 1,614,800 Million** out of which, **Ksh. 1,528,156 Million** (94.6%) is exchequer revenues and the balance of **Ksh. 86,644 Million** (3.4%) represents agency revenues. The revenue targets for the financial year 2017/18 took into consideration proposed amendments and proposals to the Revenue Acts. The government also seeks to strengthen tax administration procedures so as to minimize revenue leakages and leverage on technology.

During FY 2017/18, Kenya's real GDP is projected to expand by **6.2%** up from **6.0%** projected in FY 2016/17. This high growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector, growth of exports in the sub region and the ongoing structural reforms in the private sector that are aimed at improving competitiveness and promoting overall productivity. Inflation and Foreign exchange rates are expected to remain stable as a result of the Central Bank of Kenya monetary policy. The lending interest rates have also reduced following the capping of interest rates at 4% above the Central Bank Rate.

FY 2017/18 marks the end-term for the implementation of the 6<sup>th</sup> Corporate Plan and KRA's Vision 2018. To this end, the Authority is committed to delivering on its medium-term aspirations through innovative approaches, inclusive engagements, leveraging on technologies and keeping up with the best practices. We will continue our transformation journey which seeks to re-orient how we conduct business through taxpayer facilitation to build trust, customer focus, and pro-active measures to expand the tax base and enhance compliance.

## **CONCLUSION**

In conclusion, I would like to thank our Board of Directors, the KRA management and all staff for their hard work which has enabled the Authority to effectively implement its mandate as the principal revenue collector for the Government of Kenya. Your dedication and commitment led to an impressive revenue growth of 13.8% over FY 2015/16. I also thank the National Treasury, for according us strong support. Lastly, I extend our gratitude to our taxpayers and all our stakeholders, for their patriotism and unwavering support, without which we would not have achieved our strategic goals. I am confident that together and guided by our common vision, KRA is headed for greater exploits.



**J.K. Njiraini, MBS**

**COMMISSIONER GENERAL**

## **CORPORATE GOVERNANCE STATEMENT**

Corporate governance is the structure and process used to direct and manage the business affairs of the Authority in order to enhance prosperity, corporate performance and accounting. The Board of Directors is the supreme forum for formulating and interpreting policy and charting out the road map for goal attainment including plans of action.

The Board of Directors is responsible for the governance of the KRA and is accountable to the Cabinet Secretary, the National Treasury to ensure compliance with the KRA Act, best practice, and business ethics. The Directors attach great importance to the need to conduct the business and operations of the Authority with integrity, professionalism and in accordance with generally accepted international corporate governance practice.

The Board's responsibilities are broadly set out in Section 6 (6) of the Kenya Revenue Act CAP 469 of the Laws of Kenya, and include:

- Review and approval of the policy of the Authority.
- Monitoring performance of the Authority in carrying out its functions and
- Discipline and control of all members of staff in the Authority appointed under the Act.

### **Board Meetings**

The Board meets on a monthly basis to review management performance including revenue collection, operational issues and future planning. The Directors are given appropriate and timely information to enable them maintain full and effective control over strategic, financial operational, revenue and compliance issues. All not-executive Directors on the Board are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgement. The Board held 12 meetings during the period under review.

### **Board Committees**

The Board had four (4) standing committees during the year, which met regularly under the terms of reference set out by the Board.

### **Staff Committee**

The Committee is responsible for monitoring and appraising the performance of Senior Management, reviewing of human resource policies, approval of remuneration policy for employees, and making recommendations on Senior Management appointments to the Board. The committee met quarterly and the members were:

- Hon. Rose Waruhiu
- Mr. Evans Kakai
- Mr. Abdi Bare Duale
- The Attorney General
- Commissioner General

### **Support Services Committee**

The Support Services Committee reviews the Authority's annual budget and is responsible for the financial policies of the Authority. The Committee is also responsible for the oversight of award of contracts by management and ensuring that the procurement policies as provided for under the Public Procurement and Disposal Act, 2015 are complied with. In addition, the committee reviews all the business automation strategies and procurements. The Committee met monthly and the members were:

- Mr. Evan Kakai
- Mr. Abdi Bare Duale
- Amb. Dr. Rasid Ali
- Cabinet Secretary – National Treasury
- Commissioner General

### **Audit Committee**

The Committee is responsible for reviewing audit reports, compliance with relevant laws, procedure and standards, quality of financial reporting and oversight on internal control among others. The Audit Committee assists the Board in discharging its supervisory and good corporate governance responsibilities. The Committee met quarterly and the members were:

- Ms. Constantine Kandie
- Hon. Rose Waruhiu
- Mr. Paul Icharia
- Commissioner General

### **Strategy, Policy and Research Committee**

The Committee is responsible for reviewing Revenue performance and the Authority's strategic implementation of the Corporate Plan and Reform Programme. It also serves as a forum to encourage continuous research and review of tax policy proposals; and regulatory framework or revenue collection. The committee met quarterly and members were:

- Mr. Paul Icharia
- Mr. Evan Kakai
- Mr. Abdi Bare Duale
- Hon. Rose Waruhiu
- Cabinet Secretary – National Treasury
- Commissioner General

### **Board of Trustees**

The Authority also has a Staff Pension Scheme which is supervised, managed and administered by a Board of Trustees. The Authority as sponsor of the scheme is represented by the following Board Members:

- Mr. Paul Icharia
- Mr. Evan Kakai
- Ms. Constantine Kandie
- Commissioner General

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June, 2017 which show the state of Kenya Revenue Authority's affairs.

### **Principal activities**

The principal activities of the Authority continue to be assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the relevant Acts.

### **Results**

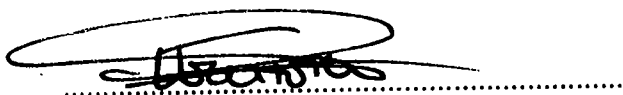
The results of the Authority for the year ended June, 2017 are set out on pages 29 to 51.

### **Directors**

The Members of the Board who served during the year are shown on page 4 to 8.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Authority in accordance with the Public Finance Management (PFM) Act, 2012.



**By Order of the Board**

**Board Secretary**

Date: 19/09/2017 2017

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenya Revenue Authority Act require the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the entity as at the end of the financial year and of the operating results of the entity for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity. They are also responsible for safeguarding the assets of the entity.

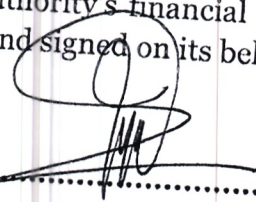
The Directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Public Sector Accounting Standards and the requirements of the Kenya Revenue Authority Act, and for such internal controls as directors determine are necessary to enable the preparation of Financial Statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the annual Financial Statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and in the manner required by the Kenya Revenue Authority Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the entity and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

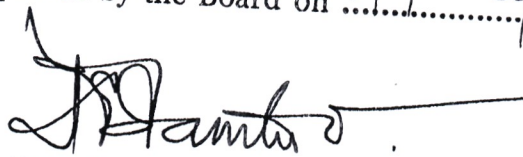
Nothing has come to the attention of the Directors to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Authority's financial statements were approved by the Board on 19th September 2017 and signed on its behalf by:

  
.....

**J. K. NJIRAINI, MBS  
COMMISSIONER GENERAL**

  
.....

**DR. EDWARD SAMBILI, CBS  
CHAIRMAN**

# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Qualified Opinion

I have audited the accompanying financial statements of Kenya Revenue Authority set out on pages 29 to 51, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amount for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Revenue Authority as at June 30, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Revenue Authority Act, Cap 469 Laws of Kenya.

In addition, as required by Article 229(6) of the constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

##### Basis for Qualified Opinion

###### 1.0 Property Plant and Equipment

The statement of financial position reflect property plant and equipment values of Kshs.30,478,727,000 as confirmed in Note 8 to the financial statements. Included in this figure is Kshs.24,540,066,000 in respect of revalued land and building. The revaluation was done in June 2017 by the Authority internal professionals using the market comparison approach. A review of the revaluation of property, plant and equipment report revealed the following anomalies:

- The minutes of the Board meeting approving the revaluation of the assets has not been presented for audit verification.

