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KENYA REVENUE AUTHORITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2017

REPORT OF THE AUDITOR-GENERAL ON KENYA REVENUE AUTHORITY FOR THE YEAR ENDED 30TH JUNE, 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Revenue Authority set out on pages 29 to 51, which comprise the statement of financial position as at 30th June, 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amount for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Revenue Authority as at June 30, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Kenya Revenue Authority Act, Cap 469 Laws of Kenya.

In addition, as required by Article 229 (6) of the constitution, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, based on the procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 PROPERTY PLANT AND EQUIPMENT

The statement of financial position reflect property plant and equipment values of KSh. 30,478,727,000 as confirmed in Note 8 to the financial statements. Included in this figure is KSh. 24,540,066,000 in respect of revalued land and building. The revaluation was done in June 2017 by the Authority internal professionals using the market comparison approach. A review of the revaluation of property, plant and equipment report revealed the following anomalies:

- The minutes of the Board meeting approving the revaluation of the assets has not been presented for audit verification.
- The effective date of the revaluation has not been indicated in the revaluation documents.
- The revaluation report reflected values of Land and Building closing balance of KSh. 24,106,581,000 while the financial statement reflects values of KSh. 24,540,066,000. The difference of KSh. 433,385,000 between the two set of figures has not been explained.

2.0 WORK IN PROGRESS

Note 8 to the financial statement reflects KSh. 3,723,041,000 as Work in Progress as 30th June, 2017. However, the balance of KSh. 3,723,041,000 does not include KSh.1,639,138,000 of One Stop Border Post (OSBP) works that were in progress, completed and were included in the final land and building revaluation report as indicated in the table below:

Station	Description	Amount (KSh.)
Busia OSBP	Office Block	41,158,083
Malaba OSBP	Office Block	90,532,134

Station	Description	Amount (KSh.)
Isebania OSBP	Office Block	206,015,201
Taveta OSBP	Office Block	25,662,776
Namanga OSBP	Office Block	670,000,000
Moyale OSBP	Office Block	605,778,891
Total		1,639,138,085

In addition, during the Financial Year 2016/2017, Kenya Revenue Authority spent a total sum of KSh. 777,139,000 on various projects. However, the Authority has failed to present for audit verification payment vouchers to support the expenditure of KSh. 777,139,000. Therefore, the work in progress of KSh. 3,723,041,000 cannot be confirmed correct.

3.0 CASH AND BANK BALANCES

The cash and bank balances reflected in the statement of financial position of KSh. 6,524,721,000 is not in agreement with the cash and bank balances analyzed from the authority records of KSh. 6,603,424,000 as indicated below: -

	Amount in Financial Statements	Verified Amount	Variance
Cash at hand	782,617	288,476	494,142
Cash at bank	1,636,379,641	1,730,651,388	(94,271,746)
Fixed Deposits	1,450,225,968	1,435,151,271	15,074,696
Treasury Bills	3,437,333,750	3,437,333,750	-
Total	6,524,721,000	6,603,424,000	(78,702,000)

The difference of KSh. 78,702,000 has not been explained by the authority management. Further, the Authority did not disclose in its financial statements for 2015/2016 for two bank accounts held at Kenya Commercial Bank- Wajir, account no. 1135877165 and National Bank-Dollar A/C-KESRA- Nairobi account No. 0202015000900 with balances of KSh. 50,345 and USD 4,195.50 respectively. The non-disclosure of the two bank accounts has not been explained nor were their proceeds part of the closing cash and bank balances.

4.0 DEBTORS

4.1 OTHER AGENCY DEBTORS

The statement of the financial position and as confirmed in Note 10 to the financial statements reflect debtors and receivables of KSh. 553,968,000 which include other agency debtors of KSh. 271,228,000. Included in total accrued income shown in the ledger is KSh. 30,324,284 relating to other income. The balance reflected in the financial statement as other agency debtors of KSh. 271,228,000 is overstated by KSh. 30,324,284 as tabulated below.

Date	Description	Journal Voucher Number	Amount (KSh.)
18/10/2016	Document Processing Fees	5259	6,032,782
	Sale of Tamper proof seals	5259	2,555,948
	Miscellaneous income (Customs)	5259	2,612,312
	Public Overtime	5259	1,000,891
	Miscellaneous Income (Domestic)	5259	2,585,992
24/01/2017	Document Processing Fees	11142	6,510,994
	Sale of Tamper proof seals		2,379,379
	Miscellaneous income (Customs)		562,898
	Public Overtime		629,102
	Miscellaneous Income (Domestic)		1,888,500
21/4/2017	Document Processing Fees	17732	2,007,004
	Sale of Tamper proof seals		789,651
	Miscellaneous income (Customs)		508,033
	Public Overtime		260,798
Total			30,324,284

4.2 LONG OUTSTANDING STAFF DEBTORS

During the year 2015/2016, the Authority had an Outstanding Staff debtor's balance of Kshs 81,245,000 which included staff travel imp-rest amounting to KSh. 50,005,708. The closing balance of KSh. 50,005,708 was recorded in Company A KSh. 44,517,778 and Company B KSh. 5,487,930 respectively. A review of debtors in 2016/2017 financial year reveals that the long outstanding staff travel imp-rest debtors for company Amounting to KSh. 2,248,829 had been excluded from the staff debtors' balances of Kshs 122,923,000 in the financial statements as confirmed by Note 10 to the financial statement and as listed below

Unverified debtors and not in 2016/2017 Financial Year Schedule of Travel Imprest Debtors

Date	P/Number	Name	Amount
6/29/2016	20742	Francis Kamau	10,400.00
7/30/2015	103	Hadi Abdullahi	31,200.00
5/23/2016	15635	Stephen Wafula	15,750.00
12/8/2015	7918	Charles E Onduso	105,320.00
6/3/2016	18782	George Munene	24,600.00
5/20/2016	17086	Laveen Mutira	5,000.00
6/19/2015	16127	James Murage	100,000.00
12/31/2011	70006	Pcv 303 C. Kiprotich	6,830.00
6/9/2016	17398	James Kiriimi	44,800.00
6/16/2016	17784	Evaline Rotich	31,200.00
6/29/2016	19126	Kariuki Njamwitha	100,000.00
8/19/2015	2272	Mercy M Mbithi	310,752.00
6/17/2016	19047	Latifa Omar	41,234.05

