

REPUBLIC OF KENYA



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REPORT	
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THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
TREASURY MAIN CLEARANCE FUND**

**FOR THE YEAR ENDED
30 JUNE 2018**

NATIONAL TREASURY



THE NATIONAL TREASURY

TREASURY MAIN CLEARANCE FUND (TMC)

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30TH, 2018

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

THE NATIONAL TREASURY
FINANCIAL STATEMENTS
TREASURY MAIN CLEARANCE FUND (TMC)
FOR THE YEAR ENDED JUNE 30, 2018

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**THE NATIONAL TREASURY
FINANCIAL STATEMENTS
TREASURY MAIN CLEARANCE FUND (TMC)
FOR THE YEAR ENDED JUNE 30, 2018**

I. NATIONAL TREASURY 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;

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

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.

(b) 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:

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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).

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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

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(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

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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

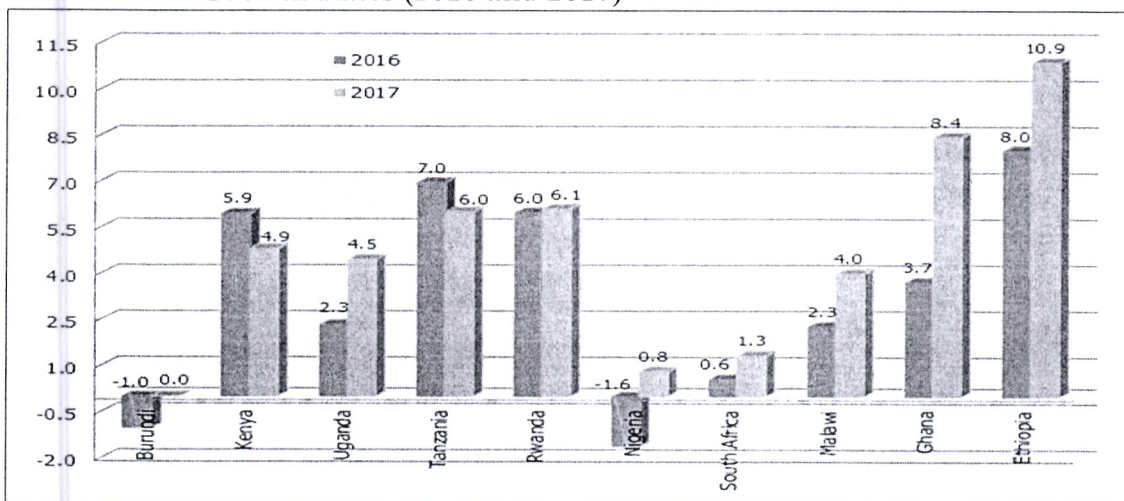
(i) Principal Legal Adviser

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.

GDP Annual Growth Rates (2016 and 2017)



