

REPUBLIC OF KENYA



THE NATIONAL ASSEMBLY	
DATE: 10 MAY 2022	TUESDAY
TABLED BY: MAJORITY LEADER	
CLERK-AT-THE-TABLE:	

**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**CFS – PUBLIC DEBT EXPENDITURE**

**FOR THE YEAR ENDED  
30 JUNE, 2021**

**THE NATIONAL TREASURY**



**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
**Reports and Financial Statements**  
**For the year ended 30 June, 2021**

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

★ 01 APR 2022 ★

NATIONAL TREASURY OFFICE  
TREASURY BUILDING



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**THE NATIONAL TREASURY**  
**CFS PUBLIC DEBT**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**30 JUNE, 2021**

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

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**1. KEY ENTITY 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 with the assistance of the Chief Administrative Secretary.

**Vision**

“Excellence in economic and public financial management, and development planning”.

**Mission**

“To provide leadership in economic and public financial management, for shared growth through formulation, implementation and monitoring of economic and financial policies”.

**Core Values**

The National Treasury is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency and Teamwork all geared towards excellence in service delivery.

**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;

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- Mobilize domestic and external resources for financing national and county government budgetary requirements;
  - Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
  - 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;
  - To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities; and
  - Coordination and integration of public ports, railway and pipeline services.

**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 intergovernmental 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**

The Office of the Principal Secretary is responsible for the day to day administration of the National Treasury operations and is the Accounting officer. 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**

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The National Treasury is organized into five (5) technical Directorates headed by Directors General and (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. In addition, the Treasury has two independent departments namely Public Procurement and Internal Auditor General both of which are headed by Directors. 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

**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;
- 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 Investment Management Unit

**Directorate of Public Debt Management Office**

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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 Public Private Partnership Unit**

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The Directorate is headed by a Director General, reporting to the Principal Secretary on matters relating to Public Private Partnership.

**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 2021 and who had direct fiduciary responsibility were:



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S/No.	Designation	Name
1.	Principal Secretary	Dr. Julius Muia, PhD, CBS
2.	Principal Administrative Secretary	Mr. Amos Gathecha, EBS
3.	Director General, BFEA	Mr. Albert Mwenda, HSC
4.	Director General, Accounting Services	Mr. Bernard Ndung'u, MBS
5.	Director General, PIPM	Eng. Stanley Kamau
6.	Director General, PDMO	Dr. Haron Sirma, OGW
7.	Director General, PPP	Mr. Christopher Kirigua, OGW
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	Prof. Galgalo Barako
11.	Director, Public Procurement Department	Mr. Eric Korir
12.	Director, Intergovernmental Fiscal Relations Department	Mr. Albert Mwenda, HSC
13.	Deputy Internal Auditor General	Ms. Jane Micheni
14.	Director, Government Accounting Services Department	Mr. Jonah Wala
15.	Ag Director, National Sub County Treasuries	Mr. Francis Kariuki
16.	Director, Financial Management Information System	Mr. Stanley Kamanguya
17.	Director, Public Private Partnership Unit	Mrs. Veronica Okoth
18.	Director, National Assets and Liability Management	Mrs. Beatrice Gathirwa
19.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
20.	Director, Pensions Department	Mr. Michel Kagika, EBS
21.	Director, Resource Mobilization Department	Mr. Moses Kanagi
22.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
23.	Director, Debt Recording and Settlement Department	Mr. George Kariuki
24.	Secretary Administration	Mr. Hiram Kahiyo
25.	Head, Accounts Division	Mr. Nemwel Motanya
26.	Head, Finance	Mr. Kimathi Mugambi, HSC
27.	Head, SCM	Mr. Aggrey kituyi
28.	Head, Internal Audit Unit	Mr. Esther Ngeru
29.	Director, Human Resource Management and Development	Ms. Susan Mucheru
30.	Director, Information Communication and Technology	Mrs. Lynn Nyongesa
31.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu, HSC
32.	Head, Public Communications	Ms. Catherine Njoroge
33.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
34.	Director, Government Clearing Agency	Mr. Felix Ateng

(d) **Fiduciary Oversight Arrangements**

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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 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 Committees**

In line with the Public Finance Management Act, the National Treasury has established a Ministerial Audit Committee comprising five members, three of whom are independent. The Committee provides overall oversight and quality assurance including follow up on the effectiveness of implementation of audit recommendations.

Further, 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 established a committee and 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 a department responsible for all matters relating to Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

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

**Top Management Committee and Other Committees**

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed Top Management Committee comprising of Directors General. The Committee receives reports from departments, build consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions made are implemented in a timely manner. Additionally, the Treasury constituted Adhoc Committees to handle specific assignments in the Financial Year 2020/21.

**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 Steering Committee**

In order to effectively monitor the implementation of the National Government budget implementation, The National Treasury has established a steering Committee chaired by the Cabinet Secretary, National Treasury and Planning. The Principal Secretaries for the National Treasury and State Department of Planning provide general oversight in the Budget implementation.

**Budget Implementation Technical Committee**

The Committee is chaired by the Principal Administrative Secretary and comprises the Directors General and various Heads of Department. The Committee is responsible for monitoring the actual implementation of the identified measures and programmes and reporting detailed progress on the same regularly.

