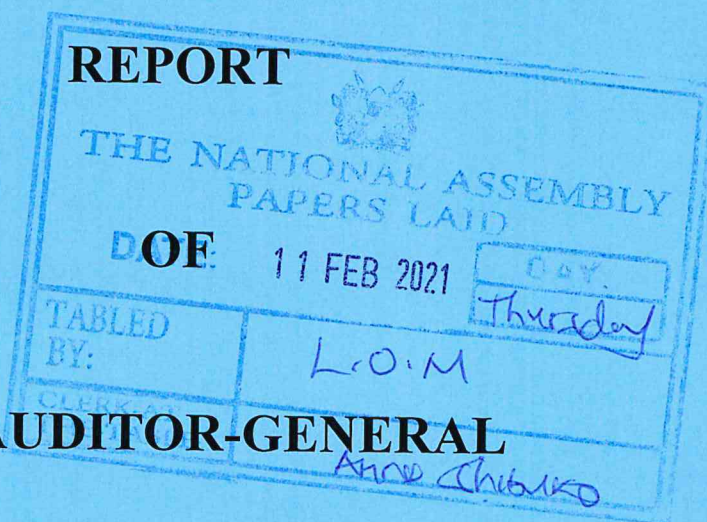
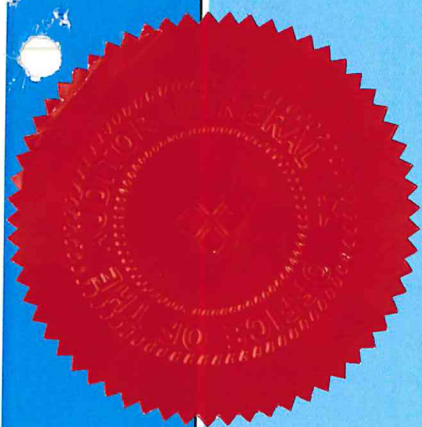
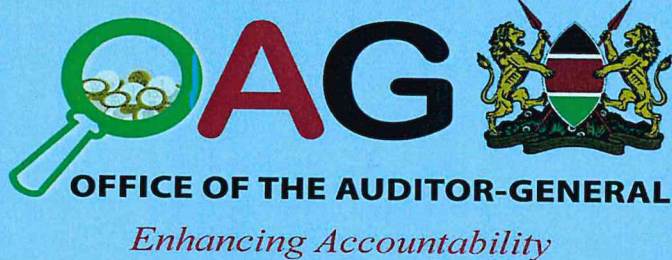


REPUBLIC OF KENYA



**THE AUDITOR-GENERAL**

**ON**

**GOVERNMENT CLEARING AGENCY**

**FOR THE YEAR ENDED  
30 JUNE, 2019**

**THE NATIONAL TREASURY**



OFFICE OF THE AUDITOR GENERAL  
P. O. Box 30084 - 00100, NAIROBI  
REGISTRY

30 SEP 2019

RECEIVED



---

**THE NATIONAL TREASURY & PLANNING**

**THE NATIONAL TREASURY**

**GOVERNMENT CLEARING AGENCY (GCA)**

**REPORTS AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**

**JUNE 30<sup>TH</sup> 2019**

---

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





The National Treasury & Planning  
The National Treasury  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

**Table of Contents**

**PAGES**

I. NATIONAL TREASURY INFORMATION AND MANAGEMENT.....	1-8
II. FORWARD BY THE CABINET SECRETARY.....	9-12
III. OVERVIEW OF THE GOVERNMENT CLEARING AGENCY (GCA).....	13-14
IV. STATEMENT OF THE MANAGEMENT RESPONSIBILITIES.....	15
V. REPORT OF THE INDEPENDENT AUDITORS ON THE FUND'S STATEMENT.....	16
VI. STATEMENTS OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2019.....	17
VII. STATEMENT OF ASSETS AND LIABILITIES .....	18
VIII. STATEMENT FOR CASH FLOW FOR THE YEAR ENDED 30 <sup>TH</sup> JUNE 2019.....	19
IX. SIGNIFICANT ACCOUNTING POLICIES .....	20
X. NOTES TO THE FINANCIAL STATEMENTS.....	21-26
XI. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATION.....	27
ANNEX I. ANALYSIS OF RECEIPTS AND PAYMENTS AND ACCUMULATED BANK BALANCE.....	28



## **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**

‘Excellence in economic and public financial management, and development planning’.

