REPUBLIC OF KENYA



FFICE OF THE AUDITOR-GENERAL

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THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF GOVERNMENT CLEARING AGENCY

FOR THE YEAR ENDED 30 JUNE 2018

NATIONAL TREASURY



THE NATIONAL TREASURY

GOVERNMENT CLEARING AGENCY (GCA)

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)

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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

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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;

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Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

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

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.

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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).
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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,

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- Human Resource Management and Development, •
- Central Planning and Project Monitoring,
- Supply Chain Management, •
- Legal, ٠
- Public Communications, •
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency •

(c) Fiduciary Management

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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

Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

. (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 officers on a regular basis.

Audit Committee

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

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

Senior Management Committee

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

Public Financial Management Sector Working Group

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

Budget Implementation Committee

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

Monitoring and Evaluation

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

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Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

(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

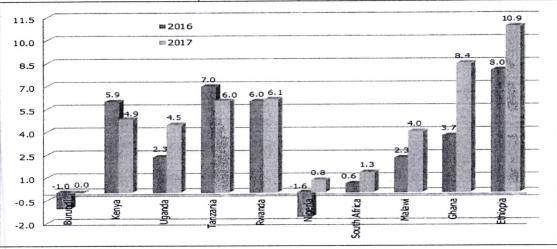
(i) Principal Legal Adviser

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

Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

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 sub-saharan Africa.



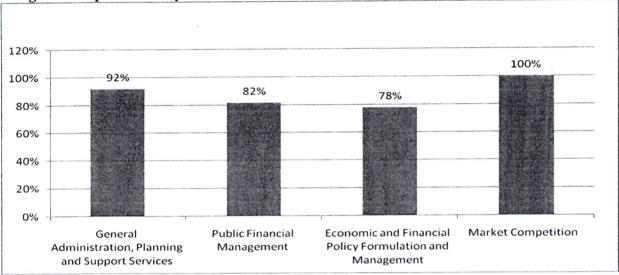
GDP Annual Growth Rates (2016 and 2017)

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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- For the Financial Year ended 30th June 2018

- 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%. within four economic 2017/18 budget National Treasury implemented the The 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

III. Overview of the Government Clearing Agency (GCA) Account

1. Background of the Fund

GCA was founded in 1905 when the Kenya Coastal Strip was under the reign of Sultan of Zanzibar. The Agency was then known as Kenya Coast Agency and later in 1907 the same was changed to Government Coast Agency. GCA initially was facilitating movements of goods and personnel for colonial Government and this later changed to Clearance and Forwarding of public institution goods.

Currently its functions are;

- 5. Receiving of clearance/shipping documents from Government ministries/departments/state corporations.
- 6. Preparation and processing of imports/exports, warehousing and transport documents through customs, port authorities, shipping, transport, insurance agents- (underwriters) including banks and cargo surveillance agents.
- 7. Verification of shipping documents as required by both international and state marine laws, regulations and procedures for goods to be allowed into the country.
- 8. Classification and determination of customs and port tariffs for correct payments of imports/exports duties, port and shipping charges.
- 9. Cargo location and handling-processing of goods within and outside the port area verification and examination, surveying, inspections, storage, reconditioning, packaging/repacking, containerization and releasing.
- 10. Removal and countrywide dispatch of various types of Government goods from the vessels, port areas and warehouse by road or rail.
- 11. Processing of documents for compensation and settlement of cargo and insurance including marine claims resulting from short-landing, short-deliveries and government equipment, damages, pilferage and general damage.
- 12. Maintenance of Clearing and Forwading records and statistics for national development and for references.
- 13. Advising the government and Government institutions on matters relating to Clearing and Forwading.

There are two different offices at clearing points these are GCA-Mombasa Unit and GCA-JKIA Unit both Handles goods arriving via ocean and Air

Operation 2.

