

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY REPORT PAPERS LAID	
DATE: 27 JUN 2019	DAY: Thursday
TABLED BY: OF Hon. Washachi Juma	
CLERK AT THE TABLE: Majanby Peter Winyah	
	Lemmas Mosey

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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE NATIONAL TREASURY**

**FOR THE YEAR ENDED
30 JUNE 2018**





THE NATIONAL TREASURY

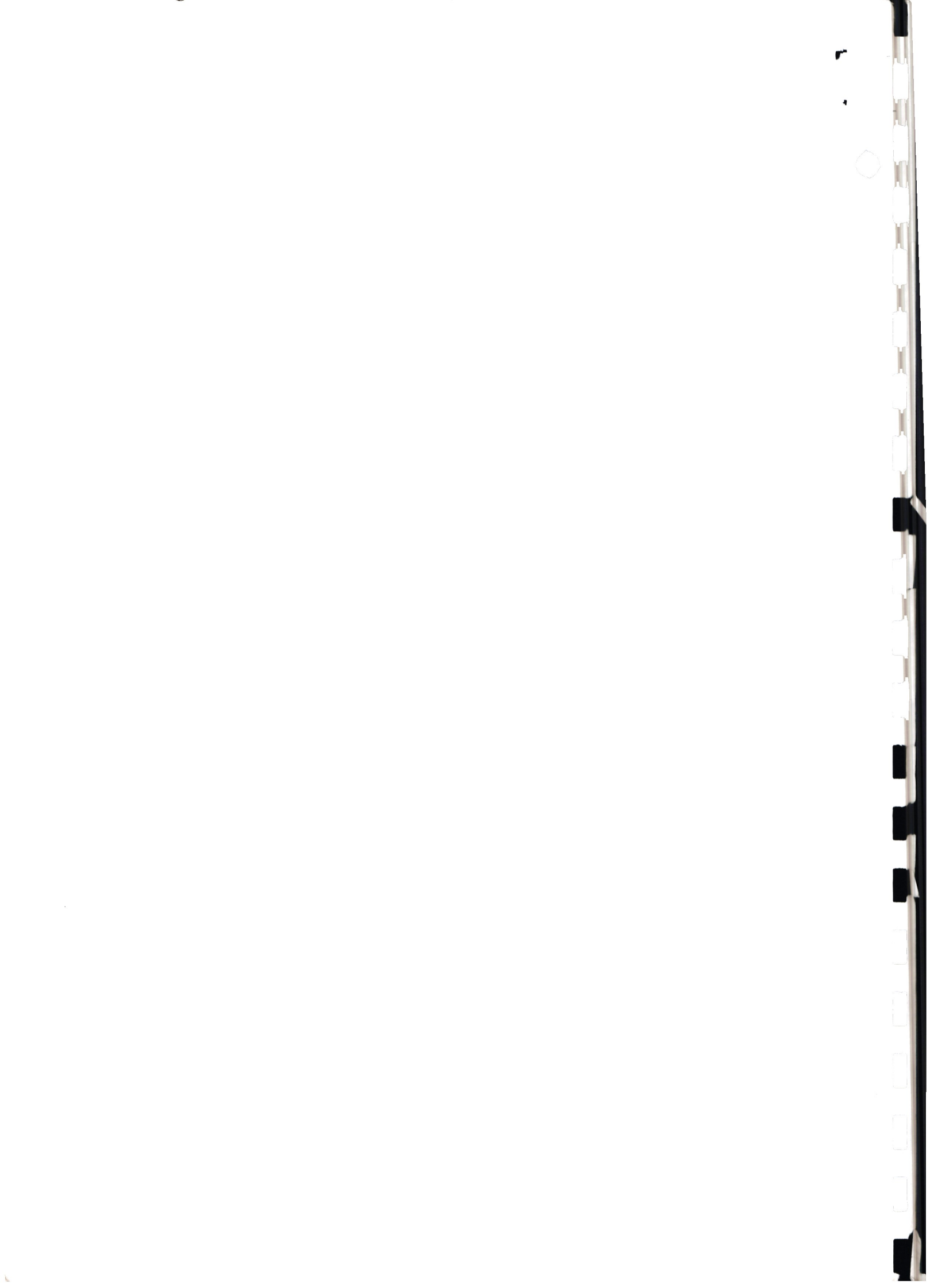
AMENDED

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2018

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



THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

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

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

Vision

An institution of excellence in economic and public financial management.

Mission

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

Core Values

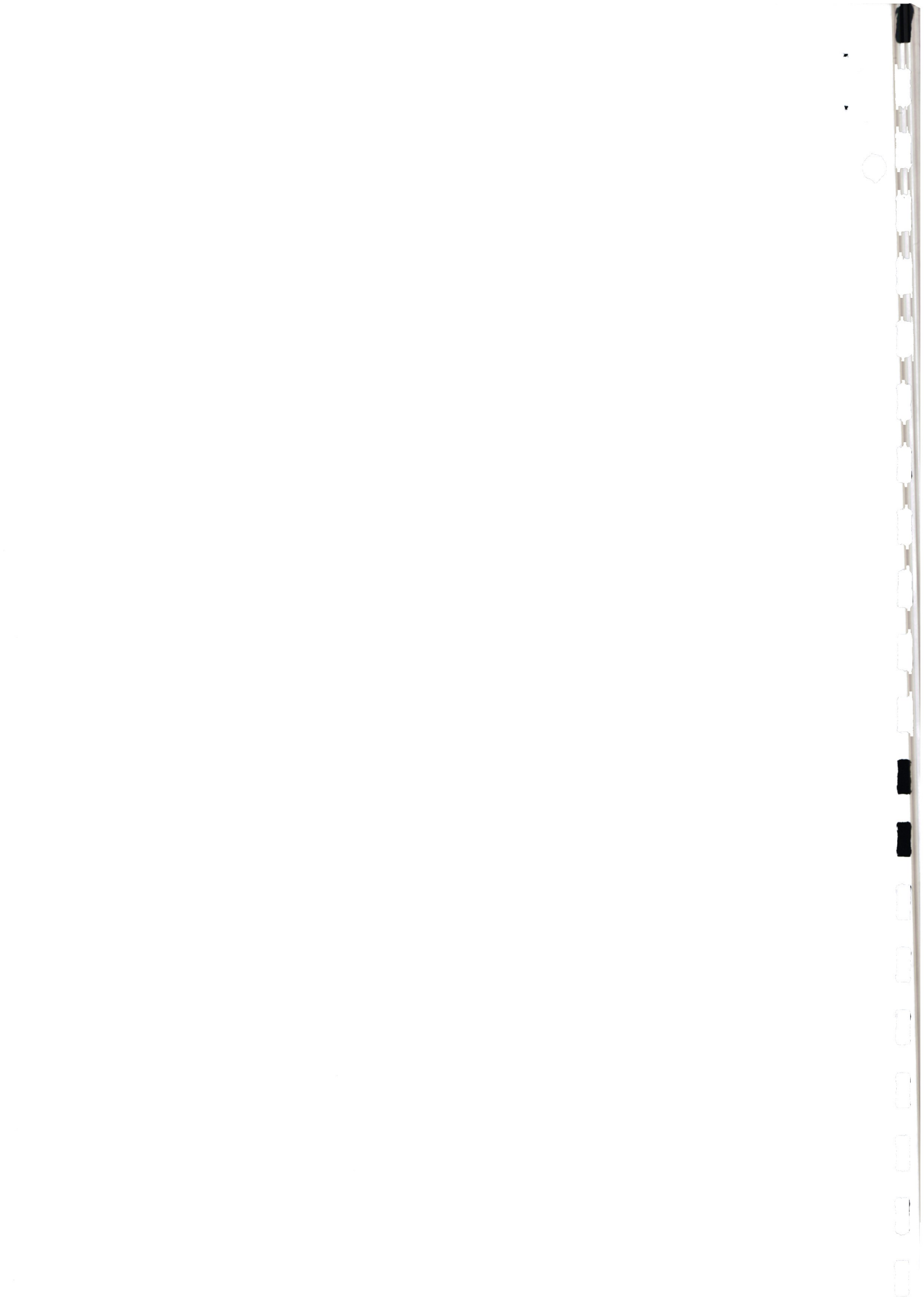
The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset, Equity, Fairness and Inclusion.

Mandate of the National Treasury

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

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

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



THE NATIONAL TREASURY

Reports and Financial Statements For the year ended June 30, 2018

- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the Annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments
- Assist county governments to develop their capacity for efficient, effective and transparent financial management; and
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:-

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

(a) Key Management

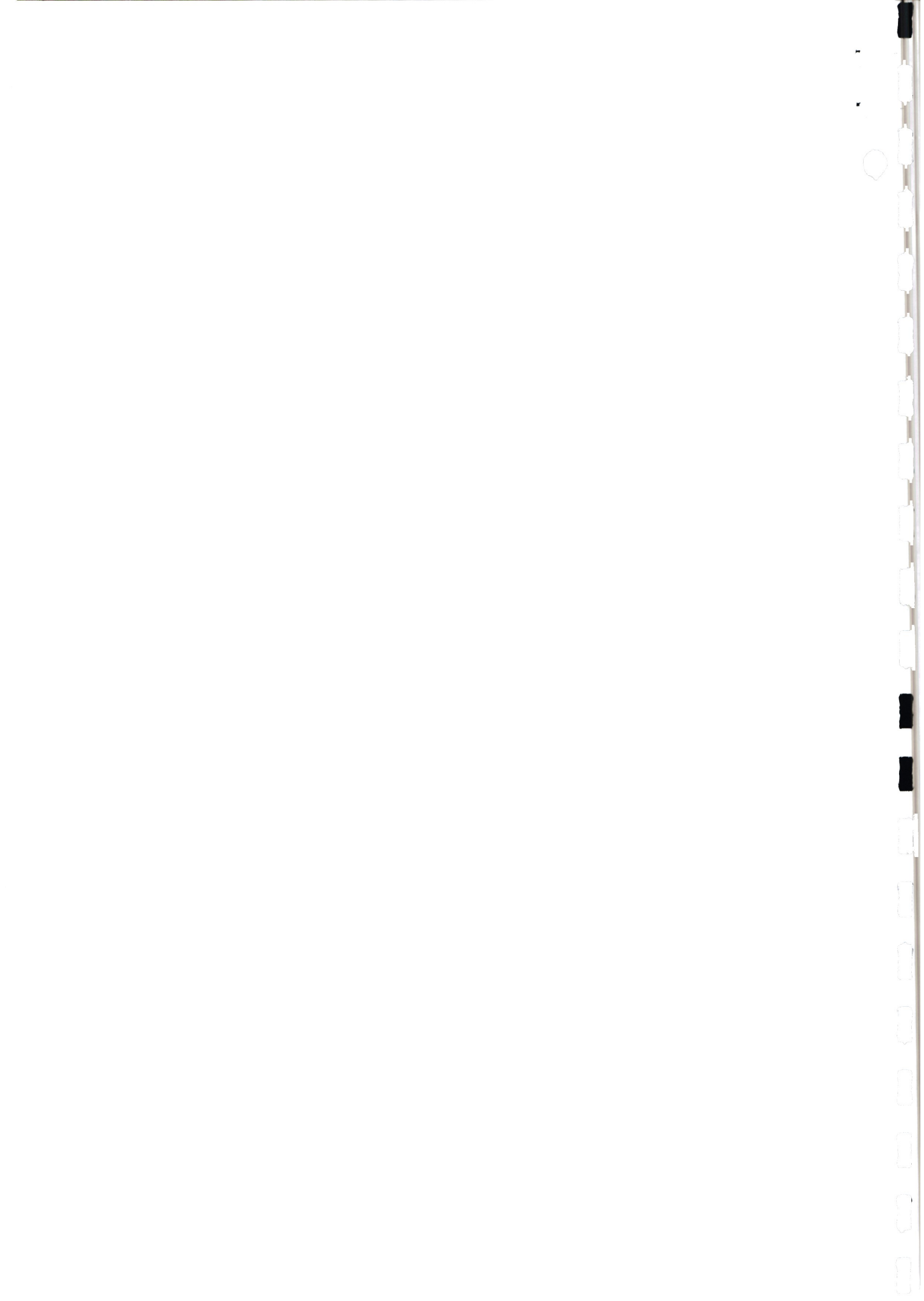
The National Treasury day-to-day management is under the following key offices;

Office of the Principal Secretary

This office is responsible for the administration of the National Treasury operations. In addition, the Principal Secretary is charged with the responsibility of providing advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility. The Principal Secretary is the Accounting Officer for Vote 1071 – NT.