**Budget Implementation Ministerial 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**

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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

City Square 00200

Nairobi, Kenya

**(g) Independent Auditors**

Auditor-General

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

**2. FORWARD BY THE CABINET SECRETARY**

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The preparation of the Annual Public Debt Management Report is underpinned by the legal framework namely the Constitution and the Public Finance Management Act (PFMA), 2012 that obligates reporting on public debt. The 2021 Annual Public Debt Management Report provides a broad analysis of the developments in public debt and borrowing during the fiscal year 2020/2021. The report covers the legal framework on public debt, public debt market reforms, the level of public debt, non-guaranteed debt, on-lent loans, status of implementation of the Medium-Term Debt Management Strategy (MTDS) 2020 and evaluates the outcome of the recent Debt Sustainability Analysis (DSA). The report includes the movement in structure of public debt and debt service obligations within the period.

The total public and publicly guaranteed debt increased from Kshs 6.7 trillion in June 2020 to Kshs 7.7 trillion in June 2021 equivalent to 69.3 percent of GDP. As at June 2021, the total Public Debt comprised of 52.2 percent external and 47.8 percent domestic debt. External debt is majorly from multilateral creditors on concessional terms. However, analysis of the public debt portfolio shows that commercial borrowing has adversely affected the cost and risk profile of the current debt. The average maturity period, grace period and average interest rate on new external loan commitments were 23 years, 7 years and 2.1 percent respectively. The COVID-19 pandemic and containment measures placed financial strain on the economy and heightened the need for borrowing thus raising public debt levels. Nevertheless, this was within the country's sustainable margins and is projected to be better with the global management of the pandemic. The National Treasury and Planning is further pursuing a fiscal consolidation policy path that aims at reducing the velocity of debt accumulation.

The National Treasury and Planning is working closely with the Central Bank of Kenya (CBK), Kenya Bankers' Association (KBA) and the Capital Markets Authority (CMA) among other stakeholders in improving operational efficiency within the domestic debt market. Specifically, the National Treasury and Planning is spearheading the implementation of Over-The-Counter (OTC) platforms and the establishing a new Central Securities Depositories (CSD) in collaboration with the Central Bank of Kenya. The CSD is set to improve liquidity in the debt market. Additionally, an Investor Relations Unit (IRU) has been established within the Public Debt Management Office (PDMO) which will coordinate the management of investors. The Unit will further increase transparency and provide accurate market information to investors. The PDMO has further advanced other reforms in the financial markets that are being implemented in collaboration with other key stakeholders.

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The government has further demonstrated its commitment to providing accurate and timely debt information to the public and as such the contents of this report will provide insights into the size, structure and dynamics of public debt management in Kenya.



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**HON. (AMB.) UKUR YATANI, EGH**  
**CABINET SECRETARY/NATIONAL TREASURY & PLANNING**

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**3. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES**

**Introduction**

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives. The key development objectives of the National Treasury's 2018-2022 Plan are to:

- (a) Strengthen organization capacity for quality service delivery;
- (b) Enhance mobilization, allocation and utilization of public resources;
- (c) Ensure stable and sustainable macro-economic environment;
- (d) Ensure market structures that encourage competition and orderly conduct of business;
- (e) Progress on Attainment of Strategic Development Objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

MDA Program	Strategic Objective	Outcome	Indicator	Performance
General Administration, Planning and Support Services	Strengthen organization capacity for quality service delivery	Efficient and effective service delivery	No. of vehicles	3,400 security vehicles were leased for the National Police Service towards enhancing security
			No. of systems	Developed one Government Investments Management Information System (GIMIS)
			% level of compliance to PSSS	On Boarded and maintained all Permanent and Pensionable (P&P) Public servants of age 45 years and below in the Public Service Super Annuation Scheme (PSSS)
Public Financial Management	Enhance mobilization, allocation and utilization of public resources.	Transparent and accountable management of public resources	Consolidated Annual Accounts	Annual accounts prepared
			Annual national budget presented to Parliament by 30th April	Budget presented to parliament
			No. of standardized templates	Developed two PPP Projects Standardized Transactional Templates
			No. of Strategies	Developed one Medium Term debt strategy

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			No. of VFM Audits reports	Conducted 245 Value for Money Audits due to increased requests for special audit by MDAs
			No. of Registered AGPO Enterprises	Registered 26,280 AGPO Enterprises
			No. of Policies	Developed the Assets and Liabilities Management Policy
Economic and Financial Policy Formulation and Management	Ensure stable and sustainable macro-economic environment.	Stable macroeconomic environment for economic growth	Real GDP growth rate (%)	0.6 %
			Inflation rate (%)	5.3%
			Months of import cover	4.8 months of import cover
			% of fiscal deficit	(7.7) % of GDP
			No. of Policies	Developed the Kenya Digital Finance, Policy
			County Allocation of Revenue Bill (CARB) & Division of Revenue Bill (DORB)	Prepared the County Allocation of Revenue Bill (CARB) & Division of Revenue Bill (DORB)
Market Competition and Creation of an Enabling Business Environment	Ensure market structures that encourage competition and orderly conduct of business.	Sustained high productivity and competitive markets	Percentage of consumer complaints investigations concluded	94% of the consumer complaints investigated
			No. of guidelines and Merger Notification Forms	Developed the Joint Venture, Informant Reward and Exemption guidelines in order to cater for emerging issues in competition.