<i>Date</i>	<i>P/Number</i>	<i>Name</i>	<i>Amount</i>
9/9/2015	4190	John Kamau Kamau	317,859.75
2/9/2016	DIFF	Rounding Off	(61.60)
4/11/2016	14587	Simon Onyango	31,490.00
10/9/2002	CHQ.1743	Chq.1743-M. H. Masoud	31,500.00
2/5/2016	10201	Isaac Karangi	33,600.00
4/28/2016	15188	Angelina S. Mbangula	33,800.00
3/1/2016	10374	Kevin Guserwa	40,980.00
5/16/2016	15474	Kenneth Mburu	42,000.00
6/13/2016	17612	Ann Kamanda	42,000.00
6/29/2016	19097	Nicholas N Mayenze	44,800.00
9/18/2015	2787	Joseph Tonui	46,800.00
3/16/2016	12121	January Wambua	50,400.00
5/16/2016	15474	Carol B N Mitau	67,200.00
5/16/2016	15474	Essie Gikuhi	70,000.00
7/5/2015	13558	Samuel Kariuki	87,100.00
6/6/2016	17004	Wangui Mwaniki	100,800.00
5/26/2016	16185	Benson Olando	106,200.00
9/19/2011	3453	Sep\$018eugene Waluvengo	275,275.60
		Total	2,248,829.80

5.0 INCOME

5.1 CAPITAL GRANTS

The statement of financial position and as confirmed by Note 18 to the financial statement indicates capital grant by the National Treasury and other donors of KSh. 18,249,137,000. The National Treasury and other Donors paid KSh. 1,814,647,000 directly to suppliers for goods, works and services towards projects undertaken by the Authority. The amounts have not been disclosed in the financial statement. The non-recording and non-amortization of the benefits accruing from donated assets and services may lead to understated assets and revenues in the financial statements. Further the management has failed to provide a full list of all completed donor funded projects and their total costs. Disclosures in the notes to the accounts as required by paragraphs 106 and 107 of IPSAS 23 has not been adhered to. Therefore, the grants have been understated by KSh. 1,814,647,000.

5.2 COMMISSION INCOME

The statement of financial performance and as confirmed in Note 4a to the financial statements reflect commission income of KSh. 1,785,534,000. Excluded in this is income on commission earned on collection of standards levy, concession fees, insurance deduction commission and merchant superintendent shipping levy (MSSL) on behalf of Kenya Bureau of Standards, Kenya Airports Authority, various insurance companies and Kenya Maritime Authority respectively. The total commission earned from the four organizations but omitted from the statement of financial performance is KSh. 11,718,748, KSh. 2,546,202, KSh. 5,062,051 and KSh. 26,552,285, respectively. Management has not explained the reasons for this omission.

5.3 DEFERRED GRANT INCOME AMORTIZATION

The statement of financial performance reflect deferred grant income amortization of KSh. 82,085,000 whereas the amount computed during our audit verification for the year is KSh. 48,133,417 resulting to a misstatement of the grant income by KSh. 33,951,271 as shown below:

	<i>Acquisition year</i>	<i>Cost</i>	<i>Year</i>	<i>Depreciation</i>	<i>Accum. Dep</i>	<i>Balance</i>
Motor Boat	2009/10	10,013,000	2015/16	1,251,625	8,761,375	1,251,625
		10,013,000	2016/17	1,251,625	10,013,000	0
X-Ray Scanner	2009/10	141,221,856	2015/16	17,652,732	123,569,124	17,652,732
		141,221,856	2016/17	17,652,732	141,221,856	0
WB-Power backup	2011/12	135,146,034	2016/17	16,893,254	101,359,526	33,786,509
WB Projects	2011/12	76,791,446	2016/17	9,598,931	49,194,520	27,596,926
WB Projects	2012/13	21,895,000	2016/17	2,736,875	13,684,375	8,210,625
Total				48,133,417		

5.4 UNRECOGNIZED DEFERRED GRANT INCOME

In addition, the Authority received assets as donations during the year and the previous years which were not disclosed during the year under review. Some of these assets not disclosed but identified are: - three (3) scanners donated by China Government in 2015/2016, five motor vehicles (5) donated by JICA and an ERP system from JICA. The deferred income associated with the use of these assets has not been recognized in the financial statement under review. Therefore deferred income recorded in the statement of financial performance of Kshs 82,085,000 cannot be confirmed.

6.0 VARIANCES BETWEEN THE FINANCIAL STATEMENTS, LEDGER AND TRIAL BALANCE FIGURES

Comparison of the financial statements figures in the 2016/2017 Financial Year against the ledger and trial balance figures of the agency for the same year revealed differences in some specific items as indicated below.

<i>Item Description</i>	<i>Financial Statement Balance (KSh.)</i>	<i>Ledger Balance (KSh.)</i>	<i>Trial Balance (KSh.)</i>
Designated Fund	62,248,174	202,705,923	62,248,174.30
Consultancy	135,930,478	389,477,271	135,930,478.19
Work in Progress-SAP	3,723,041,247	5,480,542,971	3,723,041,247.03
Travelling and Accommodation	982,586,232	1,167,431,333	982,586,232.47
Printing and Stationery	37,834,904	36,323,403	37,834,904.28

<i>Item Description</i>	<i>Financial Statement Balance (KSh.)</i>	<i>Ledger Balance (KSh.)</i>	<i>Trial Balance (KSh.)</i>
Computer Expenses	580,145,509	282,082,690	580,145,509.94
Training Expenses	300,766,336	284,299,636	300,766,367.05
Miscellaneous Income	76,120,000	56,170,328	61,377,718
Staff cost	14,070,197,000	14,070,196,570.03	13,342,182,053

These variances have not been explained or reconciled. Therefore the figures in respect to the respective items reflected in the financial statements cannot be confirmed.

7.0 DUPLICATE INVOICES

Included in the trade creditors and accounts payable of KSh. 1,603,725,000 as indicated in Note 15 is local creditors of KSh. 937,810,367 which includes duplicate invoices of KSh. 50,927,000. Therefore the local creditors balances as 30th June, 2017 is overstated by KSh. 50,927,000. The duplication of invoices which lead to overstating the accounts payable balance by KSh. 50,927,000 has not been explained and therefore the total creditor and payable balances of KSh. 1,880,766,000 reflected in the statement of financial position cannot be ascertained.

7.0 ACCRUED EXPENSE

Avic International and Kenya Revenue Authority signed a two year scanners maintenance contract on 18/2/2016 at a contract sum of USD 1,458,607.50 annually. The maintenance cost per year is KSh. 151,275,000 but the amount accrued as expenses for the financial year under consideration is KSh. 177,574,000 as indicated in Note 7(a). The scanner maintenance expenses therefore were overstated by KSh. 26,299,000. Further, the accrued scanner maintenance expenses was not reported as a liability in the financial statements at the end of the financial year 2016/2017. Therefore the deficit/surplus for the year is understated by KSh. 26,299,000.

8.0 INSURANCE EXPENSES

During the year under review, included in insurance expenses of KSh. 69,178,000 as shown in Note 5(b) is a total of KSh. 8,240,000 insurance premiums paid to Miran Insurance Brokers Limited and APA Group Life Insurance Company for the Financial Year 2015/2016 but charged to 2016/2017 financial year.