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*Report of the Auditor-General on the Financial Statements of Kenya Revenue Authority for the year ended 30 June 2017*

- The effective date of the revaluation has not been indicated in the revaluation documents
- The revaluation report reflected values of Land and Building closing balance of Kshs.24,106,581,000 while the financial statement reflects values of Kshs.24,540,066,000. The difference of Kshs.433,385,000 between the two set of figures has not been explained.

## 2.0 Work in Progress

Note 8 to the financial statement reflects Kshs.3,723,041,000 as Work in Progress as 30 June 2017. However, the balance of Kshs.3,723,041,000 does not include Kshs.1,639,138,000 of One Stop Border Post (OSBP) works that were in progress, completed and were included in the final land and building revaluation report as indicated in the table below:

Station	Description	Amount (Kshs)
Busia OSBP	Office Block	41,158,083
Malaba OSBP	Office Block	90,532,134
Isebania OSBP	Office Block	206,015,201
Taveta OSBP	Office Block	25,662,776
Namanga OSBP	Office Block	670,000,000
Moyale OSBP	Office Block	605,778,891
<b>Total</b>		<b>1,639,138,085</b>

In addition during the financial year 2016/2017 Kenya Revenue Authority spent a total sum of Kshs.777,139,000 on various projects. However, the Authority has failed to present for audit verification payment vouchers to support the expenditure of Kshs.777,139,000. Therefore, the work in progress of Kshs.3,723,041,000 cannot be confirmed correct.

## 3.0 Cash and Bank Balances

The cash and bank balances reflected in the statement of financial position of Kshs.6,524,721,000 is not in agreement with the cash and bank balances analyzed from the authority records of Kshs.6,603,424,000 as indicated below: -

	Amount in Financial Statements	Verified Amount	Variance
Cash at hand	782,617	288,476	494,142
Cash at bank	1,636,379,641	1,730,651,388	(94,271,746)
Fixed Deposits	1,450,225,968	1,435,151,271	15,074,696
Treasury Bills	3,437,333,750	3,437,333,750	-
<b>Total</b>	<b>6,524,721,000</b>	<b>6,603,424,000</b>	<b>(78,702,000)</b>

The difference of Kshs.78,702,000 has not been explained by the authority management. Further, the Authority did not disclose in its financial statements for 2015/2016 two bank accounts held at Kenya Commercial Bank- Wajir, account no. 1135877165 and National Bank-Dollar A/C-KESRA- Nairobi account No. 0202015000900 with balances of Kshs.50,345 and USD 4,195.50 respectively. The non-disclosure of the two bank accounts has not been explained nor were their proceeds part of the closing cash and bank balances.

#### 4.0 Debtors

##### 4.1 Other Agency Debtors

The statement of the financial position and as confirmed in Note 10 to the financial statements reflect debtors and receivables of Kshs.553,968,000 which include other agency debtors of Kshs.271,228,000. Included in total accrued income shown in the ledger is Kshs.30,324,284 relating to other income. The balance reflected in the financial statement as other agency debtors of Kshs.271,228,000 is overstated by Kshs.30,324,284 as tabulated below.

Date	Description	Journal Voucher Number	Amount (Kshs)
18/10/2016	Document Processing Fees	5259	6,032,782
	Sale of Tamper proof seals	5259	2,555,948
	Miscellaneous income(Customs)	5259	2,612,312
	Public Overtime	5259	1,000,891
	Miscellaneous Income ( Domestic)	5259	2,585,992
24/01/2017	Document Processing Fees	11142	6,510,994
	Sale of Tamper proof seals		2,379,379
	Miscellaneous income(Customs)		562,898
	Public Overtime		629,102
	Miscellaneous Income (Domestic)		1,888,500
21/4/2017	Document Processing Fees	17732	2,007,004
	Sale of Tamper proof seals		789,651
	Miscellaneous income(Customs)		508,033
	Public Overtime		260,798
<b>Total</b>			<b>30,324,284</b>

##### 4.2 Long Outstanding Staff Debtors

During the year 2015/2016 the Authority had an Outstanding Staff debtor's balance of Kshs 81,245,000 which included staff travel imp-rest amounting to Kshs.50,005,708. The closing balance of Kshs. 50,005,708 was recorded in Company A Kshs.44,517,778 and Company B Kshs. 5,487,930 respectively. A review of debtors in 2016/2017 financial year reveals that the long outstanding staff travel imp-rest debtors for company Amounting to

Kshs.2,248,829 had been excluded from the staff debtors' balances of Kshs 122,923,000 in the financial statements as confirmed by Note 10 to the financial statement and as listed below

**Unverified Debtors and not in 2016/2017 Financial Year Schedule of**

**Travel Imp-rest Debtors**

<b>Date</b>	<b>P/Number</b>	<b>Name</b>	<b>Amount</b>
6/29/2016	20742	FRANCIS KAMAU	10,400.00
7/30/2015	103	HADI ABDULLAHI	31,200.00
5/23/2016	15635	STEPHEN WAFULA	15,750.00
12/8/2015	7918	CHARLES E ONDUSO	105,320.00
6/3/2016	18782	GEORGE MUNENE	24,600.00
5/20/2016	17086	LAVEEEN MUTIRA	5,000.00
6/19/2015	16127	JAMES MURAGE	100,000.00
12/31/2011	70006	PCV 303 C. KIPROTICH	6,830.00
6/9/2016	17398	JAMES KIRIMI	44,800.00
6/16/2016	17784	EVALINE ROTICH	31,200.00
6/29/2016	19126	KARIUKI NJAMWITHA	100,000.00
8/19/2015	2272	MERCY M MBITHI	310,752.00
6/17/2016	19047	LATIFA OMAR	41,234.05
9/9/2015	4190	JOHN KAMAU KAMAU	317,859.75
2/9/2016	DIFF	ROUNDING OFF	(61.60)
4/11/2016	14587	SIMON ONYANGO	31,490.00
10/9/2002	CHQ.1743	CHQ.1743-M.H.MASOUD	31,500.00
2/5/2016	10201	ISAAC KARANGI	33,600.00
4/28/2016	15188	ANGELINA S. MBANGULA	33,800.00
3/1/2016	10374	KEVIN GUSERWA	40,980.00

5/16/2016	15474	KENNETH MBURU	42,000.00
6/13/2016	17612	ANN KAMANDA	42,000.00
6/29/2016	19097	NICHOLAS N MAYENZE	44,800.00
9/18/2015	2787	JOSEPH TONUJ	46,800.00
3/16/2016	12121	JANUARY WAMBUA	50,400.00
5/16/2016	15474	CAROL B N MITAU	67,200.00
5/16/2016	15474	ESSIE GIKUHI	70,000.00
7/5/2015	13558	SAMUEL KARIUKI	87,100.00
6/6/2016	17004	WANGUI MWANIKI	100,800.00
5/26/2016	16185	BENSON OLANDO	106,200.00
9/19/2011	3453	SEP\$018EUGENE WALUVENGO	275,275.60
		<b>Total</b>	<b>2,248,829.80</b>

## 5.0 Income

### 5.1 Capital Grants

The statement of financial position and as confirmed by Note 18 to the financial statement indicates capital grant by the National Treasury and other donors of Kshs 18,249,137,000. The National Treasury and other Donors paid Kshs.1,814,647,000 directly to suppliers for goods, works and services towards projects undertaken by the Authority. The amounts have not been disclosed in the financial statement. The non-recording and non-amortization of the benefits accruing from donated assets and services may lead to understated assets and revenues in the financial statements. Further the management has failed to provide a full list of all completed donor funded projects and their total costs. Disclosures in the notes to the accounts as required by paragraphs 106 and 107 of IPSAS 23 has not been adhered to. Therefore, the grants have been understated by Kshs.1,814,647,000.

### 5.2 Commission Income

The statement of financial performance and as confirmed in Note 4a to the financial statements reflect commission income of Kshs.1,785,534,000. Excluded in this is income on commission earned on collection of standards levy, concession fees, insurance deduction commission and merchant superintendent shipping levy (MSSL) on behalf of Kenya Bureau of Standards, Kenya Airports Authority, various insurance companies and Kenya Maritime Authority respectively. The total commission earned from the four organizations but omitted from the statement of financial performance is Kshs.11,718,748, Kshs.2,546,202, Kshs.5,062,051 and Kshs.26,552,285 respectively. Management has not explained the reasons for this omission.