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**4. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING**

The National Treasury exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on the following core values: customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar:

**1. Sustainability Strategy and Profile**

To ensure economic sustainability, the National Treasury has put in place several measures geared towards protecting the economy and its citizens against major economic shocks. Some of them include; reduction of VAT and review of income tax to cushion citizens during the COVID 19 pandemic, reorganized the budget to reflect the realities of the current situation and to manage expenditure among others. Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in the Budget Policy Statement (BPS). This will ensure debt is maintained within sustainable levels. The fiscal deficit is expected to decline from 7.7 percent of GDP in FY 2020/21 to 6.3 percent by FY 2023/24. This was occasioned by COVID – 19 pandemics though the desired target is to lower it to the East African Monetary Union's (EAMU) protocol target ceiling of 3.0 percent of GDP. To achieve this target, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization. In the FY 2020/21, the Government continued to implement a raft of tax policy measures through the Budget Policy Statement, the Tax Amendment Law and the Finance Act, 2019. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting the government's fiscal consolidation efforts. Further, the establishment of Public Investment Management (PIM) Unit at the National Treasury continues to play a great role in enhancing efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending. In particular, the implementation of PIM regulations under the Public Finance Act will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

**2. Environmental performance**

The National Treasury has constituted a Committee comprising officers from the key Departments of the Ministry to oversee all matters relating to environmental sustainability. The Committee has since developed a ministerial policy on the same in line with the National Policy on environmental management.

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**3. Employee welfare**

Employee welfare is critical for effective implementation of the programmes and projects of an organization. Noting the importance of human resources, the National Treasury has a Department established to handle Human Resources Management and Development. The Ministry has also established a Human Resource Management Advisory Committee that process all the promotions, discipline, training, appraisal and general employee matters in line with the Public Service guidelines and procedures. In addition, a committee on occupational safety and health has been established to follow up of the safety conditions in the work place. In order to ensure attracting and retaining competent officers, the National Treasury continued to conduct capacity and training needs assessments 2020/2021- 2021/22 as well as development and implementation of the training projections plan to fill skills gaps. In addition, the National Treasury continued to implement succession management plan by declaring the number of the posts to be filled under the delegated powers and continually implementing the provision of the guidelines on the policy on advancement to the next grade at the entry level in the scheme of service and implementation of the Authorised officers and the PSC decisions. Further, the importance of knowledge management was reinforced through: identification of data needs and data gaps; preparation of a database of sources of knowledge across all levels in the State Department, preparation of a comprehensive report on patterns, trends and attributes of the processed data and information in the State Department; preservation and sharing of knowledge as well as application of knowledge to policy and problem solving within the National Treasury. The National Treasury has continued to build the capacity on the online staff appraisal management system in collaboration with the Public Service Commission to ensure seamless implementation of the system.

**4. Market place practices**

The National Treasury is responsible for promoting fair trade practices in the economy. To ensure effective implementation of this function assigned by the Constitution, one of the programmes implemented by the Treasury is ensuring that existing market structures encourage competition and orderly conduct of business in order to support high productivity and competitive markets. In addition, the National Treasury developed the Joint Venture, Informant Reward and Exemption guidelines in order to cater for emerging issues in competition.

**5. Community Engagements**

To mitigate technological hazards, terrorism, fire and natural disasters, the National Treasury engaged a professional security services firm contracted for purposes of enhancing security in the Ministry. The National Treasury continued to improve security within the building and its environs by use of CCTV cameras installed at the Treasury Building and at the entrances and maintained firefighting facilities at the premises in collaboration with the State Department for Public Works.

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**5. STATEMENT OF MANAGEMENT RESPONSIBILITIES**

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting Officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed 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 entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2021. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.


The Accounting Officer in charge of the National Treasury accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the CFS Public Debt financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2021, and of the entity's financial position as at that date. The Accounting Officer charge of the National Treasury further confirms the completeness of the accounting records maintained for the CFS Public Debt, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.


The Accounting Officer in charge of the National Treasury confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the entity's financial statements have been prepared in a form that complies with relevant accounting standard prescribed by the Public Sector Accounting Standards Board of Kenya.

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**Approval of the financial statements**

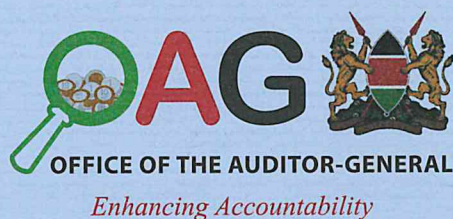
The CFS Public Debt financial statements were approved and signed by the Accounting Officer on 27<sup>th</sup> Sept. 2021.