Organizational structure of the National Treasury

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



Directorate of Budget, Fiscal and Economic Affairs

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

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

Directorate of Accounting Services and Quality Assurance

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

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

Directorate of Portfolio Management

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

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

Directorate of Public Debt Management Office

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

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

Directorate of Administrative and Support Services (Common Shared Services)

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

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

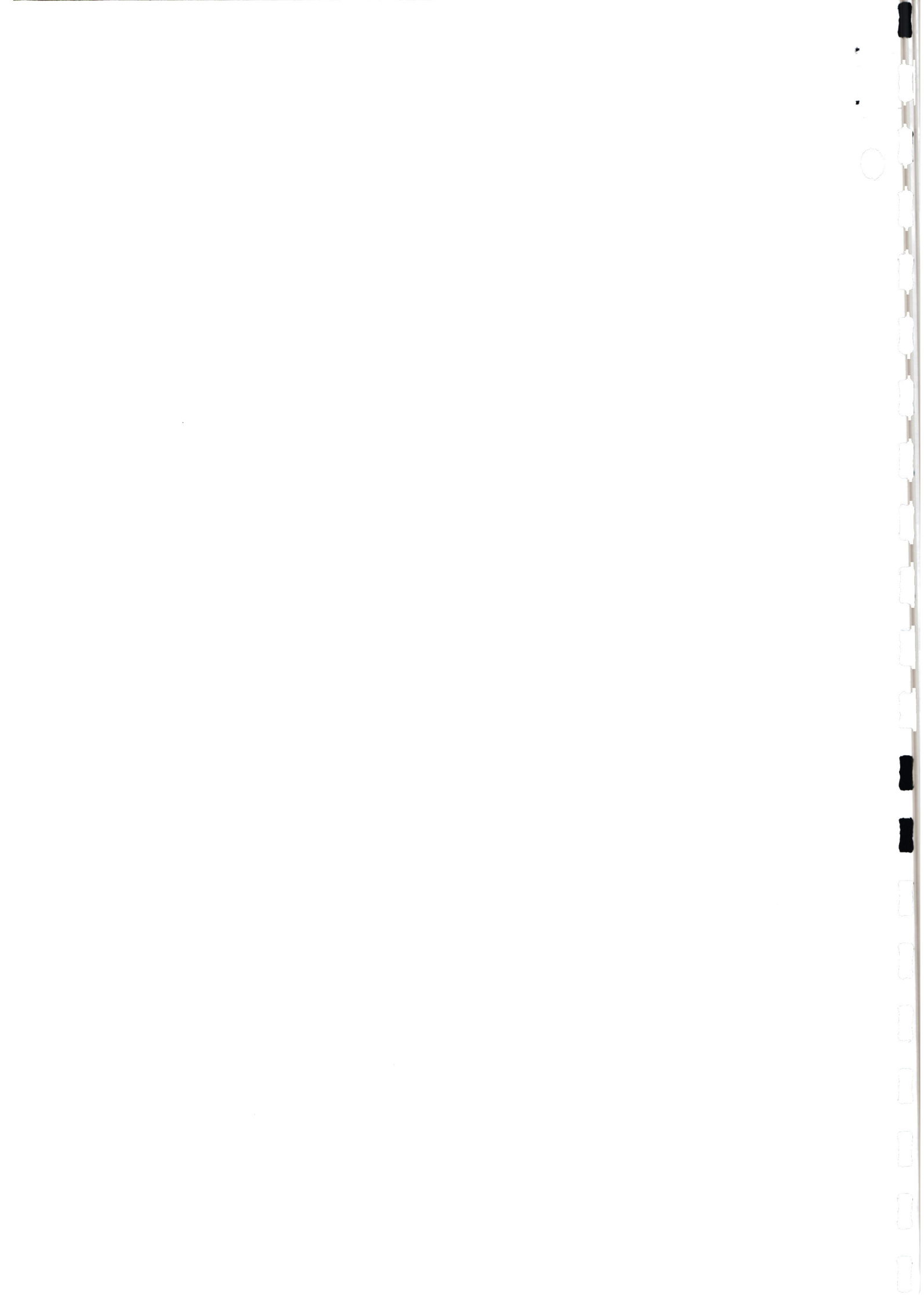


THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were

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



(d) Fiduciary Oversight Arrangements

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

Internal Audit Unit

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

Audit Committee

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

Project Implementation Committee

To monitor the implementation of the Government's Infrastructure Projects, the National Treasury has established a Project Steering Committee comprising Principal Secretaries from implementing Ministries and appointed a technical committee comprising officers from the technical departments of the Ministry. The Committees review and analyse the progress made by ministries in the implementation of domestically and externally funded projects and advises accordingly.

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

Senior Management Committee

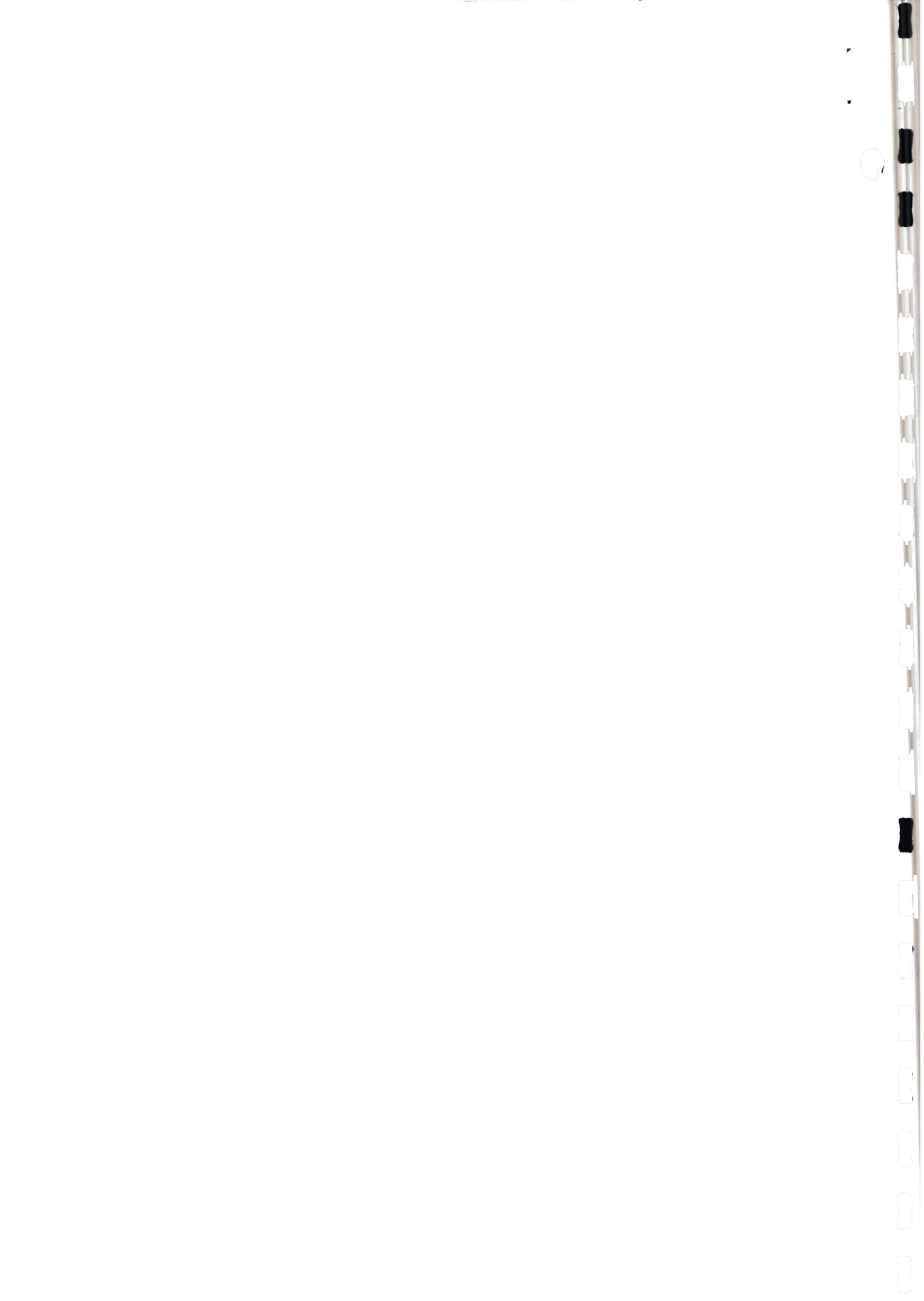
To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed a Senior Management Committee comprising of Directors General and Heads of Departments. The Committee receives reports from departments, builds consensus on National Treasury responses to emerging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

Public Financial Management Sector Working Group

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

Budget Implementation Committee

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



Monitoring and Evaluation

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

(e) The National Treasury Headquarters

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

(f) The National Treasury Contacts

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

(g) The National Treasury Bankers

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

(h) Independent Auditors

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

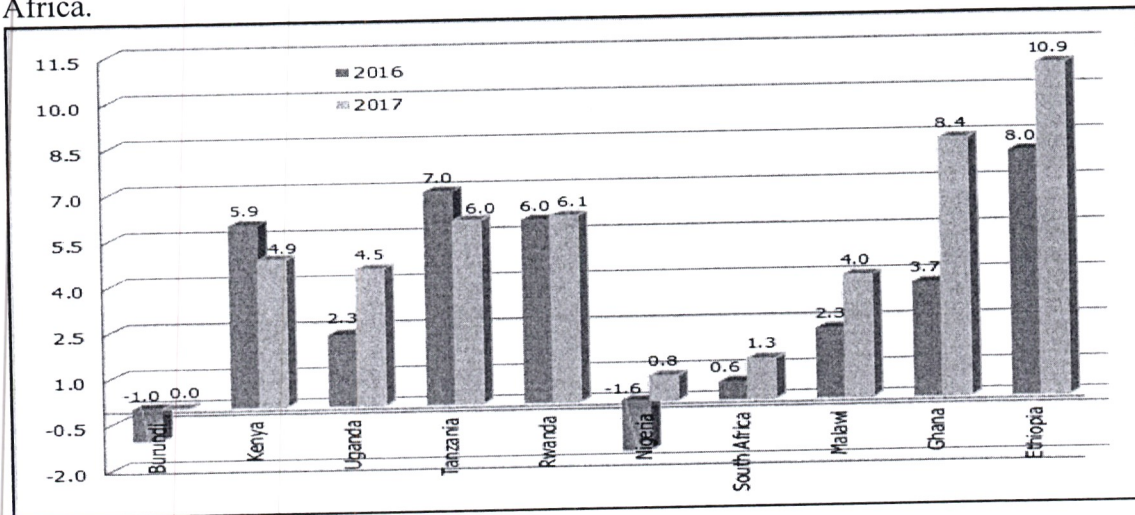
(i) Principal Legal Adviser

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



II. FORWARD BY THE CABINET SECRETARY

The National Treasury is mandated to coordinate economic and financial management of the country in accordance with section 12 of the Public Finance Management Act, 2012. Overall, the National Treasury has strived to maintain a policy environment that is conducive to economic growth and development of the country. As a result of consistent implementation of bold economic policies, structural reforms and sound macroeconomic management, the economy remained resilient in 2017 despite uncertainty associated with the prolonged political elections period coupled with the effects of adverse weather conditions. The Economy grew by 4.9 percent compared to a revised growth of 5.9 percent in 2016. In the first quarter of 2018, the economy recovered and grew by 5.7 percent compared to a growth of 4.8 percent in the same quarter last year. This growth was mainly attributed to improved weather conditions and rebound in business and consumer confidence following political stability in the country. The 4.9 percent economic growth in 2017 generated 898,000 new jobs up from 833,000 new jobs in 2016 and is above 2.8 percent average growth for the sub-Saharan Africa.



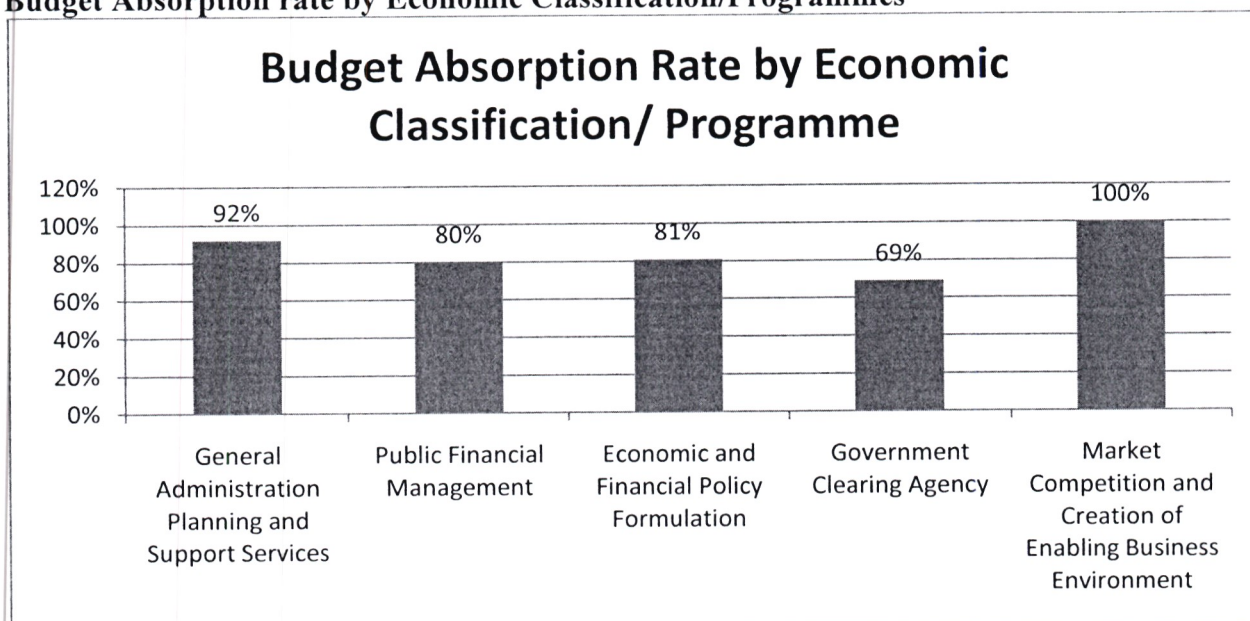
Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to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

The 2017 Ernst & Young (EY) Africa Attractiveness Index ranked Kenya second top investment hub in Africa, after Morocco. The Report also classifies Kenya as the top most preferred investment destination in East Africa, with the majority of investors being attracted by the good infrastructure, ease of doing business, and strong economic growth and prospects.