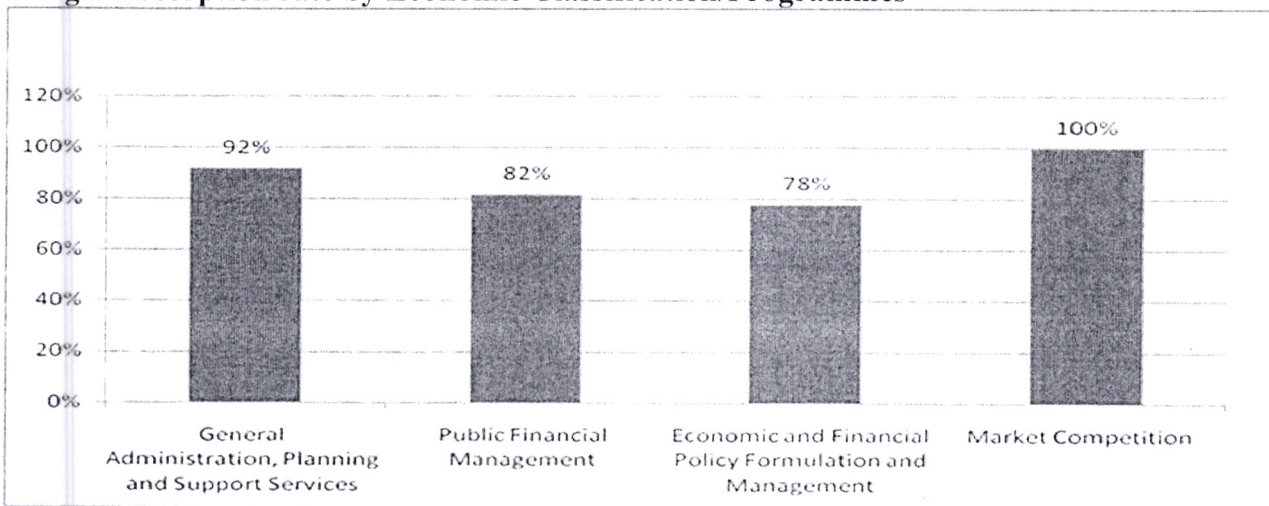
Despite the difficult circumstances faced last year, the Country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable throughout 2017. This serves as a clear demonstration to domestic as well as foreign investors of our commitment to 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.39.416m against an approved budget of Kshs.42.540m in Recurrent while Development expenditure stood at Kshs 9.761m against an approved budget of Kshs.11.862m giving an overall absorption rate of 90.5%. The National Treasury implemented the 2017/18 budget within four economic classification/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in the bar graph below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 92%, Public Financial Management Programme at 81.7% and Economic and Financial Policy Formulation and Management (78%).

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.

Some of the challenges the National Treasury faced while implementing the 2017/18 budget include:-

1. Lack of adequate funds/exchequer to finance all the budget requests by Ministries, Departments and Agencies.
2. Low absorption of Official Development Assistance (ODA).
3. Uncertainty associated with the political elections that slowed down economic activity thus affecting revenue performance.
4. Slow enactment of relevant regulations and related legal instruments to facilitate financial sector deepening.

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

1. Maintain macroeconomic stability by ensuring that inflation, interest rates and exchange rates remain largely stable.
2. Continue to improve the environment for businesses to thrive, deal decisively with corruption and address the governance and performance challenges at our parastatals and State-linked companies, as well as improve efficiency in our financial sector in order to boost investments and create jobs.
3. Manage the level and composition of national public debt, national guarantees and other financial obligations of national government effectively;
4. 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.
5. Strengthen capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthen financial and fiscal relations between the national government and county governments
6. 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.
7. Promote the Public Private Partnership initiatives to finance government capital projects.
8. Engage other development partners for concessional loans and grants as well as pursue strategies to facilitate issuance of international bonds to finance government projects.
9. Ensure constant collaboration between the National Treasury and all the Stakeholders.
10. Strengthen monitoring and evaluation framework.



HENRY K. ROTICH, EGH
CABINET SECRETARY

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III. STATEMENT OF NATIONAL TREASURY MANAGEMENT RESPONSIBILITIES

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

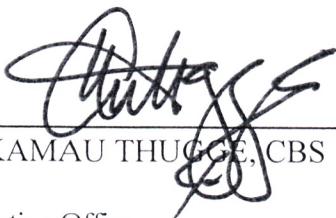
The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Treasury Main Clearance (TMC) report, which give a true and fair view of the state of affairs of The National Treasury for and as at the end of the financial year (period) ended on June 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 status of the revenue collected by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer in charge of The National Treasury accepts responsibility for the National Treasury's Main Clearance (TMC) report, which has 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 this Fund report gives a true and fair view of The National Treasury's Fund performance during the financial year ended June 30, 2018. The Principal Secretary in 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 this report as well as the adequacy of the systems of internal financial control.

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

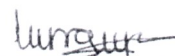
Approval of the Financial Statements

The Treasury Main Clearance Fund was approved and signed by the Accounting Officer on
30th Sept 2018



DR. KAMAU THUGGE, CBS

Accounting Officer



LILIAN W. DISHON
ICPAK Member No. 10442
Ag. Head of Accounting Unit

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON TREASURY MAIN CLEARANCE FUND FOR THE YEAR ENDED 30 JUNE 2018 – NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Treasury Main Clearance Fund set out on pages 13 to 24, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments and the statement of cash flows 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 matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Treasury Main Clearance Fund as at 30 June 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 of Opinion

1. Winding up of the Fund

The Treasury Main Clearance Fund has not been in operation for a long a long time. Consequently, the Public Accounts Committee it its sitting made recommendations for the Fund to be wound up among other dormant Funds. However, over the years and despite the recommendations from the Public Account Committee, the National Treasury is yet to close the Fund's books of account and has continued to prepare and submit the Fund's financial statements for audit. The financial statements contain balances brought forward, whose accuracy, existence and validity could not be vouched.