  
Julius Muia, PHD CBS  
**Principal Secretary**  
National Treasury

  
Nemwel M. Motanya  
**Head of Accounting Unit**  
ICPAK Member Number: 2367

# REPUBLIC OF KENYA

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NAIROBI

## REPORT OF THE AUDITOR-GENERAL ON CFS - PUBLIC DEBT EXPENDITURE FOR THE YEAR ENDED 30 JUNE, 2021 – THE NATIONAL TREASURY

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### PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of the Consolidated Fund Services (CFS) - Public Debt set out on pages 1 to 16, which comprise the statement of assets and liabilities as at 30 June, 2021, the statement of receipts and payments, statement of cash flows and the summary statement of appropriation - recurrent and development

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*Report of the Auditor-General on CFS - Public Debt Expenditure for the year ended 30 June, 2021 – The National Treasury*

combined for the year then ended and a summary of significant accounting policies and other explanatory information, and the summary statement of public debt in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, the financial position of the Consolidated Fund Services - Public Debt Expenditure as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

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### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The National Treasury Management 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **Emphasis of Matter**

#### **1. Payment of Commitment Fees on Undrawn Amounts**

The statement of receipts and payments for the year ended 30 June, 2021 reflects finance costs including loan interest amounting to Kshs.408,338,777,362, which as disclosed in Note 13.3 to the financial statements, includes interest payment on foreign borrowing of Kshs.106,265,999,668. The latter balance includes commitment fees on undrawn amounts paid during the period under review amounting to Kshs.2,063,104,537. The commitment fees relates to loans signed between the Government of Kenya and foreign lenders for the loans that had not been drawn.

Review of the summary statement of debt stock as at 30 June, 2021 revealed that twenty (20) loans agreements with a cumulated loan of Kshs.379,943,389,070 were signed between 1 July, 2019 and 31 December, 2020. However, no drawdowns on these loans had been made by the various implementing agencies for the funded projects and programmes as at 30 June, 2021. Had the implementing Agencies put proper mechanisms in place to enable absorption of the committed credit within the agreed timeframe, the payment of commitment fees would have been minimized. The National Treasury, being the overall supervisor of Government Ministries, Departments and Implementing Agencies need to ensure that programmes and projects are ready for execution before committing the Government with the credits.

#### **2. Guaranteed Debts**

The summary statement of public debt reflects total outstanding debt stock balance of Kshs.7,545,923,130,128 as at 30 June, 2021. Review of the debt stock records provided revealed that the balance includes guaranteed loans amounting to Kshs.157,219,741,914 as at 30 June, 2021. These are loans advanced to State Agencies for which The National Treasury is a guarantor. Although the guaranteed loans are serviced by the recipient

entities and would only be charged to the Consolidated Fund in cases of default, the guaranteed loans constitute contingent liabilities and form part of public debt as guaranteed debts. However, the balance does not include loans and overdrafts, if any, held by other National and County Governments entities. Management has however indicated that there were no borrowings by the County Governments and The National Treasury did not guarantee any loan by State Agencies during the year. Management has also indicated that where a State Agency secures a loan, it is the responsibility of the Board of Directors to ensure that the amount is repaid and is not chargeable to the Consolidated Fund.

However, the National Government is obliged to bail out any amount that could be defaulted by the County Governments and State Agencies using public resources.

### 3. Default on Debt Repayment

Review of records held by The National Treasury's Commonwealth Secretariat Debt Recording and Management System as at 30 June, 2021 revealed that the Government has defaulted on servicing an amount of Kshs.5,108,764,705 in respect of three (3) loans advanced by an international commercial bank towards the construction of three (3) dams as detailed below:

Project	Disbursed Amount Euro	Principal Defaulted Euro	Interest Defaulted Euro	Total Arrears Euro	Equivalent Kshs.
Arror Dam	91,852,267	-	6,159,578	6,159,578	790,661,549
Itare Dam Project	141,552,608	20,026,363	3,794,129	23,820,492	3,057,668,414
Kimwarer Dam	71,878,751	5,126,759	4,692,545	9,819,304	1,260,434,742
<b>Total</b>	<b>305,283,626</b>	<b>25,153,122</b>	<b>14,646,252</b>	<b>39,799,374</b>	<b>5,108,764,705</b>

The credit agreements for these loans were not provided for audit review to confirm the terms of the loans and if the termination of the credit was conducted in accordance with the provisions in the respective agreements. Management indicated that the lender has cancelled the remaining balance and the credit agreements for the three (3) dams are in the custody of the Directorate of Criminals Investigation (DCI) as the matter is in court. The default on debt repayment exposes the Government to risks of legal suits that may lead to punitive penalties and subsequent loss of public resources.

My opinion is not modified in respect of the above matters.

### Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

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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**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing The National Treasury's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services unless Management is aware of the intention to terminate The National Treasury or to cease its 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 money is applied in an effective way.

Those charged with governance are responsible for overseeing The National Treasury's financial reporting process, reviewing the effectiveness of how Management 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

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

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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on The National Treasury's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause The National Treasury to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of The National Treasury's to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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

  
CPA Nancy Gathungu, CBS  
AUDITOR-GENERAL

Nairobi


14 April, 2022




**THE NATIONAL TREASURY - CFS PUBLIC DEBT****Reports and Financial Statements****For the year ended 30 June, 2021****7. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE****2021**

