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OFFICE OF THE AUDITOR-GENERAL

*Paper laid by LOM
Tuesday
17/4/2018*

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
RAILWAY DEVELOPMENT LEVY FUND -
HOLDING ACCOUNT**

**FOR THE YEAR
ENDED 30 JUNE 2017**

THE NATIONAL TREASURY



THE NATIONAL TREASURY

Financial Statements for the Railway Development Levy Fund Holding Account

For the Financial Year ended 30th June 2017

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

The National Treasury
Financial Statements for the Railway Development Levy Fund Holding Account
For the Financial Year ended 30th June 2017

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1. The National Treasury information management

1.1 Background Information

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

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

Vision

An institution of excellence in economic and public financial management.

Mission

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

Core Values

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

1.2 Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance Management Act 2012 and the Executive Order No.2/2013. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

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

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;
- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.

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

1.3 Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

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

1.4 Key Management

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

Office of the Principal Secretary

This office is responsible for the administration of the National Treasury for efficient delivery of public services that have been assigned to this Ministry. The Principal Secretary is also charged with the responsibility of rendering advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility of the National Treasury.

Organizational structure of the National Treasury

The National Treasury is organized into four (4) technical Directorates headed by Directors General and (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. The Directorates and Departments are as follows:

Directorate of Budget, Fiscal and Economic Affairs

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department;
- Inter-Governmental Fiscal Relations Department
- Public Procurement Department.

Directorate of Accounting Services and Quality Assurance

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Accounting Services;
- Internal Audit Services Department;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.

Directorate of Portfolio Management

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department.
- Public Private Partnership Unit

Directorate of Public Debt Management Office

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following three (3) Technical Departments each headed by a Director:

- Resource Mobilization (Front Office);
- Debt Policy, Strategy and Risk Management (Middle Office);
- Debt Recording and Settlement (Back Office).

Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury. The functions include:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,

The National Treasury
Financial Statements for the Railway Development Levy Fund Holding Account
For the Financial Year ended 30th June 2017

- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

1.5 Fiduciary Management

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

NO.	Designation	Name
1.	Principal Secretary	Dr. Kamau Thugge, CBS
2.	Principal Administrative Secretary	Mr. Mutua Kilaka, CBS, SS
3.	Director General, BFEA	Dr Geoffrey Mwau, EBS
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Ms. Esther Koimett, CBS
6.	Director General, PDMO	Mr. Wohoro Ndohho
7.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
8.	Director, Budget Department	Mr. Francis Anyona, OGW
9.	Director, Financial and Sectoral Affairs Department	Mr. Christopher Oisebe
10.	Ag Director, Public Procurement Department	Mr. Eric Korir
11.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
12.	Internal Auditor General	Mr. Alfayo Mogaka
13.	Ag Director, Government Accounting Services Department	Mr. Jona Wala
14.	Ag Director, National Sub County Treasuries	Mr. Tom Khakame
15.	Ag Director, Financial Management Information System	Mr. Jerome Ochieng
16.	Director, Public Private Partnership Unit	Eng. Stanley Kamau
17.	Director, National Assets and Liability Management	Mrs Beatrice Gathirwa
18.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
19.	Director, Pensions Department	Mr Shem Nyakutu
20.	Director, Resource Mobilization Department	Mr. Jackson Kinyanjui, OGW
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Ag Director, debt Recording and settlement Department	Mrs Felister Kivisi
23.	Director of Administration	Mr David Oleshege, OGW
24.	Head, Accounts Division	Mr. George Gichuru
25.	Chief Finance Officer	Mr. Kimathi Mugambi, HSC
26.	Head, SCM	Mr. Peter Momanyi
27.	Director, Human Resource Management and Development	Ms. Susan Mucheru
28.	Ag Director, Information Communication and Technology	Mr. George Kariuki
29.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu
30.	Head, Public Communications	Mr. Maina Kigaga
31.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
32.	Head, Government Clearing Agency	Mr. Felix Ateg

Fiduciary Oversight Arrangements

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

Internal Audit Unit

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

Audit Committee

The National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Other fiduciary oversight arrangements include the following committees with specific objectives;

Senior Management Committee

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions of top management are implemented in a timely manner.