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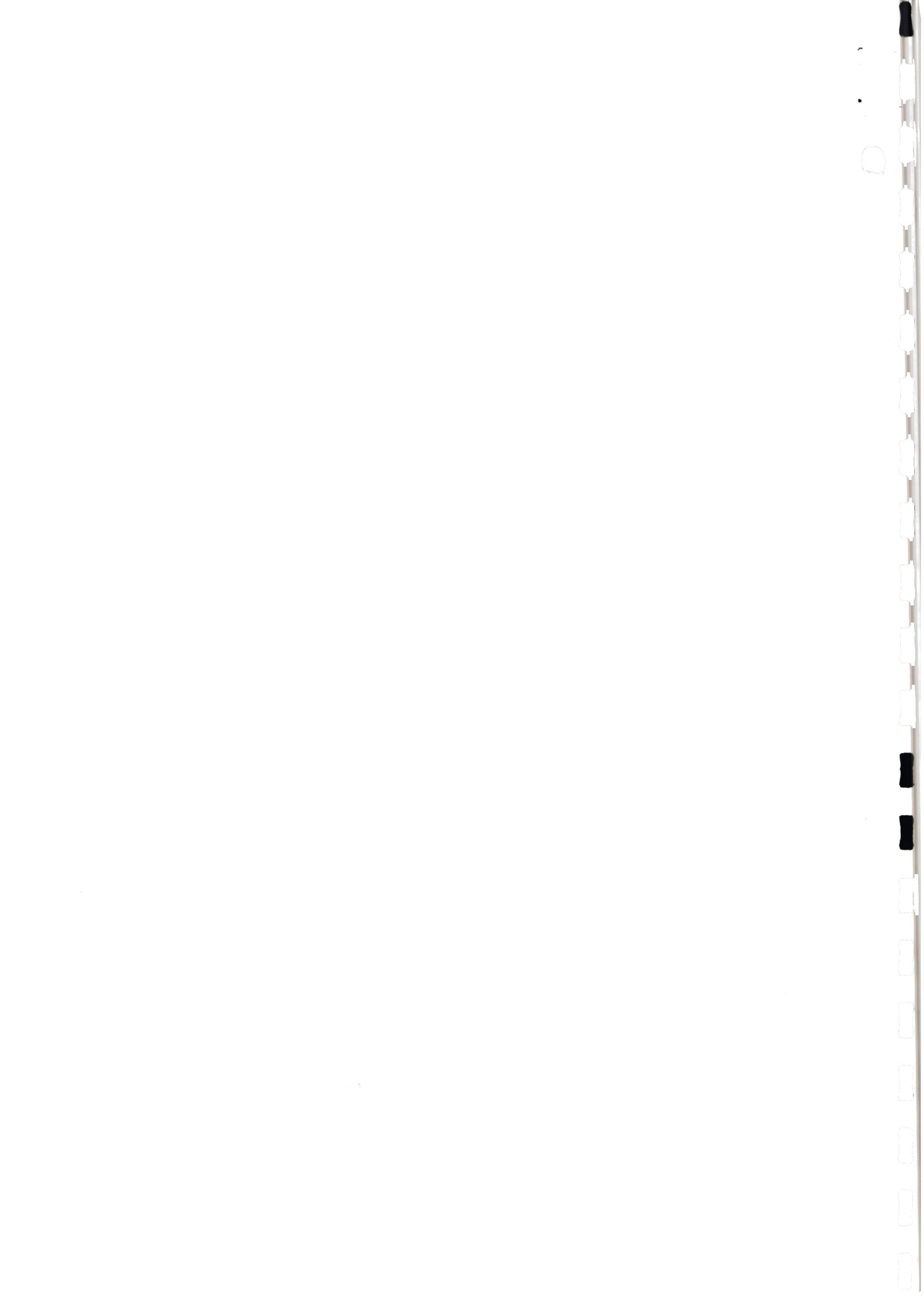
In terms of budget performance, the National Treasury expenditure stood at Kshs.38,902,102,520.00 against an approved budget of Kshs.42,539,648,623 in Recurrent while Development expenditure stood at Kshs.19,518,158,276.00 against an approved budget of Kshs.24,614,296,621 giving an overall absorption rate of 87%. The National Treasury implemented the 2017/18 budget within five programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management, Market Competition and Creation of Enabling Business Environment and Government Clearing Agency. As demonstrated in the bar graph below, the Market Competition and Creation of Enabling Business Environment had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 80% Economic and Financial Policy Formulation and Management 81% and Government Clearing Agency at 69%

Budget Absorption rate by Economic Classification/Programmes



Other key achievements during the period under review are:-

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



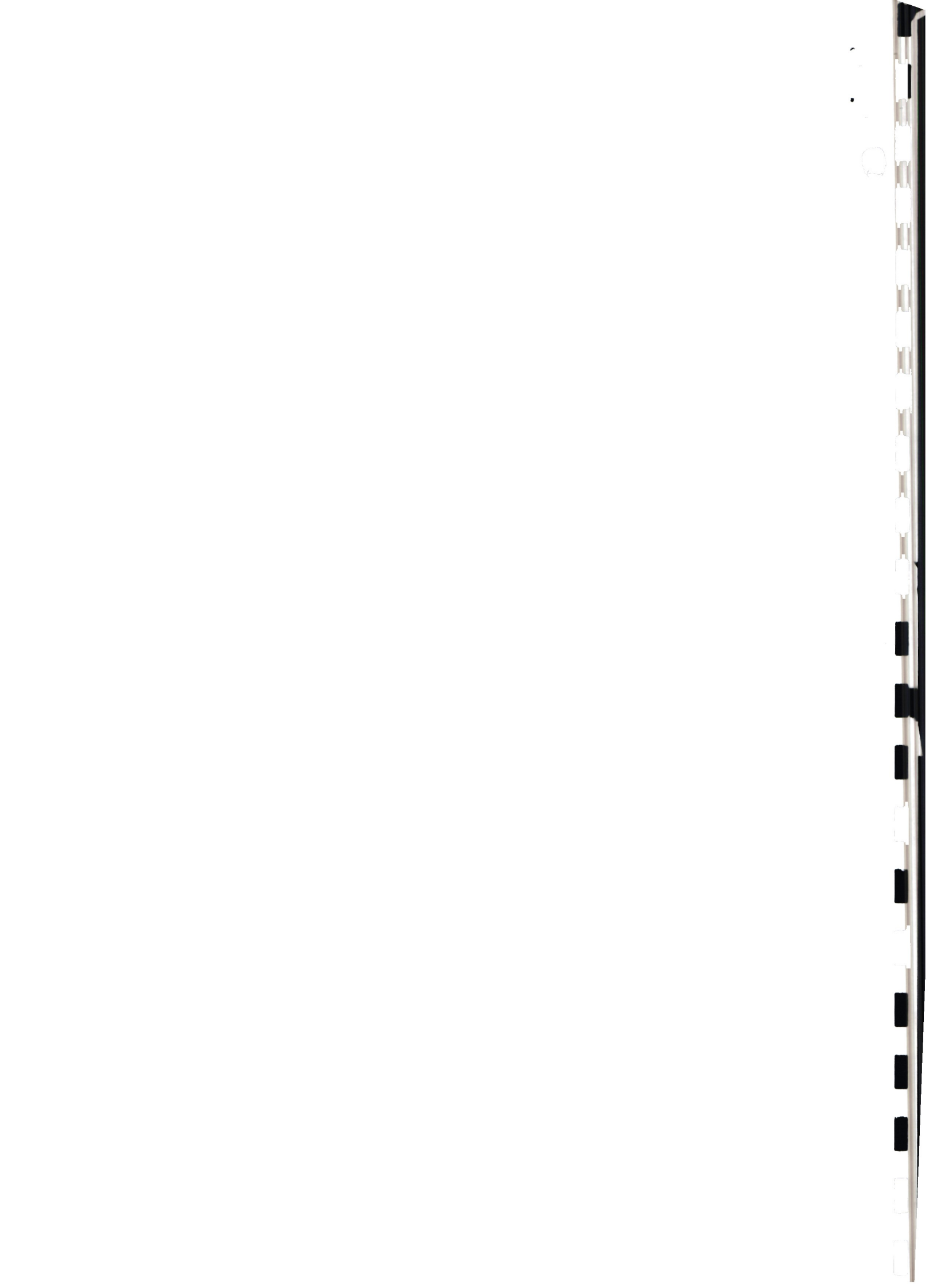
THE NATIONAL TREASURY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017 (KSHS)

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



III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

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

The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Accounting Officer in charge of The National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that The National Treasury financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Accounting Officer charge of The National Treasury further confirms the completeness of the accounting records maintained for The National Treasury which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

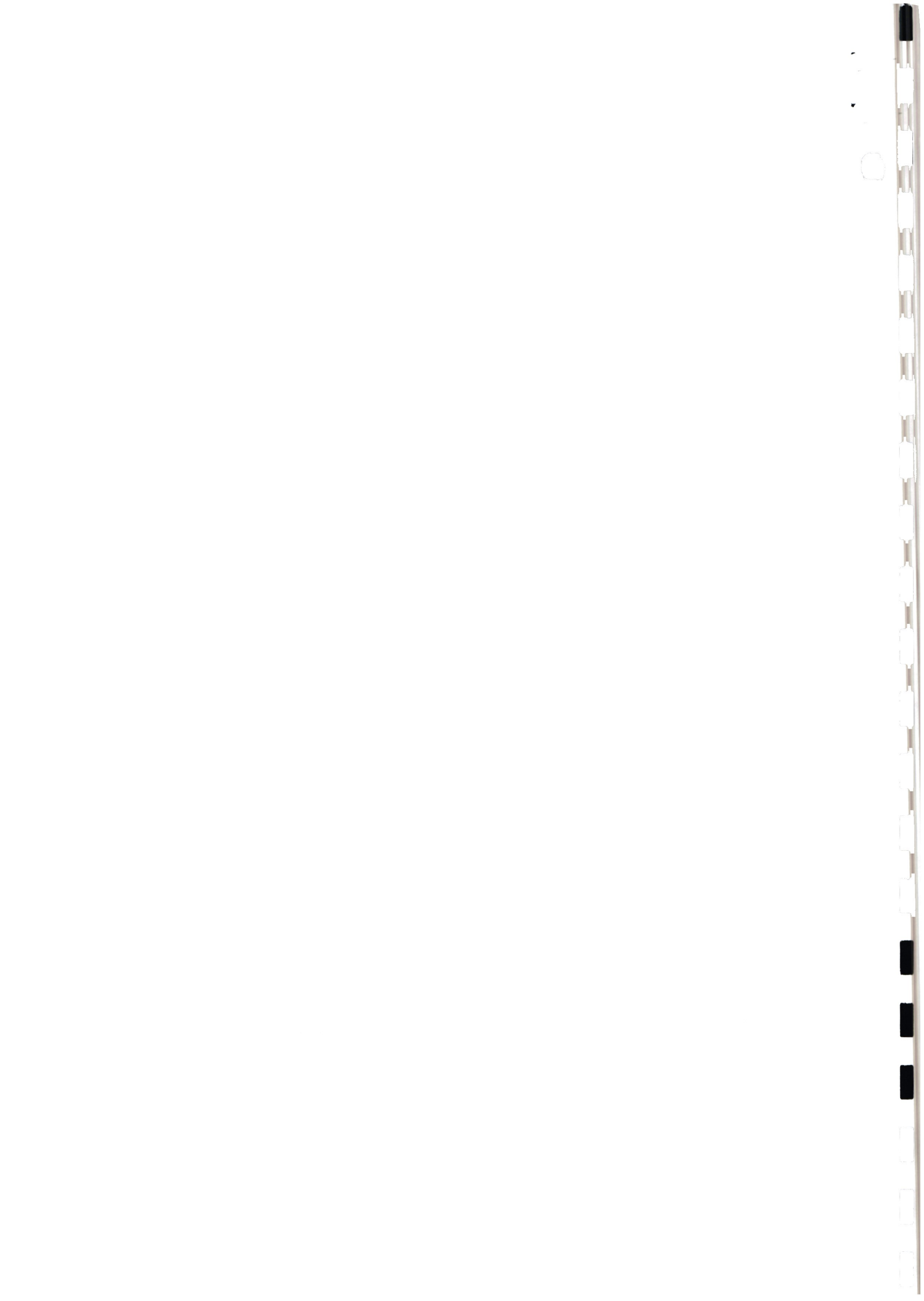
The Accounting Officer in charge of The National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes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

Approval of the financial statements

The *National Treasury* financial statements were approved and signed by the Accounting Officer on 7/6/2019.