	Note	2020-2021	2019-2020
		Kshs	Kshs
<b>RECEIPTS</b>			
Exchequer releases	13.1	880,472,918,036	709,036,053,493
<b>TOTAL RECEIPTS</b>		<b>880,472,918,036</b>	<b>709,036,053,493</b>
<b>PAYMENTS</b>			
Transfers to Other Government Entities – Exchequer Account	13.2	17,639,759,115	1,144,094,251
Finance Costs, including Loan Interest	13.3	408,338,777,362	423,560,514,825
Repayment of principal on Domestic and Foreign borrowing	13.4	458,940,809,392	280,085,193,021
<b>TOTAL PAYMENTS</b>		<b>884,919,345,869</b>	<b>704,789,802,097</b>
<b>SURPLUS/(DEFICIT)</b>		<b>(4,446,427,833)</b>	<b>4,246,251,396</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27<sup>th</sup> sept. 2021 and signed by:

  
Julius Muia, PHD CBS  
Principal Secretary  
National Treasury

  
Nemwel M. Motanya  
Head of Accounting Unit  
ICPAK Member Number: 2367



**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**8. STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 2021**

	Note	2020-2021	2019-2020
		Kshs	Kshs
<b>FINANCIAL ASSETS</b>			
<b>Cash and Cash Equivalents</b>			
Bank Balances	13.5	91,341,372	4,537,769,205
<b>Total Cash and cash equivalent</b>		<b>91,341,372</b>	<b>4,537,769,205</b>
<b>TOTAL FINANCIAL ASSETS</b>		<b>91,341,372</b>	<b>4,537,769,205</b>
<b>FINANCIAL LIABILITIES</b>			
<b>NET FINANCIAL ASSETS</b>		<b>91,341,372</b>	<b>4,537,769,205</b>
<b>REPRESENTED BY</b>			
Fund balance b/fwd	13.6	4,537,769,205	249,080,863
Prior year adjustment	13.7	0	42,436,946
Surplus/(Deficit) for the year		(4,446,427,833)	4,246,251,396
<b>NET FINANCIAL POSITION</b>		<b>91,341,372</b>	<b>4,537,769,205</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27<sup>th</sup> Sept. 2021 and signed by:



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**9. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021**

		2020-2021	2019-2020
		Kshs	Kshs
<b>Receipts for operating income</b>			
Exchequer Releases	13.1	880,472,918,036	709,036,053,44
<b>Payments for operating expenses</b>			
Transfers to Other Government Units - Exchequer	13.2	(17,639,759,115)	(1,144,094,251)
Finance Costs, including Loan Interest	13.3	(408,338,777,362)	(423,560,514,825)
<b>Adjusted for:</b>			
Adjustments during the year			
Prior Year Adjustments	13.7	0	42,436,94
<b>Net cash flow from operating activities</b>		<b>454,494,381,559</b>	<b>284,373,881,36</b>
<b>CASHFLOW FROM INVESTING ACTIVITIES</b>			
<b>Net cash flows from Investing Activities</b>			
<b>CASHFLOW FROM BORROWING ACTIVITIES</b>			
Repayment of principal on Domestic and Foreign borrowing	13.4	(458,940,809,392)	(280,085,193,027)
<b>Net cash flow from financing activities</b>		<b>(458,940,809,392)</b>	<b>(280,085,193,02</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENT</b>		<b>(4,446,427,833)</b>	<b>4,288,688,3-</b>
<b>Cash and cash equivalent at BEGINNING of the year</b>	13.6	<b>4,537,769,205</b>	<b>249,080,86</b>
<b>Cash and cash equivalent at END of the year</b>	13.5	<b>91,341,372</b>	<b>4,537,769,21</b>

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 27<sup>th</sup> sept. 2021 and signed by:



Julius Muia, PHD CBS  
**Principal Secretary**  
 National Treasury



Nemwel M. Motanya  
**Head of Accounting Unit**  
 ICPAK Member Number: 2367



**THE NATIONAL TREASURY - CFS PUBLIC DEBT**

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**10. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED**

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=e-d	% of Utilization f=d/c %
<b>RECEIPTS</b>						
Exchequer releases	905,000,576,979	49,865,642,510	954,866,219,489	880,472,918,036	74,393,301,453	92%
<b>TOTAL RECEIPTS</b>	905,000,576,979	49,865,642,510	954,866,219,489	880,472,918,036	74,393,301,453	92%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	463,108,186,999	(2,232,086,317)	460,876,100,682	408,338,777,362	52,537,323,320	89%
Repayment of principal on Domestic and Foreign borrowing	441,892,389,980	52,097,728,827	493,990,118,807	458,940,809,392	35,049,309,415	93%
Other Payments – Refund to Exchequer	0	0	0	17,639,759,115	(17,639,759,115)	
<b>TOTAL PAYMENTS</b>	<b>905,000,576,979</b>	<b>49,865,642,510</b>	<b>954,866,219,489</b>	<b>884,919,345,869</b>	<b>69,946,873,620</b>	
<b>Surplus/ Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(4,446,427,833)</b>	<b>4,446,427,833</b>	

**Notes**

- The Under Utilization on Finance Costs was due to fluctuations in Foreign Exchange rate applied on repayments during the year under review
- The amount of Kshs 17,639,759,115 relates to Funding for Exim Bank China which was paid back to exchequer account No. 1000003987 on 18<sup>th</sup> February 2021
- The changes between the original and final budget is as a result of reallocations within the budget
- The deficit of Kshs 4,446,427,833 was due to utilization of bank balance brought forward in 2019-2020 FY.