### **Mission**

‘To provide leadership in economic and public financial management, and development planning for shared growth through formulation, implementation and monitoring of economic, financial and development policies’

### **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 and Teamwork.

### **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;





The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

- 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 support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- Provide logistical support to intergovernmental institutions overseeing inter-governmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

### **(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.



### **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.
- Government Digital Payments Unit.

#### **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
- Public Investment management Unit

#### **Directorate of Public Debt Management Office**

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

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





**Directorate of Administrative and Support Services (Common Shared Services)**

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

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

**(c) Fiduciary Management**

The key management personnel who held office during the financial year ended 30th June 2019 and who had direct fiduciary responsibility were:



The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

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





#### **(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:

##### **Audit Committee**

The purpose of the Audit Committee is to assist the ministry's management in fulfilling their mandates. The committee undertakes the responsibilities of ensuring existence of adequate financial reporting processes, strong systems of internal controls and efficient operational activities carried out under existing laws and regulations for the ministry to achieve its intended objectives.

The National Treasury and Planning Audit Committee was launched on 22<sup>nd</sup> March 2019 and has met three times by end of June 2019. It has five members with the Internal Audit Unit as the Secretariat.

##### **Internal Audit Unit**

The National Treasury has an Internal Audit Unit 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 Query 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.



### **Parliamentary Activities**

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

### **Development Partner Oversight**

To effectively manage Official Development Assistance to the Government, the National Treasury has under the Public Debt Management Office; a Department responsible for all matters relating to Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

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 the 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

### **The National Treasury Contacts**

Telephone: (254)020-2252299

Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)

Website: [www.treasury.go.ke](http://www.treasury.go.ke)

