

REPUBLIC OF KENYA



Enhancing Accountability

REPORT

OF

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 16 MAR 2023	DAY: Thursday
TABLED BY:	Deputy Majority party leader
CLERK-AT THE-TABLE:	Joyce Lemerehe

THE AUDITOR-GENERAL

ON

CONTINGENCIES FUND

**FOR THE YEAR ENDED
30 JUNE, 2022**

THE NATIONAL TREASURY



THE NATIONAL TREASURY

Financial Statements for Contingencies Fund Account

For the Financial Year ended 30 June, 2022

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

TABLE OF CONTENTS. PAGE NO.

1. NATIONAL TREASURY INFORMATION AND MANAGEMENT	ii
2. FORWARD BY THE CABINET SECRETARY	x
3. CONTINGENCIES FUND INFORMATION AND MANAGEMENT	xiv
4. STATEMENT OF MANAGEMENT RESPONSIBILITIES.....Error! Bookmark not defined.	
5. REPORT OF THE AUDITOR-GENERAL ON THE CONTINGENCIES FUND.....	xvi
6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2022	1
7. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE 2022	2
8. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022.....	3
9. STATEMENT OF COMPARISON OF BUDGET VERSUS ACTUAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE, 2022	4
10. SIGNIFICANT ACCOUNTING POLICIES	5
11. NOTES TO THE ACCOUNTS.....	6
12. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS	7

1. 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 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;
- 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

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 four (4) 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
- Integrated Financial Management Information Systems (IFMIS)
- 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

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

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 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 responsibilities were:

S/No.	Designation	Name
1.	Principal Secretary	Dr. Julius Muia, PhD, CBS
2.	Director General, Budget Fiscal & Economic Affairs	Mr. Albert Mwenda, HSC
3.	Director, Budget Department	Mr. Francis Anyona, OGW
4.	Director, Financial and Sectoral Affairs Department	Prof. Galgalo Barako
5.	Ag. Director, Intergovernmental Fiscal Relations Department	Mrs. Josephine Kanyi
6.	Director, Macro and Fiscal Affairs Department	Mr. Musa Gathanje
7.	Director, Public Procurement Department	Mr. Eric Korir
8.	Director General, Accounting Services & Quality Assurance	FCPA Bernard Ndung'u, MBS
9.	Ag. Director, Government Accounting Services Department	Mr. Jonah Wala
10.	Ag. Deputy Internal Auditor General	Ms. Jane Micheni
11.	Ag. Director, National Sub County Treasuries	Mr. Francis Kariuki
12.	Director, Integrated Financial Management Information System	Mr. Stanley Kamanguya
13.	Ag. Director, Government Digital Payments Unit	Mr. Nicholas Wambugu
14.	Head of Exchequer operations	Ms. Jane W N Macharia
15.	Director General, Public Investments & Portfolio Management	Eng. Stanley Kamau
16.	Director, Government Investment and Public Enterprises	Mr. Kennedy Ondieki
17.	Ag. Director, National Assets and Liability Management	Mrs. Veronica Okoth
18.	Director, Pensions Department	Mr. Michel Kagika, EBS
19.	Director General, Public Debt Management Office	Dr. Haron Sirma, OGW
20.	Director, Resource Mobilization Department	Mr. Moses Kanagi
21.	Director, Debt Policy, Strategy and Risk Management Department	Mr. Daniel Ndolo
22.	Director, Debt Recording and Settlement Department	Mr. George Kariuki
23.	Director General, Public Private Partnerships (PPP) Directorate	Mr. Christopher Kirigua, OGW
24.	Director, Public Private Partnership Unit	Mrs. Veronica Okoth
25.	Principal Administrative Secretary	Mr. Amos Gathecha, EBS
26.	Secretary Administration	Mr. Hiram Kahiho
27.	Head, Accounts Division	Mr. Nemwel Motanya
28.	Head, Finance	Mr. Kimathi Mugambi, HSC
29.	Head, SCM	Mr. Aggrey kituyi
30.	Director, Human Resource Management and Development	Ms. Susan Mucheru
31.	Director, Information Communication and Technology	Mrs. Lynn Nyongesa
32.	Head, Central Planning and Project Monitoring Unit	Mr. Antony Muriu, HSC
33.	Head, Public Communications	Ms. Catherine Njoroge