On 03 September, 2013 the National Treasury constituted a task force to review and recommend for closure of such dormant Funds, the taskforce has endlessly been seeking for extension of time to finalize their work. A review of the current position indicates that the management does not have any plausible information on the progress made by the task force since.

2. Prior Years Matters

A review of the unsatisfactory matters highlighted in the audit report for 2016/2017 and prior years revealed that the issues still remain unresolved during the year 2017/2018 as indicated below:

i) Accounts Receivable - Debtors

As was reported during the 2016/2017 and earlier years, the statement of assets and liabilities as at 30 June 2018 reflects an accounts receivable-debtors balance of Kshs.12,503,607,445.65 out of which Kshs.2,332,170,394.25 had not been analyzed. Consequently, the completeness and accuracy of the balance could not be ascertained. Further, the balance of Kshs.12,503,607,445.65 has been outstanding for a long period of time. No progress has been made so towards the recovery of the debts which have been due for many years,

ii) Accounts Payable – Creditors

Similarly, as was reported during the previous year, the statement of assets and liabilities of the Treasury Main Clearance Fund Account as at 30 June 2018 continue to reflect an accounts payable - creditors balance of Kshs.12,490,478,940.70 which included amounts of Kshs.523,686.45 under PMG special account of Kshs.2,285,511,054.15 under advance deposits, Kshs.29,963,830.85 under advance deposits - Ministry of Information and Communications and Kshs.93,454.55 under JCF interest all brought forward from 2016/2017 and earlier years. However, and as reported in the previous years, these amounts have not been analysed or supported with relevant documents.

Consequently, the completeness and accuracy of the creditors' balance of Kshs.12,490,478,940.70 as at 30 June 2018 could not be ascertained and cleared from the books of account.

iii) Deficit Balance Brought Forward

In addition, and as was reported during the previous year, the statement of assets and liabilities as at 30 June 2018 also reflects a net financial position (closing fund balance) of Kshs.13,128,504.95 which constitute a deficit brought forward of Kshs.871,495 and fund balance brought forward of Kshs.14,000,000.00 that has not been reconciled. The balance as reflected in the statements of financial position without proper reconciliation cast doubt on the accuracy of the Treasury Main Clearance Fund statement.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matter(s) described in the Basis for Qualified Opinion section, I have determined that 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 Qualified Opinion 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

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 matters described in the Basis for 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 management 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 on the basis of 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.

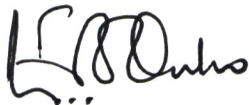
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 Fund 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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



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

Nairobi

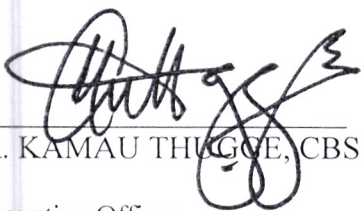
14 February 2019


THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017-2018 Kshs	2016-2017 Kshs
TAX REVENUES			
Taxes on Income, Profits and Capital Gains		-	-
Taxes on Property		-	-
Taxes on Goods and Services		-	-
Taxes on International Trade & Transactions		-	-
Other Taxes		-	-
TOTAL TAX REVENUE		-	-
NON TAX REVENUES			
Fees on use of Goods/Services		-	-
Social Security Contributions		-	-
Property Income		-	-
Fines, Penalties and Forfeitures		-	-
Other Receipts – Treasury Main Clearance Account (TMC)		-	-
Sale of Goods and Services		-	-
Receipts from Sale of Non-Financial Assets		-	-
TOTAL NON TAX REVENUE		-	-
TOTAL REVENUE COLLECTED		-	-
PAYMENTS TO CREDITORS		-	-
BALANCE BROUGHT FORWARD		(871, 495.05)	(871,495.05)
BALANCE CARRIED FORWARD	6	(871,495.05)	(871,495.05)