Public Financial Management Sector Working Group

To facilitate the implementation of financial management reforms, the National Treasury has appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

Budget Implementation Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

Monitoring and Evaluation

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

The National Treasury Headquarters

P.O. Box 30007- 00100,
Treasury Building,
Harambee, Avenue
Nairobi Kenya

(f) The National Treasury Contacts

Telephone: (254)020-2252299
Email: info@treasury.go.ke
Website: www.treasury.go.ke

(g) The National Treasury Bankers

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

(h) Independent Auditors

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

(i) Principal Legal Adviser

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

2 Forward by the Cabinet Secretary

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy grew by 5.8 per cent in 2016 compared to 5.6 per cent in 2015. This was above the average 1.4 per cent growth rate registered for sub-Saharan Africa. The sectors that registered significant improved performance in economic activities were; accommodation and food services; information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on agriculture and electricity supply.

Key achievements during the period under review are;

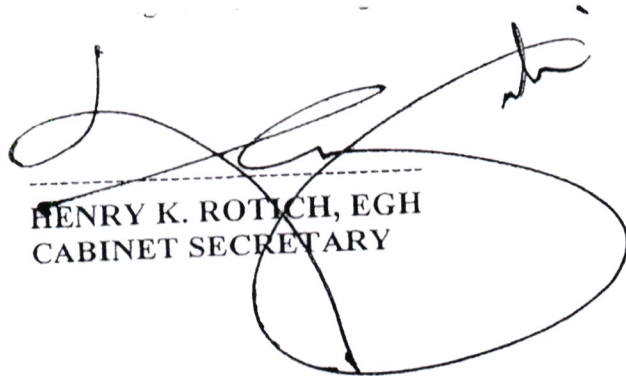
- The National Treasury launched the M-Akiba Mobile Platform for issuance of Government Bonds on 23rd March 2017. The special limited offer achieved its **Kshs.150 million** target within 13 days. With 102,632 registrations, this offer demonstrated the appetite and zeal of Kenyans to adopt and use technology to boost their well-being. M-Akiba will enhance a savings culture among Kenyans and promote financial inclusion even to the unbanked population.
- The National Treasury mobilized external resources amounting to **Kshs.292.8 billion** in 2016/17 which was above the fiscal target of **153.0 billion**. This positive variance is mainly attributed to capacitating the economy to mitigate against the drought related challenges that affected the country.
- The National Treasury was able to prepare the 2017/18 budget under a revised tight calendar that took into account the preparations of the 2017 General Elections. In addition, the National Treasury also prepared a Pre-Election Economic and Fiscal Report which was published as provided for in the Constitution.
- In its commitment to deepen the Financial Markets the Ministry finalized the Nairobi International Financial Centre Bill that was subsequently approved by Parliament.

Some of the challenges the National Treasury faced while implementing the 2016/17 budget include:-

1. Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
2. Inadequate funds to finance all the programmes and projects of the National Treasury.
3. Low absorption of Official Development Assistance (ODA).
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.
5. High turnover of staff especially in the core technical areas of the National Treasury.

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

1. Continue to maintain a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities.
2. Implement reforms in public financial management to enable the government mobilize adequate financial resources.
3. Strengthen capacity building in public financial management to MDAs and County Governments to ensure that the high expectations linked to devolution are met.
4. Enhance the Government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
5. Promote the Public Private Partnership initiatives to finance government capital projects.
6. Engage other developments partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
7. Implement the External Resources Policy for efficient management of external resources and increase absorption.
8. Fast track and implement the proposed new scheme of service for the National Treasury officers to retain staff.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY

3 Overview of the Railway Development Levy Fund Holding Account

3.1 Background of the Fund

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

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

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

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

3.2 Administration of the Fund

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

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

3.3 Financial reporting arrangement for the Holding Account of the Fund

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

This report therefore covers the operations of the Railway Development Levy Fund Holding Account for the financial year ended 30th June 2017.

3.4 Commentary on the financial statements of the Fund

The Holding Account received Kshs 18.94 billion during the financial year 2016/2017 compared to Kshs 17.06 billion received in the previous year. The funds were received from the Kenya Revenue Authority as the appointed collector of the revenue for the Fund.

During the year ended 30th June 2017, Kshs 23.30 billion was transferred from the Holding Account to the operations account of the Railway Development Levy Fund. This compares to Kshs 14.35 billion transferred during the previous financial year.

As at 30th June 2017, the Holding Account had a cumulative balance of Kshs 10.66 billion compared to the balance Kshs 15.02 billion as at 30th June 2016. The balances represented the funds held in the holding bank account at the Central Bank of Kenya.

