

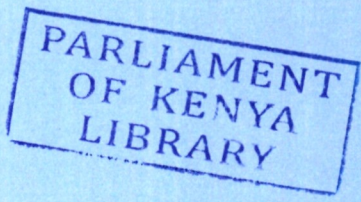
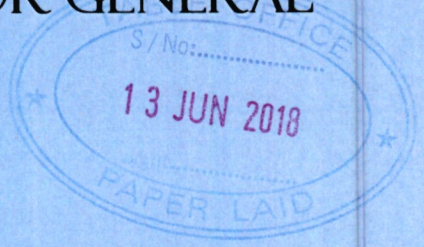
REPUBLIC OF KENYA



Paper Laid
By Hon. Wasihali, MP on
behalf of ROMF at the
table of the House on
13/6/2018



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
RECEIVER OF REVENUE – MINISTRY OF
MINING

FOR THE YEAR
ENDED 30 JUNE 2017



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**RECEIVER OF REVENUE
MINISTRY OF MINING**

REVENUE STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

**RECEIVER OF REVENUE ENTITY –MINISTRY OF MINING
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The receiver of revenue is under the Ministry of Mining. At cabinet level, the receiver of revenue is represented by the Cabinet Secretary for Mining, who is responsible for the general policy and strategic direction of the receiver of revenue. The receiver of revenue was appointed as a receiver on 1st July 2016

(b) Principal activities

The receiver of revenue collects revenue from Mining, Royalties, Fees and Licences. Revenue collected is remitted to the National Treasury and used for development

(c) Key Management

The Ministry's key personnel management holding office during the financial year ending 30th June 2017 are:

NO.	NAME	DESIGNATION
1.	Dr Ibrahim Mohamed	Principal secretary
2.	Mr Andrew Rukaria	Director Administration
3.	Mr Shadrack Kimomo	Director of Mines and Geology
4.	Mr Patrick W. Wako	Director of Resource Survey and Remote Sensing
5.	Mr Julius Mwangi	Senior Chief Finance Officer
6.	Mrs Catherine Shiroko	Head of Accounting unit
7.	Mr Shadrack Ogendi	Head of Supplies Chain and management Services
8.	Mrs Catherine Mugwe	Head of Human Resource Management
9.	Mr Fred Wandera	Head of Internal Audit
10.	Mrs Lynne Nyongesa	ICT

**RECEIVER OF REVENUE ENTITY –MINISTRY OF MINING
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

(d) Entity Headquarters

P.O. Box 30009-00100
Works Building
Ngong Road
Nairobi, KENYA

(e) Entity Contacts

Telephone: (254) 020-2723101
E-mail: ps@mining.go.ke
Website: www.mining.go.ke

(f) Entity Bankers

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

(g) Principal Legal Adviser

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

(h) Independent Auditors

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

**RECEIVER OF REVENUE ENTITY –MINISTRY OF MINING
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

I. STATEMENT OF RECEIVER OF REVENUE’S RESPONSIBILITIES

Section 83 (1) of the Public Finance Management Act, 2012 requires that, at the end of each quarter, a receiver of revenue shall prepare an account of the revenue received and collected by that receiver during that financial period. Section 83 (2)(b) 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 Principal Secretary in charge of the Ministry of Mining is responsible for the preparation and presentation of the receiver of revenue account, which gives a true and fair view of the state of affairs of the receiver of revenue for and as at the end of the period ended on June 30th, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Ministry of Mining; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Principal Secretary in charge of the Ministry of Mining accepts responsibility for the Ministry of Mining’s receiver of revenue accounts, 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) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the Ministry of Mining’s receiver of revenue account gives a true and fair view of the state of Ministry of Mining’s receiver of revenue transactions during the period ended June 30th 2017, and of the Ministry of Mining’s financial position as at that date. The Principal Secretary in charge of the Ministry of Mining further confirms the completeness of the accounting records maintained for the receiver of revenue, which have been relied upon in the preparation of the receiver of revenue account as well as the adequacy of the systems of internal financial control.