The accounting policies and explanatory notes set out on pages 18-23 form an integral part of the Fund statement. This Fund statement was approved on 30th Sept 2018 and signed by:


 DR. KAMAU THUGOE, CBS
 Accounting Officer



 LILIAN W. DISHON
 ICPAK Member No. 10442
 Ag. Head of Accounting Unit

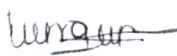
THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018 Kshs	2016-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	1	-	-
Cash Balances	2	-	-
Total Cash and cash equivalent		-	-
Accounts receivables - Debtors	3	12,503,607,445.65	12,503,607,445.65
TOTAL FINANCIAL ASSETS		<u>12,503,607,445.65</u>	<u>12,503,607,445.65</u>
FINANCIAL LIABILITIES			
Accounts Payables – Creditors	4	<u>12,490,478,940.70</u>	<u>12,490,478,940.70</u>
NET FINANCIAL ASSETS		<u>13,128,504.95</u>	<u>13,128,504.95</u>
REPRESENTED BY			
Fund balance b/fwd	5	14,000,000.00	14,000,000.00
Surplus/Deficit b/fwd		(871,495.05)	(871,495.05)
NET FINANCIAL POSITION		<u>13,128,504.95</u>	<u>13,128,504.95</u>

The accounting policies and explanatory notes set out on pages 18-23 form an integral part of the Fund statement. This Fund statement was approved on 30th Sept 2018 and signed by:


 DR. KAMAU THUGGE, CBS
 Accounting Officer


 LILIAN W. DISHON
 ICPAK Member No. 10442
 Ag. Head of Accounting Unit

THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

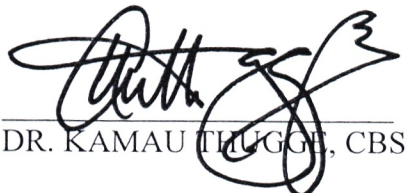
VII. STATEMENT OF CASH FLOW

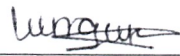
	Note	2017-2018	2016-2017
		Kshs	Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for operating income			
Tax Revenues		-	-
Social Security Contributions		-	-
Proceeds from Domestic and Foreign Grants		-	-
Transfers from National Treasury		-	-
Transfers from Other Government Entities		-	-
Reimbursements and Refunds		-	-
Returns of Equity Holdings		-	-
Other Revenues		-	-
		-	-
Payments for operating expenses			
Compensation of Employees		-	-
Use of goods and services		-	-
Subsidies		-	-
Transfers to Other Government Units		-	-
Other grants and transfers		-	-
Social Security Benefits		-	-
Finance Costs, including Loan Interest		-	-
Other Expenses		-	-
		-	-
Adjusted for:			
Changes in receivables		-	-
Changes in payables		-	-
Adjustments during the year		-	-
Net cash flow from operating activities		-	-
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets		-	-
Acquisition of Assets		-	-
Net cash flows from Investing Activities		-	-

**THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018**

CASHFLOW FROM BORROWING ACTIVITIES			
Proceeds from Domestic Borrowings		-	-
Proceeds from Foreign Borrowings		-	-
Repayment of principal on Domestic and Foreign borrowing		-	-
Net cash flow from financing activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		-	-
Cash and cash equivalent at BEGINNING of the year		-	-
Cash and cash equivalent at END of the year		-	-

The accounting policies and explanatory notes set out on pages 18-23 form an integral part of the Fund statement. This Fund statement was approved on 30th Sept 2018 and signed by:


 DR. KAMAU THUGOI, CBS
 Accounting Officer


 LILIAN W. DISHON
 ICPAK Member No. 10442
 Ag. Head of Accounting Unit

VIII. 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 National Treasury and all values are in Kenya Shillings (KShs). 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 National Treasury.

2. Recognition of Revenue

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

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 in to these revenue statements.

4. Comparative Figures

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

5. 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, 2018.

THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

IX. NOTES TO THE FINANCIAL STATEMENTS

1. Bank Balances

	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
Bank Balance			-	
Balance brought forward			-	
Transfers to the Exchequer account			-	
Balance carried forward			-	

Commentary on Actual Revenue against the Revised Estimates

N/A

THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
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 FOR THE YEAR ENDED JUNE 30, 2018

2. Cash Balances

	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
Balance brought forward			-	
Transfers to the Exchequer account			-	
Balance carried forward			-	

Commentary on Actual Revenue against the Revised Estimates

N/A

**THE NATIONAL TREASURY
FINANCIAL STATEMENTS
TREASURY MAIN CLEARANCE FUND (TMC)
FOR THE YEAR ENDED JUNE 30, 2018**

3. Accounts Receivables - Debtors

ANALYSIS OF DEBTORS	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
003 The National Treasury			7,913,690.15	
013 Police Headquarters			170,879.35	
019 O.O.P – Immigration Department			433,000.25	
021 Pension Department			(21,572,019.85)	
032 Remittance to Crown Agent			2,341,896,517.60	
7310101 Foreign Remittances			10,171,437,051.40	
049 Ministry of Planning			1,712,108.85	
054 Remittance to Karachi Agent			132,319.40	
055 Remittance to Bombay Agent			454,920.15	
058 Fluorspar Company Ltd			1,028,978.35	
TOTAL			12,503,607,445.65	

Commentary:

This is a dormant Fund and the figures presented have been carried forward for many years. The Fund is among the ones intended to be wound up through the National Treasury taskforce on winding up of Dormant Funds.

THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

4. Accounts Payables - Creditors

ANALYSIS OF CREDIRORS		Original Estimates	Revised Estimates	Actual KSHS.	% Realized
026	P.M.G Special			523,686.45	
036	Advance Deposits			2,285,511,054.15	
7310101	Advance Deposits			10,174,386,914.70	
8820	Advance Deposits – Min. of Information			29,963,830.85	
051	J.C.F Interest			93,454.55	
TOTAL				12,490,478,940.70	

Commentary:

This is a dormant Fund and the figures presented have been carried forward for many years. The Fund is among the ones intended to be wound up through the National Treasury taskforce on winding up of Dormant Funds.

THE NATIONAL TREASURY
 FINANCIAL STATEMENTS
 TREASURY MAIN CLEARANCE FUND (TMC)
 FOR THE YEAR ENDED JUNE 30, 2018

5. Fund Balance b/fwd.

	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
Capital Fund			20,000,000.00	
LESS. Reduction to Development Exchequer- 1958/59			6000,000.00	
Balance			14,000,000.00	

Commentary:

This is a dormant Fund and the figures presented have been carried forward for many years. The Fund is among the ones intended to be wound up through the National Treasury taskforce on winding up of Dormant Funds.

**THE NATIONAL TREASURY
FINANCIAL STATEMENTS
TREASURY MAIN CLEARANCE FUND (TMC)
FOR THE YEAR ENDED JUNE 30, 2018**

6. BALANCES CARRIED FORWARD

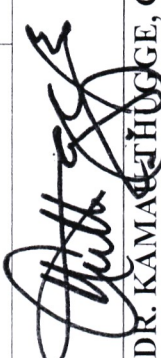
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**THE NATIONAL TREASURY
FINANCIAL STATEMENTS
TREASURY MAIN CLEARANCE FUND (TMC)
FOR THE YEAR ENDED JUNE 30, 2018**


X. PROGRESS ON FOLLOW UP OF AUDITORS 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)
AA/TNT/TMCF/2016/2017/VOL.1/(14) Dated 27 April 2018	<p>1. Winding up of the Fund</p> <p>2. i. Accounts Receivable- Debtors</p> <p>2. ii. Account payable- Creditors</p> <p>2.iii. Deficit Balance Brought Forward</p>	<p>This is a dormant Fund and the figures presented have been carried forward for many years. The Fund is among the ones intended to be wound up through the National Treasury taskforce on winding up of Dormant Funds.</p>	Lilian W. Dishon Ag.Head of Accounting Unit	Being Resolved	Within Financial Year 2018/2019


DR. KAMAL THUGGE, CBS

Accounting Officer


LILIAN W. DISHON
 ICPAK Member No. 10442
 Principal Accountant