Further, insurance compensation received of KSh. 1,7954,887 was erroneously included as premiums paid during the financial year. Therefore the insurance expenses of KSh. 69,178, 000 cannot be confirmed correct.

9.0 UNSUPPORTED PAYMENTS

9.1 LAKE NAIVASHA SIMBA LODGE

During the financial year 2015/2016 the Authority incurred training expenses of KSh. 300,766,000 as reflected in Note 5.b to the financial statement. Included in the training expenses of KSh. 300,766,000 is an expenditure of KSh. 6,941,000 toward provision of conference facilities for top management meeting held on 13 April 2016 at Lake Naivasha Simba Lodge. The payment was made on 29 July 2017, vide voucher no. 356/16/17 and invoice No. 2016060104. The list of participants was not signed by all participants and therefore we could not verify the propriety of this expenditure. Further this expenditure was incurred on April 2016 and therefore relates to 2015/16 Financial Year.

9.2 UNVOUCHED EXPENDITURE

Included in computer expenses of KSh. 580,146,000 as indicated in Note 5 b to the financial statement is an expenditure of KSh. 127,781,000 whose payment vouchers were not availed for review and audit. Therefore the authenticity of computer expenses of KSh. 580,146,000 would not be confirmed correct.

10.0 MOTOR BOAT EXPENSES

In the statement of financial performance and as confirmed by Note 7 to the financial statements reflects maintenance expenses of KSh. 395,009,000 in respect of motor boat. The motor boat expenses include KSh. 15,246,000 in respect of motor boat maintenance expenses. The motor boat maintenance expenses of KSh. 15,246,000 would not be confirmed to be expenses for 2016/2017 since only KSh. 5,866,959 was verified. The difference of KSh. 9,378,860 is an expenditure for the period 2015/2016 and therefore the expenditure for 2016/2017 is overstated KSh. 9,378,860.

11.0 MEDICAL ADVANCES WRITE OFF

The Board in its 253 meeting held on 31 January 2017, approved the write off of medical advances/balances of KSh. 3,262,700 made up of KSh. 931,045 relating to former employees who are now deceased and KSh. 2,331,654 relating to former employees who exited the organization before receipt of invoices and recovery of bills were done. The write-off was irregular since there was no approval from the Cabinet Secretary in charge of The National Treasury to write off the debt as required by the Public Finance Management Act, 2012.

12.0 LEAVE PROVISION

During the Financial Year 2015/2016 audit, the Authority was advised not to accumulate leave day beyond what is allowed by the human resource policy. However, it was observed that the recommendation has not been implemented and the Authority continues to provide for the unjustified leave days whose value is currently KSh. 185,454,748 at the end of the year as indicated in Note 16 to the financial statement.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. Except for the matters described in the Basis for Qualified Opinion and Other Matter sections, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 TOP MANAGEMENT PAYROLL SYSTEM

In 2015/2016, the Authority contracted Deloitte and Touche to offer Payroll services through their Business Services Department Company, Livingstone Registrars Limited. This payroll service was to process salaries and remuneration for thirty two (32) top management staff. Livingstone Registrars limited role was to receive funds from the Authority make arrangements to transfer the net pay to the employees' bank accounts and make payments on behalf of the Authority for statutory and non-statutory payments.

The contract sum for the services was an annual charge of KSh. 7,500 and a Routine Charges of KSh. 405,000. The contract was later changed to annual charge of KSh. 7,500 and a routine charge of KSh. 513,000 annually. In addition, every new employee was to be registered at cost of KSh. 1,500.

The contract was irregular on the basis of the following:

- The services were single sourced.
- No notice inviting expression of interest had been provided by the Authority to confirm that due process was followed.
- No clear terms of reference had been provided by the Authority on which the consultant was to operate.
- The need assessment was not clearly identified so as the services sourced from Livingstone Registrars limited would address the gaps identified. The Authority currently has in place Memory Payroll system which maintains a General Payroll for 3,200 employees. The system is able to generate all payroll reports including pay-slips, SFI files for Bank payments, Payroll control summaries, statutory and other deduction reports, P9 reports etc. Therefore, the Memory Payroll system is sufficiently serving the authority with no fail reports made and thus no gaps were noticed to be filled by another payroll system.

In 2016/2017 Financial Year, the Authority continued to use the Services of Livingston registrar even after procuring a new SAP system. So far KSh. 53,117,129 has been paid to date to Deloitte & Touche since the company was contracted in 2006. The payment of KSh. 53,117,129 has not been justified.

2.0 FAILURE OF COMMISSIONER-GENERAL TO PROCEED ON TERMINAL LEAVE

The Commissioner-General's new contract of service was renewed by the Board of Directors for a further three (3) year term beginning 4 March 2015 and was expected to end on 4 March 2018. The Board did not recommend the Commissioner General to proceed on terminal leave beginning 4 September 2017 pending his retirement in accordance with Government Circular Ref: OP/CAB.9/9A(c) dated 23 November 2010. A requirement which has not been acted upon to date.

3.0 APPOINTMENT OF COMMISSIONER OF INTELLIGENCE AND STRATEGIC OPERATIONS

On 17th November, 2016, the Authority advertised the position of the Commissioner Investigations and Enforcement in the local dailies and the Authority's website with a closing date of 2 December 2016. Forty-nine (49) applications were received in response to the advertisement for the position. Five candidates were shortlisted for interview by the Staff Committee of the Board. The staff Committee carried out oral interviews on 7 March 2017 and recommended three candidates for interview by the Board of Directors.

The Board Minute No. 2761.5 indicates how the Board scored the candidates as indicated below:

<i>Rank</i>	<i>Candidate Prior Position</i>	<i>Candidate Name</i>	<i>Marks</i>
Position 1	Chief Manager	David S.K. Yego	77
Position 2	Deputy Commissioner	James G. Mburu	75.3
Position 3		Miriam Gaituri	53.3

The Board resolved to appoint David S. K. Yego as the Commissioner Investigations and Enforcement with effect from 22nd March, 2017.

The Board further appointed one of the candidates of the position of Commissioner Investigations and enforcement to head a new role as commissioner and his deployment was to be deliberated by the Board on 28 March 2017.

According to Minute No. 2773, the Commissioner General made an elaborate presentation outlining the Risks facing the Authority and emphasized the need for the Authority to have a proactive stance towards intelligence management.

The Board in their Minute No. 2773:5.0 recommended that the existing Ethics and Intelligence position be restructured and its mandate expanded. The position be re-titled as Intelligence and Strategic Operations. The Board in their minute No. 2773:5.0 appointed a Commissioner, Intelligence and Strategic Operations.

The appointment of the Commissioner, Intelligence and Strategic Operation is in contravention of the authority established regulations as follows:

- The Position of Commissioner-Intelligence and Strategic Operation was not in the Authority's establishment and the appointment preceded creation and reorganization of the Ethics and Intelligence department mandate.
- The position was not advertised both internally and externally and therefore disadvantaged other would be applicants for the position. The commissioner Intelligence and Strategic Operation has continued to enjoy the role of the Commissioner and has been paid KSh. 880,000 over and above his substantive position remuneration as Deputy Commissioner. The procedure for recruitment followed and the extra salary already paid on promotion is irregular.