This account is operated with the National Treasury Deposit Bank Account. It does not operate a Separate Bank Account

Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

IV. STATEMENT OF THE MANAGEMENT'S 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 Government Clearing Agency (GCA) 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 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 receipt 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 Government Clearing Agency (GCA) 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 Government Clearing Agency (GCA) was approved and signed by the Accounting Officer on 30^{HS} 2018

Accounting Officer

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

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON GOVERNMENT CLEARING AGENCY FOR THE YEAR ENDED 30 JUNE 2018 – NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Government Clearing Agency set out on pages 15 to 28, which comprise the statement of assets and liabilities as at 30 June 2018 and the statement of receipts and payments and 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Failure to maintain Proper books of Accounts

The statement of receipts and payments reflects Kshs.53,586,330.00 as receipts for the year ended 30 June 2018. The receipts have not been supported with verifiable primary documents. According to the management, the original importing documents used to calculate the levy are kept at the GCA offices in Mombasa and JKIA. Ironically, the Agency major Operations are based at the Port of Mombasa and a rather minor offices at the Jomo Kenyatta International Airport. The Agency's Head Office and administration offices are at Bima House, Nairobi and the financial statements are drawn from the Head of Accounting Unit of the National Treasury. As a result, there is no clarity on the accounting function and the office responsible for the reporting of the operations of the Agency.

In absence of such fundamental records and supporting documents, our audit is limited in establishing the accuracy and validity of the balances indicated in the financial statements.

2. Prior Year Matters

i) Unsupported Long Outstanding Balances

As was reported during the financial year 2016/2017, the statement of assets and liabilities as at 30 June 2018 reflect a balance brought forward of Kshs.300,931,776

Report of the Auditor-General on the Financial Statements of Government Clearing Agency for the year ended 30 June 2018 – National Treasury

and Kshs.52,973,897 under Accounts Receivables – Debtors and Accounts Payables - Creditors respectively. However these balance have not been supported with verifiable records and documents such as debtors and creditors' ledgers or registers. Specifically, the creditors' balances have not been supported with contracts, Local Purchase /Services orders, invoices and delivery notes with the result that accuracy, completeness and validity of the balances would not be ascertained. Further, the debtors' balance of Kshs.300,931,776 was net of a Clearance Account balance of Kshs.654,000,000 which had also not been supported with any verifiable documents making it difficult to ascertain what it represents.

ii) Unsupported Fund Balance

The statement of assets and liabilities reflects a Fund balance brought forward (Old Account) of Kshs.247,957,879 which, as in the previous instance, have not been supported with verifiable documents. As a result, the accuracy and validity of the balances cannot be confirmed.

iii) Cash and Cash Equivalent

The statement of assets and liabilities and statement of cash flow for the year ended 30 June 2018 reflected a cash and cash equivalent closing balance of Kshs.72,435,965. A review of the Cashbook and Bank reconciliation statements for GCA Mombasa branch as at 30 June 2017 had revealed that the Agency branch had a reconciled closing cash balance of Kshs.56,352,095 which was excluded from the cash balance disclosed in the financial statements.

Other Matter

i) Use of Budget as a Control Tool

Contrary to the International Public Sector Accounting Standards IPSAS para. 1.9.8 on Presentation of a Comparison of Budget and Actual Amounts, management did not include the statement of comparison of budget and actual amounts. However, a review of the National Treasury budget indicated that the GCA operational budget is captured under the Head 1071009000. However, it was noted that no Appropriation-in-Aid or revenue was budgeted for and there was no designated officer as a receiver of revenue from the agency operation.

In the absence of any revenue or Appropriation-in-Aid budget component in the National Treasury Approved Estimates, the Agency commercial operations are not budgeted for and thus the revenue collected is not under the control of the National Treasury which therefore expose the Government to operate outside the budget policies.

ii) Failure to Execute Mandate

As was reported in the previous year, a review of the Agency operations manual revealed that the Agency functions are indicated as receiving of clearance/shipping documents from Government ministries/departments/state corporations and

preparation and processing of imports/exports, warehousing and transport documents through customs, port authorities, shipping, transport, insurance agents- (underwriters) including banks and cargo surveillance agents; among other services. Only a meagre percentage of Ministries, Departments and Agencies, MDAs businesses are cleared by the Agency while the rest of the government importation business is taken by private companies and individuals in the industry.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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 EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

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.