Dr. Kamau Thugge CBS
PRINCIPAL SECRETARY


Lilian W. Dishon
PRINCIPAL ACCOUNTANT
ICPAK Member No.10442



IV. REPORT OF THE INDEPENDENT AUDITORS ON THE ENTITY (*The National Treasury*)

We have audited the accompanying financial statements of **THE NATIONAL TREASURY** for the year ended June 30, 2018, which comprise: (i) a statement of revenue and transfers and a summary of significance accounting policies and other explanatory information.

Management's responsibility for the financial statements

The **NATIONAL TREASURY** Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the *entity's* preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at June 30, 2018, and its receipts and payments, as well as cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Auditor General

Date

(NB: This report should be removed once a certificate is received from the Auditor General)



REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE NATIONAL TREASURY FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of The National Treasury set out on pages 13 to 38, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation for the combined recurrent and development votes 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 The National Treasury as at June 30, 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Accuracy of the Financial Statements

Comparisons between the General Ledger (GL) and Trial Balance (TB) generated from the Integrated Financial Management System (IFMIS) revealed variances. Since the two reports read from one database in IFMIS, there should be no variances. Management has not provided reconciliation for the variances nor rendered satisfactory explanations for the variances tabulated below: -

Item	General Ledger Balance (Kshs)	IFMIS Balance (Kshs)	Variance (Kshs)
Tax Receipts	-	2,586,267,792.55	(2,586,267,792.55)
Proceeds from Domestic Borrowings	-	(420,973,660,000.00)	420,973,660,000.00
Other Receipts	-	15,493,183.10	(15,493,183.10)
Bank Balances	1,390,758,926.00	(2,231,391,917.60)	3,622,150,843.60

Report of the Auditor-General on the Financial Statements of The National Treasury for the year ended 30 June 2018

Item	General Ledger Balance (Kshs)	IFMIS Balance (Kshs)	Variance (Kshs)
Cash Balances	741,626.00	55,589,892,673.50	(55,589,151,047.50)
Accounts Receivable	789,854,587.00	205,773,091.05	584,081,495.95
Accounts Payable	154,936,594.00	761,893,477,120.40	(761,738,540,526.40)
Fund Balance b/forward	2,304,964,475.00	(290,124,610,682.30)	292,429,575,157.30
Years surplus/deficit	167,852,631.00	301,362,064,940.35	(301,194,212,309.35)

Further, an inconsistency was noted under recurrent vote Headquarters Administrative Services, Sub-head Strategic Interventions, Basic Wages, Temporary Employees (0001 11 2110200) that reflected a negative actual expenditure of Kshs.3,000,000 under actual expenditure. Ideally, IFMIS system should not allow a negative expenditure in the closing balances.

From the foregoing, the accuracy of the financial statements prepared thereof could not be ascertained.

2. Pending Bills

Note 18.1 to the financial statements discloses pending accounts payable of Kshs.563,474,303 (2017-Kshs 80,450,957). Had the accounts been settled and charged to the statement of receipts and payments for the year, it would reflect a deficit of Kshs.395,621,672 instead of the current reported surplus of Kshs.167,852,631. Failure to settle bills during the year in which they relate to distorts the financial statements and adversely affects the budgetary provisions for the subsequent year as they form the first to be charge.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The National Treasury 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.

Emphasis of Matter

Budget Performance and Control

The Summary Statement of Appropriation-Recurrent reflects a final budget and actual expenditure of Kshs.42,539,648,623 and Kshs.38,902,102,520 respectively, resulting in under expenditure of Kshs.3,637,543,103.00 or 8.43%. The Summary Statement of Appropriation-Development also reflects a final budget and actual expenditure of Kshs.24,614,296,621 and Kshs.19,518,158,276 resulting in an under-expenditure of Kshs.5,096,281,078.00 or 20.85%. Although the overall

performance was satisfactory, there are individual budget line items: - other grants and transfers, acquisition of assets and compensation of employees where the under absorption exceeded the stipulated 25% threshold. My opinion is not modified based on the above matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There are no other key audit matters to communicate in my report.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Procurement for Services of Cash Management Solution

During the year under review, the National Treasury through restricted tender contracted and paid a supplier to implement a cash management solution for both National and County Governments as well as train and support. This was contracted at the sum of Kshs.35,140,040 with an implementation period of 12 months to 31 October 2016. Three firms recommended by Oracle Technology Systems (Kenya) Ltd as accredited Oracle cash management solution suppliers had been invited to bid for the tender. However, the price bid submitted by the winning supplier was significantly lower than those of the other two bidders which stood at Kshs.157,798,048 and Kshs.181,401,356. It is not clear as to why there was such significant disparity.

Upon award, the contracted supplier was unable to complete within the stipulated timeline resulting into a no cost extension of the contract for a period of 11 months with a one-year post implementation support contract ending 30 September 2017. Available information indicate that the contract was subsequently re-extended for a further period of 12 months to 31 Dec 2018 at an additional cost of Kshs.2,067,120 contrary to section 75 of the Procurement and Asset Disposal Act 2015.

A review of the contract implementation status as of date of finalizing this audit indicated that the project was incomplete. In the circumstances, it has not been possible to confirm whether The National Treasury got value from the above procurement.

2. Non-Adherence to Human Resources Policy

Public Service human resource policies and procedures manual of 2016 has provisions for recruitment, selection, appointment and transfers of public officers. Contrary to the provisions, The National Treasury has designated a non-public officer into the role of Acting Director - Integrated Financial Management Information Systems (IFMIS). No information has been availed regarding the designate, consequently it has also not been possible ascertain the terms of engagement and the remuneration thereof.

3. Continued Retention of Retired Public Officers

Whereas Section B.20(1) subsection (2) and (4) of the human resource policies and procedures manual 2016 provides for appointment on contract where officers are appointed to serve on fixed term projects and capacity in the public service is lacking or specific skills are required, a review of sample personnel files on local contract terms revealed that seven (7) officers who had attained the mandatory retirement age of sixty (60) years and are not registered as persons living with disability are under contract. Three of the seven officers have had their contracts extended severally internally within The National Treasury without reference to Public Service Commission. At the initial authorization for the contract extensions, the Commission had advised the National Treasury to plan to build capacity by competitively filling of the positions. Although the management has rendered explanations for the extensions, the affected officers had been heading their respective departments for significantly long durations prior to their retirement. This is indicative of poor or lack of succession planning on the key positions at the National Treasury.

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

REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter(s) described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance/Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the National Government either intends to liquidate the or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

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

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

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

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

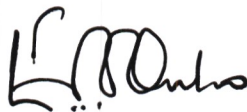
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast

significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the National Treasury to cease to continue as a going concern or to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the National Treasury to express a qualified 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.

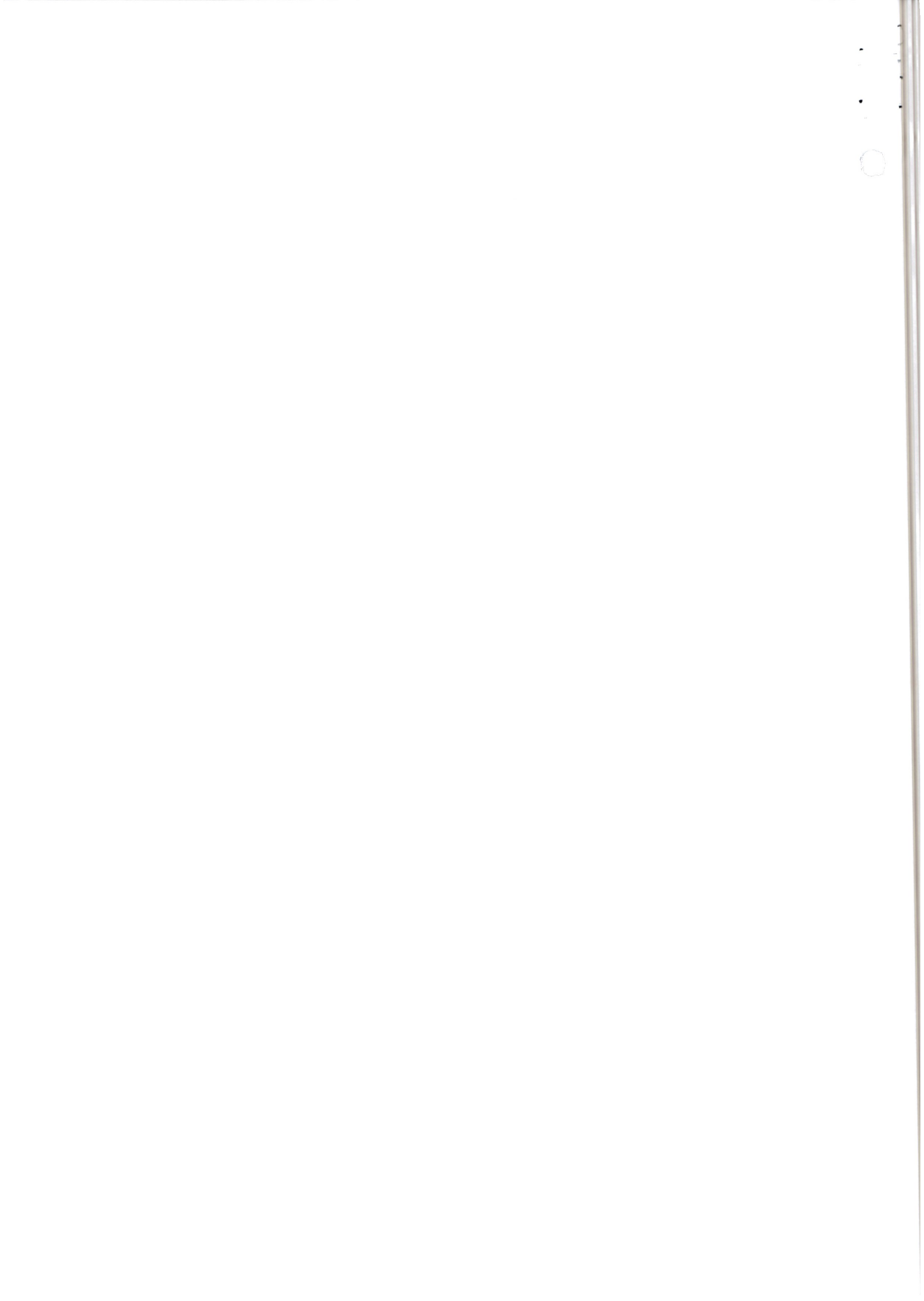
I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

Nairobi

30 May 2019

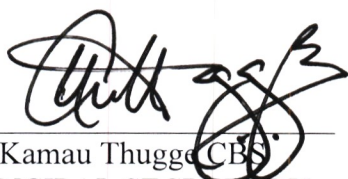


THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-2018 Kshs	2016-2017 Kshs
RECEIPTS			
Proceeds from Domestic and Foreign Grants	1	9,241,651,686	7,774,225,484
Exchequer releases	2	48,955,503,674	52,896,474,028
Proceeds from Foreign Borrowings	3	391,414,899	702,453,080
Other Receipts	4		
TOTAL RECEIPTS		58,588,570,259	61,373,152,592
PAYMENTS			
Compensation of Employees	5	2,308,812,613	2,173,675,464
Use of goods and services	6	20,396,995,275	21,770,774,561
Subsidies	7	1,137,078,335	1,050,000,000
Transfers to Other Government Units	8	28,852,301,349	28,070,205,786
Other grants and transfers	9	1,069,476,594	1,149,842,626
Acquisition of Assets	10	4,656,053,462	6,531,552,901
Social Security Benefits	11	-	-
Other Payments	12	-	-
TOTAL PAYMENTS		58,420,717,628	60,746,051,338
SURPLUS/DEFICIT		167,852,631	627,101,254