4.0 APPOINTMENT OF A HUMAN RESOURCE EXPERT

The Authority contracted Working Smart Limited for purposes of carrying out online Aptitude Test Services for Graduate trainees' recruitment and establishment of a Psychometric Center for the period 2008-2014

An audit of this contract has further revealed the following issues with the above consultant—

- The Authority engaged Working Smart Limited a company whose registration and existence could not be established at the time of Audit.
- The Authority stopped engaging Working Smart Ltd as an entity and chose to engage one of the directors of Working Smart Ltd on the following assignment:
 - (a) To set up a psychometric assessment centre (PAC) and implement a mentoring programme.
 - (b) The director was contracted as a technical manager as per the letter Ref No: KRA/Conf/5/1003/31 dated 01/09/2008 for 6 months at a rate of KSh. 225,000 per month a position which did not exist in the Authority establishment then.
 - (c) On 8 August 2008, technical manager operating as human resource consultant was contracted to perform: A Psychometric Test to 159 clerical staff and 51 office assistants, test analysis and present a report at a cost of KSh. 250,000 after out competing other human resource recruiting firms, one of which quoted KSh. 482,560 for the service and another whose quote was not disclosed.
 - (d) On 10 March 2009, the technical manager initial contract of 1 September 2008 was extended for three (3) Months vide letter Ref No: KRA/Conf/5/1003/31 at KSh. 225,000 per month. As per letter dated 25 January 2010 Ref No: KRA/Conf/5/1003/31, a proposal was made to pay the technical manager for four months from 4 August 2009 to 4 November 2009 for a task without specific deliverables at the rate of KSh. 225,000 per month.

- (e) In a letter Ref: KRA/5/1003/90 dated 25 Jan 2010, the technical manager was reappointed for another 4 Months for the same contract at the rate of KSh. 225,000 still without specific deliverables.
- (f) The contract was extended by a letter Ref: KRA/5/1003/90 dated 09/06/2010 for another four months at the rate of KSh. 225, 000 still without specific deliverables.
- (g) The Authority engaged the technical manager to carry out a Psychometric Test for Senior Deputy Commissioners for KSh. 272, 000.
- (h) On 27 January 2015, the Authority engaged the technical manager now as a Human Resource Expert to support the human resource division in delivering key assignments at KSh. 25,000 per day for six (6) months with effects from 1 February 2015.
- (i) On 01 February 2015 vide letter Ref: KRA/5/1003/35, the Human Resource Expert was engaged to undertake a Psychometric testing at KSh. 15,000 per person the cost which would include administration of the Tests, report preparation and feedback.

Based on the above analysis, the Human Resource Expert was and is still engaged as an individual and not as Working Smart Ltd and all payments advise are issued to the expert.

Under the circumstances, the following conclusions are made –

- That the consultancy services were single sourced.
- No notice inviting expression of interest had been provided by the Authority.
- The Authority had been requested to provide the necessary supporting documents to the contract but to no avail with regard to both Financial and Procurement engagement.
- The Contract between Kenya Revenue Authority and the Human Resource Expert is irregular and has resulted to a payment of Kshs 6,735,570 in the Financial Year 2016/2017 alone.

Responsibility of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) Accrual Basis and for such 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.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of section 7 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

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 7 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. 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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. 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 Authority to cease to continue as a going concern.
- 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 Authority 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.

Dated the 2nd July, 2018.

EDWARD R. O. OUKO,
Auditor-General.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE, 2017

		2016/2017	2015/2016
	Note	KSh '000	KSh '000
REVENUE			
Revenue from non- exchange transactions			
Deferred grant income amortisation	24	82,085	136,611
Revenue from exchange transactions			
Agency Income	3	15,458,009	15,358,009
Commissions Income	4(a)	1,785,534	1,199,599
Interest Income		544,428	834,982
Sale of Number Plates		-	-
Other Income	4(b)	440,512	314,901
TOTAL REVENUE		18,310,568	17,844,102
EXPENDITURE			
Administrative Expenses	5	18,061,734	15,727,699
Operating Expenses	6	1,070,839	980,537
Maintenance Expenses	7	395,009	430,052
TOTAL EXPENDITURE		19,527,582	17,138,288
Other gains/(losses)			
Gain / (Loss) on sale of assets		3,561	(36,270)
(DEFICIT) / SURPLUS FOR THE YEAR		(1,213,453)	669,544

The notes set out hereto form an integral part of the financial statements

KENYA REVENUE AUTHORITY

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE, 2017

		2016/2017	2015/2016
	Note	KSh '000	KSh '000
Assets			
Current Assets			
Cash and Bank Balances	13	6,524,721	10,052,218
Stocks	14	120,898	-
Debtors and Receivables	10	553,968	506,549
		7,199,587	10,558,767
Non-Current Assets			
Property, Plant and Equipment	8	30,478,727	15,631,210
Intangible Assets	9	12,437	7,850
Amount due from Treasury	11	3,444,499	2,131,332
Security Deposits	12	2,371,751	2,333,596
		36,307,414	20,103,988
Total Assets		43,507,001	30,662,755
Liabilities			
Current Liabilities			
Creditors and Payables	15	1,880,766	2,729,301
Leave Pay and Gratuity Provision	16	1,139,136	1,121,430
Deferred Income Amortisation	24		82,085
		3,019,902	3,932,816
Non Current Liabilities			
Contribution to Government Pension Fund	17	24,290	25,616
Designated Fund	19	62,248	204,949
Deferred Grants Income	24	132,457	-
		218,995	230,565
Total Liabilities		3,238,897	4,163,381
Net Assets		40,268,104	26,499,374
Capital grants by the Treasury	18	18,249,137	17,595,182
Accumulated Fund		3,591,159	4,804,598
Revaluation Reserve		18,427,808	4,099,593
		40,268,104	26,499,373
Total Net Assets and Liabilities		43,507,001	30,662,755

The financial statements set out herein were signed on behalf of the Board of Directors by;

J. K. NJIRAINI,
Commissioner-General.

EDWARD SAMBILI (Dr.),
Chairman.