The National Treasury
Financial Statements for the Contingencies Fund
For the Financial Year ended 30 June, 2022

34.	Programme Coordinator, Public Financial Management Reform Secretariat	Mr. Julius Mutua
35.	Director, Government Clearing Agency	Mr. Felix Ateng
36.	Head, Internal Audit Unit	Ms. Esther Ngeru

(d) Fiduciary Oversight Arrangements

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

Internal Audit Unit

The National Treasury has 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 Committee

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 Liaison Office

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. There are also other liaison officers in the Accountant General Department who sit in fiduciary parliamentary committees as representative of The National treasury.

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.

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

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.

The National Treasury
Financial Statements for the Contingencies Fund
For the Financial Year ended 30 June, 2022

(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

Website: 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
Office of The Auditor-General
Anniversary Towers, University Way
P.O Box 30084
GPO 00100
Nairobi, Kenya

(h) Principal Legal Adviser

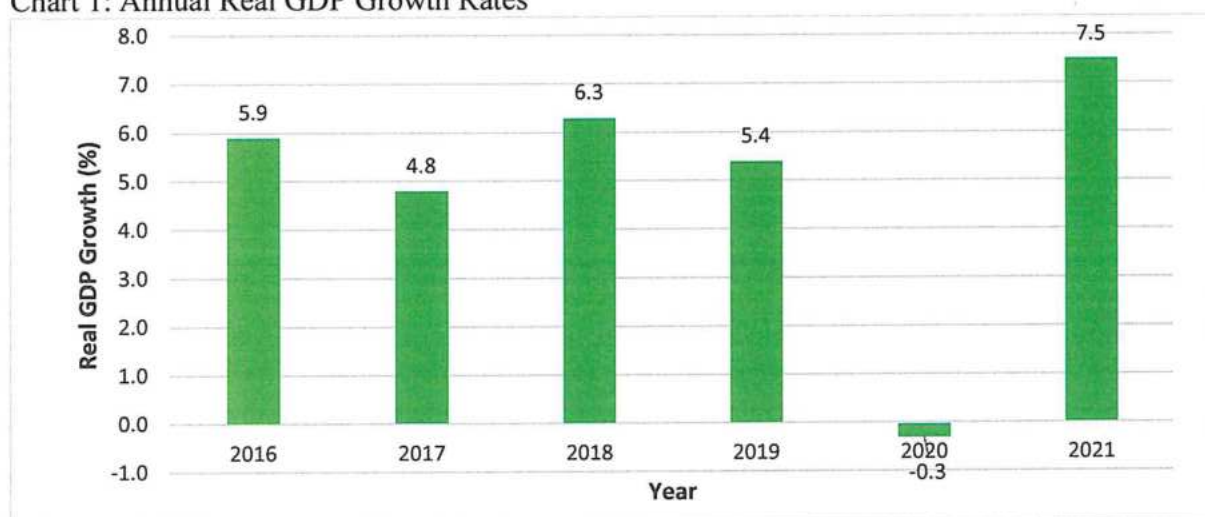
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. FORWARD BY THE CABINET SECRETARY

In accordance with Section 12 of the Public Finance Management Act, 2012, the National Treasury is responsible for coordinating the country's economic and financial management. Overall, the National Treasury has continued to maintain a policy environment that is conducive to economic growth and development of the country.

The Kenyan economy demonstrated remarkable resilience to the COVID-19 shock and expanded by 7.5 percent in 2021, a much stronger level from a contraction of 0.3 percent in 2020 (Chart 1). This economic recovery was mainly supported by the recovery in the service and industry sectors despite the subdued performance in the agricultural sector.