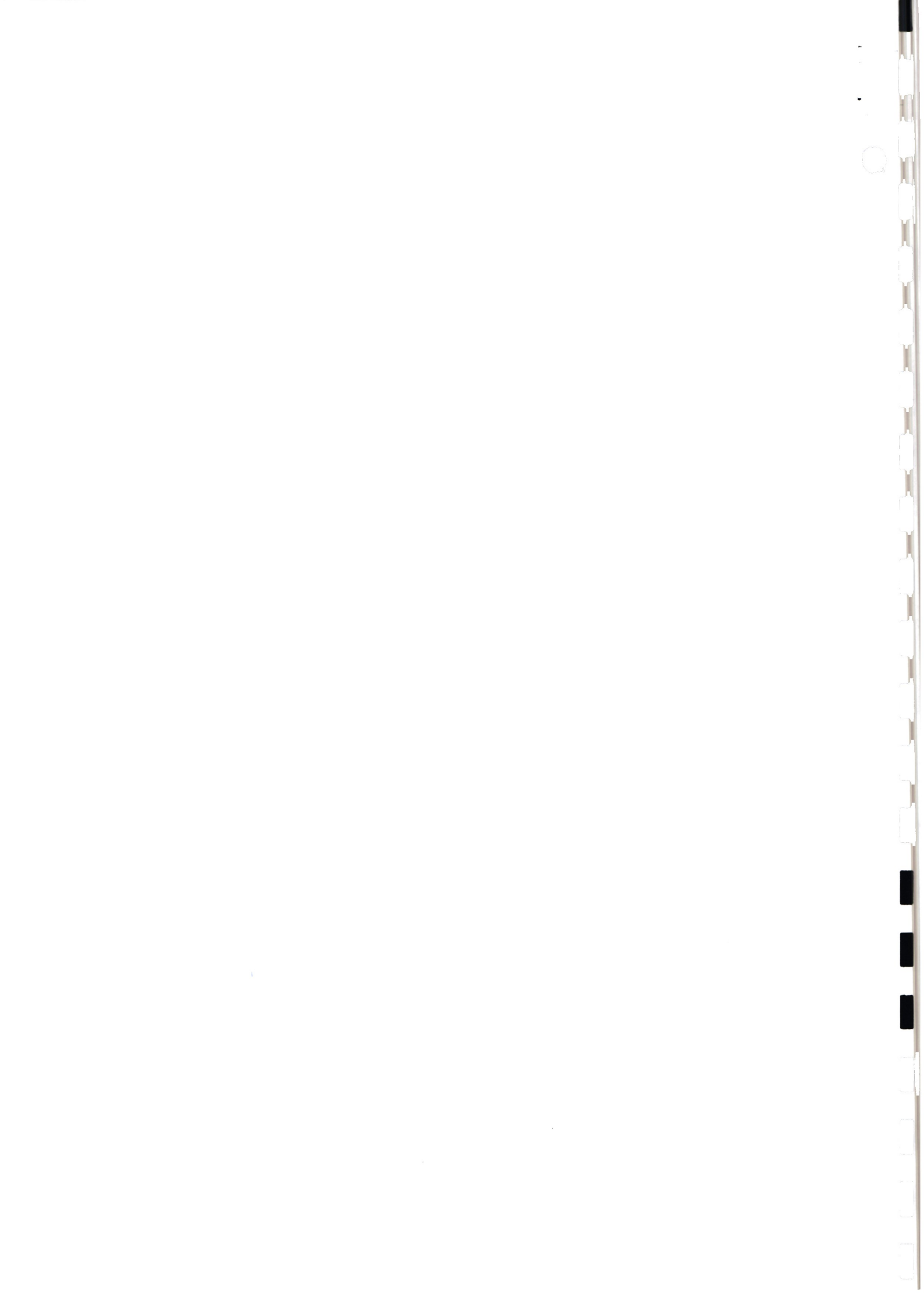
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 7/6/19 2019 and signed by:



Dr. Kamau Thugge CBS
 PRINCIPAL SECRETARY



Lilian W. Dishon
 PRINCIPAL ACCOUNTANT
 ICPAK Member No. 10442

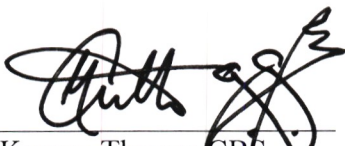



THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018 Kshs	2016-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	13A	1,390,758,926	1,781,246,794
Cash Balances	13B	741,626	1,490,696
Total Cash and cash equivalent		<u>1,391,500,552</u>	<u>1,782,737,490</u>
Accounts receivable	14	820,124,196	638,559,994
TOTAL FINANCIAL ASSETS		<u>2,211,624,748</u>	<u>2,421,297,484</u>
FINANCIAL LIABILITIES			
Account Payables	15	154,936,594	116,333,009
NET FINANCIAL ASSETS		2,056,688,154	2,304,964,475
REPRESENTED BY			
Fund balance b/fwd	16	2,304,964,475	1,783,140,721
Surplus/Deficit for the year		167,852,631	627,101,254
Prior year adjustment	17	(416,128,952)	(105,277,500)
NET FINANCIAL POSITION		<u>2,056,688,154</u>	<u>2,304,964,475</u>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 7/16/ 2019 and signed by:


 Dr. Kamau Thugge CBS
 PRINCIPAL SECRETARY


 Lilian W. Dishon
 PRINCIPAL ACCOUNTANT
 ICPAK Member No.10442

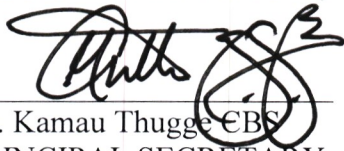



THE NATIONAL TREASURY
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For the year ended June 30, 2018

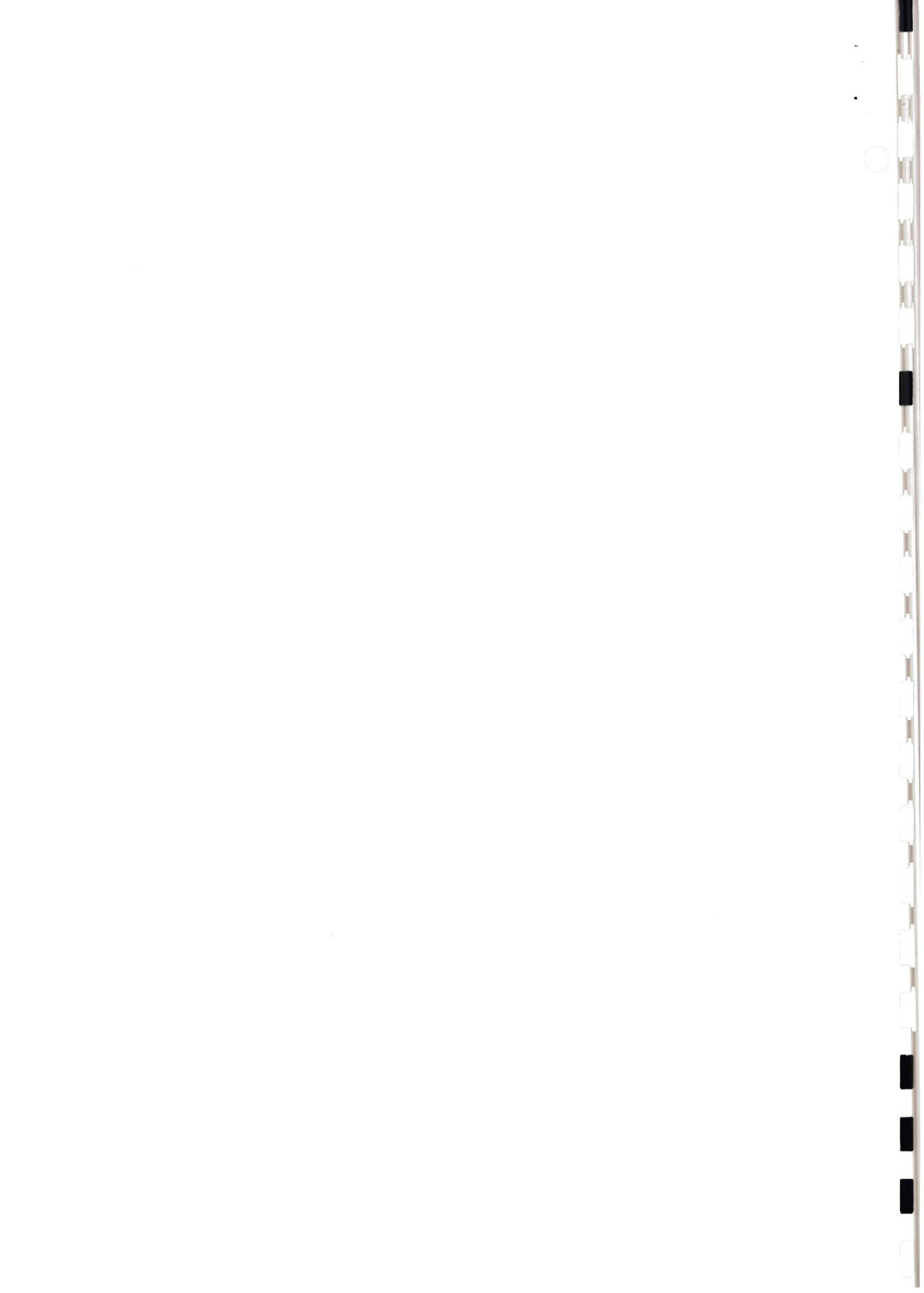
VII. STATEMENT OF CASH FLOWS

	Note	2017-2018 Kshs	2016-2017 Kshs
Receipts for operating income			
Proceeds from Domestic and Foreign Grants	1	9,241,651,686	7,774,225,484
Exchequer Releases	2	48,955,503,674	52,896,474,028
		58,197,155,360	60,670,699,512
Payments for operating expenses			
Compensation of Employees	5	2,308,812,613	2,173,675,464
Use of goods and services	6	20,396,995,275	21,770,774,561
Subsidies	7	1,137,078,335	1,050,000,000
Transfers to Other Government Units	8	28,852,301,349	28,070,205,786
Other grants and transfers	9	1,069,476,594	1,149,842,626
Social Security Benefits	11	-	-
Net cash flow from operating activities		53,764,664,166	54,214,498,437
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	10	4,656,053,462	6,531,552,901
Net cash flows from Investing Activities		4,656,053,462	6,531,552,901
CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	3	391,414,899	702,453,080
Net cash flow from borrowing activities		391,414,899	702,453,080
NET INCREASE IN CASH AND CASH EQUIVALENT		167,852,631	627,101,254
Cash and cash equivalent at BEGINNING of the year		1,782,737,490	2,269,231,945
Change in Receivables		(181,564,202)	(46,181,656)
Change in Payables		38,603,585	(962,136,553)
Prior Year adjustment	17	(416,128,952)	(105,277,500)
Cash and cash equivalent at the END of the Year		1,391,500,552	1,782,737,490

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 7/6/ 2019 and signed by:

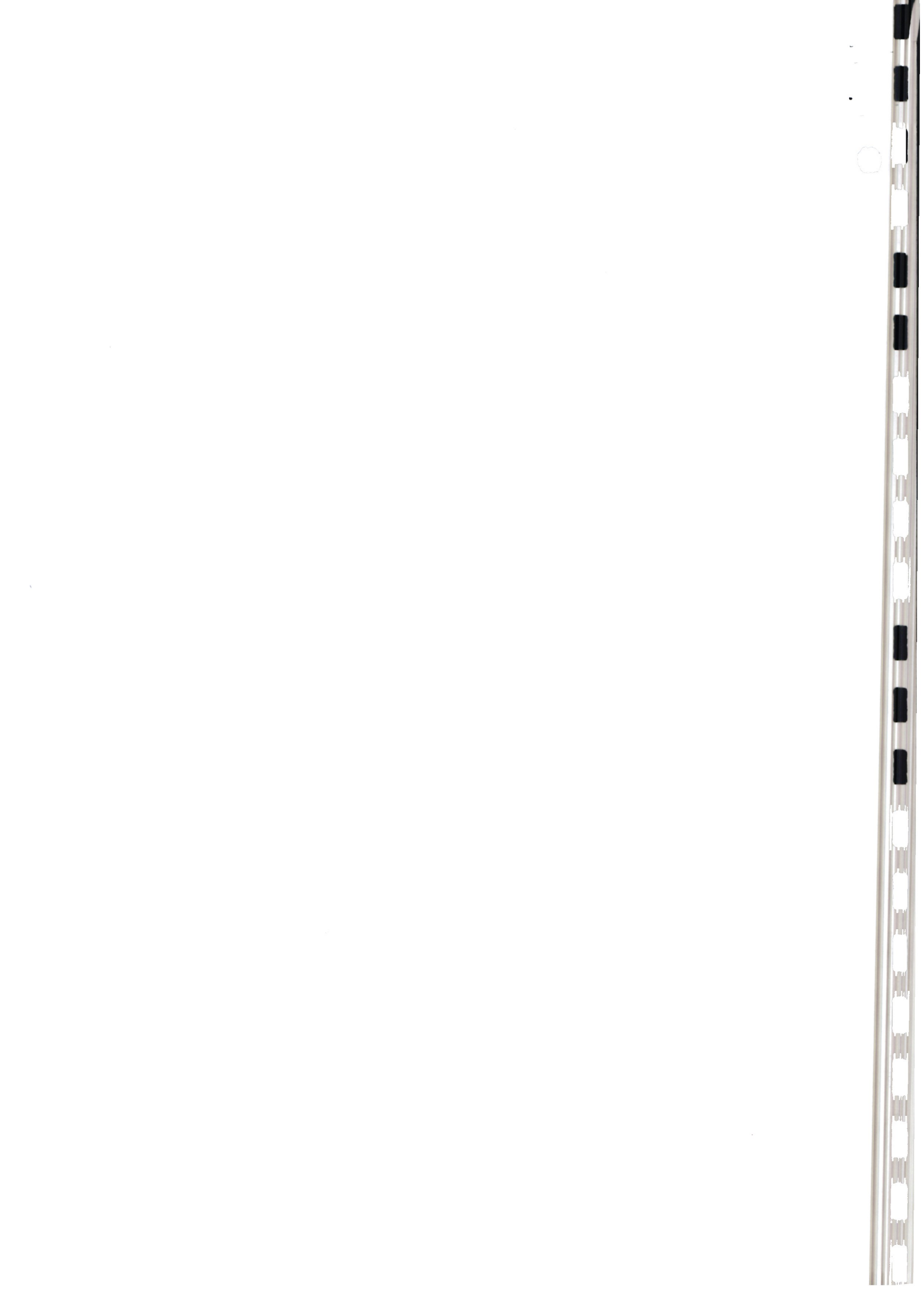

 Dr. Kamau Thugge CBS
 PRINCIPAL SECRETARY


 Lilian W. Dishon
 PRINCIPAL ACCOUNTANT
 ICPAK Member No. 10442



VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

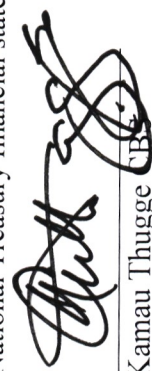
Receipt/Expense Item	Notes	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS							
Proceeds from Domestic and Foreign Grants	1	8,566,683,300.00	3,677,002,289.00	12,243,685,588.00	9,241,651,686	3,072,272,640.00	75%
Exchequer releases	2	52,271,091,500	2,131,526,004	54,402,617,506	48,955,503,674	5,457,113,832	90%
Proceeds from Foreign Borrowings	3	127,428,100.00	380,214,050.00	507,642,150.00	391,414,899	116,227,251	77.10%
Other Receipt	4						
TOTAL RECEIPTS		60,965,202,900	6,188,742,343	67,153,945,244	58,588,570,259	8,674,610,532	87%
PAYMENTS							
Compensation of Employees	5	21,495,990,152.00	(18,708,445,891.00)	2,787,544,261.00	2,308,812,613	478,731,448	83%
Use of goods and services	6	15,526,396,286.00	8,164,275,092.00	23,690,671,378.00	20,396,995,275	3,293,676,103	86.10%
Subsidies	7	300,000,000.00	837,078,335.00	1,137,078,335.00	1,137,078,335	-	100.00%
Transfers to Other Government Units	8	15,426,813,273.00	15,306,417,103.00	30,733,230,375.00	28,852,301,349	1,881,134,677	93.88%
Other grants and transfers	9	121,228,003.00	1,125,078,003.00	1,246,306,005.00	1,069,476,594	176,829,411	85.81%
Acquisition of Assets	10	4,843,863,433.00	2,713,427,947.00	7,557,291,380.00	4,656,053,462	2,901,237,918	62%
Social Security Benefits	11	750,911,755.00	(749,088,245.00)	1,823,510.00	0.00	1,823,510	0.00%
Other Payments	12	2,500,000,000.00	(2,500,000,000)	0.00	0.00	0.00	0.00%
TOTAL PAYMENTS		60,965,202,901.00	6,188,742,344.00	67,153,945,244.00	58,420,717,628	8,733,433,067	87.0%
Surplus/ Deficit					167,852,6312		




- (a) [For the revenue items, indicate whether they form part of the AIA by inserting the "AIA" alongside the revenue category.]
- (b) [Provide below a commentary on significant underutilization (below 90% of utilization) and any overutilization (above 100%)]
- i. Proceeds from Domestic and Foreign Grants 74.91%- There were delay in procurement process caused by stringent donor conditions.
 - ii. Proceeds from Foreign Borrowing 77.10%- There were delay in Procurement process caused by stringent donor conditions.
 - iii. Compensation of Employees 82.32%-Anticipated filling of all vacant post in the departments following the approval of the structured staff establishment was not achieved
 - iv. Use of Goods and Services 86.12%- Austerity measures were put in place to reduce the expenditure on hospitality suppliers and services.
 - v. Other Grants and Transfers 85.81%- Invoices for services rendered were received after the closure of the financial year. This was further aggravated by slow systems and network problems towards the end of the year.
 - vi. Acquisition of Assets 61.75%- Goods ordered had not been delivered by the closure of the financial year.

(Explain whether the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.9.23.) The actual on a comparable basis in the Summary Statement of Appropriation: Recurrent and Development Combined should agree to the amounts reported in the Statement of Receipts and Payments.

The National Treasury financial statements were approved on 7/6/2019 and signed by:

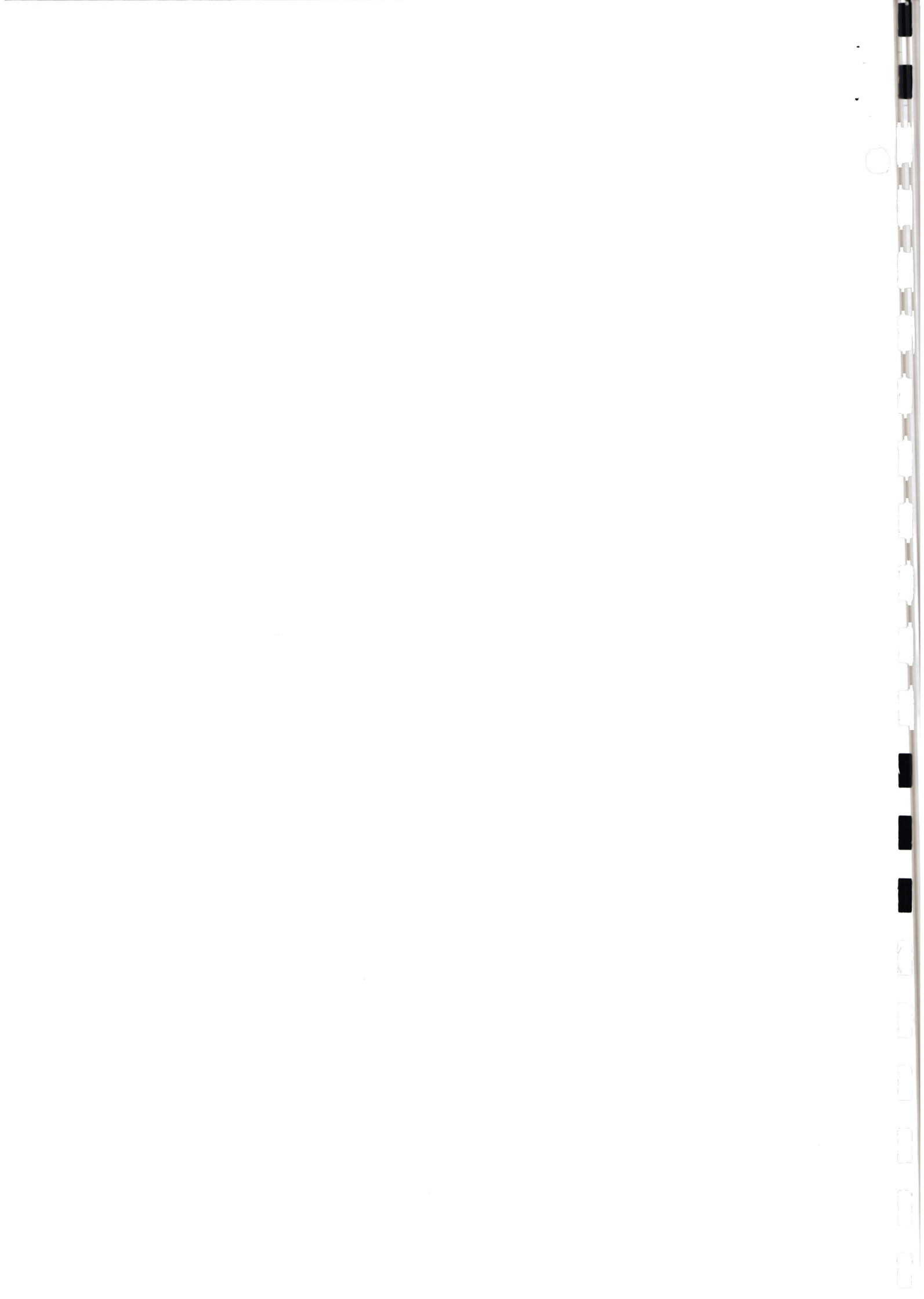

Dr. Kamau Thugge
PRINCIPAL SECRETARY


Lilian W. Dishon
PRINCIPAL ACCOUNTANT
ICPAK Member No. 10442



IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Notes	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
RECEIPTS							
Proceeds from Domestic and Foreign Grants	1						
Exchequer releases	2	38,847,681,592	3,691,967,030	42,539,648,623	39,465,582,903.00	3,074,065,720	93%
Proceeds from Domestic Borrowings	3						
Other Receipts	4						93%
TOTAL RECEIPTS		38,847,681,592	3,691,967,030	42,539,648,623	39,465,582,903.00	3,074,065,720	
PAYMENTS							
Compensation of Employees	5	21,467,650,000.00	(18,752,168,030.00)	2,715,481,970.00	2,262,070,138	453,411,832	83%
Use of goods and services	6	6,478,696,290.00	4,942,089,845.00	11,420,786,135.00	10,400,132,053	1,020,654,082	91%
Subsidies	7						
Transfers to Other Government Units	8	9,014,323,773.00	17,062,314,403.00	26,076,638,175.00	25,354,932,667	721,705,508	97%
Other grants and transfers	9	121,228,003.00	228,078,002.50	349,306,005.50	172,476,594	176,829,411	49%
Acquisition of Assets	10	1,014,871,773.00	960,741,056.00	1,975,612,829.00	716,828,004	1,258,784,824	36%
Social Security Benefits	11	750,911,755.00	(749,088,245.00)	1,823,510.00	0.00	1,823,510.00	0.00%
Other Payments	12						
TOTAL PAYMENTS		38,847,681,593.00	3,691,967,031.00	42,539,648,623.00	38,906,439,456	3,633,209,167	91%
Surplus/Deficit					559,143,447		




Notes

- (a) [For the revenue items, indicate whether they form part of the AIA by inserting the "AIA" alongside the revenue category.]
- (b) [Provide below a commentary on significant underutilization (below 90% of utilization) and any overutilization (above 100%)]
- i. Compensation of Employees 82.7%-Anticipated filling of all vacant post in the departments following the approval of the structured staff establishment was not achieved
 - ii. Other Grants and Transfers 49.38%- Invoices for services rendered were received after the closure of the financial year. This was further aggravated by slow systems and network problems towards the end of the year.
 - iii. Acquisition of Assets 36.78%- Goods ordered had not been delivered by the closure of the financial year.

(Explain whether the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.9.23. The totals of actual on comparable basis under the recurrent and development statement should equal to the total on actual on comparable basis under the Combined Summary Statement of Appropriation.)