The notes set out hereto form an integral part of the financial statements

KENYA REVENUE AUTHORITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE, 2017

		<i>Capital Grants by Treasury</i>	<i>Accumulated Fund</i>	<i>Revaluation Reserve</i>	<i>Total Fund</i>
	<i>Note</i>	<i>KSh '000</i>	<i>KSh '000</i>	<i>KSh '000</i>	<i>KSh '000</i>
1st July, 2015		13,360,235	4,135,067	4,196,138	21,691,441
Contribution for the year		4,234,947			4,234,947
Charge for the year				(96,546)	(96,546)
Surplus for the year			669,544		669,544
At 30th June, 2016		17,595,183	4,804,611	4,099,592	26,499,386
1 July 2013 as previously reported					
Prior year adjustment					
1 July 2016		17,595,182	4,804,611	4,099,592	26,499,385
Asset Revaluation	8			14,328,216	14,328,216
Contribution for the year	18	653,955			653,955
Surplus for the year			(1,213,453)		(1,213,453)
At 30th June, 2017		18,249,137	3,591,158	18,427,808	40,268,103

The notes set out hereto form an integral part of the financial statements

KENYA REVENUE AUTHORITY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE, 2017

		<i>2016/2017</i>	<i>2015/2016</i>
		<i>KSh '000</i>	<i>KSh '000</i>
CASH FLOWS FROM OPERATING ACTIVITIES	<i>Note</i>		
(Deficit) / Surplus for the year		(1,213,453)	669,544
Non- cash movements			
Depreciation	8	532,232	1,072,230
Amortisation of Intangible Assets	9	8,181	63,679
Increase in Amortisation of Deferred Income	23	(82,085)	(136,611)
(Gain)/Loss on disposal of Assets		(3,561)	36,270
Increase in Security Deposits	12	(38,155)	(75,630)
Increase in Stocks	14	(51,011)	
Increase in Debtors and receivables		(1,360,586)	(41,415)
Decrease in Creditors and payables		(832,066)	(206,004)
Net cash flows from operating activities		(3,040,504)	1,382,063
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	8	(1,123,910)	(4,229,434)
Purchase of Intangible Assets		(12,768)	(11,776)
Proceeds From Sale of Property, Plant and Equipment		5,972	500
Net Cash Flows From Investing Activities		(1,130,706)	(4,240,710)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase In Contribution By The Treasury and Donors	17	653,955	4,234,947
Decrease in designated Funds	18	(10,242)	(25,516)
Net cash flows from financing activities		643,713	4,209,431
Net (Decrease)/Increase in Cash and Cash equivalents		(3,527,497)	1,350,784
Cash and cash equivalents at 1st July		10,052,218	8,701,434
Cash and Cash Equivalents At 30th June	13	6,524,721	10,052,218

The notes set out hereto form an integral part of the financial statements

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	<i>Original Budget</i> <i>KSh '000</i>	<i>Adjustments</i> <i>Additions</i> <i>KSh '000</i>	<i>Final Budget</i> <i>2016/2017</i> <i>KSh '000</i>	<i>Actual Comparable</i> <i>Basis</i> <i>2016/2017</i> <i>KSh '000</i>	<i>Performance</i> <i>Difference</i> <i>2016/2017</i> <i>KSh '000</i>
INCOME					
Agency fees			15,458,009	15,458,009	(0)
Road Maintenance levy			1,385,670	1,348,915	(36,755)
Sale of Tamper- Proof seals			13,084	9,260	(3,824)
Petroleum Development levy			41,006	44,256	3,250
NTSA Agency Commission			23,797	12,701	(11,096)
Document Processing Fees			37,267	22,436	(14,831)
Interest income			517,658	544,428	26,770
Transit Toll			14,312	14,742	430
Rent receivable			22,264	30,961	8,697
Public Overtime			4,881	3,004	(1,877)

Institutional houses - rent			119,439	137,938	18,499
Aviation Revenue			88,554	97,081	8,527
Sugar Levy			2,300	11,983	9,683
Air Passenger Service charge			132,086	266,208	134,122
KESRA Income			209,746	160,793	(48,953)
Miscellaneous Income			55,379	69,328	13,949
Deferred Income Amortisation			-	82,085	82,085
Roll Over Funding 2015/2016			3,007,394	-	(3,007,394)
Total Operational Income	-	-	21,132,846	18,314,128	(2,818,718)
STAFF COSTS					
Basic pay			9,060,703	9,011,526	49,177
Housing allowance			1,785,703	1,846,685	(60,982)
Pension contribution			936,902	875,920	60,982
Nssf contribution			61,987	90,677	(28,690)
Performance Bonus / Honoraria			-	21,403	(21,403)
Leave allowance			162,113	139,869	22,244
Other allowances			1,141,937	1,356,103	(214,166)
Other Allowances			4,088,642	4,330,656	(242,014)
Total Staff Salaries and Allowances	-	-	13,149,345	13,342,182	(192,837)
OPERATIONAL Expenses					
Staff Welfare Expenses			115,819	54,083	61,736
Medical Expenses			734,492	728,015	6,477
Training Expenses			364,355	300,766	63,589
Uniform and Laundry Expenses			98,840	33,567	65,273
Travel and Accommodation			862,125	982,586	(120,461)
Transfer Allowance			101,250	78,018	23,232
Utilities Expenses			393,348	354,637	38,711
Building Repairs and maintenance			131,991	200,255	(68,264)
Motor Running Expenses			278,032	156,102	121,930
Motor boat running Expenses			18,019	15,246	2,773
Scanner Expenses			260,000	179,508	80,492
Rents and Rates			413,323	327,569	85,754
Computer Expenses			759,040	580,146	178,894
Security Expenses			430,409	437,371	(6,962)
Insurance Expenses			78,018	69,178	8,840
Advertisements and Public Relations Expenses			327,040	275,224	51,816
Taxpayers Education			216,476	161,158	55,318
Consultancy			440,097	135,930	304,167
Secretarial Expenses			68,068	30,983	37,085
Directors Expenses			63,630	28,690	34,940
Bank Charges			101,767	75,357	26,410
Corp' strategy and review conf' exp			187,494	180,128	7,366
Office Running Expenses			290,156	273,303	16,853
Printing and Stationery Expenses			55,843	37,835	18,008
Consumable Stores Expenses			21,989	16,472	5,517
Materials and Supplies Expenses			4,190	-	4,190
Enforcement Expenses			223,220	14	223,206
Laboratory Expenses			28,100	10,865	17,235
Depreciation Expenses			-	540,413	(540,413)
TOTAL Operational Expenses	-	-	7,067,131	6,263,418	803,713
TOTAL Recurrent Expenses	-	-	20,216,476	19,605,600	610,876
SURPLUS FOR THE PERIOD	-	-	916,370	(1,291,472)	(3,429,594)

Notes:

1. Included in other staff allowances is a provision of KSh. 248 million for outstanding leave days.
2. Travel and accommodation expenses include KSh. 49.9 million commitments which were debtors in the FY 2015/2016. Other travel and accommodation expenses were funded under ongoing programmes and projects.
3. Building repairs and maintenance expenses include KSh. 82.9 million commitments from Financial Year 2015/2016. The commitments were funded in FY 2015/2016
4. Security expenses include KSh. 15.5 million commitments from Financial Year 2015/2016. The commitments were funded in FY 2015/2016
5. Depreciation is not a funded expense.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance to and comply with the International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority and all values are rounded to the nearest thousand (KSh. '000). The accounting policies have been consistently applied in all the years presented.