### **(f) The National Treasury Bankers**

Central Bank of Kenya

Haile Selassie Avenue

P.O. Box 60000-00200

Nairobi, Kenya

### **(g) Independent Auditors**

Auditor General

Kenya National Audit Office

Anniversary Towers, University Way

P.O Box 30084

GPO 00100

Nairobi, Kenya

### **(h) Principal Legal Adviser**

The Attorney General

State Law Office

Harambee Avenue

P.O. Box 40112

City Square 00200

Nairobi, Kenya

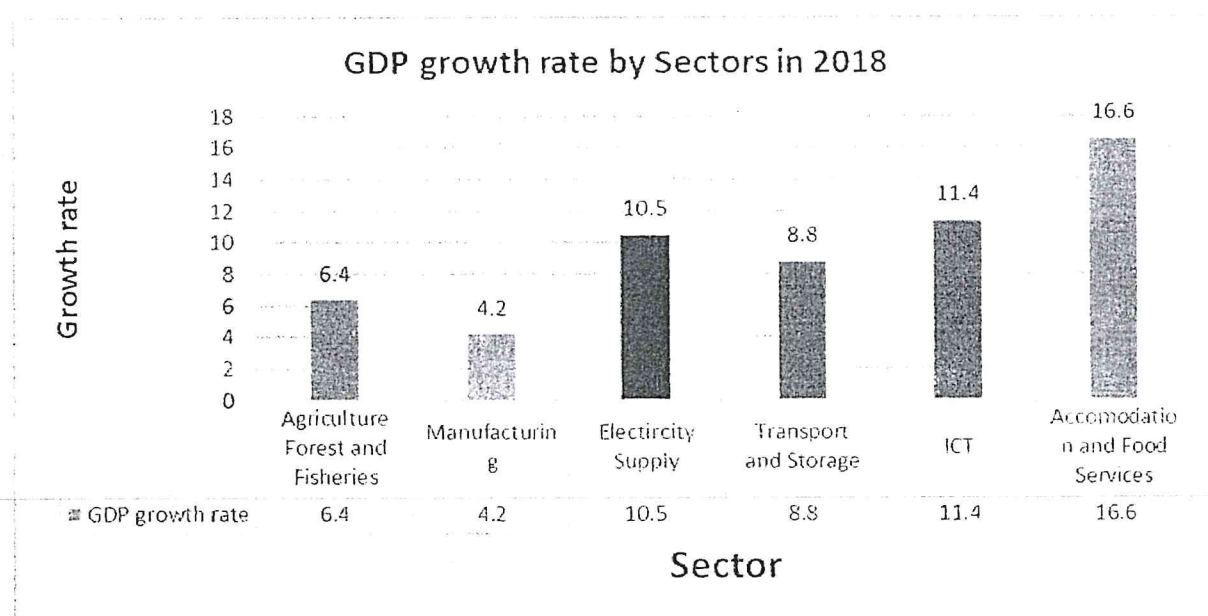


## II. FORWARD BY THE CABINET SECRETARY

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, Economic growth remained resilient and broad based averaging 5.7% in the past 6 years and generating a total of around 5 million new jobs since 2013. Growth accelerated to 6.3% in 2018 from 4.9% in 2017. This growth is the highest to have been recorded for the past 8 years and well above the sub Saharan Africa region average growth of 3.0 percent and the global average of 3.6 percent. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transport and vibrant service sector activities. As a result of this economic growth, 860,000 new jobs were generated in the economy in 2018. Inflation remained within target, interest rates were stable, and exchange rates were competitive with adequate foreign exchange reserves equivalent to 6.2 months of import cover at the end of fiscal year 2018/19. The figure below shows the contribution of the GDP Growth rate by Sectors.

**Figure 1: GDP Growth Rate by Sectors in 2018**





The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

In FY 2018/19, County Governments received **Ksh.314 billion** as their equitable share of revenue raised nationally. This represents 100 percent of the appropriation as per the CARA, 2018. In addition to the equitable share, the Counties received Ksh.46.1 billion in FY 2018/19, which comprised of:-

- a) Conditional allocation worth more than **Ksh.15 billion** derived from the National Government's equitable revenue share;
- b) **Ksh.7.4 billion** from the Roads Maintenance Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and,
- c) Proceeds from external loans and grants totalling **Ksh.23.6 billion** earmarked to supplement financing of devolved functions.

Based on the above aggregate, payments to County government in FY 2018/19 amounted to **Kshs.360.1 billion**, representing 96 percent of the CARA, 2018 allocations. Including the FY 2018/19 payments, county governments have now received an estimated **Kshs.1.7 trillion** cumulatively since their establishment.

In all years, County Governments' equitable revenue share has been well above the minimum threshold defined in Article 203 (2) of the Constitution. Moreover, counties' equitable revenue share allocation has been fully disbursed in accordance with Article 219 of the Constitution, even when the shareable revenue outturn was less than projected revenue used in the Division of Revenue Act.

The National Treasury and Planning, successfully priced a new US dollar 2.1 billion, dual tranche Eurobond of 7-year and 12-year tenors on 15th May 2019 in London, United Kingdom. This is the third time Kenya has been in the International Debt Capital Markets. The first was in June 2014, when we launched the debut bond of US dollar 2.0 billion and tapped for a further US dollar 750 million, while the second was in February 2018 when a dual-tranche of US\$ 2.0 billion was issued (10-year tenor of US\$1.0 billion and 30-year tenor of US\$ 1.0 billion).

The announcement of Kenya issuance triggered an overwhelming response from investors that amounted to an order book of US\$ 9.5 billion, an oversubscription of 4.5 times. This overwhelming interest in Kenya's bond issue confirms the strong investor confidence in Kenya's economic policy management and prospects going forward.

The proceeds from this issuance will be used to (i) finance some of the development infrastructure projects, (ii) the general budgetary expenditure in accordance with the applicable legal requirements and (iii) to refinance part or all of the obligations outstanding under the US\$ 750 million (2014 Eurobond).