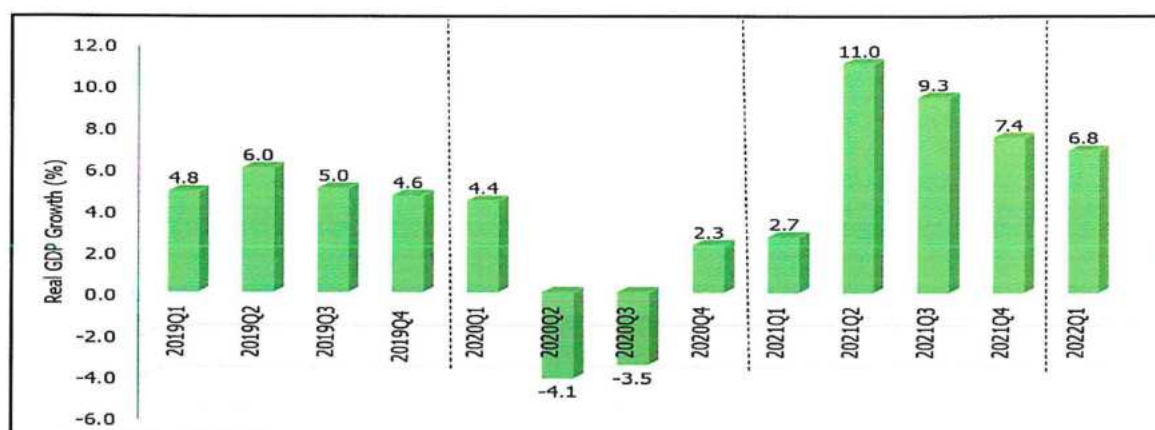
Chart 1: Annual Real GDP Growth Rates



Data Source: National Treasury: Quarterly Economic and Budgetary Review, September, 2022

In the first quarter of 2022, the economy expanded further by a remarkable 6.8 percent compared with a growth of 2.7 percent in a similar quarter in 2021 (Chart 2). The strong performance was supported by continued recovery in manufacturing, transport and storage, accommodation and food services, wholesale and retail trade, Professional, administration and support services and financial and insurance sectors.

Chart 2: Quarterly Real GDP Growth Rates



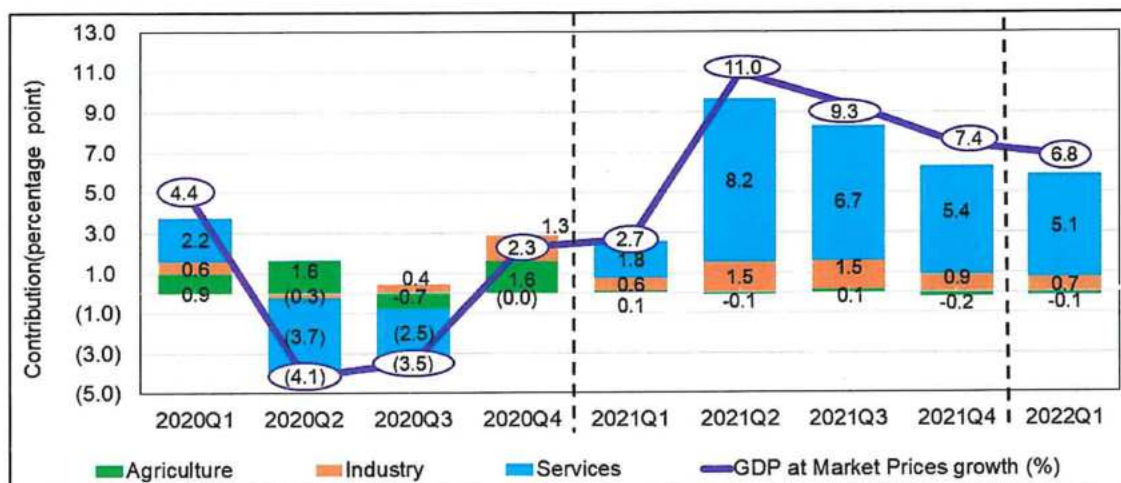
Data Source: National Treasury: Quarterly Economic and Budgetary Review, September, 2022

Sectoral Growth rates

Activities in agriculture, forestry and fishing sector remained subdued in the first quarter of 2022 mainly attributed to depressed rainfall during the fourth quarter of 2021 as well as delayed onset of rains during the first quarter of 2022, thereby leading to reduced agricultural production. The sector is estimated to have contracted by 0.7 percent in the first quarter of 2022 compared to 0.4 percent growth in the first quarter of 2021. The poor performance of the sector was mainly due to the significant decline in horticultural exports and tea production. The sector's performance was however cushioned from a steeper slump by the increase in production of cane, milk, and coffee. The sector's contribution to GDP growth was -0.1 percentage points in the first quarter of 2022 compared to 0.1 percentage points contribution in the same quarter in 2021 (Chart 3).