### 5.3 Deferred Grant Income Amortization

The statement of financial performance reflect deferred grant income amortization of Kshs.82,085,000 whereas the amount computed during our audit verification for the year is Kshs. 48,133,417 resulting to a misstatement of the grant income by Kshs. 33,951,271 as shown below

	Acquisition year	Cost	Year	Depreciation	Accum. Dep	Balance
Motor Boat	2009/10	10,013,000	2015/16	1,251,625	8,761,375	1,251,625
		10,013,000	2016/17	1,251,625	10,013,000	0
X-Ray Scanner	2009/10	141,221,856	2015/16	17,652,732	123,569,124	17,652,732
		141,221,856	2016/17	17,652,732	141,221,856	0
WB-Power backup	2011/12	135,146,034	2016/17	16,893,254	101,359,526	33,786,509
WB Projects	2011/12	76,791,446	2016/17	9,598,931	49,194,520	27,596,926
WB Projects	2012/13	21,895,000	2016/17	2,736,875	13,684,375	8,210,625
<b>Total</b>				<b>48,133,417</b>		

### 5.4 Unrecognized Deferred Grant Income

In addition the Authority received assets as donations during the year and the previous years which were not disclosed during the year under review. Some of these assets not disclosed but identified are: - three (3) Scanners donated by China Government in 2015/2016, five motor vehicles (5) donated by JICA and an ERP system from JICA. The deferred income associated with the use of these assets has not been recognized in the financial statement under review. Therefore deferred income recorded in the statement of financial performance of Kshs 82,085,000 cannot be confirmed.

### 6.0 Variances between the Financial Statements, Ledger and Trial Balance Figures

Comparison of the financial statements figures in the 2016/2017 financial year against the ledger and trial balance figures of the agency for the same year revealed differences in some specific items as indicated below.

	Financial Statement balance	Ledger Balance	Trial Balance
Item Description	(Kshs)	(Kshs)	
Designated Fund	62,248,174	202,705,923	62,248,174.30
Consultancy	135,930,478	389,477,271	135,930,478.19

provide for the unjustified leave days whose value is currently Kshs.185,454,748 at the end of the year as indicated in Note 16 to the financial statement.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Revenue Authority 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 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. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

### **Other Matter**

#### **1.0 Top Management Payroll System**

In 2015/2016, the Authority contracted Deloitte and Touche to offer Payroll services through their Business Services Department Company, Livingstone Registrars Limited. This payroll service was to process salaries and remuneration for thirty two (32) top management staff. Livingstone Registrars limited role was to receive funds from the Authority make arrangements to transfer the net pay to the employees' bank accounts and make payments on behalf of the Authority for statutory and non-statutory payments. The contract sum for the services was an annual charge of Kshs.7,500 and a Routine Charges of Kshs.405,000. The contract was later changed to annual charge of Kshs.7,500 and a routine charge of Kshs.513,000 annually. In addition, every new employee was to be registered at cost of Kshs.1,500.

The contract was irregular on the basis of the following:-

- The services were single sourced.
- No notice inviting expression of interest had been provided by the Authority to confirm that due process was followed.
- No clear terms of reference had been provided by the Authority on which the consultant was to operate.
- The need assessment was not clearly identified so as the services sourced from Livingstone Registrars limited would address the gaps identified. The Authority currently has in place Memory Payroll system which maintains a General Payroll for 3,200 employees. The system is able to generate all payroll reports including

pay-slips, SFI files for Bank payments, Payroll control summaries, statutory and other deduction reports, P9 reports etc. Therefore, the Memory Payroll system is sufficiently serving the authority with no fail reports made and thus no gaps were noticed to be filled by another payroll system.

In 2016/2017 financial year, the Authority continued to use the Services of Livingston registrar even after procuring a new SAP system. So far Kshs.53,117,129 has been paid to date to Deloitte & Touche since the company was contracted in 2006. The payment of Kshs.53,117,129 has not been justified.

## **2.0 Failure of Commissioner General to proceed on Terminal Leave.**

The Commissioner General's new contract of service was renewed by the Board of Directors for a further three (3) year term beginning 4 March 2015 and was expected to end on 4 March 2018. The Board did not recommend the Commissioner General to proceed on terminal leave beginning 4 September 2017 pending his retirement in accordance with Government Circular Ref: OP/CAB.9/9A(c) dated 23 November 2010. A requirement which has not been acted upon to date.

## **3.0 Appointment of Commissioner of Intelligence and Strategic Operations**

On 17 November 2016, the Authority advertised the position of the Commissioner Investigations and Enforcement in the local dailies and the Authority's website with a closing date of 2 December 2016. Forty-nine (49) applications were received in response to the advertisement for the position. Five candidates were shortlisted for interview by the Staff Committee of the Board. The staff Committee carried out oral interviews on 7 March 2017 and recommended three candidates for interview by the Board of Directors.

The Board Minute No. 2761.5 indicates how the Board scored the candidates as indicated below: -

Rank	Candidate Prior Position	Candidate Name	Marks
Position 1	Chief Manager	David S.K.Yego	77
Position 2	Deputy Commissioner	James G. Mburu	75.3
Position 3		Miriam Gaituri	53.3

The Board resolved to appoint David S. K. Yego as the Commissioner Investigations and Enforcement with effect from 22 March 2017.

The Board further appointed one of the candidates of the position of Commissioner Investigations and enforcement to head a new role as commissioner and his deployment was to be deliberated by the Board on 28 March 2017.

According to Minute No. 2773, the Commissioner General made an elaborate presentation outlining the Risks facing the Authority and emphasized the need for the Authority to have a proactive stance towards intelligence management.

The Board in their Minute No. 2773:5.0 recommended that the existing Ethics and Intelligence position be restructured and its mandate expanded. The position be re-titled as Intelligence and Strategic Operations. The Board in their minute No. 2773:5.0 appointed a Commissioner, Intelligence and Strategic Operations.

The appointment of the Commissioner, Intelligence and Strategic Operation is in contravention of the authority established regulations as follows:-

- The Position of Commissioner-Intelligence and Strategic Operation was not in the Authority's establishment and the appointment preceded creation and reorganization of the Ethics and Intelligence department mandate.
- The position was not advertised both internally and externally and therefore disadvantaged other would be applicants for the position. The commissioner Intelligence and Strategic Operation has continued to enjoy the role of the Commissioner and has been paid Kshs.880,000 over and above his substantive position remuneration as Deputy Commissioner. The procedure for recruitment followed and the extra salary already paid on promotion is irregular.

#### **4.0 Appointment of a Human Resource Expert**

The Authority contracted Working Smart Limited for purposes of carrying out online Aptitude Test Services for Graduate trainees' recruitment and establishment of a Psychometric Center for the period 2008-2014

An audit of this contract has further revealed the following issues with the above consultant: -

- The Authority engaged Working Smart Limited a company whose registration and existence could not be established at the time of Audit.
- The Authority stopped engaging Working Smart Ltd as an entity and chose to engage one of the directors of Working Smart Ltd on the following assignment: -
  - 1) To set up a psychometric assessment centre (PAC) and implement a mentoring programme.
  - 2) The director was contracted as a technical manager as per the letter Ref No: KRA/Conf /5/1003/31 dated 01/09/2008 for 6 months at a rate of Kshs.225,000 per month a position which did not exist in the Authority establishment then.
  - 3) On 8 August 2008, technical manager operating as human resource consultant was contracted to perform: A Psychometric Test to 159 clerical staff and 51 office assistants, test analysis and present a report at a cost of Kshs.250,000 after out

competing other human resource recruiting firms, one of which quoted Kshs.482,560 for the service and another whose quote was not disclosed.