The entity financial statements were approved on 27<sup>th</sup> Sept. 2021 and signed by:



Julius Muia, PHD CBS  
Principal Secretary  
National Treasury



Nemwel M. Motanya  
Head of Accounting Unit  
ICPAK Member Number: 2367

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**11. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT**

Receipt/Expense Item	Original Budget a	Adjustments b	Final Budget c=a+b	Actual on Comparable Basis d	Budget Utilization Difference e=c-d	% of Utilization f=d/c %
<b>RECEIPTS</b>						
Exchequer releases	905,000,576,979	49,865,642,510	954,866,219,489	880,472,918,036	74,393,301,453	92%
<b>TOTAL RECEIPTS</b>	905,000,576,979	49,865,642,510	954,866,219,489	880,472,918,036	74,393,301,453	92%
<b>PAYMENTS</b>						
Finance Costs, including Loan Interest	463,108,186,999	(2,232,086,317)	460,876,100,682	408,338,777,362	52,537,323,320	89%
Repayment of principal on Domestic and Foreign borrowing	441,892,389,980	52,097,728,827	493,990,118,807	458,940,809,392	35,049,309,415	93%
Other Payments – Refund to Exchequer	0	0	0	17,639,759,115	(17,639,759,115)	
<b>TOTAL PAYMENTS</b>	905,000,576,979	49,865,642,510	954,866,219,489	884,919,345,869	69,946,873,620	
<b>Surplus/Deficit</b>	0	0	0	(4,446,427,833)	4,446,427,833	

**Notes**

- i. The under Utilization on Finance costs was due to Fluctuations in foreign Exchange rate applied on repayments during the year under review
- ii. The amount of Kshs 17,639,759,115 relates to funding for Exim bank China which was paid back to exchequer account No.1000003987 on 18<sup>th</sup> February 2021.
- iii. The Changes between the original and the final budget is as a result of reallocations within the budget
- iv. The deficit of Kshs 4,446,427,833 was due to utilization of bank balance brought forward in 2019-2020 FY.

The entity financial statements were approved on 22<sup>nd</sup> Sept. 2021 and signed by:



Julius Muia, PHD CBS  
**Principal Secretary**  
 National Treasury



Nemwel M. Motanya  
**Head of Accounting Unit**  
 ICPAK Member Number: 2367

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**12. SIGNIFICANT ACCOUNTING POLICIES**

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

**1. Statement of Compliance and Basis of Preparation**

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

**2. Reporting Entity**

The financial statements are for the CFS Public Debt. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by CFS Public Debt

**3. Reporting Currency**

The financial statements are presented in Kenya Shillings (Kshs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

**4. Significant Accounting Policies**

The accounting policies set out in this section have been consistently applied by CFS Public Debt for all the years presented.

**a) Recognition of Receipts**

The Consolidated Fund Services – Public Debt recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the CFS Public Debt

**i) Tax Receipts**

Tax receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received.

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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**ii) Transfers from the Exchequer**

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving CFS Public Debt

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**iii) External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient CFS Public Debt or by the beneficiary.

In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30 June, 2021, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**iv) Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

**b) Recognition of payments**

The CFS Public Debt recognises all payments when the event occurs, and the related cash has been paid out by the CFS Public Debt

**i) Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

**ii) Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

**iii) Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

**iv) Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

**v) Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**5. In-kind contributions**

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

**6. Third Party Payments**

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

**7. Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

**a) Restriction on Cash**

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2020 this amounted to Kshs 0 compared to Kshs 0 in prior period as indicated on note N/A. There were no other restrictions on cash during the year.

**8. Accounts Receivable**

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**9. Accounts Payable**

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

**10. Pending Bills**

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Entity at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

**11. Budget**

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2020 for the period 1<sup>st</sup> July 2020 to 30<sup>th</sup> June 2021 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

**12. Comparative Figures**

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

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**13. Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended 30<sup>th</sup> June 2020.

**14. Errors**

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Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

**15. Related Party Transactions**

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.

**16. Contingent Liabilities**

Section 148 (9) of the PFM Act regulations 2015 requires the Accounting officer of a National Government entity to report on the payments made, or losses incurred, by the National Government entity to meet contingent liabilities as a result of loans during the financial year.

A contingent liability is:

- a) A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) A present obligation that arises from past events but is not recognised because:
  - i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - ii) The amount of the obligation cannot be measured with sufficient reliability.

Some of contingent liabilities may arise from: litigation in progress, guarantees, indemnities, Letters of comfort/ support, insurance, Public Private Partnerships, The *CFS Public Debt* does not recognize a contingent liability but discloses details of any contingencies in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits or service potential is remote year.