The National Treasury and Planning in its contribution to the Affordable Housing Agenda under the Big Four Plan launched the Kenya Mortgage Refinance Company (KMRC) in May 2019. This is a Public Private Partnership arrangement with majority private sector owned. KMRC will extend long term loans at fixed interest rate to financial institutions secured against mortgages so that they can extend the maturity of their housing loans to end borrowers hence increasing affordability. Given Kenya's urbanization rates, there is critical need to deliver housing at the lower end of the income spectrum in order to improve housing conditions for the average Kenyan.





The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

KMRC will seek to catalyze growth of the mortgage market in Kenya by targeting households that fall within the mortgage gap and lower middle-income categories which represents about 95% of the formally employed population.

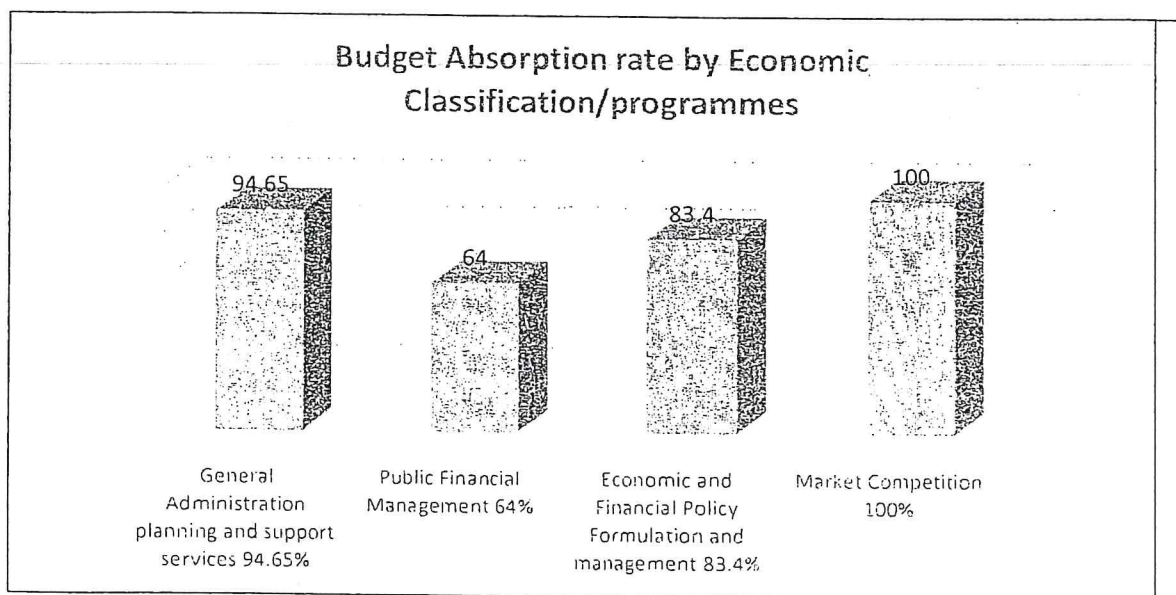
In terms of budget performance, the National Treasury expenditure stood at Kshs.54.417b against an approved budget of **Kshs.64.865b**. The National Treasury implemented the 2018/19 budget within four economic classifications/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management and Market Competition. As demonstrated in figure 2 below, the Market Competition Programme had the highest absorption at 100% followed by General Administration, Planning and Support Services at 94.65%, Economic and Financial Policy Formulation and Management (83.4%) and Public Financial Management Programme at 64%.



NATIONAL GOVERNMENT ENTITY – (THE NATIONAL TREASURY & PLANNING)

Reports and Financial Statements for the year ended June 30, 2019

Figure 2: Budget Absorption rate by Economic Classification/Programmes

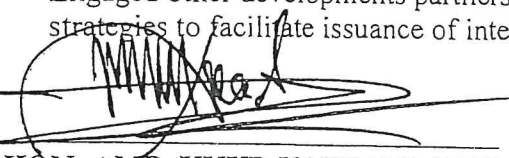


Some of the challenges the National Treasury faced while implementing the 2018/19 budget include:-

- Lack of adequate funds to finance all the budget requests by Ministries, Departments and Agencies.
- Low absorption of Official Development Assistance (ODA).
- Inadequate Exchequer issues thus contributing to the pending bill increment from Kshs.29.3b to Kshs.64.7b in FY2018/19.
- Inadequate capacity of staff in some key technical Departments.