The financial statements have been prepared on the accrual basis and historical cost, unless stated otherwise. The cash flow statement has been prepared using the indirect method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Revenue Recognition*

(i) *Agency Income*

In accordance with the Kenya Revenue Authority Act CAP 469, income to the Authority is "such amounts not exceeding 2% as may be determined by the Minister each financial year" of the total estimated revenue to be collected by the Authority on behalf of the Exchequer. In addition, the Authority is entitled to a Bonus of 3% of the surplus revenue collected above the estimates and also earns income from other activities. Agency Income is recognised.

(ii) *Revenue from exchange transactions*

Finance Revenue

Finance revenue comprises interest receivable on fixed and security deposits. The revenue is recognised as it accrues in using the effective yield method. Interest income is derived from short term placements held in approved commercial banks.

Rental income

Rental income is recognised on a straight line basis over the lease term.

Commission revenue

Commission income comprises agency fees charged on collections made on behalf of other regulatory bodies.

Other operating income

Other income is recognised when significant risks and rewards of ownership are transferred to the recipient and the amounts of revenue can be reliably measured.

(b) *Development funding and capital grants by the Treasury*

Grants by the Treasury in form of assets or funding for acquisition of major assets or development projects are recognized as a financing reserve when received. No repayment of the financing is expected by the Authority.

(c) *Property, Plant and Equipment*

All categories of property, plant and equipment are stated at cost or valuation less accumulated depreciation and annual impairment losses. Depreciation is calculated to write off the cost or valuation of each asset to its residual value where applicable, over the expected useful life of the asset in equal instalments. A full year's depreciation is charged in the year of purchase but no charge is made in the year of disposal.

The estimated useful life is as follows:

Plant and Machinery	8 years
Equipment/Furniture/Fittings	8 years
Boats	8 years
Motor Vehicles	5 years (with a 10% residual value)
Computers	3 years
Computer Software	3 Years
Buildings	40 years
Leasehold land	Over the remaining lease period

Gains or losses on property, plant and equipment are determined by reference to their carrying value and are taken into account in determining the surplus / (deficit) for the year.

(d) *Intangible Assets*

Intangible assets consist of various computer software systems purchased for use by the Authority. The Authority recognises Intangible Assets acquired separately at cost less accumulated amortisation. Amortisation is charged on a straight-line basis over their useful lives as estimated by management from time to time.

(e) *Cash and Cash Equivalents*

For purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and short-term deposits held with banks.

(f) *Translation of Foreign Currencies*

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date, which are expressed in foreign currencies, are translated into Kenya Shillings at the rate ruling on that date. The resulting foreign exchange gains and losses are recognized on a net basis, differences are dealt with in the income and expenditure statement in the financial year in which they arise.

(g) *Employee Benefits Costs*

(i) *Retirement benefit obligations*

The Authority operates a hybrid pension scheme with a defined contribution plan for the permanent and pensionable employees. Payments to the scheme by the Authority are recognised as an expense when employees have rendered service entitling them to the contributions. The scheme is funded by contributions from both the entity and the employees. The entity and all employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

(ii) *Other Entitlements*

Employees' entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding leave at the reporting date.

(h) *Inventories*

All consumable stocks held for use in operations are classified as current assets and expensed on consumption.

(i) Receivables

Receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Objective evidence of impairment of the receivables is when there is significant financial difficulty of the counter party or when there is a default or delinquency in payment according to agreed terms. When a receivable is considered uncollectible it is written off. Subsequent recoveries of amounts previously written off are credited in the Statement of Financial Performance. Changes in the carrying amount of the allowance account are recognized in the Statement of Financial Performance.

(j) Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), otherwise they are presented as non-current liabilities.

Trade payables are recognized initially at the transaction price and subsequently measured at amortized cost using the effective interest method.

(k) Provisions

Provisions for liabilities are recognised when there is a present obligation (legal or constructive) resulting from a past event, and it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the monetary value of the obligation.

(l) Budget information

The annual budget is prepared on Activity basis, that is, activities are identified and costs and expenditure associated to the same.

(m) Nature and Purpose of Reserves

The Authority creates and maintains reserves in terms of specific requirements. The Authority has created Capital Grants from the National Treasury reserves to represent the National Treasury's input by directly funding capital development for the Authority.

The Revaluation reserves represent the surplus arising from the revaluation of the Authority's Property, Plant and Equipment.

(n) Related Parties

The Authority regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa.

(o) Critical Accounting Estimates and Judgements in applying the Authority's Accounting Policies

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

*Critical accounting judgments in applying the Authority's policies**Impairment losses*

At each reporting date, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Plant and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed at the reporting date and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Contingent liabilities

The directors evaluate the status of any exposures on a regular basis to assess the probability of the entity incurring related liabilities. However, provisions are only made in the financial statements where, based on the directors' evaluation, a present obligation has been established.

REVENUE FROM NON EXCHANGE TRANSACTIONS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Amortisation of grants deferred Income	82,085	136,611
	82,085	136,611

Deferred incomes are the inflows of economic benefits or services received/receivable from assets donated to the Authority

3. REVENUE FROM EXCHANGE TRANSACTIONS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Agency Income	15,458,009	15,358,009
	15,458,009	15,358,009

The Agency Income is provided for in accordance with the provisions of the Kenya Revenue Authority Act CAP 469 Section 16.

4. REVENUE FROM EXCHANGE TRANSACTIONS*(a) Commissions Income*

	2016/2017	2015/2016
	KSh. '000	KSh. '000

Road Maintenance Levy Commission	1,348,915	903,556
Aviation Revenue Commission	97,081	82,439
Air Passenger Service Charge Commission	266,208	131,403
Sugar Development Levy Commission	11,983	30,865
Insurance Deductions Commission	4,390	4,071
National Transport and Safety Authority Commission	12,701	7,930
PDL and IDF Income	44,256	39,334
	1,785,534	1,199,599

(b) Other Incomes

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Sale of Tamperproof Seals	9,260	13,085
Public Overtime	3,004	5,239
Document Processing Fees	22,436	48,960
Staff Housing Rental Income	137,938	78,325
Property Rental Income	30,961	28,180
KESRA Incomes	160,793	70,923
Miscellaneous Income **	76,120	70,190
	440,512	314,901

** Miscellaneous income consists of income from sale of tender documents, revenue stamps, staff identity cards, PSV Badges, training school activities, road transit toll collections and gains on foreign exchange.