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**13. NOTES TO THE FINANCIAL STATEMENTS**

**13.1 Exchequer Releases**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Total Exchequer Releases for quarter 1	144,691,953,667	214,796,300,834
Total Exchequer Releases for quarter 2	268,815,984,894	201,660,992,549
Total Exchequer Releases for quarter 3	303,619,553,208	96,130,690,922
Total Exchequer Releases for quarter 4	163,345,426,267	196,448,069,188
<b>Total</b>	<b>880,472,918,036</b>	<b>709,036,053,493</b>

**13.2 Grants and Transfers to other Government Entities**

<b>Description</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transfers to National Government entities</b>		
Refund to Exchequer Account	17,639,759,115	1,144,094,251
<b>TOTAL</b>	<b>17,639,759,115</b>	<b>1,144,094,251</b>

(i) The amount of Ksh 17,639,759,115 relates to funding for Exim Bank China which was paid back to Exchequer Account No.1000003987 on 18<sup>th</sup> February 2021

(ii) The amount of Ksh 1,144,094,251 relates to risk mitigation fee for Ruiru Dam II project which was paid back to exchequer Account No 1000003987 on 12<sup>th</sup> May 2020

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**13.3 Finance Costs, Including Loan Interest**

<b>Explanation</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Interest Payments on Foreign Borrowings	106,265,999,668	115,798,697,298
Interest on Domestic Borrowings (Non-Govt)	299,194,020,253	240,772,652,464
Interest on Short Term Borrowing – Treasury Bills	0	62,932,237,645
Interest on Borrowing from other Government Units- Pre 1997 Government Overdraft Loan (C.B.K)	626,529,945	665,006,173
Interest on CBK Overdraft	2,207,659,996	3,244,911,268
Treasury Bills & Treasury Bonds Advertisement Cost	0	56,049,977
Interest on M - Akiba	44,567,500	90,960,000
<b>Total</b>	<b>408,338,777,362</b>	<b>423,560,514,825</b>

- i) There was no advertisement cost incurred since CBK advertisement is through the web site*  
*ii) Interest on Treasury Bills is capitalised. The expenditure is funded under shortfall on Treasury bills budget*

**13.4 Repayment of Principal on Domestic Lending and On-Lending**

<b>Explanation</b>	<b>2020-2021</b>	<b>2019-2020</b>
	<b>Kshs</b>	<b>Kshs</b>
Principal repayments on domestic loans	158,099,365,500	111,127,833,887
Repayments on borrowings from other domestic creditors – Pre 1997 Government Overdraft Loan (C.B.K )	1,110,000,000	1,110,000,000
Repayment of Principal from Foreign Lending & On – Lending	127,648,213,721	101,233,420,607
Shortfall on Treasury Bills	172,083,230,172	66,613,938,527
<b>Total</b>	<b>458,940,809,392</b>	<b>280,085,193,021</b>

- i) Treasury bills are self-redeeming. Due to Covid 19 the market for Treasury Bills underperformed hence the increase in the redemption of Shortfalls.*

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**13.5 Bank Accounts**

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development or deposit etc.	Exchange rate (if in foreign currency)	2020-2021	2019-2020
				Kshs	Kshs
Central Bank of Kenya Recurrent Public Debt A/C No 1000204378 (Kshs)	Kshs	REC	-	91,341,372	4,537,769,205
<b>Total</b>				<b>91,341,372</b>	<b>4,537,769,205</b>

**13.6 Fund Balance Brought Forward**

Description	2020-2021	2019-2020
	Kshs	Kshs
Bank accounts	4,537,769,205	249,080,863
<b>Total</b>	<b>4,537,769,205</b>	<b>249,080,863</b>

**13.7 Prior Year Adjustments**

Description of the error	Balance b/f FY 2019/2020 as per audited financial statements	Adjustments during the year relating to prior periods	Adjusted ** Balance b/f FY 2019/2020
	Kshs	Kshs	Kshs
Bank account Balances	0	0	42,436,946
<b>Total</b>	<b>0</b>	<b>0</b>	<b>42,436,946</b>

(i) The amount of Ksh 42,436,946 relates to refund from Central bank of Kenya for PA No. 113324 paid to Euler Hermes on 30<sup>th</sup> June 2019. These funds were credited to CFS Public Debt Bank Account No. 1000204378 on 10<sup>th</sup> September 2019

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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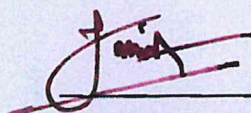
**14. PROGRESS ON FOLLOW UP OF PRIOR YEARS AUDITOR'S RECOMMENDATIONS**

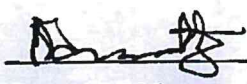
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Para 10 Unexplained Variance in Bank Balance	The Variance observed during the audit was reconciled.	Resolved	
2	Para 11 Unexplained Variance of Short - Term Borrowings Balances	The variance was due to system error at Central bank of Kenya. CBK acknowledged the error and made correction vide C.B.K letter dated 15 <sup>th</sup> May 2019 indicating the face Value as Ksh 29,105,800,000.	Resolved	
3	Para 12 In accurate Treasury Bonds Balances	The stock of Treasury Bonds reported in the movement schedule was erroneously overstated. The treasury movement schedule has since been revised	Resolved	
4	Para 13 Non- Disclosure of Public Debt Procured	The Increase of Outstanding Public Debt is due to additional disbursements on the existing Loans and New Loans Contracted during the year	Resolved	

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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Reference No. in the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
5	Para 14 Unresolved prior year matters  i) Accuracy of The Financial Statements  ii) Unsupported Balances  iii) Public Debt Outstanding Balance  iv) Failure to Prepare Monthly Bank Reconciliations Statements	The Misstatement observed during audit were corrected through amendment of the Financial Statement  The Unsupported balances relates to transactions under agency period that have since been supported  Outstanding Loan balances are supported with Schedules generated from electronic debt register where movement on disbursement and repayments are recorded  Bank Reconciliations Statements were later submitted	Resolved  Resolved  Resolved  Resolved	

  
 Julius Muia, PHD CBS  
 Principal Secretary  
 National Treasury

  
 Nemwel M. Motanya  
 Head of Accounting Unit  
 ICPAK Member Number: 2367

**THE NATIONAL TREASURY - CFS PUBLIC DEBT**  
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**ANNEX 8- REPORTS GENERATED FROM IFMIS**

The following financial Reports Generated from IFMIS should be generated and attached as appendices to these financial statements.