- 4) On 10 March 2009 the technical manager initial contract of 1 September 2008 was extended for three (3) Months vide letter Ref No: KRA/Conf/5/1003/31 at Kshs.225,000 per Month. As per letter dated 25 January 2010 Ref No: KRA/Conf/5/1003/31, a proposal was made to pay the technical manager for four months from 4 August 2009 to 4 November 2009 for a task without specific deliverables at the rate of Kshs.225,000 per month.
- 5) In a letter Ref: KRA/5/1003/90 dated 25 Jan 2010, the technical manager was reappointed for another 4 Months for the same contract at the rate of Kshs.225,000 still without specific deliverables.
- 6) The contract was extended by a letter Ref: KRA/5/1003/90 dated 09/06/2010 for another four months at the rate of Kshs.225, 000 still without specific deliverables.
- 7) The Authority engaged the technical manager to carry out a Psychometric Test for Senior Deputy Commissioners for Kshs.272, 000
- 8) On 27 January 2015, the Authority engaged the technical manager now as a Human Resource Expert to support the human resource division in delivering key assignments at Kshs.25,000 per day for six (6) months with effects from 1 February 2015
- 9) On 01 February 2015 vide letter Ref: KRA/5/1003/35, the Human Resource Expert was engaged to undertake a Psychometric testing at Kshs.15,000 per person the cost which would include administration of the Tests, report preparation and feedback.

Based on the above analysis the Human Resource Expert was and is still engaged as an individual and not as Working Smart Ltd and all payments advise are issued to the expert. Under the circumstances, the following conclusions are made –

- That the consultancy services were single sourced.
- No notice inviting expression of interest had been provided by the Authority.
- The Authority had been requested to provide the necessary supporting documents to the contract but to no avail with regard to both Financial and Procurement engagement.
- The Contract between Kenya Revenue Authority and the Human Resource Expert is irregular and has resulted to a payment of Kshs 6,735,570 in the financial year 2016/2017 alone.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) Accrual 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 Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority 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 7 of the Public Audit Act, 2015.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 7 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. 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.

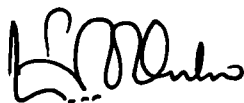
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 Authority 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**

**02 July 2018**

**KENYA REVENUE AUTHORITY**

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30 JUNE 2017**

		2016/2017	2015/2016
	NOTE	<u>Kshs'000</u>	<u>Kshs'000</u>
<b>REVENUE</b>			
<b>Revenue from non- exchange transactions</b>			
Deferred grant income amortisation	24	82,085	136,611
<b>Revenue from exchange transactions</b>			
Agency Income	3	15,458,009	15,358,009
Commissions Income	4(a)	1,785,534	1,199,599
Interest Income		544,428	834,982
Sale of Number Plates		-	-
Other Income	4(b)	440,512	314,901
<b>TOTAL REVENUE</b>		<u><b>18,310,568</b></u>	<u><b>17,844,102</b></u>
<b>EXPENDITURE</b>			
Administrative Expenses	5	18,061,734	15,727,699
Operating Expenses	6	1,070,839	980,537
Maintenance Expenses	7	395,009	430,052
<b>TOTAL EXPENDITURE</b>		<u><b>19,527,582</b></u>	<u><b>17,138,288</b></u>
<b>Other gains/(losses)</b>			
Gain / (Loss) on sale of assets		3,561	(36,270)
<b>(DEFICIT) / SURPLUS FOR THE YEAR</b>		<u><u><b>(1,213,453)</b></u></u>	<u><u><b>669,544</b></u></u>

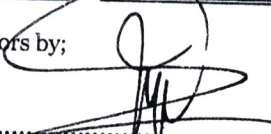
The notes set out hereto form an integral part of the Financial Statements

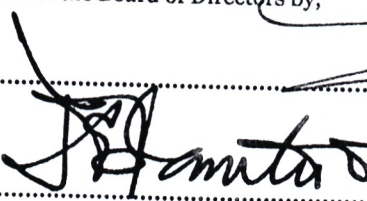
**KENYA REVENUE AUTHORITY**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2017**

		2016/2017	2015/2016
	NOTE	Kshs '000	Kshs '000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Bank Balances	13	6,524,721	10,052,218
Stocks	14	120,898	-
Debtors and Receivables	10	553,968	506,549
		<b>7,199,587</b>	<b>10,558,767</b>
<b>Non-Current Assets</b>			
Property, Plant & Equipment	8	30,478,727	15,631,210
Intangible Assets	9	12,437	7,850
Amount due from Treasury	11	3,444,499	2,131,332
Security Deposits	12	2,371,751	2,333,596
		<b>36,307,414</b>	<b>20,103,988</b>
<b>Total Assets</b>		<b>43,507,001</b>	<b>30,662,755</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Creditors and Payables	15	1,880,766	2,729,301
Leave Pay and Gratuity Provision	16	1,139,136	1,121,430
Deferred Income Amortisation	23		82,085
		<b>3,019,902</b>	<b>3,932,816</b>
<b>Non Current Liabilities</b>			
Contribution to Govt Pension Fund	17	24,290	25,616
Designated Fund	19	62,248	204,949
		<b>218,995</b>	<b>230,565</b>
<b>Total Liabilities</b>		<b>3,238,897</b>	<b>4,163,381</b>
<b>Net Assets</b>			
Capital grants by the Treasury	18	18,249,137	17,595,182
Accumulated Fund		3,591,158	4,804,598
Revaluation Reserve		18,427,808	4,099,593
		<b>40,268,103</b>	<b>26,499,373</b>
<b>Total net assets and liabilities</b>		<b>43,507,001</b>	<b>30,662,755</b>

The financial statements set out herein were signed on behalf of the Board of Directors by;

J. K. Njiraini, MBS  
 Commissioner General

  
 .....

  
 .....

Dr. Edward Sambili  
 Chairman

The notes set out hereto form an integral part of the Financial Statements

**KENYA REVENUE AUTHORITY**

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30 JUNE 2017**

		Capital Grants by Treasury	Accumulated Fund	Revaluation Reserve	Total Fund
	NOTE	Kshs'000	Kshs'000	Kshs'000	Kshs'000
<b>1 July 2015</b>		<b>13,360,235</b>	<b>4,135,067</b>	<b>4,196,138</b>	<b>21,691,441</b>
Contribution for the year		4,234,947	-	-	4,234,947
Charge for the year		-	-	(96,546)	(96,546)
Surplus for the year		-	669,544	-	669,544
<b>At 30 June 2016</b>		<b>17,595,183</b>	<b>4,804,611</b>	<b>4,099,592</b>	<b>26,499,386</b>
<b>1 July 2013 as previously reported</b>		-	-	-	-
<b>Prior year adjustment</b>		-	-	-	-
<b>1 July 2016</b>		<b>17,595,182</b>	<b>4,804,611</b>	<b>4,099,592</b>	<b>26,499,385</b>
Asset Revaluation	<b>8</b>	-	-	14,328,216	14,328,216
Contribution for the year	<b>18</b>	653,955	-	-	653,955
Surplus for the year		-	(1,213,453)	-	(1,213,453)
<b>At 30 June 2017</b>		<b>18,249,137</b>	<b>3,591,158</b>	<b>18,427,808</b>	<b>40,268,103</b>

The notes set out hereto form an integral part of the Financial Statements

**KENYA REVENUE AUTHORITY**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

		2016/2017	2015/2016
	NOTE	Kshs `000	Kshs `000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Deficit) / Surplus for the year		(1,213,453)	669,544
<b>Non- cash movements</b>			
Depreciation	8	532,232	1,072,230
Amortisation of Intangible Assets	9	8,181	63,679
Increase in Amortisation of Deferred Income	23	(82,085)	(136,611)
(Gain) / Loss on disposal of Assets		(3,561)	36,270
Increase in Security Deposits	12	(38,155)	(75,630)
Increase in Stocks	14	(51,011)	-
Increase in Debtors and receivables		(1,360,586)	(41,415)
Decrease in Creditors and payables		(832,066)	(206,004)
<b>Net cash flows from operating activities</b>		<b>(3,040,504)</b>	<b>1,382,063</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant & Equipment	8	(1,123,910)	(4,229,434)
Proceeds from sale of Property, Plant & Equipment		5,972	500
<b>Net cash flows from investing activities</b>		<b>(1,130,706)</b>	<b>(4,240,710)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in Contribution by the Treasury & Donors	17	653,955	4,234,947
Decrease in designated Funds	18	(10,242)	(25,516)
<b>Net cash flows from financing activities</b>		<b>643,713</b>	<b>4,209,431</b>
<b>NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,527,497)</b>	<b>1,350,784</b>
Cash and cash equivalents at 1 July		10,052,218	8,701,434
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	13	<b>6,524,721</b>	<b>10,052,218</b>