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

- Domestic borrowing to plug the financing gap created by non-performing revenue.
- Expenditure reduction strategies such as austerity measures and a ban on new projects to ensure available money is used in completing old projects and prepared draft Public Investment Management Regulations.
- Strengthened capacity in public financial management to MDAs and County Governments to improve oversight of Public resources and Strengthened financial and fiscal relations between the national government and county governments.
- Enhanced 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.
- Promoted the Public Private Partnership initiatives to finance government capital projects.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to facilitate issuance of international bonds to finance government projects.

  
HON. A.M.B, UKUR YATTANI, EGH  
AG. 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;

1. Receiving of clearance/shipping documents from Government ministries/departments/state corporations.
2. 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.
3. Verification of shipping documents as required by both international and state marine laws, regulations and procedures for goods to be allowed into the country.
4. Classification and determination of customs and port tariffs for correct payments of imports/exports duties, port and shipping charges.
5. 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.
6. Removal and countrywide dispatch of various types of Government goods from the vessels, port areas and warehouse by road or rail.
7. 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.
8. Maintenance of Clearing and Forwarding records and statistics for national development and for references.
9. Advising the government and Government institutions on matters relating to Clearing and Forwarding.

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. This Department has since been transferred to the Ministry of Transport.



#### 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, 2019. 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.

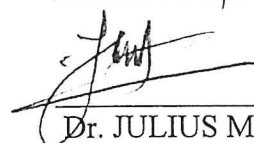
The Accounting Officer in charge of The National Treasury accepts responsibility for the National Treasury's Government Clearing Agency (GCA) report, which has been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public 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, 2019. 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

23/9 2019



Dr. JULIUS MUIA, PhD, EBS

Accounting Officer



GEORGE K. GICHURU  
ICPAK Member No. 9262  
Head of Accounting Unit





# REPUBLIC OF KENYA

Telephone: +254-(20) 3214000  
E-mail: info@oagkenya.go.ke  
Website: www.oagkenya.go.ke



*Enhancing Accountability*

**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON GOVERNMENT CLEARING AGENCY FOR THE YEAR ENDED 30 JUNE, 2019 – THE 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 17 to 27, which comprise the statement of assets and liabilities as at 30 June, 2019, and the statement of receipts and payments, 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. Receipts from Government Agencies**

As disclosed in Note 1 to the financial statements, the statement of receipts and payments reflects a balance of Kshs.2,174,171; (2018-53,586,330) under receipts from Government Agencies. However, the receipts have not been supported by way of ledgers and other primary source documents. The significant decrease in the receipts in comparison to the prior year has also not been explained. Further, the Agency has not maintained proper financial records as required under Section 68(2) of the Public Finance Management Act, 2012.

Consequently, the accuracy and completeness of the reported receipts from government agencies of Kshs.2,174,171 for the year ended 30 June, 2019 could not be confirmed.

##### **2. Long Outstanding Accounts Receivable**

The statement of assets and liabilities reflects a balance of Kshs.300,931,776;(2018-Kshs.300,931,776) under debtors-old account. There was no movement during the year casting doubt on collectability of the debts. Further, the balance has not been supported by a detailed ledger indicating the debtors.



Consequently, the accuracy and the fair statement of the reported receivables debtors-old account balances of Kshs.300,931,776 as at 30 June, 2019 could not be ascertained.

### **3. Cash and Cash Equivalents**

The statement of assets and liabilities reflects an amount of Kshs.2,174,171;(2018-Kshs.72,435,965) under bank balance. However, a bank balance of Kshs.27,351,785 held in the Agency's National Bank of Kenya Mombasa branch bank account No.01001007625100 has been excluded from the bank balance of Kshs.2,174,171 reflected in the financial statements.

Consequently, the accuracy and fair statement of the reported bank balance of Kshs.2,174,171 as at 30 June, 2019 could not be confirmed.