The National Treasury financial statements were approved on 7/6/ 2019 and signed by:


Dr. Kamau Thugge (CB)
PRINCIPAL SECRETARY


Lilian W. Dishon
PRINCIPAL ACCOUNTANT
ICPAK Member No. 10442

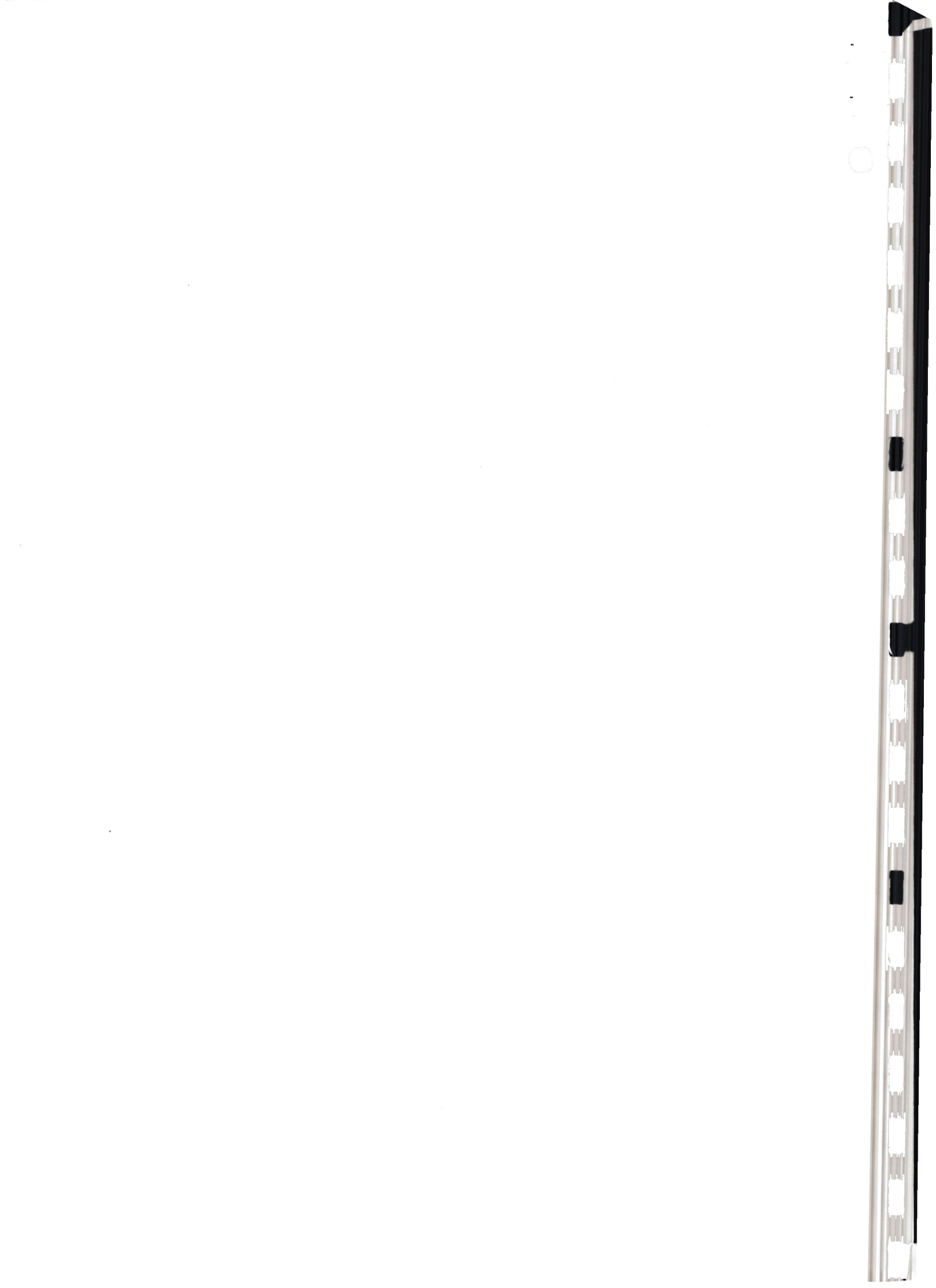


THE NATURAL GAS
Reports and Financial Statements
For the year ended June 30, 2018

SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Notes	Original Budget		Adjustments	Final Budget		Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
		a	b		c=a+b	d			
RECEIPTS									
Proceeds from Domestic and Foreign Grants	1	8,566,683,300.00	3,677,002,289.00	12,243,685,588.00	9,241,651,686	3,072,272,640.00	74.91%		
Exchequer releases	2	13,423,409,908	(1,560,441,026)	11,862,968,883	9,489,920,771	2,373,048,112	80%		
Proceeds from Foreign Borrowings	3	127,428,100.00	380,214,050.00	507,642,150.00	391,414,899.	116,227,251	77%		
Other Receipts	4								
TOTAL RECEIPTS		22,117,521,308	2,496,775,313	24,614,296,621	19,122,987,356	5,491,309,265	78%		
PAYMENTS									
Compensation of Employees	5	28,340,152.00	43,722,140.00	72,062,291.00	45,744,725	26,317,566	63%		
Use of goods and services	6	9,047,699,996.00	3,222,185,247.00	12,269,885,243.00	9,996,857,942	2,273,027,301	82%		
Subsidies	7	300,000,000.00	837,078,335.00	1,137,078,335.00	1,137,078,335	-	100.00%		
Transfers to Other Government Units	8	6,412,489,500.00	(1,755,897,300.00)	4,656,592,200.00	3,497,368,682	1,159,223,518	75%		
Other grants and transfers	9	0.00	897,000,000.00	897,000,000.00	897,000,000	-	100.00%		
Acquisition of Assets	10	3,828,991,661.00	1,752,686,892.00	5,581,678,552.00	3,939,225,458	1,643,010,861	71%		
Social Security Benefits	11								
Other Payments	12	2,500,000,000.00	(2,500,000,000.00)	0.00			0.00%		
TOTAL PAYMENTS		22,117,521,308.00	2,496,775,313.00	24,614,296,621.00	19,513,275,142	5,101,579,247	79%		
Surplus/Deficit					(390,287,786)				

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TREASURY ACCOUNTS
Reports and Financial Statements
For the year ended June 30, 2018

- (a) [For the revenue items, indicate whether they form part of the AIA by inserting the "AIA" alongside the revenue category.]
- (b) [Provide below a commentary on significant underutilization (below 90% of utilization) and any overutilization (above 100%)]
- vii. Proceeds from Domestic and Foreign Grants 74.91%- There were delay in procurement process caused by stringent donor conditions.
 - viii. Exchequer Releases 34%- Due to few invoices received and Austerity measures in place there were fewer Exchequer requisition
 - ix. Proceeds from Foreign Borrowing 77%- There were delay in Procurement process caused by stringent donor conditions.
 - x. Compensation of Employees 58.40%-Anticipated filling of all vacant post in the departments following the approval of the structured staff establishment was not achieved.
 - xi. Use of Goods and Services 81.451%- Austerity measures were put in place to reduce the expenditure on hospitality suppliers and services
 - xii. Transfers to other Government Units 75.25%. Invoices for services rendered were received after the closure of the financial year
 - xiii. Acquisition of Assets 70.58%- Goods ordered had not been delivered by the closure of the financial year
(Explain whether the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.9.23. The totals of actual on comparable basis under the recurrent and development statement should equal to the total on actual on comparable basis under the Combined Summary Statement of Appropriation.)

The National Treasury financial statements were approved on 7/6/ 2019 and signed by:



Dr. Kamau Thugga
PRINCIPAL SECRETARY



Lilian W. Dishon
PRINCIPAL ACCOUNTANT
ICPAK Member No. 10442



THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

X. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget 2018 Kshs	Adjustments Kshs	Final Budget 2018 Kshs	Actual on comparable basis Date, 2018 Kshs	Budget utilization difference Kshs
Programme 1 General Administration Planning And Support Services	37,029,605,184		37,029,605,184	34,215,903,132	2,813,702,052
Programme 2 Public Financial Management	27,651,292,384		27,651,292,384	22,116,822,108	5,534,470,276
Programme 3 Economic and Financial Policy Formulation and Management	2,036,392,887		2,036,392,887	1,668,611,390	367,781,497
Programme 4 Market Competition	381,250,000		381,250,000	381,250,000	0
Programme 5 Government Clearing Agency	55,404,789		55,404,789	38,130,996	17,273,793
TOTALS	67,153,945,244		67,153,945,244	58,420,717,623	8,733,227,617

(NB: This statement is a disclosure statement indicating the utilisation in the same format at the Entity's budgets which are programme based. Ensure that this document is completed to enable consolidation by the National Treasury)



XI. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

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

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

2. Reporting Entity

The financial statements are for The National Treasury. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity: (See Annex 5)

3. Reporting Currency

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

4. Significant Accounting Policies

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

a) Recognition of Receipts

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

- **Tax Receipts**

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



SIGNIFICANT ACCOUNTING POLICIES

- **Transfers from the Exchequer**

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

- **External Assistance**

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

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

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

During the year ended 30th June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

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

b) Recognition of payments

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

- **Compensation of Employees**

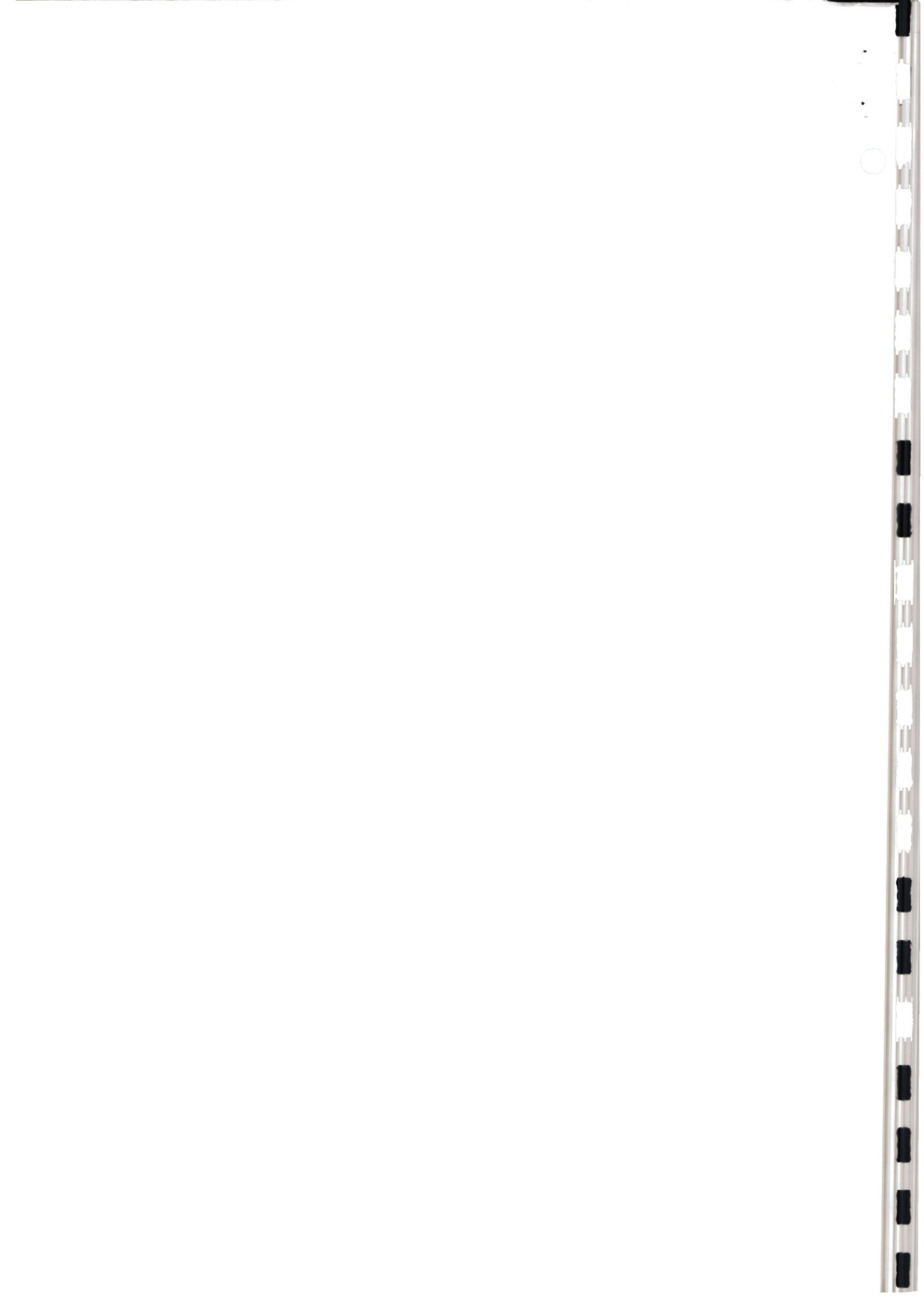
Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

- **Use of Goods and Services**

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

- **Interest on Borrowing**

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



SIGNIFICANT ACCOUNTING POLICIES

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

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

- **Acquisition of Fixed Assets**

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

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

5. **In-kind contributions**

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

6. **Third Party Payments**

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

7. **Cash and Cash Equivalents**

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

Restriction on Cash

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

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2018, this amounted to Kshs 146,481,242 compared to Kshs 98,634,492 in prior period as indicated on note 15.

There were no other restrictions on cash during the year.



SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

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

9. Accounts Payable

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

10. Pending Bills

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

11. Budget

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

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

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

12. Comparative Figures

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



SIGNIFICANT ACCOUNTING POLICIES

3. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30th June 2018.