The notes set out hereto form an integral part of the Financial Statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS					
	ORIGINAL BUDGET KSHS '000	ADJUSTMENTS ADDITIONS KSHS '000	FINAL BUDGET 2016/2017 KSHS '000	ACTUAL COMPARABLE BASIS 2016/2017 KSHS '000	PERFORMANCE DIFFERENCE 2016/2017 KSHS '000
<b>INCOME :</b>			15,458,009	15,458,009	(0)
Agency fees			1,385,670	1,348,915	(36,755)
Road Maintenance levy			13,084	9,260	(3,824)
Sale of Tamper- Proof seals			41,006	44,256	3,250
Petroleum Development levy			23,797	12,701	(11,096)
NTSA Agency Commission			37,267	22,436	(14,831)
Document Processing Fees			517,658	544,428	26,770
Interest income			14,312	14,742	430
Transit Toll			22,264	30,961	8,697
Rent receivable			4,881	3,004	(1,877)
Public Overtime			119,439	137,938	18,499
Institutional houses - rent			88,554	97,081	8,527
Aviation Revenue			2,300	11,983	9,683
Sugar Levy			132,086	266,208	134,122
Air Passenger Service charge			209,746	160,793	(48,953)
KESRA Income			55,379	69,328	13,949
Miscellaneous Income			-	82,085	82,085
Deferred Income Amortisation			3,007,394	-	(3,007,394)
Roll Over Funding 2015/2016			21,132,846	18,314,128	(2,818,718)
<b>Total Operational Income</b>					
<b>STAFF COSTS:</b>			9,060,703	9,011,526	49,177
Basic pay			4,088,642	4,330,656	(242,014)
Other Allowances					
<b>Total Staff Salaries and Allowances</b>			<b>13,149,345</b>	<b>13,342,182</b>	<b>(192,837)</b>
<b>OPERATIONAL Expenses:</b>					
Staff Welfare Expenses			115,819	54,083	61,736
Medical Expenses			734,492	728,015	6,477
Training Expenses			364,355	300,766	63,589
Uniform & Laundry Expenses			98,840	33,567	65,273
Travel & Accommodation			862,125	982,586	(120,461)
Transfer Allowance			101,250	78,018	23,232
Utilities Expenses			393,348	354,637	38,711
Building Repairs & maintenance			131,991	200,255	(68,264)
Motor Running Expenses			278,032	156,102	121,930
Motor boat running Expenses			18,019	15,246	2,773
Scanner Expenses			260,000	179,508	80,492
Rents & Rates			413,323	327,569	85,754
Computer Expenses			759,040	580,146	178,894
Security Expenses			430,409	437,371	(6,962)
Insurance Expenses			78,018	69,178	8,840
Advertisements & Public Relations Expenses			327,040	275,224	51,816
Taxpayers Education			216,476	161,158	55,318
Consultancy			440,097	135,930	304,167
Secretarial Expenses			68,068	30,983	37,085
Directors Expenses			63,630	28,690	34,940
Bank Charges			101,767	75,357	26,410
Corp' strategy and review conf' exp			187,494	180,128	7,366
Office Running Expenses			290,156	273,303	16,853
Printing & Stationery Expenses			55,843	37,835	18,008
Consumable Stores Expenses			21,989	16,472	5,517
Materials & Supplies Expenses			4,190	-	4,190
Enforcement Expenses			223,220	14	223,206
Laboratory Expenses			28,100	10,865	17,235
Depreciation Expenses			-	540,413	(540,413)
<b>TOTAL Operational Expenses</b>			<b>7,067,131</b>	<b>6,263,418</b>	<b>803,713</b>
<b>TOTAL Recurrent Expenses</b>			<b>20,216,476</b>	<b>19,605,600</b>	<b>610,876</b>
<b>SURPLUS FOR THE PERIOD</b>			<b>916,370</b>	<b>(1,291,472)</b>	<b>(3,429,594)</b>
<b>Notes:</b>					
1. Included in other staff allowances is a provision of Kshs. 248 Million for outstanding leave days.					
2. Travel and Accommodation expenses include Kshs. 49.9 Million commitments which were debtors in the FY 2015/2016. Other travel and accommodation expenses were funded under ongoing programmes and projects.					
3. Building Repairs and Maintenance expenses include Kshs. 82.9 Million commitments from Financial Year 2015/2016. The commitments were funded in FY 2015/2016					
4. Security expenses include Kshs. 15.5 Million commitments from Financial Year 2015/2016. The commitments were funded in FY 2015/2016					
5. Depreciation is not a funded expense.					

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance to and comply with the International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (Ksh000). The accounting policies have been consistently applied in all the years presented.

The financial statements have been prepared on the accrual basis and historical cost, unless stated otherwise. The cash flow statement has been prepared using the indirect method.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Revenue Recognition

##### i) Agency Income

In accordance with the Kenya Revenue Authority Act CAP 469, income to the Authority is "such amounts not exceeding 2% as may be determined by the Minister each financial year" of the total estimated revenue to be collected by the Authority on behalf of the Exchequer. In addition, the Authority is entitled to a Bonus of 3% of the surplus revenue collected above the estimates and also earns income from other activities. Agency Income is recognised

##### ii) Revenue from exchange transactions

###### *Finance Revenue*

Finance revenue comprises interest receivable on fixed and security deposits. The revenue is recognised as it accrues in using the effective yield method. Interest income is derived from short term placements held in approved commercial banks.

###### *Rental income*

Rental income is recognised on a straight line basis over the lease term.

###### *Commission revenue*

Commission income comprises agency fees charged on collections made on behalf of other regulatory bodies.

###### *Other operating income*

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be reliably measured.

#### (b) Development funding and capital grants by the Treasury

Grants by the Treasury in form of assets or funding for acquisition of major assets or development projects are recognized as a financing reserve when received. No repayment of the financing is expected by the Authority.

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**(c) Property, Plant and Equipment**

All categories of property, plant and equipment are stated at cost or valuation less accumulated depreciation and annual impairment losses. Depreciation is calculated to write off the cost or valuation of each asset to its residual value where applicable, over the expected useful life of the asset in equal instalments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated useful life is as follows: -

Plant & Machinery	8 years
Equipment/Furniture/Fittings	8 years
Boats	8 years
Motor Vehicles	5 years (with a 10% residual value)
Computers	3 years
Computer Software	3 Years
Buildings	40 years
Leasehold land	Over the remaining lease period

Gains or losses on property, plant and equipment are determined by reference to their carrying value and are taken into account in determining the surplus / (deficit) for the year.

**(d) Intangible Assets**

Intangible assets consist of various computer software systems purchased for use by the Authority. The Authority recognises Intangible Assets acquired separately at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over their useful lives as estimated by management from time to time.

**(e) Cash and Cash equivalents**

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits held with banks.

**(f) Translation of foreign currencies**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rate ruling on that date. The resulting foreign exchange gains and losses are recognized on a net basis, differences are dealt with in the income and expenditure statement in the financial year in which they arise.

**(g) Employee benefits costs**

*(i) Retirement benefit obligations*

The Authority operates an hybrid pension scheme with a defined contribution plan for the permanent and pensionable employees. Payments to the scheme by the Authority are recognised as an expense when employees have rendered service entitling them to the contributions. The scheme is funded by contributions from both the entity and the employees. The entity and all employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

*ii) Other entitlements*

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding leave at the reporting date.

**(h) Inventories**

All consumable stocks held for use in operations are classified as current assets and expensed on consumption.

**(i) Receivables**

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a receivable is considered uncollectible it is written off. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance. Changes in the carrying amount of the allowance account are recognized in the Statement of Financial Performance.

**(j) Payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), otherwise they are presented as non-current liabilities. Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

**(k) Provisions**

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

**(l) Budget information**

The annual budget is prepared on Activity basis, that is, activities are identified and costs and expenditure associated to the same.

**(m) Nature and Purpose of Reserves**

The Authority creates and maintains reserves in terms of specific requirements. The Authority has created Capital Grants from the National Treasury reserves to represent the National Treasury's input by directly funding capital development for the Authority. The Revaluation reserves represent the surplus arising from the revaluation of the Authority's Property, Plant and Equipment.

**(n) Related Parties**

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa.