### **4. Fund Balance**

As previously reported, the statement of assets and liabilities reflects a fund balance brought forward (old account) of Kshs.247,957,879;(2018-Kshs.247,957,879) which was not supported.

Consequently, the accuracy and validity of the reported fund balance brought forward (old account) of Kshs.247,957,879 as at 30 June, 2019 cannot be confirmed.

### **5. Unreported Expenditure**

During the year under review, the Agency made a cash payment of Kshs.2,006,357 towards the repair and maintenance works of its Mombasa offices. However, there is no evidence of the amounts having been applied for the intended use as the roofs for some of the offices were leaking and in bad state. The payment has also not been incorporated in the financial statements prepared and presented for audit while the expenditure returns were not appropriately supported with some amounts having been posted into inappropriate accounts. From the foregoing, the regularity of expenditure of Kshs.2,006,357 could not be confirmed.

### **6. Failure to Execute Mandate**

The Agency's operations manual indicates that some of the functions of the Agency are receiving of clearance/shipping documents from Government Ministries, Departments and State Corporations; preparation and processing of the imports/exports, warehousing and transportation documents through customs, port authorities, shipping, transport, insurance agents- (underwriters) including banks and cargo surveillance agents among other services. Examinations of records of the Agency indicated that limited businesses of government agencies are cleared by the Agency as the bulk of the importation business is being undertaken by the private sector. No explanations have been rendered for failure to deliver on its mandate.

### **7. Lack of Oversight**

The Agency has no Board of Directors to oversight the organization's operations. Further, the internal audit function that ought to check on governance, internal controls



and risk management is not in place. In addition, there is no formal organizational structure thus compounding the weaknesses over its internal controls.

## 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.

## 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 overall 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.

### 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 overall governance.

In preparing the financial statements, management is responsible for assessing the Agency's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management either intends to terminate the Agency or to cease operations.

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 Agency's 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 overall governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion on lawfulness and effectiveness in use of public resources, and on effectiveness of internal controls, risk management and governance.

I am independent of Government Clearing Agency in accordance with ISSAI 130 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.

  
**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

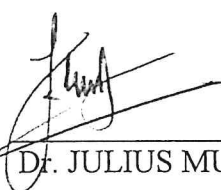
**21 January, 2021**



## VI. Receipts and Payment Statements for the year ended 30 June 2019

		2018-2019	2017-2018
	Notes	KShs	KShs
<b>Receipts</b>			
Receipts from Government Agencies	<b>1</b>	2,174,171.00	53,586,330.00
			-
<b>Total Receipts</b>		<b>2,174,171.00</b>	<b>53,586,330.00</b>
<b>Payments</b>			
Transfers to Exchequer	<b>2</b>	72,435,965.05	-
Other Payments	<b>3</b>	-	-
<b>Total Payments</b>		<b>72,435,965.05</b>	<b>-</b>
<b>Surplus/Deficit for the year</b>		<b>(70,261,794.05)</b>	<b>53,586,330.00</b>

The accounting policies and explanatory notes set out on pages 20-26 form an integral part of the Fund statement. This Fund statement was approved on 23/9/ 2019 and signed by:



Dr. JULIUS MUIA, PhD, EBS,

Accounting Officer



GEORGE K. GICHURU  
ICPAK Member No. 9262  
Head of Accounting Unit

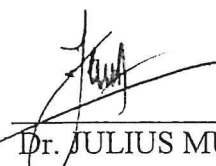




## VII. Statement of Assets and Liabilities

	Note	2018-2019 KShs	2017-2018 KShs
<b>Financial Assets</b>			
<b>Cash And Cash Equivalents</b>			
Bank Balances	4	2,174,171.00	72,435,965.05
<b>Total Cash And Cash Equivalent</b>		<b>2,174,171.00</b>	<b>72,435,965.05</b>
<b>Accounts Receivables</b>			
Debtors – Old Account	6	300,931,776.15	300,931,776.15
Outstanding Imprests			-
<b>Total Financial Assets</b>		<b>303,105,947.15</b>	<b>373,367,741.20</b>
<b>Financial Liabilities</b>			
Accounts Payables – Creditors-Old Account	7	52,973,896.80	52,973,896.80
<b>Net Financial Assets</b>		<b>250,132,050.35</b>	<b>320,393,844.40</b>
<b>Represented By</b>			
Fund Balance B/Fwd. (Old Account)	5	247,957,879.35	247,957,879.35
Fund Balance B/Fwd. (New Account)		72,435,965.05	18,849,635.05
Surplus/Deficit For The Year		(70,261,794.05)	53,586,330.00
		-	-
<b>Net Financial Position</b>		<b>250,132,050.35</b>	<b>320,393,844.40</b>

The accounting policies and explanatory notes set out on pages 20-26 form an integral part of the Fund statement. This Fund statement was approved on 2019/ 2019 and signed by:

  
Dr. JULIUS MUIA, PhD, EBS  
Accounting Officer

  
GEORGE K. GICHURU  
ICPAK Member No. 9262  
Head of Accounting Unit



The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019


VIII. Statement of Cash Flow for the year ended 30<sup>th</sup> June 2019

		2018-2019 Kshs	2017-2018 Kshs
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts for Operating Income</b>			
Receipts from Government Agencies	1	2,174,171.00	53,586,330.00
<b>Total Receipts</b>		2,174,171.00	53,586,330.00
<b>Payments</b>			
Transfers to Exchequer	2	72,435,965.05	-
Other payments		-	-
<b>Total Payments</b>		72,435,965.05	-
<b>Net Cash Flow from Operating Activities</b>		(70,261,794.05)	53,586,330.00
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			-
<b>Net Cash flow from Investing Activities</b>		-	-
<b>CASH FLOW FROM BORROWING ACTIVITIES</b>			-
<b>Net Cash flow from Borrowing Activities</b>		-	-
<b>Cash flow from financing Activities</b>			-
<b>Net Cash flow from financing Activities</b>		-	-
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		(70,261,794.05)	53,586,330.00
<b>Cash and cash equivalent at the BEGINNING of the year -</b>		72,435,965.05	18,849,635.05
<b>Cash and Cash Equivalent at the END of the Year</b>		2,174,171.00	72,435,965.05

The accounting policies and explanatory notes set out on pages 20-26 form an integral part of the Fund statement. This Fund statement was approved on 22/9/2019 and signed by:

  
Dr. JULIUS MUIA, PhD, EBS,

Accounting Officer

  
GEORGE K. GICHURU  
ICPAK Member No. 9262  
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 accrual 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). The account is operated within the Deposit bank account of the National Treasury.

### **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. 2,174,171.00** was received during the first quarter of the financial year 2018/2019. There were no receipts during second, third and a fourth quarter since GCA was transferred to the Department of Maritime in the same financial year 2018-2019.

Description	2018-2019	2017-2018
	Kshs	Kshs
1 <sup>st</sup> Quarter	2,174,171.00	25,980,911.00
2 <sup>nd</sup> Quarter	-	11,998,182.00
3 <sup>rd</sup> Quarter	-	5,344,938.00
4 <sup>th</sup> Quarter	-	10,262,299.00
<b>Total Receipts (See Annex I)</b>	<b>2,174,171.00</b>	<b>53,586,330.00</b>

### 2. Transfers to Exchequer

A total of **KShs. 72,435,965.05** was transferred as A.I.A by the National Treasury from the Government Clearing Agency Account to the Exchequer Account during the financial Year 2018/2019.



### 3. Other Payments from the Government Clearing Agency Account

There were no payments to Transporters for both financial years 2018/2019 and 2017/2018

Description		2018-2019	2017-2018
Date	Payment voucher Nos.	KShs	KShs
		-	-
		-	-
<b>Total Transfers</b>		-	-

### 4. Bank balance

The Bank balance as at 30<sup>th</sup> June 2019 amounted to KShs. 2,174,171.00. This amount forms part of the Deposit Bank Account balance as at 30<sup>th</sup> June, 2019, compared to Bank balance of KShs.72,435,965.05 as at 30<sup>th</sup> June 2018.