4 Statement of Responsibility

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

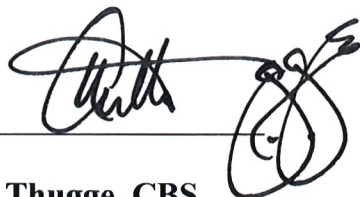
The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Railway Development Levy Fund Holding Account, which give a true and fair view of the state of affairs of Fund for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the status of the Fund by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer in charge of The National Treasury accepts responsibility for the Railway Development Levy Fund Holding Account, which has been prepared on the Cash Basis Method using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the financial statements of the Railway Development Levy Fund Holding Account give a true and fair view of the performance of the Fund during the financial year ended June 30, 2017. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Accounting Officer confirms that the Fund has complied fully with applicable Government Regulations. Further the Accounting Officer confirms that this report has been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Notes to the financial statements set out on pages 18 to 22 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 25th March 2018 by:

Signature: _____



Dr. Kamau Thugge, CBS
Principal Secretary,

The National Treasury

Signature: _____



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

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RAILWAY DEVELOPMENT LEVY FUND - HOLDING ACCOUNT FOR THE YEAR ENDED 30 JUNE 2017 - THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Railway Development Levy Fund - Holding Account set out on pages 14 to 22, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Railway Development Levy Fund - Holding Account as at 30 June, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

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

Basis for Opinion

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

*Report of the Auditor-General on the Financial Statements of Railway Development Levy Fund - Holding Account
for the year ended 30 June 2017 - The National Treasury*

Key Audit Matters

Key Audit Matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. I have determined that there are no Key Audit Matters to communicate in my report.

Other Matter

Budget as a Control Tool

During the financial statement review, it was noted that the funds budget is prepared and maintained by the State Department for Infrastructure, which is the implementing agency. The National Treasury does not maintain other key accounting records such as the ledger and trial balance from where the financial statements ought to be prepared. The financial statements are thus prepared from entries in the cashbook and the bank statements records. Therefore, the National treasury has no full control of the funds proceeds as the budget is not used as a control tool in implementing the funds operations programme. Further, the disbursements of funds is not supported by the budget provisions but are solely on approvals from the fund's Advisory Committee. This led to a budget absorption rate of 43% and 39% performance in revenue generation and revenue disbursement respectively.

Responsibilities 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 (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Railway Development Levy Fund - Holding Account's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Railway Development Levy Fund - Holding Account or to cease operations, or have no realistic alternative but to do so.

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

Those charged with governance are responsible for overseeing the Railway Development Levy Fund - Holding Account's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the 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 Railway Development Levy Fund - Holding Account'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 Railway Development Levy Fund - Holding Account's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the 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 Railway Development Levy Fund - Holding Account to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Railway Development Levy Fund - Holding Account 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

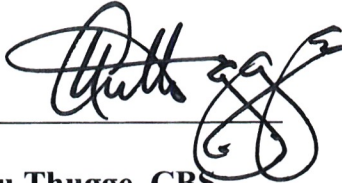
Nairobi

03 April 2018

6 Receipts and Payment Statements for the year ended 30th June 2017

	Notes	2017 Kshs	2016 Kshs
Receipts			
Receipts from the Kenya Revenue Authority	10.1	18,939,933,523.40	17,060,929,683
Total Receipts		18,939,933,523.40	17,060,928,683
Transfers to State Department of Transport	10.2	23,299,550,337.94	14,353,521,932
Total transfers		23,299,550,337.94	14,353,521,932
Deficit /Surplus		(4,359,616,814.54)	2,707,408,751

Notes to the financial statements set out on pages 18 to 22 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 12th March 2018 by:

Signature: 

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

The National Treasury

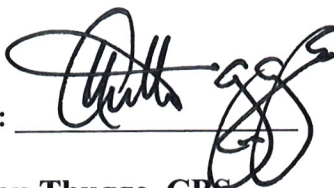
Signature: 

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

7 Statement of Assets and Liabilities as at 30th June 2017

	Note	2017 Kshs	2016 Kshs
Financial Assets			
Cash And Cash Equivalents			
Bank Balances	10.3	10,663,352,470.46	15,022,969,285.00
Total Cash and Cash Equivalents		10,663,352,470.46	15,022,969,285.00
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		10,663,352,470.46	15,022,969,285.00
Financial Liabilities			
Accounts Payables – Deposits And Retentions		-	-
Net Financial Assets		10,663,352,470.46	15,022,969,285.00
Represented By			
Fund Balance B/Fwd		15,022,969,285.00	12,315,562,534.00
Deficit/Surplus for the Year		(4,359,616,814.54)	2,707,408,751.00
Net Financial Position		10,663,352,470.46	15,022,970,285.00