- 
- i. ~~GOK IFMIS Comparison Trial Balance~~
  - ii. FO30 (Bank reconciliations) for all bank accounts
  - iii. GOK IFMIS Receipts and Payments Statement
  - iv. GOK IFMIS Statement of Financial Position
  - v. GOK IFMIS Statement of Cash Flows
  - vi. GOK IFMIS Notes to the Financial Statements
  - vii. GOK IFMIS Statement of Budget Execution
  - viii. GOK IFMIS Statement of Deposits
  - ix. GOK IFMIS Budget Execution by Programme and Economic Classification
  - x. GOK IFMIS Budget Execution by Heads and Programmes
  - xi. GOK IFMIS Budget Execution by Programmes and Sub-programmes



**2. PUBLIC DEBT NOT CHARGED ON THE CONSOLIDATED FUND SERVICES (CFS)****2.1 EXTERNAL LOANS****2.1.1 Public Guaranteed Debt paid by State Owned Enterprises (SOEs)**

Bilateral						157,219,741,914
Exim Bank U.S.A.	79,891,800,000	-	-	-	-	80,962,500,000
Government of Japan	75,234,121,925	2,329,451,377	-	-	-	71,803,933,297
Govt of Fed. Republic of Germany - GTZ	5,264,668,536	1,187,346,707	-	-	-	4,453,308,617
<b>Total - Public Guaranteed Debt (B)</b>	<b>160,390,590,461</b>	<b>3,516,798,084</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>157,219,741,914</b>
<b>Grand Total - Public and Public Guaranteed Debt (A+B)</b>	<b>6,596,237,358,020</b>	<b>1,537,273,473,637</b>	<b>2,371,659,925,700</b>	<b>23,427,351,598</b>	<b>-</b>	<b>7,545,923,130,128</b>



**JULIUS MUIA, PhD, CBS  
PRINCIPAL SECRETARY  
NATIONAL TREASURY**



**NEMWEL M. MOTANYA  
CPA(K) NO. 2367  
HEAD OF ACCOUNTING UNIT**

**Notes:**

1. Repayment of guaranteed debt of Kshs. 3,516,798,084 constitutes contingent liabilities and would only be charged to the CFS Public Debt in case of default by the State Owned Enterprises (SOEs).





<b>Security Contracts</b>					<b>12,162,090,079</b>
APEX FINANCE CORPORATION	USD	4,690,000	-	-	4,690,000
LBA Systems	EUR	26,584,000	-	-	26,584,000
	USD	15,750,000	-	-	15,750,000
Midland Finance & Securities Limited	EUR	43,114,000	-	-	43,114,000
Sound Day Corporation	USD	9,346,500	-	-	9,346,500
<b>Sub Total - External Central Govt. Public Debt</b>					<b>3,753,484,243,264</b>
<b>1.2 DOMESTIC LOANS</b>					
Monetary Authority/Pre-1997 Govt. O.D. Debt					
CBK	KES	21,118,755,685	1,110,000,000	-	20,008,755,685
Treasury Bonds	KES	2,220,339,804,765	158,059,365,500	787,595,500,000	2,849,835,939,265
Treasury Bills	KES	887,141,500,000	1,246,440,950,000	1,124,673,900,000	765,374,450,000
<b>Sub Total - Domestic Central Govt. Public Debt</b>					<b>3,635,219,144,950</b>
<b>Total - Central Govt. Public Debt (A)</b>					<b>7,388,703,388,214</b>
<b>2. PUBLIC DEBT NOT CHARGED ON THE CONSOLIDATED FUND SERVICES (CFS)</b>					
<b>2.1 EXTERNAL LOANS</b>					
<b>2.1.1 Public Guaranteed Debt paid by State Owned Enterprises (SOEs)</b>					
<b>Bilateral</b>					<b>167,840,744,844</b>
Exim Bank U.S.A	USD	750,000,000.00	-	-	750,000,000.00
Government of Japan	JPK	75,865,752.88	2,279,270.44	-	71,803,933.297
Govt of Fed. Republic of Germany - GTZ	EUR	43,821,113.17	9,128,000.00	-	34,693,113.17
<b>Total - Public Guaranteed Debt (B)</b>					<b>157,219,741,914</b>
<b>Grand Total - Public and Public Guaranteed Debt (A+B)</b>					<b>7,545,923,130,128</b>

  
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**HEAD OF ACCOUNTING UNIT**

**Notes:**

1. Repayment of guaranteed debt constitutes contingent liabilities and would only be charged to the CFS Public Debt in case of default by the State Owned Enterprises (SOEs).