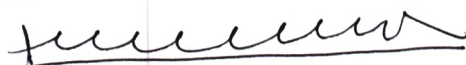
The Principal Secretary in charge of the Ministry of Mining confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity’s funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Principal Secretary confirms that the receiver of revenue’s accounts 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 Revenue Statements

The revenue statements were approved and signed by the Principal Secretary on June 30th 2017

Approval of the Revenue Statements

The revenue statements were approved and signed by the Principal Secretary on _____ 30 Sept 2017



Principal Secretary
Name: Dr Ibrahim Mohammed



Principal Accounts Controller
Name: Catherine Shiroko

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON RECEIVER OF REVENUE- MINISTRY OF MINING FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE REVENUE STATEMENTS

Qualified Opinion

I have audited the accompanying revenue statements of the Ministry of Mining set out on pages 6 to 13, which comprise the statement of receipts and transfers at 30 June 2017, and the statement of arrears in revenue 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, except for matters described in the Basis for Qualified Opinion section of my report, the revenue statements present fairly, in all material respects, the revenue performance of the Ministry of Mining as at 30 June 2017, 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 matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter Sections of my report, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Cement Levy

The statement of receipts and transfers reflects cement levy totaling to Kshs.503,400,309. However, records in support of the levy indicates that the Ministry did not verify the production levels reported by the various cement companies. Consequently, the Ministry relied solely on self-declared production figures of the cement companies. Although, according to management, the Ministry's inspection capacity has been enhanced through recruitment of Inspectors of Mines, verification of production is yet to be done. It was further observed that three (3) cement companies had not paid levies relating to both the current and previous years attributing this to challenges related to business decline. According to management levy collection enforcement measures applied have not yielded any collections because cement production and business is currently regulated under

Report of the Auditor-General on the Revenue Statements of Ministry of Mining for the year ended 30 June 2017

Industrialization and not Petroleum and Mining sector. Further, and although according to management, the Ministry has entered into a memorandum of understanding (MOU) with the Kenya Revenue Authority (KRA) to collect the levy on its behalf, the memorandum is yet to be actualized. Under the circumstances it has not been possible to confirm the accuracy and completeness of the reported cement levy of Kshs.503,400,309.

2. Mining Royalties - Royalties from Carbacid Company Limited

The statement of receipts and transfers reflects mining royalties totaling to Kshs.107,179,357. These amounts exclude royalties of unknown value due from the Carbacid Company Limited on account of carbon dioxide. Although, verification of the company's production and sales returns as well as negotiation for payment of the outstanding levies for the year 2017 is ongoing between the two parties, the cement levy is yet to be collected. In the circumstances, it has not been possible to confirm the accuracy and completeness of mining royalties totaling to Kshs.107,179,357.

3. Royalties from Base Titanium Limited

The statement of receipts and transfers reflect receipts from Base Titanium totaling to Kshs.404,220,727. However, as reported in the 2015/2016 report, records in support of these royalty receipts indicates that the Ministry did not verify the export quantities and prices reported by the Company, which form the basis for computation of royalties. Consequently, the Ministry relied solely on the Company's self-declared export quantities and prices. Although, according to management, the Ministry was in the process of engaging an expert for the purpose of verification of export details, the exercise of verification had not been done for the year ended 30 June 2017. Under the circumstances, it was not possible to confirm the accuracy and completeness of the royalties totaling to Kshs.404,220,727.

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

Shortfall in Revenue Collection

I draw your attention to the statement of comparison of budget and actual amounts which reflects actual revenue received from two revenue streams and the budgeted amounts, resulting to shortfall in revenue collection, as detailed in the table below:

	Company	Budget (Kshs)	Actual Kshs)	Variance (Kshs)	Variance (%)
1	Magadi Soda	86,764,751	50,620,761	36,143,990	41
2	Cement Levy	613,312,555	503,400,309	109,912,246	18

According to management, this had resulted from non-payment by some companies and delay of entry of data into the cadaster system, for Cement Levy and Magadi Soda revenue, respectively. Consequently, the revenue collection targets for the Ministry were not achieved.

My report is not qualified with respect to the above matter.

Other Matter

Irregular Export Permits

As reported in the 2014/2015 and 2015/2016 reports, information available indicated that export permits with a value of US\$ 18,619,645 (approximately Kshs.1.9 billion) were issued during 2014/2015 financial year, by an unauthorized officer whose employment contract expired on 19 April 2014. This was contrary to the then Mining Act, according to which, exports permits were to be signed by the Commissioner of Mines or an authorized officer whose authority had been delegated in writing. Consequently, the validity of the revenue collections on the export permits issued by the unauthorized officer could not be confirmed.

Key Audit Matters

Key audit matters are those matters which, in my professional judgment, were of most significance in the audit of the revenue statements. Except for the matters described in the Basis for Qualified Opinion, Emphasis of Matter and Other Matter sections of my report, I have determined that there are no key audit matters to communicate in my report.

Responsibilities of Management and those Charged with Governance for the Revenue 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 revenue statements which are free from material misstatement, whether due to fraud or error.