Notes to the financial statements set out on pages 18 to 22 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 20th March 2018 by:

Signature: 

Dr. Kamau Thugge, CBS
Principal Secretary,

The National Treasury

Signature: 

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

8 Statement of Cash Flow for the year ended 30th June 2017


		2017	2016
		Kshs	Kshs
Cash from Operating Activities			
Receipts from The Kenya Revenue Authority	10.1	18,939,933,523.40	17,060,929,684.00
Payments			
Transfer to State Department of Transport	10.2	23,299,550,337.94	14,353,521,932.00
Net Cash Flow from Operating Activities		(4,359,616,814.54)	2,707,408,751.00
Cash flow from Investing Activities		-	-
Cash flow from Financing Activities		-	-
Net increase in Cash and Cash Equivalents		(4,359,616,814.54)	2,707,408,751.00
Cash and cash equivalents at the beginning of the year		15,022,969,285.00	12,315,562,534.00
Cash and Cash Equivalents at the end of the Year		10,663,352,470.46	15,022,969,285.00

Notes to the financial statements set out on pages 18 to 22 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on 12th March 2018 by:

Signature: 

Dr. Kamau Thugge, CBS
 Principal Secretary,

The National Treasury

Signature: 

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

9 Summary of Budget versus Actual Performance for the year ended 30th June 2017

The following statement summarizes the outturn against budget:

	Original Estimates	Adjustments	Revised Estimates	Total Actual 30 th June 2017	Difference	Dev.
	Kshs		Kshs	Kshs	Kshs	%
Opening balance	15,022,969,285.00	-	15,022,969,285.00	15,022,969,285.00	-	-
Receipts					-	-
Railway Development Levy Fund	21,146,030,715.00	(2,169,000,000.00)	18,977,030,715.00	18,939,933,523.40	37,097,191.6	0.20%
Total	36,169,000,000.00	(2,169,000,000.00)	34,000,000,000.00	33,962,902,808.40	15,060,066,476.60	
Transfers						
Transfer to State Department of Transport	36,169,000,000.00	(2,169,000,000.00)	34,000,000,000.00	23,299,550,337.94	15,200,449,662.06	44.71%
Total Transfers	36,169,000,000.00	(2,169,000,000.00)	34,000,000,000.00	23,299,550,337.94	15,200,449,662.06	44.71%

Commentary:

A total of Kshs 18.94 billion was received into the Railway Development Levy Fund Holding Account against a budget of Kshs 18.97 billion representing minimal budget deviation of 0.20 %.

A total of Kshs 23.30 billion was transferred to State Department of Transport for 2016/2017 financial year compared to Kshs 14.35 billion in the previous financial year. The 44.71% deviation was as a result of transfers that could be made based on the requests submitted by the State Department of Transport on approval by the Advisory Committee.

10 Notes to the Financial Statements

10.1 Significant Accounting Policies.

a) Basis of preparation

The financial statements of Railway Development Levy Fund Holding Account have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) cash based standard as prescribed by the Public Sector Accounting Standard Board (PSASB).

b) Reporting entity

This report relates to financial operations of the Railway Development Levy Fund Holding Account maintained at Central Bank of Kenya. The reporting entity is The National Treasury.

c) Revenues

The Fund shall consist of the proceeds of the Railway Development Levy charged under section 117A of the Customs and Excise Act, grants or donations made to the fund and any income generated from the proceeds of the Fund.

d) Expenditure and transfers

The expenditure of the Fund shall be on the basis of, and limited to, the annual work programmes and cost estimates which shall be submitted to the Advisory Committee for approval before the beginning of the financial year which they relate. All receipts, saving and accruals of the Fund and the balance of the Fund at the close of each financial year shall be retained for the purpose for which the fund is established.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, and short term deposits in money market instruments.

f) Presentation currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

10.2 Receipts from Kenya Revenue Authority

An amount of Kshs 18.94 billion was received during financial year 2016/2017 compared to Kshs 17.06 billion received during financial year 2015/2016. The following is the breakdown on a quarterly basis of the receipts into the Holding Account. The funds were received from the Kenya Revenue Authority.