**(o) Critical Accounting Estimates and Judgements in applying the Authority's accounting policies**

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

**Critical accounting judgments in applying the Authority's policies**

*Impairment losses*

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

*Plant and equipment*

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

*Contingent liabilities*

The directors evaluate the status of any exposures on a regular basis to assess the probability of the entity incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

**REVENUE FROM NON EXCHANGE TRANSACTIONS**

	2016/2017 Kshs '000	2015/2016 Kshs '000
Amortisation of grants deferred Income	82,085	136,611
	<u>82,085</u>	<u>136,611</u>

Deferred incomes are the inflows of economic benefits or services received/receivable from assets donated to the Authority.

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**3. REVENUE FROM EXCHANGE TRANSACTIONS**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Agency Income	15,458,009	15,358,009
	<u><b>15,458,009</b></u>	<u><b>15,358,009</b></u>

The Agency Income is provided for in accordance with the provisions of the Kenya Revenue Authority Act CAP 469 Section 16.

**4. REVENUE FROM EXCHANGE TRANSACTIONS**

*a. Commissions Income*

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Road Maintenance Levy Commission	1,348,915	903,556
Aviation Revenue Commission	97,081	82,439
Air Passenger Service Charge Commission	266,208	131,403
Sugar Development Levy Commission	11,983	30,865
Insurance Deductions Commission	4,390	4,071
National Transport & Safety Authority Commission	12,701	7,930
PDL & IDF Income	44,256	39,334
	<u><b>1,785,534</b></u>	<u><b>1,199,599</b></u>

*b. Other Incomes*

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Sale of Tamperproof Seals	9,260	13,085
Public Overtime	3,004	5,239
Document Processing Fees	22,436	48,960
Staff Housing Rental Income	137,938	78,325
Property Rental Income	30,961	28,180
KESRA Incomes	160,293	70,923
Miscellaneous Income **	76,620	70,190
	<u><b>440,512</b></u>	<u><b>314,901</b></u>

\*\* Miscellaneous income consists of income from sale of tender documents, revenue stamps, staff identity cards, PSV Badges, training school activities, road transit toll collections and gains on foreign exchange.

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE  
2017**

**5. ADMINISTRATIVE COSTS**  
*a. Staff and Employee Costs*

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
Salaries & Allowances	13,093,242	11,048,533
Medical Expenses	728,015	547,553
Provision for Staff Leave	126,146	(85,446)
Provision for Staff Contract Gratuity	122,794	126,442
	<u><b>14,070,197</b></u>	<u><b>11,637,082</b></u>

*b. Other Administrative Costs*

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
Travelling & Accommodation	982,586	971,833
Utilities	354,637	357,642
Staff Welfare	54,083	43,746
Printing & Stationery	37,835	34,801
Consultancy	135,930	42,592
Computer Expenses	580,146	436,418
Training	300,766	253,014
Office Running Expenses	273,303	218,613
Insurances	69,178	75,309
Board Expenses	28,690	25,688
Entertainment	180,128	85,751
Consumable Stores	16,472	24,988
Security Expenses	437,371	384,315
Depreciation Charge	532,232	1,072,230
Amortisation of Intangible Assets	8,181	63,679
	<u><b>3,991,538</b></u>	<u><b>4,090,617</b></u>
<b>TOTAL ADMINISTRATIVE COSTS</b>	<u><b>18,061,734</b></u>	<u><b>15,727,699</b></u>

*b. Board Expenses*

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
Monthly Directors' fees	11,562	10,258
Sitting Allowances & Honararia	15,618	13,227
Accomodation & Travel Expenses	1,511	2,203
	<u><b>28,690</b></u>	<u><b>25,688</b></u>

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**6. OPERATING EXPENSES**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
Rent & Rates	327,569	276,845
Taxpayer Education	161,158	110,131
Motor Running Expenses	156,102	134,612
Advertising & Public Relations	275,224	314,705
Secretarial Expenses	30,983	36,267
Uniforms & laundry	33,567	956
Materials and Supplies	-	2,059
Bank Charges	75,357	101,364
Containers & Sealing Expenses	13,889	-
Laboratory Expenses	10,865	3,597
	<b><u>1,070,839</u></b>	<b><u>980,537</u></b>

**7. MAINTENANCE EXPENSES**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
Building Repair & Maintenance	200,255	225,733
Scanner Maintenance	179,508	195,806
Motor Boat Expenses	15,246	8,512
	<b><u>395,009</u></b>	<b><u>430,052</u></b>

7(a) Scanner expenses

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
Annual Maintenance Contract	177,574	159,444
Routine Maintenance Expenses	1,934	36,362
	<b><u>179,508</u></b>	<b><u>195,806</u></b>

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017

8. PROPERTY, PLANT AND EQUIPMENT.  
(i)

	LAND BUILDING KSHS'000'	PLANT & MACHINERY	MOTOR VEHICLE KSHS'000'	OFFICE EQUIPMENTS & FURNITURE KSHS'000'	COMPUTERS KSHS'000'	MOTOR BOATS KSHS'000'	WIP KSHS'000'	TOTAL KSHS'000'
<b>VALUATION</b>								
1 July 2016	10,455,850	3,445,474	876,306	1,284,564	2,291,226	604,467	4,701,176	23,659,069
Additions	-	-	28,248	164,230	154,293	-	777,139	1,123,900
Revaluation	12,328,942	-	-	(939,858)	(1,931,309)	-	(1,755,274)	9,457,771
Transfer of WIP	1,755,274	-	(24,116)	-	-	-	-	(24,116)
Disposal	-	-	-	-	-	-	-	-
<b>30 June 2017</b>	<b>24,540,066</b>	<b>3,445,474</b>	<b>880,438</b>	<b>508,936</b>	<b>514,210</b>	<b>604,467</b>	<b>3,723,041</b>	<b>34,216,632</b>
<b>DEPRECIATION</b>								
1 July 2016	1,547,834	2,341,689	555,164	888,265	2,142,589	552,313	-	8,027,200
Charge for the Yr	-	172,797	73,317	101,714	159,219	25,184	-	532,031
Dep. On Reval	-	-	-	-	-	-	-	-
Transfer of WIP	-	-	-	(979,320)	(2,273,320)	-	-	(4,800,400)
Revaluation	(1,547,834)	-	(21,704)	-	-	-	-	(21,704)
Disposal	-	-	-	-	-	-	-	-
<b>30 June 2017</b>	<b>-</b>	<b>2,514,486</b>	<b>606,776</b>	<b>10,659</b>	<b>28,488</b>	<b>577,498</b>	<b>-</b>	<b>3,737,907</b>
<b>NET BOOK VALUES:</b>								
<b>30 June 2017</b>	<b>24,540,066</b>	<b>930,989</b>	<b>273,662</b>	<b>498,277</b>	<b>485,722</b>	<b>26,970</b>	<b>3,723,041</b>	<b>30,478,702</b>
1 July 2015	10,497,150	2,204,375	602,322	1,135,070	2,164,527	604,467	2,269,337	19,477,200
Additions	-	1,241,099	280,304	149,494	126,698.57	-	2,431,839	4,229,400
Disposal	(41,300)	-	(6,320)	-	-	-	-	(47,620)
Transfer of WIP	-	-	-	-	-	-	-	-
<b>30 June 2016</b>	<b>10,455,850</b>	<b>3,445,474</b>	<b>876,306</b>	<b>1,284,564</b>	<b>2,291,226</b>	<b>604,467</b>	<b>4,701,176</b>	<b>23,659,069</b>
<b>DEPRECIATION</b>								
1 July 2015	1,205,496	1,993,796	487,182	789,233	1,915,455	478,766	-	6,869,800
Charge for the Yr	154,409	347,893	170,215	99,032	227,134	73,547	-	1,072,220
Dep. On Reval	96,545	-	-	-	-	-	-	96,545
Disposal	(5,163)	-	(5,688)	-	-	-	-	(10,851)
<b>30 June 2016</b>	<b>1,451,288</b>	<b>2,341,689</b>	<b>651,709</b>	<b>888,265</b>	<b>2,142,589</b>	<b>552,313</b>	<b>-</b>	<b>8,027,200</b>
<b>NET BOOK VALUES:</b>								
<b>30 June 2016</b>	<b>9,004,562</b>	<b>1,103,786</b>	<b>224,597</b>	<b>396,299</b>	<b>148,637</b>	<b>52,154</b>	<b>4,701,176</b>	<b>15,631,100</b>

(ii) Land & buildings

The Authority received several leasehold properties (land and buildings) from the government at inception in 1995. The Authority was not required to pay for the property hence did not incur any cost on the same. To recognize the property in its books, the Authority did a professional valuation of the land and building in 1996 and the values were adopted in the Authority's statement of financial position. This was done by recognizing land and buildings assets in the statement of Financial Position.