Bank Name and Account	Analysis of Bank Balance of the Fund Account	Denomination of Account	Balance as at 30 <sup>th</sup> June 2019	Balance as at 30 <sup>th</sup> June 2018
Central Bank of Kenya Acc. No. 1000182137		KShs		
	Bal. b/f from F/Y 2017-2018		72,435,965.05	18,849,635.05
	1 <sup>ST</sup> Quarter - Receipts		2,174,171.00	25,980,911.0
	2 <sup>ND</sup> Quarter- Surplus/Deficit		-	11,344,938.0
	3 <sup>RD</sup> Quarter- Payments		(72,435,965.05)	5,998,182.0
	4 <sup>TH</sup> Quarter- Surplus/Deficit		-	10,262,299.0
		-	-	
<b>Total</b>	<b>SEE ANNEX I</b>		<b>2,174,171.00</b>	<b>72,435,965.0</b>



## 5. Fund balance – Old Account

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. The National Treasury formed a taskforce to address old balances appearing in Ministries, Departments and Agencies books. A report was issued and forwarded to Attorney General for a legal opinion. Attorney General's opinion is being implemented.

Description	Balance as at 1st July 2018 Kshs	Balance as at 1st July 2017 Kshs
Capital Fund	2,147,492.05	2,147,492.05
Cash with PMG – Old Account	245,810,387.30	245,810,387.30
<b>Total</b>	<b>247,957,879.35</b>	<b>247,957,879.35</b>





## 6. Accounts Receivables – Debtors

	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
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	



Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

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			954,931,776.00	
	4-124-8800-6780104 Clearance Account			(654,000,000.00)	
	<b>TOTAL</b>			<b>300,931,776.15</b>	

These are old balances that have been carried forward for many years. The National Treasury formed a taskforce to address old balances appearing in Ministries, Departments and Agencies books. A report was issued and forwarded to Attorney General for legal opinion. Attorney General's opinion is being implemented.





## 7. Accounts Payables – Creditors

	Original Estimates	Revised Estimates	Actual KSHS.	% Realized
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	
<b>TOTAL</b>			<b>52,973,896.80</b>	

These are old balances that have been carried forward for many years. The National Treasury formed a taskforce to address old balances appearing in Ministries, Departments and Agencies books. A report was issued and forwarded to Attorney General for legal opinion. Attorney General's opinion is being implemented.



**XI. PROGRESS ON FOLLOW UP OF AUDITORS RECOMMENDATIONS**

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/GCA/2017-18/VOL.I/(5/1) Dated 24 December 2018	4.1. Unsupported Fund balance  4.2. Unsupported debtors and creditors	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. Cabinet memo has been prepared on the same.	Head Of Accounting Unit	Being Resolved	Within Financial Year 2019/2020

*File the report with the letter*

*Dr. Julius Muiia, PhD, EBS,*

Principal Secretary

*George K. Gichuru*

**GEORGE K. GICHURU**  
ICPAK Member No. 9262  
Senior Deputy Accountant General





The National Treasury & Planning  
Financial Statements for the Government Clearing Agency (GCA)  
For the Financial Year ended 30<sup>th</sup> June 2019

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

DATE	RECEIPT NO.	AMOUNT	PAYMENTS	BALANCE
				-
1-Jul-2018	Balance B/F F/Y 2017/2018		-	72,435,965.05
			-	72,435,965.05
18/07/2018	10710012466	22,117.00	-	72,458,082.05
18/07/2018	10710012467	430,325.00	-	72,888,407.05
18/07/2018	10710012465	895,039.00	-	73,783,446.05
26/07/2018	10710012472	179,267.00	-	73,962,713.05
30/07/2018	10710012475	256,249.00	-	74,218,962.05
30/07/2018	10710012510	391,174.00	-	74,610,136.05
13/03/2019	P.V. No. 20065	-	53,586,330.05	21,023,806.00
13/03/2019	P.V. No. 20066	-	18,849,635.05	<b>2,174,170.95</b>
		-	-	
	<b>TOTAL</b>	<b>2,174,171.00</b>	<b>72,435,965.10</b>	

