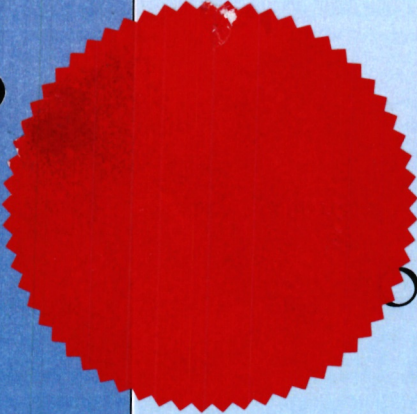


REPUBLIC OF KENYA



PAPER USED
By the leader
of majority
Party Hon the
Speaker
14.3.2017



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OF KENYA
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REPORT

TABLE OFFICE
S/No:.....
14 MAR 2017
Sign:.....
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OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
STATEMENT OF OUTSTANDING
OBLIGATIONS GUARANTEED BY
THE KENYA GOVERNMENT**

**FOR THE YEAR ENDED
30 JUNE 2016**

THE NATIONAL TREASURY

REPUBLIC OF KENYA

Telephone: +254-20-342330
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E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE KENYA GOVERNMENT AS AT 30 JUNE 2016- THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENT

I have audited the accompanying financial Statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2016, 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.

Management's Responsibility for the Financial Statement

The Accounting Officer, National Treasury is responsible for the preparation and fair presentation of this financial statement 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 a financial statement that is free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on this financial statement based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 National Treasury's internal control. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Audit Opinion

1. Presentation of the Financial Statement

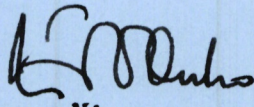
Contrary to the guidelines prescribed by the Public Sector Accounting Standards Board, the statement of outstanding obligations guaranteed by the government of Kenya as at 30 June 2016 prepared and submitted for audit do not comply fully with the requirements of the International Public Sector Accounting Standards (Cash Basis). The single statement submitted does not include comparative balances for the previous year, accounting policies used in its preparation and other explanatory notes.

2. Long Outstanding Balances

The statement of outstanding obligations guaranteed by the Kenya government as at 30 June 2016 reflects long outstanding contingent liabilities totalling Kshs.164,132,745.60 made up of Kshs.11,814,920.20 and Kshs.152,317,825.00 relating to Kenya Railways Corporation and Cereals and Sugar Finance Corporation, respectively. Settlement of these liabilities appears to be uncertain because the National Treasury has indicated that their clearance is dependent on redemption of bonds issued by Kenya Railway Corporation and completion of winding up process of the Cereals and Sugar Finance Corporation.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statement do not present fairly, the Statement of Outstanding Obligations Guaranteed by the Kenya Government as at 30 June 2016 in accordance with International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.



FCPA Edward R. O. Ouko, CBS
AUDITOR GENERAL

Nairobi

16 February 2017



THE NATIONAL TREASURY

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

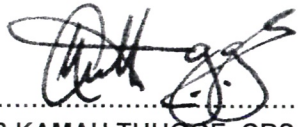
**STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED
BY THE GOVERNMENT AT 30TH JUNE 2016**

THE NATIONAL TREASURY

STATEMENT OF OUTSTANDING OBLIGATIONS GUARANTEED BY THE GOVERNMENT AT 30TH JUNE 2016

Organization to which guarantee is given	Obligation guaranteed	Currency	Exchange Rate	Equivalent Kenya Shillings
Bond Holders	Loan of K£ 480,000 to Kenya Railways Corporation	K£ 25,655.00	20.00	513,100.00
Bond Holders	Loan of K£ 18,816 to Kenya Railways Corporation	K£ 565,091.00	20.00	11,301,820.00
Lenders/2	Capital and Interest owed by cereals and Sugar Finance Co.	KSH 152,317,825.00	1.00	152,317,825.00
TOTAL				164,132,745.00

NB: Post Bank excluded(losses incurred written off against profits)



DR.KAMAU THUGGE, CBS
PRINCIPAL SECRETARY

Date.....

30/9/16



GEORGE KIHARA GICHURU
SENIOR ASST. ACCOUNTANT GENERAL

Date.....

30/9/16