The biggest contribution to the growth was recorded in the Services Sector. The recovery of activities in the services sector continued in the first quarter of 2022. The sector grew by 9.1 percent in the first quarter of 2022 compared to a growth of 3.2 percent in the same quarter in 2021. The strong growth was largely characterized by significant recovery in transportation and Storage (8.1 percent), accommodation and food services (56.2 percent) and Professional, Administrative and Support Services (14.9 percent). The sector was also supported by strong growths in financial and insurance services (14.4 percent), and wholesale and retail trade (8.7 percent). The services sector contributed 5.1 percentage point to real GDP growth in the first quarter of 2022 compared to the 1.8 percentage point contribution in the same quarter in 2021.

Chart 3: Sectoral contributions to Real GDP Growth



Data Source: National Treasury: Quarterly Economic and Budgetary Review, September, 2022

Additionally, activities in the manufacturing sub-sector were more vibrant in the first quarter of 2022 compared to the same quarter in 2021. The sub-sector grew by 3.7 percent in the first quarter of 2022 compared to a 2.1 percent growth in 2021. The improved performance was supported by both the food and non-food components. The food component that registered substantial growth was processing of coffee while the non-food component growth was supported by substantial growth in cement production.

Inflation

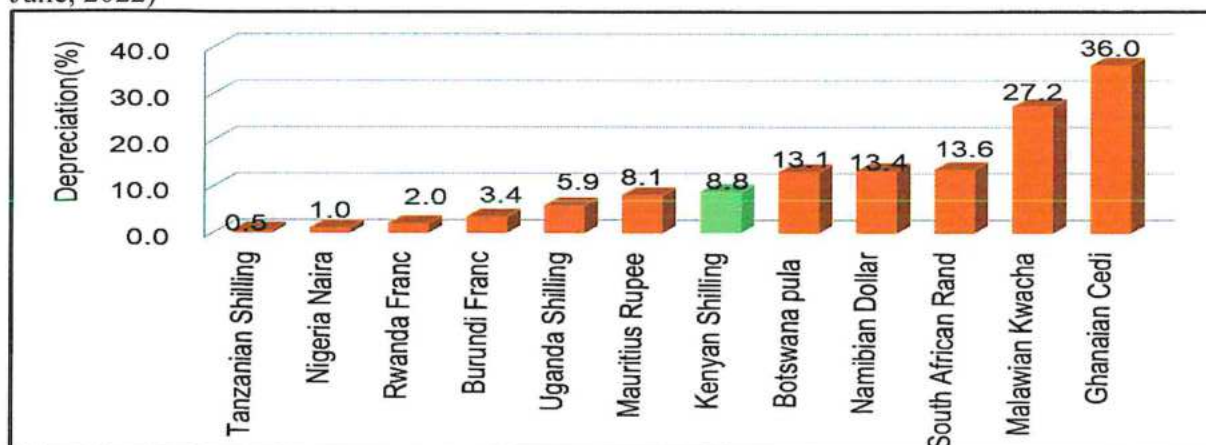
The year-on-year inflation rate increased to 7.9 percent in June 2022 (slightly above the 7.5 percent upper bound) from 6.3 percent in June 2021 mainly due to higher food and fuel prices. Notwithstanding this, the increase was moderated by Government measures to stabilize fuel prices, lower electricity tariffs and subsidies on fertilizer prices. Additionally, the recent waiver of import duties and levies on white maize, the subsidy on retail prices of sifted maize flour, and the reduction in VAT on LPG will further moderate domestic prices. Overall annual average inflation remained within Government target range at 6.3 percent in June 2022 compared to the 5.3 percent recorded in June 2021.