In preparing the revenue statements, management is responsible for assessing the Ministry's ability to continue sustaining its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless

management is aware of intention to terminate the Ministry, or there is 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 Ministry's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Revenue 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 which 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement 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 judgment and maintain professional skepticism throughout the audit. I also:

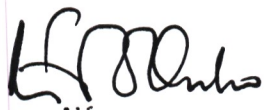
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence which is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 which are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Ministry'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 which may cast significant doubt on the Ministry's ability to sustain 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 revenue 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 Ministry to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the revenue statements, including the disclosures, and whether the revenue statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities to express an opinion on the revenue 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 which are identified during the audit.

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



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

Nairobi

7 May 2018

II. STATEMENT OF RECEIPTS AND TRASFERS

	Note	2016/17 Kshs	2015/16 Kshs
Other Receipts			
Cement levy		503,400,309.00	nil
Mineral export levy		18,460,775.00	nil
Mining royalties		107,179,357.00	nil
Magadi soda		50,620,761.00	nil
Base titanium		404,220,727.00	nil
TOTAL NON TAX RECEIPTS		1,083,881,930.00	nil
TOTAL RCEIPTS COLLECTED		1,083,881,930.00	nil
TRANSFERS TO THE EXCHEQUER ACCOUNT		1,073,270,743.00	nil
BALANCE BROUGHT FORWARD			
BALANCE CARRIED FORWARD		10,611,216.00	nil

The accounting policies and explanatory notes to these revenue statements form an integral part of the revenue statements. These revenue statements were approved on _____ Sept 30th 2017 and signed by:



Principal Secretary
Name: Dr Ibrahim Mohammed



Principal Account's controller
Name: Catherine Shiroko

III. STATEMENT OF ARREARS IN REVENUE AS AT 30 JUNE 2017

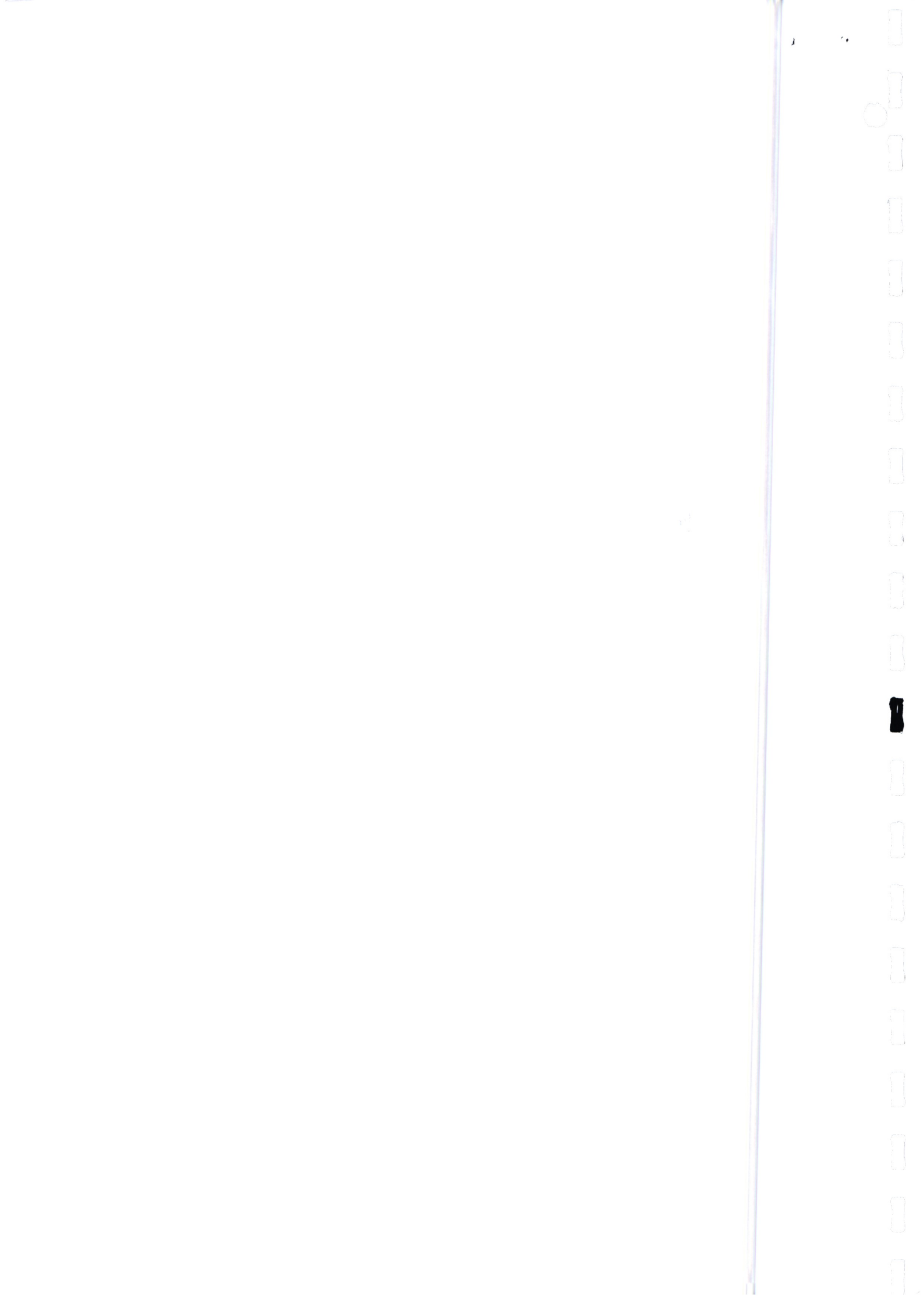
-There were no arrears of Revenue in the year