Report of the Auditor-General on the Financial Statements of Government Clearing Agency for the year ended 30 June 2018 – National Treasury

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

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is 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. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal

Report of the Auditor-General on the Financial Statements of Government Clearing Agency for the year ended 30 June 2018 – National Treasury

controls, risk management and governance 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. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

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.

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

Nairobi

05 March 2019

Report of the Auditor-General on the Financial Statements of Government Clearing Agency for the year ended 30 June 2018 – National Treasury

VI. Receipts and Payment Statements for the year ended 30 June 2018

		2017-2018	2016-2017
	Notes	KShs	KShs
Receipts			
Receipts from Government Agencies	1	53,586,330.00	47,398,525.75
Receipts nom Government Agenetes			-
Total Receipts		53,586,330.00	47,398,525.75
Payments			
Transfers to Exchequer	2	-	- 20,728,456.00
Other Payments	3	-	7,820,434.70
Total Payments		-	28,548,890.70
Surplus/Deficit for the year		53,586,330.00	18,849,635.05

The accounting policies and explanatory notes set out on pages 19-24 form an integral part of the Fund statement. This Fund statement was approved on 30^{44} Seft 2018 and signed by:

DR.

Accounting Officer

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

Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

VII. Statement of Assets and Liabilities

			Set the local stands
	Note	2017-2018 KShs	2016-2017 KShs
Financial Assets			
Cash And Cash Equivalents			
Bank Balances	4	72,435,965.05	18,849,635.05
Total Cash And Cash Equivalent		72,435,965.05	18,849,635.05
Accounts Receivables			
Debtors – Old Account	6	300,931,776.15	300,931,776.15
Outstanding Imprests			-
Total Financial Assets		373,367,741.20	319,781,411.20
Financial Liabilities			
Accounts Payables - Creditors-Old Account	7	52,973,896.80	52,973,896.80
Net Financial Assets		320,393,844.40	266,807,514.40
Represented By			
Fund Balance B/Fwd. (Old Account)	5	247,957,879.35	247,957,879.35
Fund Balance B/Fwd.		18,849,635.05	
Surplus/Deficit For The Year		53,586,330.00	18,849,635.05
	_	-	-
Net Financial Position		320,393,844.40	266,807,514.40

The accounting policies and explanatory notes set out on pages 19-24 form an integral part of the Fund statement. This Fund statement was approved on 26^{H_1} Server. 2018 and signed by:

DR. KAMAU THU

Accounting Officer

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

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Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

VIII. Statement of Cash Flow for the year ended 30th June 2018

		2017-2018	2016-2017
		Kshs	Kshs
	recentlence constants in		
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts for Operating Income			
Receipts from Government Agencies	1	53,586,330.00	47,398,525.75
Total Receipts		53,586,330.00	47,398,525.75
Payments			
Transfers to Exchequer	2	-	20,728,456.00
Other payments	3	-	7,820,434.70
Total Payments		-	28,548,890.70
Net Cash Flow from Operating Activities		53,586,330.00	18,849,635.05
CASH FLOW FROM INVESTING ACTIVITIES			-
Net Cash flow from Investing Activities		-	
CASH FLOW FROM BORROWING ACTIVITIES		-	-
Net Cash flow from Borrowing Activities		-	-
Cash flow from financing Activities			-
Net Cash flow from financing Activities		-	-
NET INCREASE IN CASH AND CASH EQUIVALENT		53,586,330.00	18,849,635.05
Cash and cash equivalent at the BEGINNING of the year -		18,849,635.05	-
Cash and Cash Equivalent at the END of the Year		72,435,965.05	18,849,635.05

This statement does not have comparative figure GCA was transferred back to the National Treasury in the financial year 2016/2017 from the Ministry of Transport.