Exchange Rates

The foreign exchange market has largely remained stable despite the tight global financial conditions attributed to strengthening of the US Dollar. The Kenya Shilling to the US Dollar exchanged at KSh. 117.3 in June 2022 compared to KSh. 107.8 in June 2021. Over the same period, the Euro exchanged at KSh. 124.1 compared to KSh. 130.1 while the Sterling Pound exchanged at KSh. 144.8 compared to KSh. 151.5.

In comparison to most Sub-Saharan Africa currencies, the Kenya Shilling has remained relatively stable weakening by 8.8 percent against the US Dollar (Chart 4). The depreciation rate of the Kenya Shilling was lower than that of Botswana pula, Namibian Dollar, South African Rand, Malawi Kwacha and Ghanaian Cedi. The stability in the Kenya Shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports.

Chart 4. Performance of Selected Sub-Saharan Countries Currencies against the US Dollar (June, 2021 to June, 2022)



Data Source: National Treasury: Quarterly Economic and Budgetary Review, September, 2022

Overall, leading economic indicators including interest rates, Foreign Exchange Reserves balance of payments and, money and credit for the fourth quarter of 2021 and the first quarter of 2022 recorded stable performance and point to strong recovery from the adverse impact of the COVID-19 pandemic.

Going forward, the National Treasury is committed to promoting Growth enabling investments through the implementation of the Economic Recovery Strategy. Specifically, the National Treasury will:

1. Scale-up the COVID-19 response;
2. Reduce debt vulnerabilities through revenue-driven fiscal consolidation plan that target to stabilize the debt to GDP ratio and subsequently put it on a downward path;
3. Support structural and governance reforms while addressing weaknesses in state-owned enterprises; and,
4. Strengthen monetary policy framework and support financial stability.

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

3. CONTINGENCIES FUND INFORMATION AND MANAGEMENT

1.1 Establishment of the Fund

The Contingencies Fund is established pursuant to Article 208 of the Constitution of Kenya and requires it to be operated in accordance with an Act of Parliament. The Fund is set up for purposes of meeting an urgent and unforeseen need for expenditure for which there is no other authority.

As per section 19 of the PFM Act, 2012, the Contingency Fund shall consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year. Section 20 (2) of the PFM Act, 2012, specifies that the permanent capital of the Contingencies Fund shall not exceed ten billion shillings (Kshs 10 billion) or such other amount as may be prescribed by the Cabinet Secretary with the approval of Parliament.

1.2 Administration and reporting arrangements of the Fund

The Cabinet Secretary, National Treasury has been designated to administer the Contingencies Fund pursuant to Section 20 of the PFM Act, 2012 and further requires the Cabinet Secretary, National Treasury to keep the Contingencies Fund in a separate account, maintained at the Central Bank of Kenya and to pay into that account all monies appropriated to the Contingencies Fund by an appropriation Act. The Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority pursuant to Section 21 of the PFM Act, 2012.

Further, Section 50 of the PFM Regulations (National Government), 2015 requires an Accounting Officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under Section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

The National Treasury is required to prepare and submit to the Auditor-General financial statements for that year in respect of the Contingencies Fund not later than three months after the end of each financial year pursuant to Section 23 of PFM Act, 2012.

1.3 Operations in financial year 2021/2022

A total of Kshs. 1.96 billion was advanced during the financial year 2021/2022. The full amount was refunded during the same period.

4. 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 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 Contingencies Fund report, which give a true and fair view of the state of affairs of The National Treasury for and as at the end of the financial year (period) ended on 30th June, 2022. 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 Fund; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer accepts responsibility for the Contingency Fund 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 Contingency Fund performance during the financial year ended 30th June, 2022. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for Contingency Fund, 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 confirms that the Contingency Fund 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 financial statements for the Contingencies Fund was approved and signed on 22 December 2022 by the following:

Signature: 

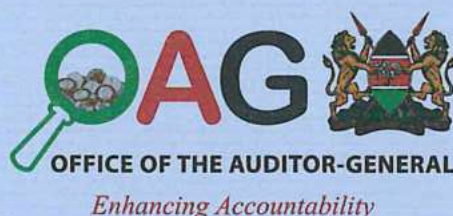
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury

Signature: 

FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

REPUBLIC OF KENYA

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



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

REPORT OF THE AUDITOR-GENERAL ON CONTINGENCIES FUND FOR THE YEAR ENDED 30 JUNE, 2022 - THE NATIONAL TREASURY

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 Contingencies Fund set out on pages 1 to 7, which comprise of the statement of assets and liabilities as at

30 June, 2022, and statement of receipts and payments, statement of cash flows and the statement of comparison of budget versus actual performance for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion the financial statements present fairly, the financial position of the Contingencies Fund as at 30 June, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Contingencies Fund 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.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. 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

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 governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires 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 controls 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 Fund's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the sustainability of services basis of accounting unless Management is aware of the intention to terminate the Fund 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 Fund'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 governance and risk management, and ensuring the adequacy and effectiveness of the controls environment.

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls 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 controls would not necessarily disclose all matters in the internal controls 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 controls 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 controls 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 controls.

- 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 Fund'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 Fund 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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


19 December, 2022

6. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30 JUNE 2022

	Notes	FY 2021/2022 Kshs	FY 2020/2021 Kshs
Receipts:			
Refund from MDAs	11.1	1,960,673,393	-
Total		-	-
Payments from the Contingencies Fund:			
Advance to MDAs	11.2	(1,960,673,393)	-
Total		-	-
Surplus/Deficit		-	-

The notes on pages 6 to 7 form an integral part of these financial statements. This statement has been prepared, reviewed and approved on.....22 December 2022 by the following:


Signature: 
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury


Signature: 
FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

7. STATEMENT OF ASSETS AND LIABILITIES AS AT 30TH JUNE 2022

	Note	FY 2021/2022 Kshs	FY 2020/2021 Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	11.3	7,000,000,000	7,000,000,000
Total Cash and Cash Equivalents		7,000,000,000	7,000,000,000
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		7,000,000,000	7,000,000,000
Financial Liabilities			
Accounts Payables – Deposits and Retentions		-	-
Net Financial Assets		-	-
Represented By			
Fund Balance B/Fwd		7,000,000,000	7,000,000,000
Surplus/Deficit for the year		-	-
Net Financial Position		7,000,000,000	7,000,000,000

The notes on pages 6 to 7 form an integral part of these financial statements. This statement has been reviewed and approved on.....22 December.....2022 by the following:


Signature: 
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury


Signature: 
FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

8. **STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022**

	FY 2021/2022 Kshs	FY 2020/2021 Kshs
Receipts for Operating Income		
Refund from MDAs	1,960,673,393	-
Payments and advances		
Advance to MDAs	(1,960,673,393)	-
Net Cash Flow from Operating Activities	-	-
Cash flow from Investing Activities	-	-
Cash flow from Borrowing Activities	-	-
Net Increase in Cash and Cash Equivalents	-	-
Cash and cash equivalents at the beginning of the year	7,000,000,000	7,000,000,000
Cash and Cash Equivalent at the end of the Year	7,000,000,000	7,000,000,000

The notes on pages 6 to 7 form an integral part of these financial statements. This statement has been reviewed and approved on.... 22 December.....2022 by the following:

Signature: 
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury

Signature: 
FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

**9. STATEMENT OF COMPARISON OF BUDGET VERSUS ACTUAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE, 2022**


The following statement summarizes the outturn against budget:

	Original Estimates Kshs	Adjustments Kshs	Revised Estimates Kshs	Deviations Kshs
Receipts				
The National Treasury	2,000,000,000.00	(2,000,000,000.00)	-	-
Total	2,000,000,000.00	(2,000,000,000.00)	-	-
Transfers				
Transfer to MDAs	-	1,960,673,392.90	-	1,960,673,392.90
Total	-	1,960,673,392.90		1,960,673,392.90

The initial amount of Kshs. 2.0 billion included in the original estimates was revised to zero during the financial year 2021/2022. An amount of Kshs. 1.96 billion advanced to MDAs was refunded back to the Fund during the financial year 2021/2022.