Principal Secretary
Name: Dr Ibrahim Mohammed



Principal Accounts Controller
Name: Catherine Shiroko



**IV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017**

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference	
	2016-2017		2016-2017		2016-2017		2016-2017		2016-2017	
	Kshs		Kshs		Kshs		Kshs		Kshs	
Revenue										
Other Receipts										
Cement levy	613,312,555.00		nil		613,312,555.00		503,400,309.00		(109,912,246.00)	
Mineral export levy	6,972,814.00		nil		6,972,814.00		18,460,775.00		11,487,961.90	
Mining royalties	118,337,643.00		nil		118,337,643.00		107,179,357.00		(11,158286.00)	
Magadi soda	86,764,751.00		nil		86,764,751.00		50,620,761.00		(36,143,990.00)	
Base titanium	294,694,680.00		nil		294,694,680.00		404,220,727.00		109,526,047.00	
Total Non tax receipts	1,120,082,443.00		nil		1,120,082,443.00		1,083,881,930.00		(36,200,513.00)	
Total receipts	1,120,082,443.00		nil		1,120,082,443.00		1,083,881,930.00		(36,200,513.00)	

(a) Provide below a commentary on significant underutilization (below 10% of utilization) and any overutilization]

- i. Cement levy: There was an under collection of ksh 109,912,246.00(18%) revenue in the year under review. This resulted from none payment by some companies
- ii. Mining royalties: Revenue realised fell by kshs 11,158,286.00 (9%) from the budgeted amount due to market difficulties
- iii. Magadi soda : revenue from magadi soda was less by ksh 36,143,990(41%).delayed data into the cadaster system which is now been analyst.
- iv. **Mineral export levy together with export permit processing fees:** This item realized ksh. 11,487,961 (164%) in excess of the budgeted amount. This was due to an increase in the number of new client venturing into the business after the mining act was passed.
- v. **Base Titanium :** there was an over collection by ksh109,526047.00 above the budget. This Is because mineral deposits underground cannot be forecasted with certainty At times in one location there might be small quantities, while at another significant quantities. In this year there was better yield than last financial year.

Overall there was an under collection of ksh. 36,200,513 (3%)revenue in the year under review resulting from the above cited reasons.

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V. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

The revenue statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting and relevant legal framework of the Government of Kenya. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

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

The revenue statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *entity*.

2. Recognition of Revenue

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

3. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the revenue statements. The revenue budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the revenue's actual performance against the comparable budget for the financial year under review has been included as part of notes to these financial statements.

4. 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.

5. Revenue in Arrears

This relates to revenue due and is yet to be received or collected by the receiver of revenue. The revenue in arrears is as disclosed in the Statement of Revenue in Arrears under section IV of these financial statements.

SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. Comparative Figures

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

7. Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the revenue statements for the year ended June 30, 2017.

8. Statement of Arrears of Revenue

The statement of arrears of revenue is not a requirement as per the IPSAS Cash Standard. The IPSAS Cash Standard encourages disclosure of accrual based balances since it's a transitional standard to accrual basis of accounting.

The PFM Act, 2012 section 82,2b and section 69(c) of the PFM Regulations 2015 requires a Receiver of Revenue to prepare a statement on revenue of arrears due but not yet collected at the end of the period. This statement has been disclosed under section IV of these financial statements



NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. BALANCES CARRIED FORWARD

a <u>Balance carried forward subsequently transferred</u>	
Amount	Date transferred
1 0,611,216.00	1 Sept 2017
b <u>Balance carried forward yet to be transferred</u>	
1.nil	



**RECEIVER OF REVENUE ENTITY –MINISTRY OF MINING
REVENUE STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

VI. APPENDIX 1: A REPORT OF WAIVERS AND VARIATIONS OF TAXES, FEES OR CHARGES GRANTED BY THE RECEIVER OF REVENUE DURING THE YEAR.

There was no waiver given in the financial year under review 2016/2017

VII. 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.

This is a new statement and hence no prior year issues.

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