5. ADMINISTRATIVE COSTS

(a) Staff and Employee Costs

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Salaries and Allowances	13,093,242	11,048,533
Medical Expenses	728,015	547,553
Provision for Staff Leave	126,146	(85,446)
Provision for Staff Contract Gratuity	122,794	126,442
	14,070,197	1,637,082

(b) Other Administrative Costs

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Travelling and Accommodation	982,586	971,833
Utilities	354,637	357,642
Staff Welfare	54,083	43,746
Printing and Stationery	37,835	34,801
Consultancy	135,930	42,592
Computer Expenses	580,146	436,418
Training	300,766	253,014
Office Running Expenses	273,303	218,613
Insurances	69,178	75,309
Board Expenses	28,690	25,688
Entertainment	180,128	85,751
Consumable Stores	16,472	24,988
Security Expenses	437,371	384,315
Depreciation Charge	532,232	1,072,230
Amortisation of Intangible Assets	8,181	63,679
	3,991,538	4,090,617
TOTAL ADMINISTRATIVE COSTS	18,061,734	15,727,699

(c) Board Expenses

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Monthly Directors' fees	11,562	10,258
Sitting Allowances and Honararia	15,618	13,227
Accommodation and Travel Expenses	1,511	2,203
	28,690	25,688

6. OPERATING EXPENSES

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Rent and Rates	327,569	276,845
Taxpayer Education	161,158	110,131
Motor Running Expenses	156,102	134,612
Advertising and Public Relations	275,224	314,705
Secretarial Expenses	30,983	36,267
Uniforms and laundry	33,567	956
Materials and Supplies	-	2,059
Bank Charges	75,357	101,364
Containers and Sealing Expenses	14	-
Laboratory Expenses	10,865	3,597
	1,070,839	980,537

7. MAINTENANCE EXPENSES

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Building Repair and Maintenance	200,255	225,733
Scanner Maintenance	179,508	195,806
Motor Boat Expenses	15,246	8,512
	395,009	430,052

7 (a) Scanner expenses

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Annual Maintenance Contract	177,574	159,444
Routine Maintenance Expenses	1,934	36,362
	179,508	195,806

8. PROPERTY, PLANT AND EQUIPMENT

(i)

	Land Building	Plant and Machinery	Motor Vehicle	Office Equipment's and Furniture	Computers	Motor Boats	Wip	Total
	KSh. '000'		KSh. '000'	KSh. '000'	KSh. '000'	KSh. '000'	KSh. '000'	KSh. '000'
VALUATION								
1 July 2016	10,455,850	3,445,474	876,306	1,284,564	2,291,226	604,467	4,701,176	23,659,065
Additions	-	-	28,248	164,230	154,293	-	777,139	1,123,909
Revaluation	12,328,942	-	-	(939,858)	(1,931,309)	-	-	9,457,775
Transfer of WIP	1,755,274	-	-	-	-	-	(1,755,274)	-
Disposal	-	-	(24,116)	-	-	-	-	(24,116)
30th June, 2017	24,540,066	3,445,474	880,438	508,936	514,210	604,467	3,723,041	34,216,633
DEPRECIATION								
1 July 2016	1,547,834	2,341,689	555,164	888,265	2,142,589	552,313	-	8,027,853
Charge for the Yr	-	172,797	73,317	101,714	159,219	25,184	-	532,232
Dep. On Reval	-	-	-	-	-	-	-	-
Transfer of WIP	-	-	-	-	-	-	-	-
Revaluation	(1,547,834)	-	-	(979,320)	(2,273,320)	-	-	(4,800,473)
Disposal	-	-	(21,704)	-	-	-	-	(21,704)
30th June, 2017	-	2,514,486	606,776	10,659	28,488	577,498	-	3,737,907
NET BOOK VALUES:								
30th June, 2017	24,540,066	930,989	273,662	498,277	485,722	26,970	3,723,041	30,478,726
1 July 2015	10,497,150	2,204,375	602,322	1,135,070	2,164,527	604,467	2,269,337	19,477,248
Additions	-	1,241,099	280,304	149,494	126,698.57	-	2,431,839	4,229,435
Disposal	(41,300)	-	(6,320)	-	-	-	-	(47,620)
Transfer of WIP	-	-	-	-	-	-	-	-
30th June, 2016	10,455,850	3,445,474	876,306	1,284,564	2,291,226	604,467	4,701,176	23,659,063
DEPRECIATION								
1 July 2015	1,205,496	1,993,796	487,182	789,233	1,915,455	478,766	-	6,869,929
Charge for the Yr	154,409	347,893	170,215	99,032	227,134	73,547	-	1,072,230
Dep. On Reval	96,545	-	-	-	-	-	-	96,545
Disposal	(5,163)	-	(5,688)	-	-	-	-	(10,851)
30th June, 2016	1,451,288	2,341,689	651,709	888,265	2,142,589	552,313	-	8,027,853
NET BOOK VALUES:								
30th June, 2016	9,004,562	1,103,786	224,597	396,299	148,637	52,154	4,701,176	15,631,210

(ii) Land and Buildings

The Authority received several leasehold properties (land and buildings) from the government at inception in 1995. The Authority was not required to pay for the property hence did not incur any cost on the same. To recognize the property in its books, the Authority did a professional valuation of the land and building in 1996 and the values were adopted in the Authority's statement of financial position. This was done by recognizing land and buildings assets in the statement of Financial Position.

The Authority is yet to receive title documents for some 17 pieces of leasehold land received Government. These properties are at various stages of registration with the Commissioner of Lands. Another title deed is in the name of East African Common Services Authority (EACSA) and the process transfer of the title is ongoing. The Authority also bought one parcel of land in Taveta in 2010 for construction of a border station and is in the process of obtaining the title.

(iii) Revaluation of Land and Buildings, Computers and Office Equipment

The Authority revalued land and buildings, Computers and Office Equipment classes of assets in June 2017 and has adopted the values in the statement of Financial Position. The valuation was done through internal professional valuers who adopted the market comparison approach method of valuation. This approach seeks to determine the current value of an asset by reference to recent comparable transactions involving the sale of similar assets by ascertaining fair value from quoted prices in an active and liquid market. The revaluation surplus / deficits for individual items within these classes have been disclosed in the asset movement register above.

(iv) Fully Depreciated Assets

Included in the assets are fully depreciated assets comprising of Motor Vehicles whose original cost was KSh. 483,453,549 with a residual value of KSh. 48,345,354, Motor Boats whose cost is KSh. 390,844,885 and Plant and Machinery KSh. 2,061,785,772 whose book value is nil. The total notional depreciation charge for the assets is KSh. 757,965,667 (2015- KSh. 757,965,667). Most of these assets are in use by the Authority.