14. Errors

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

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

15. Related Party Transactions

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

XII. NOTES TO THE FINANCIAL STATEMENTS

1 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Date received	Amt Foreign Currency	2017-2018	2016-2017
			Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)				
Grants from Danida			-	3,420,000
Global Fund-HIV/AIDS			6,468,270,965	6,309,081,877
Global Fund and -TB			292,598,006	505,177,238
Global Fund and -Malaria			2,427,478,341	933,213,937
Technical Support Programme			48,832,274	23,332,433
Study and Capacity Building			4,472,100	-
Totals			9,241,651,686	7,774,225,484

2 EXCHQUER RELEASES

DESCRIPTION	RECURRENT	DEVELOPMENT	TOTALS	TOTALS
	2017-2018	2017-2018	2017-2018	2016-2017
	Kshs	Kshs	Kshs	Kshs
Total Exchequer Releases for quarter 1	5,187,917,703	1,575,780,771	6,763,698,474	7,967,156,200
Total Exchequer Releases for quarter 2	6,501,838,000	2,770,069,500	9,271,907,500	9,838,891,400
Total Exchequer Releases for quarter 3	5,247,800,000	2,282,130,735	7,529,930,735	7,157,348,597
Total Exchequer Releases for quarter 4	22,528,027,200	2,861,939,765	25,389,966,965	27,933,078,011
Total	39,465,582,903	9,489,920,771	48,955,503,674	52,896,474,028



NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 PROCEEDS FROM FOREIGN BORROWINGS

	2017-2018	2016-2017
	Kshs	Kshs
Foreign Borrowing – Draw-downs Through Exchequer		
Foreign Borrowing - Direct Payments	391,414,899	702,453,080
Foreign Currency and Foreign Deposits		
Total	391,414,899	702,453,080

4 OTHER REVENUES

	2017-2018	2016-2017
	Kshs	Kshs
Other Receipts Not Classified Elsewhere(Annex XIX)	N/A	
Total		

5 COMPENSATION OF EMPLOYEES

	2017-2018	2016-2017
	Kshs	Kshs
Basic salaries of permanent employees	1,406,449,487	1,345,997,337
Basic wages of temporary employees	129,995,454	143,776,966
Personal allowances paid as part of salary	772,367,672	683,901,162
Total	2,308,812,613	2,173,675,464



NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 USE OF GOODS AND SERVICES

	2017-2018	2016-2017
	Kshs	Kshs
Utilities, supplies and services	120,216,825	132,186,166
Communication, supplies and services	26,390,451	59,146,954
Domestic travel and subsistence	103,364,523	104,850,944
Foreign travel and subsistence	31,415,083	91,349,140
Printing, advertising and information supplies & services	1,528,302	1,990,044
Rentals of produced assets	53,089,394	40,676,125
Training expenses	180,839,621	155,364,565
Hospitality supplies and services	210,697,113	398,007,376
Insurance costs	422,593,844	1,072,725,926
Specialized materials and services	8,663,943,446	7,458,489,316
Office and general supplies and services	28,848,721	107,797,594
Other operating expenses	10,475,401,554	12,031,669,830
Routine maintenance – vehicles and other transport equipment	33,921,857	42,652,814
Routine maintenance – other assets	12,883,308	47,137,096
Exchange Rate Losses		
Fuel,oil and lubricants	31,861,233	26,730,673
Total	20,396,995,275	21,770,774,561

7 SUBSIDIES

Description	2017-2018	2016-2017
	Kshs	Kshs
Agricultural Finance Corporation	1,137,078,335	
		500,000,000
		300,000,000
		250,000,000
Total	1,137,078,335	1,050,000,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2017-2018	2016-2017
	Kshs	Kshs
Transfers to National Government entities (SCOA Codes 2630100, 2630200, 2640400, 2640500, 2649900, 2820100, 2820200, 2820300)		28,070,205,786
See ANNEX XIX		
1		
TOTAL	28,852,301,349	28,070,205,786

9 OTHER GRANTS AND TRANSFERS

Explanation	2017-2018	2016-2017
	Kshs	Kshs
Membership dues and subscriptions to international organizations		
Membership dues and subscriptions to international organizations(Continued)	48,779,790.00	
African Capacity Building Foundation	42,333,304	41,200,000
Shelter Afrique	355,000,000	1,000,000,000
United Nations Development Fund		20,059,268
Common Wealth		45,094,633
ESAAMLG		6,946,725
African Economic Research Consortium		36,542,000
MEFMI	81,363,501	
IBRD	542,000,000	
Total	1,069,476,595	1,149,842,626



NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 ACQUISITION OF ASSETS

<u>Non Financial Assets</u>	2017-2018	2016-2017
	Kshs	Kshs
Construction of Buildings	37,000,000	83,088,238
Refurbishment of Buildings	102,625,495	274,168,513
Construction and Civil Works		
Overhaul and Refurbishment of Construction and Civil Works	29,784,377	20,080,750
Purchase of Vehicles and Other Transport Equipment	60,220,000	99,542,550
Purchase of Household Furniture and Institutional Equipment		252,400
Purchase of Office Furniture and General Equipment	66,734,575	140,566,533
Purchase of ICT Equipment, Software and Other ICT Assets		
Purchase of Specialized Plant, Equipment and Machinery	448,698,433	252,377,378
Research, Studies, Project Preparation, Design & Supervision	647,191,753	681,154,420
Sub-total	1,392,254,633	1,551,230,782
<u>Financial Assets</u>		
Domestic Public Non-Financial Enterprises	1,100,656,025	2,597,785,681
Domestic Public Financial Institutions	1,279,642,441	600,000,000
Foreign financial Institutions operating Abroad	883,500,363	1,782,536,438
Sub-total	3,263,798,829	4,980,322,119
Total	4,656,053,462	6,531,552,901



NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. SOCIAL SECURITY BENEFITS

Explanation	2017 -2018	2016 -2017
	Kshs	Kshs
Government pension and retirement benefits	NIL	NIL
Social security benefits in cash and in kind	NIL	NIL
Employer Social Benefits in cash and in kind	NIL	NIL
Social Benefits to the aged(above 70 years)	NIL	NIL
Total	NIL	NIL

12. OTHER EXPENSES

	2017-2018	2016-2017
	Kshs	Kshs
Budget Reserves	NIL	NIL
Civil Contingency Reserves	NIL	NIL
Other expenses	NIL	NIL
Total	NIL	NIL

13A: Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate if in foreign currency	2017-2018	2016-2017
				Kshs	Kshs
MINISTRY OF FINANCE OLD A/C		Recurrent		309,116,798	309,116,798
NATIONAL TREASURY (Annex xii)		Recurrent		1,007,235	219,493,671
MINISTRY OF FINANCE OLD A/C		Development		10,677,332	10,677,332
NATIONAL TREASURY(Annex xiib)		Development		20,436,768	266,991,907
MINISTRY OF FINANCE OLD A/C		Deposit		677,758,270	677,758,270
NATIONAL TREASURY(Annex xiic)		Deposit		371,762,523	297,208,815
Total	-			1,390,758,926	1,781,246,794



NOTES TO THE FINANCIAL STATEMENTS (Continued)

13B: CASH IN HAND

	2017-2018	2016-2017
	Kshs	Kshs
CASH BOOK RECURRENT	741,626	1,490,696
CASH BOOK OLD/AC DEPOSIT		
Total	741,626	1,490,696

Cash in hand should also be analysed as follows:

	2017-2018	2016-2017
	Kshs	Kshs
Location 1 National Treasury Cash Office	741,626	1,490,696
Total	741,626	1,490,696

14: ACCOUNTS RECEIVABLE

Description	2017-2018	2016-2017
	Kshs	Kshs
Advance to MDAs and Projects (Annex viii)	818,256,370	637,937,358
Government Imprests (Annex ix)	1,136,445	65,256
Salary advances (Annex x)	677,826	393,843
District suspense (Annex xi)	53,555	163,537
Total	820,124,196	638,559,994

15. ACCOUNTS PAYABLE

Description	2017-2018	2016-2017
	Kshs	Kshs
Deposits (Annex XIV a-j)	146,481,242	98,634,493
Recurrent (Annex XV a-c)	7,913,637	10,601,866
Development(Annex XVI a-b)	541,716	7,096,650
Total	154,936,594	116,333,009

[Provide short appropriate explanations as necessary]



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. FUND BALANCE BROUGHT FORWARD

Description	2017-2018	2016-20
	Kshs	Ks
Bank accounts	1,781,246,794	2,267,285,7
Cash in hand	1,490,696	1,946.1
Accounts Receivables	638,559,,994	592,378,3
Accounts Payables	(116,333,009)	(1,078,469,50
Total	2,304,964,475	1,783,140,7

17. PRIOR YEAR ADJUSTMENTS

Description of the error	2017 – 2018	2016 – 2017
	Kshs	Kshs
Adjustments on receivables (Annex XVIII)	416,128,952	105,277,500
TOTALS	416,128,952	105,277,500



NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. RELATED PARTY DISCLOSURES

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

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

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

Related party transactions:

	2017/2018	2016/2017
	Kshs	Kshs
Key Management compensation	2,308,812,613	2,173,675,464
	=====	=====
Transfers to the Other Ministries Departments and Agencies	28,852,301,349	28,070,205,786
Transfers to other State Corporations and Semi-Autonomous Government Agencies		
Transfers to Government Development Projects	19,518,158,236	17,616,873,234
Transfers from other Ministries Departments and Agencies	48,955,503,674	52,896,474,028
	=====	=====

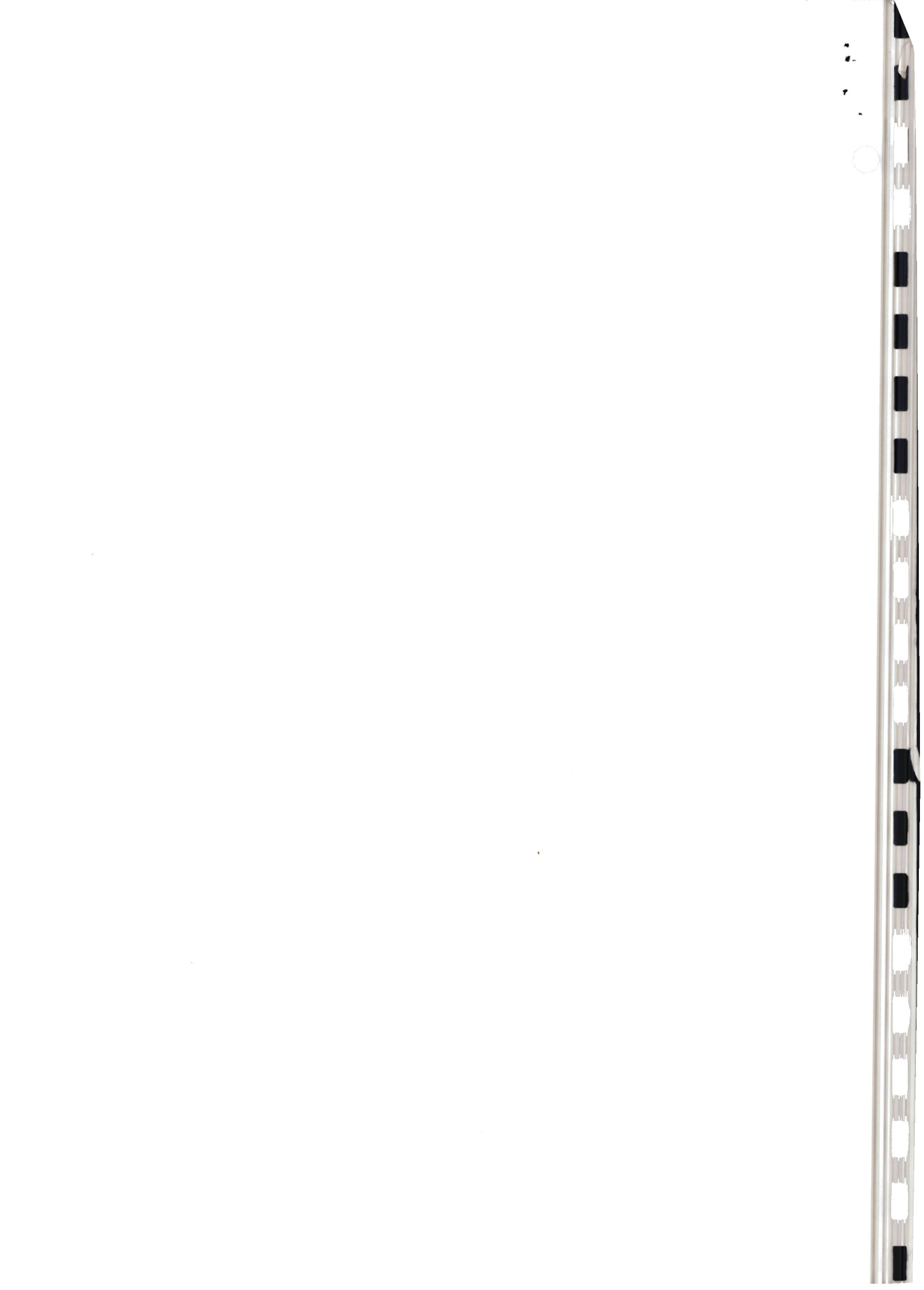


NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. OTHER IMPORTANT DISCLOSURES

18.1: PENDING ACCOUNTS PAYABLE (See Annex 1)

Description	2017 – 2018	2016 – 2017
	Kshs	Kshs
Construction of buildings		
Construction of civil works		
Supply of goods		
Supply of services Annex 1	563,474,302.95	80,450,956.55





THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2018

29. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
2016/2017	1. Pending bills amounting to ksh. 80,450,956	Was due to late submission of Invoice Paid in FY 2017/2018	Lilian W. Dishon Principal Accountant	Resolved	
2016/2017	2. Outstanding Imprest of ksh. 65,256	Imprest Accounted for	Lilian W. Dishon Principal Accountant	Resolved	
2016/2017	3. Outstanding items in Bank Reconciliations	Most of the items were for 30 th June 2017 and have since been cleared.	Lilian W. Dishon Principal Accountant	Resolved.	


 Dr. Kamau Thugge
 PRINCIPAL SECRETARY


 Lilian W. Dishon
 Principal Accountant
 ICPAK Member No. 10442