The Authority is yet to receive title documents for some 17 pieces of leasehold land received from Government. These properties are at various stages of registration with the Commissioner of Lands. Another title deed is in the name of East African Common Services Authority (EACSA) and the process transfer of the title is ongoing. The Authority also bought one parcel of land in Taveta in 2010 for construction of a border station and is in the process of obtaining the title.

(iii) Revaluation of Land & Buildings, Computers and Office Equipment

The Authority revalued land & buildings, Computers and Office Equipment classes of assets in June 2017 and has adopted the values in the statement of Financial Position. The valuation was done through internal professional valuers who adopted the market comparison approach method of valuation. This approach seeks to determine the current value of an asset by

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

reference to recent comparable transactions involving the sale of similar assets by ascertaining fair value from quoted prices in an active and liquid market. The revaluation surplus / deficits for individual items within these classes have been disclosed in the asset movement register above.

**(iv) Fully depreciated assets**

Included in the assets are fully depreciated assets comprising of Motor Vehicles whose original cost was Kshs. 483,453,549 with a residual value of Kshs.48,345,354, Motor Boats whose cost is Kshs. 390,844,885 and Plant and Machinery Kshs. 2,061,785,772 whose book value is nil. The total notional depreciation charge for the assets is Kshs. 757,965,667 (2015- Kshs. 757,965,667). Most of these assets are in use by the Authority.

**(v) Capital Work In Progress**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
Intergrated Tax Management System	1,493,172	1,409,296
Valuations Database system (Phase I & II)	33,939	24,365
SAP ERP System for Support Services	469,675	259,949
Renovation of JKIA Offices	10,294	8,386
Renovation of Border Stations	22,038	7,284
Datawarehouse and Business Intelligence	2,909	2,909
Diaster Recovery Management System	12,448	12,448
Video Conferencing	54,328	35,140
Simba Transformation Project	81,559	81,559
Biometric Security System (Times Towers)	122,504	122,504
Exciseable Goods Management System (EGMS)	899,787	899,787
Electronic Cargo Tracking System (Phase I)	80,084	77,612
Customs Revenue Accounting Module	4,664	4,664
One Stop Border Posts	-	1,755,274
Business Contunity Management System	48,283	-
eBoard System (BS)	4,789	-
New Fire Detection System	22,699	-
Customer Relationship Management System (CRM)	32,043	-
New Data Centre (CBC)	55,348	-
Corporate Business Centre Fit Out	266,581	-
CBM Rehabilitation of Border Stations	5,899	-
<b>TOTAL</b>	<b><u>3,723,041</u></b>	<b><u>4,701,176</u></b>

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**9. INTANGIBLE ASSETS**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>COST</b>		
1 July	345,713	333,938
Additions	12,768	11,776
30 June	<u>358,481</u>	<u>345,713</u>
<b>AMORTISATION</b>		
1 July	337,863	274,184
for the year	8,181	63,679
30 June	<u>346,044</u>	<u>337,863</u>
<b>NET BOOK VALUE</b>		
30 June	<u>12,437</u>	<u>7,850</u>

The intangible assets are made up of different computer software in use by the Authority. Included in the Intangible Assets are fully amortised assets whose original cost was Kshs. 169,267,025, (2016- Kshs. 169,267,025).

**10. DEBTORS AND RECEIVABLES**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>Trade Debtors</b>		
Other Agency debtors	271,228	214,478
Rent Receivable	40,102	23,084
Interest Receivable	44,915	42,692
	<u>356,245</u>	<u>280,254</u>
<b>Other Debtors</b>		
Staff Debtors	122,923	81,245
Prepayments	19,863	18,844
Other Debtors	54,937	126,207
	<u>197,724</u>	<u>226,296</u>
<b>Debtors Total</b>	<u>553,968</u>	<u>506,549</u>

Other agency debtors represent outstanding commission on collection of revenues on behalf of other organisations. Staff debtors mainly comprise of outstanding travel imprests, loans for acquisition of laptops and medical advances.

**11. AMOUNT DUE FROM TREASURY**

	<b>2016/2017</b>	<b>2015/2016</b>
	<b>Kshs '000</b>	<b>Kshs '000</b>
<b>1 July</b>		
Accrued in the year	2,131,332	2,123,899
Amount received in the year	15,458,008	15,365,441
30 June	<u>(14,144,840)</u>	<u>(15,358,009)</u>
	<u>3,444,499</u>	<u>2,131,332</u>

The amount represents outstanding agency commission, bonuses earned and payments made on behalf of the Treasury. An amount of Kshs. 1,313 Million was received in July 2017.

**12. SECURITY DEPOSITS**

	2016/2017 Kshs '000	2015/2016 Kshs '000
Savings & Loan (k) Ltd	1,579,228	1,552,005
Housing Finance	612,848	603,138
National Bank of Kenya Ltd	159,676	158,452
Higher Educations Loans Board (HELB)	20,000	20,000
	<u>2,371,751</u>	<u>2,333,596</u>

The deposits with Savings & Loans and Housing Finance are placed as security against staff mortgage advances, while the National bank deposits are placements against staff car loans. Deposits with HELB are placements against college fees issued to staff for further studies.

**13. CASH AND BANK BALANCES**

	2016/2017 Kshs '000	2015/2016 Kshs '000
Cash in Hand	782	467
Cash at Bank	1,636,379	275,770
Fixed Deposits	1,450,226	5,008,878
Government Treasury Bills	<u>3,437,334</u>	<u>4,767,104</u>
	<u>6,524,721</u>	<u>10,052,218</u>

The fixed deposits are made up of one month deposits in the commercial banks shown below. The maturity period for the deposits is between July and August 2017.

**Fixed Deposits**

	2016/2017 Kshs '000	2015/2016 Kshs '000
National Bank of Kenya	300,000	762,675
Cooperative Bank of Kenya	603,850	1,973,204
Kenya Commercial Bank	319,137	2,211,458
KESRA - National Bank of Kenya	<u>227,239</u>	<u>61,541</u>
	<u>1,450,226</u>	<u>5,008,878</u>

Treasury Bills are placements in Central Bank of Kenya with maturity period between July to September 2017. The placements are analysed as follows:-

**Government Treasury Bills**

	2016/2017 Kshs '000	2015/2016 Kshs '000
91 Day Treasury Bills	1,964,555	2,412,978
182 Day Treasury Bills	<u>1,472,779</u>	<u>2,354,126</u>
	<u>3,437,334</u>	<u>4,767,104</u>

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**14. STOCKS**

	<b>2016/2017</b> Kshs '000
Prior Period Adjustment	69,887
Additions	51,011
	<u><b>120,898</b></u>

The Authority adopted a policy of recognising consumable stocks held for operations as current assets. The stocks relating to Financial Year 2015/2016 amounted to Kshs. 69.9 Million.

**15. CREDITORS AND OTHER PAYABLES**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
Trade Creditors and Accounts Payable	1,603,725	1,870,158
Payroll Deduction and Staff Creditors	34,192	771,191
Taxes	242,849	87,952
	<u><b>1,880,766</b></u>	<u><b>2,729,301</b></u>

**16. LEAVE PAY & CONTRACT GRATUITY PROVISIONS**

	<b>2016/2017</b> Kshs' 000	<b>2015/2016</b> Kshs' 000
<b>Leave Pay Provision</b>		
01 July	828,142	913,588
Addition/ (Reduction)	126,146	(85,446)
Payment	-	-
30 June	<u>954,288</u>	<u>828,142</u>
<b>Gratuity Provision</b>		
01 July	293,287	166,846
Addition/ (Reduction)	122,794	126,442
Payment	(231,234)	-
30 June	<u>184,848</u>	<u>293,287</u>
<b>Total Leave &amp; Gratuity 30 June</b>	<u><b>1,139,136</b></u>	<u><b>1,121,430</b></u>

Leave pay provision is in respect of leave days earned by staff members but not taken as at 30.06.2017. Contract gratuity provision is in respect of gratuity accrued for staff on contract terms for the period to 30.06.2017.