The accounting policies and explanatory notes set out on pages 19-24 form an integral part of the Fund statement. This Fund statement was approved on 30^{μ} Set 2018 and signed by:

DR. K Accounting Officer

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

IX. Significant Accounting Policies

1) Basis of preparation

The financial statements of Government Clearing Agency (GCA) Account have been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

2) Reporting entity

This report relates to financial operations of the Government Clearing Agency (GCA) Account maintained at Central Bank of Kenya. The reporting entity is The National Treasury.

3) Revenues

The Fund shall consist of the receipts of the Government Clearing Agency (GCA) received from Government Ministries, Departments and Government Corporations..

4) Expenditure and transfers

The Expenditure of the fund shall be on the basis of and limited to the requests and advice received from the officer in charge of Government Clearing Agency Mombasa and Government Clearing Agency Nairobi- Jomo Kenyatta International Branch. The officer in charge of Government Clearing Agency approves both payments to Exchequer and to Transporters

5) Cash and cash equivalents

Cash and cash equivalents comprise of Cash at Bank maintained by the National Treasury at the Central Bank of Kenya (CBK).

6) Presentation currency

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

7) Comparative figures

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

X. Notes to the Financial Statements

1. Receipts from Government Agencies

An amount of KShs.53,586,330.00 was received during financial year 2017/2018. The following is the breakdown on a quarterly basis of the receipts into the Government Clearing Agency Account. The funds were received from Government Ministries, Departments and State Corporations.

Description	2017-2018 Kshs	2016-2017 Kshs
1 st Quarter	25,980,911.00	1,493,008.25
2 nd Quarter	11,998,182.00	5,485,899.50
3 rd Quarter	5,344,938.00	28,272,569.00
4 th Quarter	10,262,299.00	12,147,049.00
Total Receipts (See Annex I)	53,586,330.00	47,398,525.75

2. Transfers to Exchequer

There were no fund transfer by the National Treasury from the Government Clearing Agency Account to the Exchequer Account during the financial Year 2017/2018 as compared to total transfers to Exchequer of KShs.20,728,456.00 in the financial year 2016/2017.

3. Other Payments from the Government Clearing Agency Account

There were no payments to Transporters in the financial year 2017-2018 as compared to financial year 2016-2017 in which Transporters were paid a total of KShs.7,820,434.70

Description		2017-2018	2016-2017
Date	Payment voucher Nos.	KShs	KShs
		-	7,820,434.70
		-	-
Total Transfers		-	7,820,434.70

4. Bank balance

The Bank balance as at 30th June 2018 amounted to KShs.72,435,965.05. This amount forms part of the Deposit Bank Account balance as at 30th June, 2018, compared to Bank balance of KShs.18,849,635.05 as at 30th June 2017.

Bank Name and Account	Analysis of Bank Balance of the Fund Account	Denomination of Account	Balance as at 31 st March 2018	Balance as at 30 th June 2017
Central Bank of Kenya Acc. No. 1000182137		KShs		
	Bal. b/f from F/Y 2016-2017		18,849,635.05	-
	1 ST Quarter - Surplus/Deficit		25,980,911.00	1,493,008.25
	2 ND Quarter- Surplus/Deficit		11,344,938.00	5,485,899.50
	3 RD Quarter- Surplus/Deficit		5,998,182.00	28,272,569.00
	4 TH Quarter- Surplus/Deficit		10,262,299.00	(16,401,841.70)
		-	-	-
Total	SEE ANNEX I		72,435,965.05	18,849,635.05

5. Fund balance – Old Account

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The Fund balance comprised of Capital Fund of **KShs.2,147,492.05** and an Overdraft Cash with PMG of **KShs.245,810,387.30**, both are old balances brought forward from Old Account. They are being addressed through the National Treasury taskforce on clearance of Ministries, Departments and Agencies old balances.