Description	Period to	Period to
	30 th June 2017	30 th June 2016
	Kshs	Kshs
1 st Quarter	4,185,510,863.00	4,541,616,591
2 nd Quarter	4,602,695,225.00	4,299,722,680
3 rd Quarter	4,602,695,225.00	3,722,230,299
4 th Quarter	5,313,138,634.40	4,497,359,113
Total Receipts	18,939,933,523.40	17,060,928,683

10.3 Transfers to State Department of Transport

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

Date of transfer	Details	Amount Kshs
22 nd August 2016	AG.13/079 VOL 2 (9) DD	1,487,374,244.00
26 th September 2016	AG.13/079 VOL 2 (18) DD	2,365,550,396.00
26 th September 2016	AG.13/079 VOL 2 (19) DD	2,557,800,000.00
22 nd December 2016	AG.13/079 VOL 3 (2) DD	5,001,695,986.10
29 th December 2016	AG.13/079 VOL 3 (3) DD	6,799,794,567.00
06 th January 2017	AG.13/079 VOL 3 (4) DD	489,516,282.05
06 th February 2017	AG.13/079 VOL 3 (21) DD	1,000,000,000.00
01 st March 2017	AG.13/079 VOL 3 (28) DD	1,649,791,258.00
01 st March 2017	AG.13/079 VOL 3 (29) DD	124,783,436.79
01 st March 2017	AG.13/079 VOL 3 (30) DD	351,051,558.00
17 th March 2017	AG.13/079 VOL 4 (10) DD	240,691,234.00
17 th June 2017	AG.13/079 VOL 4 (22) DD	1,231,501,376.00
	Total Transfers	23,299,550,337.94

10.4 Bank balance

The bank balance as at 30th June 2017 amounted to Kshs 10.66 billion compared to Kshs 15.02 billion in the previous year.

Bank Name and Account	Denomination of Account	Balance as at 30 th June 2017	Balance as at 30 th June 2016
Central Bank of Kenya Acc no. 1000205067	Kshs	10,663,352,470.46	15,022,969,285.00
Total		10,663,352,470.46	15,022,969,285.00

11 Reconciliation of receipts between KRA and the National Treasury

Details	2016/2017	2015-2016
	Kshs.	Kshs.
Total collections as per The Kenya Revenue Authority report	18,902,516,338.00	17,273,369,562.38
Cash in transit as at the beginning of FY.	230,373,287.00	137,749,346.00
Mispostings to other accounts	-	(119,816,938.38)
Cash in transit at the close of FY.	(197,793,070.90)	(230,373,287.00)
Prior years transfers from commercial banks	4,836,936.30	-
Total receipts from The Kenya Revenue Authority (Note 10.2)	18,939,933,523.40	17,060,928,683.00

The Kenya Revenue Authority reported to have received a total of Kshs. 18,902,516,338.00 against one having been reported and received by the National Treasury of Kshs. 18,939,933,523.40 for Financial Year 2016/2017. This was due to timing differences as indicated in the reconciliation above.

12 Progress on follow up of Auditor's Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Paragraph I	The National Treasury did not prepare and submit for audit the financial statements for the Railway Development Levy Fund for the year ended 2014/2015	The Fund was still in Infancy stage with minimal activities. However, the financial statements for 2014/2015 reflected comparative receipts and payments relating to FY 2013/2014. Subsequently, the National Treasury prepared separate financial statements for 2013/2014 and forwarded to the Office of the Auditor General through a letter reference AG.13/79 Vol5/16 dated on 11 th August 2017.	Directorate of Accounting Services & Quality Assurance	Resubmitted	15 th February 2018
Paragraph II	Unexplained receipts variations between financial statements and Kenya Revenue Authority records.	The resultant difference was due to timing differences and in response; a reconciliation of the amounts reported by the two entities was done (Refer to note 11).	Directorate of Accounting Services & Quality Assurance	Resubmitted	15 th February 2018
Paragraph III	Unsupported transfers	The National Treasury followed laid down procedures in releasing the funds as per the	Directorate of Accounting Services & Quality Assurance	Resubmitted	15 th February 2018


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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		Custom and Excise Act (Railway Development Levy Fund) Regulations 2013. Minutes of the Railway Development Levy Fund Advisory Committee approving the transfers were also availed during the audit process.	Assurance		

Signature: 

Dr. Kamau Thugge, CBS
Principal Secretary,

The National Treasury

Signature: 

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



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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (<i>Name and designation</i>)	Status: (<i>Resolved / Not Resolved</i>)	Timeframe: (<i>Put a date when you expect the issue to be resolved</i>)
		Custom and Excise Act (Railway Development Levy Fund) Regulations 2013. Minutes of the Railway Development Levy Fund Advisory Committee approving the transfers were also availed during the audit process.	Assurance		

Signature: _____

Dr. Kamau Thug
Principal Secretary

The National Treasury, CBS
Nairobi

Signature: _____

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