**17. CONTRIBUTION TO GOVERNMENT PENSION FUND**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
1 July	25,616	26,435
Paid	<u>(1,326)</u>	<u>(819)</u>
30 June	<u><b>24,290</b></u>	<u><b>25,616</b></u>

This amount relates to contributions made to the Government pension during the nine-month secondment period from October 1995 to June 1996 for pensionable staff who were transferred from the Treasury to the Authority. The amount falls due for payment on retirement of an officer and is then transferred to the Treasury to facilitate payment of the pension.

**18. CAPITAL / DEVELOPMENT GRANTS BY THE NATIONAL TREASURY & DONORS**

**a. Capital / Development Grants by the National Treasury**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
<b>1 July</b>	<b>16,370,410</b>	<b>13,360,236</b>
<b>Contribution in the Year</b>		
Real Estate Project	-	55,000
ERP system for Support Services	220,000	100,000
Cordinated Border Management Project	200,000	353,240
KESRA Modernisation	-	66,660
New Data Centre	206,000	160,000
Customer Relationship Management System	-	130,000
TaxPayer Base Expansion Consultancy	-	250,000
Multi Agency Investigation	-	140,000
One Stop Border Stations	-	1,755,274
	<b>626,000</b>	<b>3,010,174</b>
30th June	<u><b>16,996,410</b></u>	<u><b>16,370,410</b></u>

The amounts represent assets and funds provided by the Treasury. The Treasury separately funds the major reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery.

**b. Capital / Development Grants by Donors**

	<b>2016/2017</b> Kshs '000	<b>2015/2016</b> Kshs '000
1 July	1,224,772	-
Vehicles donated by JICA	<u>27,955</u>	<u>1,224,772</u>
30th June	<u><b>1,252,727</b></u>	<u><b>1,224,772</b></u>

The amounts represent assets and funds provided by Donors both directly or through the National Treasury towards reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery. 5 vehicles were donated by JICA in the year.

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**19. DESIGNATED FUNDS**

**LEGAL CLAIM FUND**

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
1 July	<b>204,949</b>	<b>230,465</b>
Expenses	<u>(142,701)</u>	<u>(25,516)</u>
<b>30 June</b>	<u><b>62,248</b></u>	<u><b>204,949</b></u>

The legal claim funds are received from the Treasury for settling legal awards against the Authority in revenue related court cases.

**20. RETIREMENT BENEFIT COSTS**

During the year ended 30<sup>th</sup> June 2016, Kshs 1,198.0 Million (2015 Kshs. 1,025.4 Million) was paid as contributions to the staff pensions scheme. The scheme changed from a defined benefit plan to a Hybrid scheme with a defined benefit section and a defined contribution section with effect from 1 July 2005. Under the defined benefit scheme, the employer contribution on actuarial advice was maintained at 13.2% per member while a rate of 14% was adopted for the defined contribution scheme. Employees contribute 7.5% of their salaries for both sections of the scheme. The value placed on the existing final assets per the last valuation of 30<sup>th</sup> June 2016, was Kshs. 15.984 Billion (2015, Kshs. 15.215 Billion) while the present value of past service liabilities at that date was Kshs 14.817 Billion (2015 Kshs. 13.808 Billion).

**21. CAPITAL COMMITMENTS**

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
Approved and contracted	216,642	162,911
Approved and not contracted	<u>908,330</u>	<u>208,902</u>
	<u><b>1,124,972</b></u>	<u><b>371,814</b></u>

**22. RECURRENT COMMITMENTS**

	<b>2016/2017</b>	<b>2015/2016</b>
	Kshs '000	Kshs '000
30 June	<b>839,252</b>	<b>1,183,207</b>

The above represents items and activities approved and contracted but not yet delivered.

**23. EMPLOYEES**

The number of employees at the end of the year was;

	2016/2017	2015/2016
30 June	6,232	5,927

Included above are employees on Permanent and Pensionable, Contract and Temporary terms.

**24. DEFERRED GRANT INCOME RECONCILIATION**

These relate to grants from the World Bank under the Government of Kenya for projects to facilitate efficient and effective collection of taxes.

**i) Deferred grant income reconciliation**

	2016/2017 Kshs '000	2015/2016 Kshs '000
At 1 July as restated	82,085	218,695
Received in the year	-	-
Amortisation	(82,085)	(136,611)
<b>At 30 June</b>	<u><u>-</u></u>	<u><u>82,085</u></u>

**ii) Deferred grant income amortisation**

	2016/2017 Kshs '000	2015/2016 Kshs '000
Grant income to be amortised within one year	-	82,085

**25. RELATED PARTIES**

The Government of Kenya is the principal shareholder in Kenya Revenue Authority. During the year, the following transactions were carried out with related parties as analysed as follows:-

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

**(a) Transaction**

**i) Government of Kenya**

	<b>2016/2017</b> <b>Kshs '000</b>	<b>2015/2016</b> <b>Kshs '000</b>
Capital Grants	626,000	4,234,947
Agency Income	<u>15,458,009</u>	<u>15,358,009</u>
	<u><b>16,084,009</b></u>	<u><b>19,592,956</b></u>

**ii) Key management compensation**

	<b>2016/2017</b> <b>Kshs '000</b>	<b>2015/2016</b> <b>Kshs '000</b>
Salaries and other short - term employment benefits	<u>115,920</u>	<u>69,600</u>
	<u><b>115,920</b></u>	<u><b>69,600</b></u>

**iii) Directors' remuneration**

	<b>2016/2017</b> <b>Kshs '000</b>	<b>2015/2016</b> <b>Kshs '000</b>
Fees and other Emoluments (note 5)	<u>28,690</u>	<u>25,688</u>
	<u><b>28,690</b></u>	<u><b>25,688</b></u>

**(b) Balances**

	<b>2016/2017</b> <b>Kshs '000</b>	<b>2015/2016</b> <b>Kshs '000</b>
Due (to)/from related parties		
Amount due from Treasury (note 11)	3,444,499	2,131,332
Contribution to Government pension fund (note 16)	<u>(24,290)</u>	<u>(25,616)</u>
	<u><b>3,420,209</b></u>	<u><b>2,097,464</b></u>

**26. FINANCIAL RISK & CAPITAL MANAGEMENT**

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Authority's financial risk management objectives and policies are detailed below:

**(i) Credit risk**

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as agency and other receivables.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk is made up as follows:

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2017**

	Fully Performing Kshs 000	Past Due Kshs 000	Impaired Kshs 000
<b>At 30 June 2017</b>			
Receivables	553,968	-	-
Bank Balances	6,524,721	-	-
<b>At 30 June 2016</b>			
Receivables	506,549	-	-
Bank Balances	10,052,218	-	-

The credit risk associated with these receivables is minimal hence no allowance for uncollectible amounts has been recognised in the financial statements.

**(ii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

The Authority's Corporate Risk Department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies. There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

**(a) Foreign currency risk**

The Authority has transactional currency exposures. Such exposure arises from foreign denominated bank balances. The carrying amount of the Authority's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Ksh Shs '000	Others Shs '000	Total Shs '000
<b>At 30 June 2017</b>			
Financial assets (Bank balances)	32,913	-	32,913
Liabilities	-	-	-
Payables	-	-	-
Net foreign currency liability	32,913	-	32,913
	=====	=====	=====

**(b) Interest rate risk**

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from fixed and security deposits. This exposes the Authority to cash flow interest rate risk.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of financial performance if current floating interest rates increase/decrease by five percentage (5% as a decrease/increase of Kshs. 32,913,000 (2015: Kshs. 43,277,000).

**(iii) Price risk**

The Authority does not hold investments that would be subject to price risk; hence this risk not relevant.

**27. CONTINGENT LIABILITIES**

These include:-

- An amount of Kshs. 2 million included in utility deposits representing a bank guarantee to Kenya Power and Lighting for Times Tower power supply.
- An amount of Kshs 1,297,759 representing a guarantee to Telkom Kenya Limited for supply of telephone facilities in the Times Tower building.
- Pending legal cases and court awards against the Authority estimated at Kshs 4,454,051,492 at the financial year end. The Treasury is expected to meet the cost of settling the awards should they materialize.

**28. COMPARATIVES**

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.