Description	Balance as at 1st July 2017 Kshs	Balance as at 1st July 2016 Kshs
Capital Fund	2,147,492.05	2,147,492.05
Cash with PMG – Old Account	245,810,387.30	245,810,387.30
Total	247,957,879.35	247,957,879.35

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6. Accounts Receivables - Debtors

	Original	Revised	loute A	0/ Baalizad
	Conniateo	Estillates	Actual	/0 Incalized
			KSHS.	
10 Office of The President			55,904,744.40	
20 State House			156,679.60	
40 Ministry of Foreign Affairs			13,836,134.25	
50 Ministry of Home Affairs			64,613,346.10	
70 Ministry of Finance and Planning			11,344,876.50	
80 Department of Defense			110,659,615.15	
100 Ministry of Agriculture Livestock			232,454,640.50	
110 Ministry of Health			245,257,924.45	
140 Ministry of Transport and Communication			1,849,656.00	
160 Ministry of Tourism and Wildlife			512,114.30	
170 Ministry of Lands and Settlement			310,018.20	
180 Ministry of Culture and Social Services			188,527.00	
190 Ministry of Information Broadcasting			15,859,384.00	
200 Ministry of Lands Rec. Regional and Water			44,524,447.50	
210 Ministry of Environment and Natural Resources			111,000.00	
220 Ministry of Cooperative Development			2,467,895.70	
240 Ministry of Education			64,430,896.15	
290 National Assembly			40,303.10	
310 Central Bank of Kenya			1,784,727.30	
330 Uganda Agents			8,452.25	
390 Ministry of Planning and Development			444,924.20	
400 Ministry of Public Works and Housing			17,344,539.70	
440 Ministry of Energy			731,736.25	

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490 Paymaster General Special Account		•
491 Armed Force Canteen		51,395,154.10
494 Ministry of Research and Tech. Training		303,253.10
496 Ministry of Tech. Training and Applied Tech		7,543,994.05
500 Kenya National Library Services		9,775.00
501 Kenya Broadcasting Co-operation		22,854.60
502 Moi University		1,326,733.35
503 Jomo Kenyatta University College		3,831,981.55
504 Supplies Branch		650,511.80
506 Kenya Fluorspar Co. Ltd		5,010,935.85
SUB- TOTAL	6	954,931,776.00
4-124-8800-6780104 Clearance Account	(65	(654,000,000.00)
TOTAL	30	300,931,776.15

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וו אשרויט אשרויט אשרויט אשרויט דוו
ז For the Financial Year ended $30^{\rm th}$ June 2018

These are old balances that have been carried forward for many years and are being addressed through the National Treasury taskforce on clearance of old balances.

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7. Accounts Payables - Creditors

	Original Estimates	Revised Estimates	Actual	% Realized
			KSHS.	
150 Ministry of Labour Manpower Development			2,956,111.75	
230 Ministry of Commercial and Industry			11,162.70	
140 Ministry of Transport and Communication			49,590,866.20	
250 Office of the Attorney General			3,707.10	
320 Kenya Post and Telecommunication			200,301.10	
360 University of Nairobi			211,747.95	
TOTAL			52,973,896.80	

These are old balances that have been carried forward for many years and are being addressed through the National Treasury taskforce on clearance of old balances. רוחמחכומו אנמפורט איש אישריט אישריט אוויש אוויט אוויש אוויט אישריט אווישר דוחמחכו רעש דסי the Financial Year ended 30th June 2018

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PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS XI.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolve d / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
AA/TNT/GCA/2016- 17/VOL.I/(4) Dated 14 March 2018	 Previous year balances Unsupported long Outstanding balances Unsupported Fund and Paymaster General Balances Lack of fundamental documents and records None disclosure of GCA- Mombasa branch 4. Use of Budget as a control tool Failure to execute mandate 	These are balances carried forward for many years and Treasury has formed a taskforce to address issues of old balances appearing in ministries' books of Accounts with a view of clearing the same. Plans are underway to address other issues raised.		Being Resolved	Within Financial Year 2018/2019