The Contingencies Fund is set up for purposes of meeting urgent and unforeseen needs of emergency nature of expenditure and therefore there is no estimate done for transfer to the MDAs. The funds are utilised and refunded back to the Fund within the financial year and therefore the overall effect on the transfers to and from the Fund is nil.

Signature: 
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury

Signature: 
FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury

10. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of the Contingencies Fund has been prepared in accordance with the cash basis of International Public Sector Accounting Standard (IPSAS) Cash based standard as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

b) Reporting entity

The Cabinet Secretary, National Treasury has been designated as the Administrator of the Contingencies Fund, pursuant to Section 20 of the PFM Act, 2012. Accordingly, the reporting entity is the National Treasury.

c) Receipts

Receipts consist of monies appropriated from the Consolidated Fund by an appropriation Act in any financial year. Receipts also constitute refunds from advanced MDAs. Receipts are recognized when cash is received in the Contingencies Fund.

d) Payments and transfers

Pursuant to Section 21 of the PFM Act, 2012, the Cabinet Secretary may make advances from the Contingencies Fund if satisfied that an urgent and unforeseen need for expenditure has arisen for which there is no specific legislative authority. Section 50 of the PFM (National Government) regulations, 2015 requires an accounting officer to, before applying for financing from the Contingencies Fund, ascertain that there are no savings within his or her vote and the need meets the criteria set under section 21 of the Act. The Cabinet Secretary shall then, consider the request and assess and may approve it or reject it.

Payment is recognized when actual cash is paid out of the Contingencies Fund.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances, un-surrendered imprests and short term deposits in money market instruments.

f) Presentation Currency

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

g) Contingent Liabilities

There was no potential liability that may occur in the future in respect to Contingencies Fund

11. NOTES TO THE ACCOUNTS

11.1 Receipts

The Contingency Fund did not receive any funds from the Exchequer during the financial year 2021/2022. However, the Fund received Kshs. 1,960,673,392.90 as a refund from the advanced MDAs.

11.2 Advances from the Contingency Fund to MDAs

A total of Kshs. 1,960,673,393 was advanced from the Fund in 2021/2022 financial year for drought mitigation measures, there were no advances during 2020/2021 financial.

Date	MDA	Details	2021/2022 Kshs	2020/2021 Kshs
13.10.21	Ministry of Defence	Drought Mitigation	450,000,000	-
21.10.21	Ministry of Water & Sanitation and Irrigation	Drought Mitigation	120,000,000	-
02.11.21	Ministry of Water & Sanitation and Irrigation	Drought Mitigation	230,000,000	-
02.11.21	State Department for Devolution	Drought Mitigation	152,000,000	-
04.11.21	State Department for Devolution	Drought Mitigation	62,300,000	-
29.11.21	State Department for Devolution	Drought Mitigation	381,211,558	-
19.01.22	State Department for Devolution	Drought Mitigation	7,211,094	-
27.01.22	State Department for Devolution	Drought Mitigation	10,662,785	-
27.01.22	State Department for Devolution	Drought Mitigation	484,200,000	-
02.02.22	State Department for Devolution	Drought Mitigation	55,000,000	-
15.02.22	State Department for Devolution	Drought Mitigation	8,087,956	-
Total			1,960,673,393	-

11.3 Closing Balance

The closing balance as at 30th June 2022 amounted to Kshs 7.0 billion, the same amount as at 30th June 2021 reflected in the bank account of the Fund held at Central Bank of Kenya:

Description	2021/2022 Kshs	2020/2021 Kshs
Bank Account No. 1000183233	7,000,000,000	7,000,000,000
Total Receipts	7,000,000,000	7,000,000,000


12. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS

There were no noted and outstanding audit matters issues during the previous audits as indicated on the table below.

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)
No outstanding audit matters	N/A	N/A	N/A	N/A	N/A

There are no unsolved audit queries.

Signature: 
Dr. Chris Kiptoo, CBS
Principal Secretary
The National Treasury

Signature: 
FCPA Bernard Ndungu, MBS
Director General, Accounting
Services & Quality Assurance
The National Treasury