BS DR. KAMAU THBGG

Principal Secretary

ICPAK Member No. 10442 LILIAN W. DISHON Principal Accountant mon

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ANNEX 1. Analysis of Receipts and Payments and Accumulated Bank balance

DATE	RECEIPT NO.	AMOUNT	PAYMENTS	BALANCE
				-
1-Jul-2017	Balance B/F F/Y 2016/2017		_	18,849,635.05
			_	18,903,637.05
26/7/2017	10710012258	54,002.00	_	33,285,824.05
26/7/2017	10710012259	14,382,187.00	_	39,890,932.05
15/9/2017	10710012261	6,605,108.00	-	40,422,516.05
21/9/2017	10710012260	531,584.00	-	41,411,298.05
31/7/2017	10710012262	988,782.00	-	43,148,558.05
31/7/2017	10710012263	1,737,260.00	-	43,239,762.05
31/7/2017	10710012264	91,204.00	-	43,850,152.05
15/8/2017	10710012265	610,390.00	_	44,441,678.05
15/8/2017	10710012266	591,526.00	-	44,830,546.05
30/9/2017	10710012267	388,868.00	_	44,991,881.05
12/10/2017	10710012271	161,335.00	_	50,780,355.05
12/10/2017	10710012270	5,788,474.00	-	51,037,514.05
16/10/2017	10710012269	257,159.00	-	51,176,853.05
16/10/17	10710012268	139,339.00	-	51,499,107.05
11/11/2017	10710012272	322,254.00	-	54,084,890.05
11/11/2017	10710012273	2,585,783.00	-	54,238,803.05
17/11/2017	10710012274	153,913.00	-	55,178,238.05
6/12/2017	10710012275	939,435.00	-	55,717,282.05

The National Treasury Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

I	I		1	
6/12/2017	10710012276	539,044.00	-	56,121,620.05
16/12/2017	10710012277	404,338.00	-	56,175,484.05
21/12/2017	10710012075	53,864.00	_	58,755,112.05
9/1/2018	10710012104	2,579,628.00	-	58,770,215.05
12/1/2018	10710012103	15,103.00	-	58,925,312.05
27/01/2018	10710012151	155,097.00	_	59,253,613.05
27/01/2018	10710012150	328,301.00	-	59,948,283.05
31/01/2018	10710012150	694,670.00	-	59,951,283.05
7/2/2018	10710012146	3,000.00	-	60,075,759.05
8/2/2018	10710012148	124,476.00	-	60,448,631.05
8/2/2018	10710012147	372,872.00	-	60,606,415.05
16/02/2018	10710012226	157,784.00	_	60,968,594.05
22/02/2018	10710012227	362,179.00	_	60,972,184.05
28/02/2018	10710012229	3,590.00	_	60,975,184.05
6/3/2018	10710012241	3,000.00	-	61,348,812.05
26/03/2018	10710012305	373,628.00	-	62,173,666.05
29/03/2018	10710012304	824,854.00	-	63,393,525.05
12/4/2018	10710012316	1,219,859.00	-	67,313,745.05
12/4/2018	10710012315	3,920,220.00	-	67,644,017.05
9/5/2018	10710012336	330,272.00	_	69,488,957.05
9/5/2018	10710012337	1,844,940.00	_	69,514,520.05
9/5/2018	10710012335	25,563.00	-	70,687,330.05
9/5/2018	10710012333	1,172,810.00	_	71,293,066.05
9/5/2018	10710012334	605,736.00	-	71,862,713.05
31/05/2018	10710012402	569,647.00	-	71,907,713.05
15/09/2017	10710012261	45,000.00	-	71,916,599.05

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The National Treasury Financial Statements for the Government Clearing Agency (GCA) For the Financial Year ended 30th June 2018

7/5/2018	10710012412	8,886.00	-	72,356,417.05
14/06/2018	10710012423	439,818.00	_	72,426,217.05
28/06/2018	10710012432	69,800.00	-	72,435,965.05
28/06/2018	10710012431	9,748.00	-	72,435,965.05
		-		-
	TOTAL	53,586,330.00		-