(v) *Capital Work In Progress*

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Intergrated Tax Management System	1,493,172	1,409,296
Valuations Database system (Phase I and II)	33,939	24,365
SAP ERP System for Support Services	469,675	259,949
Renovation of JKIA Offices	10,294	8,386
Renovation of Border Stations	22,038	7,284
Datawarehouse and Business Intelligence	2,909	2,909
Disaster Recovery Management System	12,448	12,448
Video Conferencing	54,328	35,140
Simba Transformation Project	81,559	81,559
Biometric Security System (Times Towers)	122,504	122,504
Exciseable Goods Management System (EGMS)	899,787	899,787
Electronic Cargo Tracking System (Phase I)	80,084	77,612
Customs Revenue Accounting Module	4,664	4,664
One Stop Border Posts	-	1,755,274
Business Continuity Management System	48,283	-
e-Board System (BS)	4,789	-
New Fire Detection System	22,699	-
Customer Relationship Management System (CRM)	32,043	-
New Data Centre (CBC)	55,348	-
Corporate Business Centre Fit Out	266,581	-
CBM Rehabilitation of Border Stations	5,899	-
TOTAL	3,723,041	4,701,176

9. INTANGIBLE ASSETS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
COST		
1 July	345,713	333,938
Accruals for the Period	-	-
Additions	12,768	11,776
30 June	358,481	345,713
AMORTISATION		
1 July	337,863	274,184
for the year	8,181	63,679
30 June	346,044	337,863
NET BOOK VALUE		
30 June	12,437	7,850

The intangible assets are made up of different computer software in use by the Authority. Included in the Intangible Assets are fully amortised assets whose original cost was KSh. 169,267,025, (2016- KSh. 169,267,025).

10. DEBTORS AND RECEIVABLES

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Trade Debtors		
Acrruals for the Period		
Other Agency debtors	271,228	214,478
Rent Receivable	40,102	23,084
Interest Receivable	44,915	42,692
	356,245	280,254
Other Debtors		
Staff Debtors	122,923	81,245
Prepayments	19,863	18,844
Other Debtors	54,937	126,207
	197,724	226,296
Debtors Total	553,968	506,549

Other agency debtors represent outstanding commission on collection of revenues on behalf of other organisations. Staff debtors mainly comprise of outstanding travel imprests, loans for acquisition of laptops and medical advances.

11. AMOUNT DUE FROM TREASURY

	2016/2017	2015/2016
	KSh. '000	KSh. '000
1 July	2,131,332	2,123,899
Accrued in the year	15,458,008	15,365,441
Bonus earned	-	-

Amount received in the year	(14,144,840)	(15,358,009)
30 June	3,444,499	2,131,332

The amount represents outstanding agency commission, bonuses earned and payments made on behalf of the Treasury. An amount of KSh. 1,313 Million was received in July 2017.

12. SECURITY DEPOSITS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Savings and Loan (K) Limited	1,579,228	1,552,005
Housing Finance	612,848	603,138
National Bank of Kenya Limited	159,676	158,452
Higher Educations Loans Board (HELB)	20,000	20,000
	2,371,751	2,333,596

The deposits with Savings and Loans and Housing Finance are placed as security against staff mortgage advances, while the National bank deposits are placements against staff car loans. Deposits with HELB are placements against college fees issued to staff for further studies.

13. CASH AND BANK BALANCES

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Cash in Hand	782	467
Cash at Bank	1,636,379	275,770
Fixed Deposits	1,450,226	5,008,878
Government Treasury Bills	3,437,334	4,767,104
	6,524,721	10,052,218

The fixed deposits are made up of one month deposits in the commercial banks shown below. The maturity period for the deposits is between July and August 2017.

Fixed Deposit

	2016/2017	2015/2016
	KSh. '000	KSh. '000
National Bank of Kenya	300,000	762,675
Cooperative Bank of Kenya	603,850	1,973,204
Kenya Commercial Bank	319,137	2,211,458
KESRA - National Bank of Kenya	227,239	61,541
	1,450,226	5,008,878

Treasury Bills are placements in Central Bank of Kenya with maturity period between July to September 2017. The placements are analysed as follows:-

Government Treasury Bills

	2016/2017	2015/2016
	KSh. '000	KSh. '000
91 Day Treasury Bills	1,964,555	2,412,978
182 Day Treasury Bills	1,472,779	2,354,126
	3,437,334	4,767,104

14. STOCKS

	2016/2017
	KSh. '000
Prior Period Adjustment	69,887
Additions	51,011
	120,898

The Authority adopted a policy of recognising consumable stocks held for operations as current assets. The stocks relating to Financial Year 2015/2016 amounted to KSh. 69.9 million.

15. CREDITORS AND OTHER PAYABLES

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Trade Creditors and Accounts Payable	1,603,725	1,870,158
Payroll Deduction and Staff Creditors	34,192	771,191
Taxes	242,849	87,952
	1,880,766	2,729,301

16. LEAVE PAY AND CONTRACT GRATUITY PROVISIONS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Leave Pay Provision		
1 July	828,142	913,588
Addition/ (Reduction)	126,146	(85,446)
Payment	-	-
30 June	954,288	828,142
Gratuity Provision		
1 July	293,287	166,846
Addition/ (Reduction)	122,794	126,442
Payment	(231,234)	-

30 June	184,848	293,287
Total Leave and Gratuity 30 June	1,139,136	1,121,430

Leave pay provision is in respect of leave days earned by staff members but not taken as at 30.06.2017. Contract gratuity provision is in respect of gratuity accrued for staff on contract terms for the period to 30.06.2017.

17. CONTRIBUTION TO GOVERNMENT PENSION FUND

	2016/2017	2015/2016
	KSh. '000	KSh. '000
1 July	25,616	26,435
Prior Period Adjustment		
Paid	(1,326)	(819)
30 June	24,290	25,616

This amount relates to contributions made to the Government pension during the nine-month secondment period from October 1995 to June 1996 for pensionable staff who were transferred from the

Treasury to the Authority. The amount falls due for payment on retirement of an officer and is then transferred to the Treasury to facilitate payment of the pension.

18. CAPITAL / DEVELOPMENT GRANTS BY THE NATIONAL TREASURY AND DONORS

(a) Capital/Development Grants by the National Treasury

	2016/2017	2015/2016
	KSh. '000	KSh. '000
1 July	16,370,410	13,360,236
Contribution in the Year		
Real Estate Project	-	55,000
ERP system for Support Services	220,000	100,000
Cordinated Border Management Project	200,000	353,240
KESRA Modernisation	-	66,660
New Data Centre	206,000	160,000
Customer Relationship Management System	-	130,000
TaxPayer Base Expansion Consultancy	-	250,000
Multi Agency Investigation	-	140,000
One Stop Border Stations	-	1,755,274
	626,000	3,010,174
30th June	16,996,410	16,370,410

The amounts represent assets and funds provided by the Treasury. The Treasury separately funds the major reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery.

(b) Capital/Development Grants by Donors

	2016/2017	2015/2016
	KSh. '000	KSh. '000
1 July	1,224,772	-
Vehicles donated by JICA	27,955	1,224,772
Systems Security Software and Biometric System	-	-
Leasehold Land (Reinstatement)	-	-
World bank funded projects	-	-
Transfer From Designated funds	-	-
30th June	1,252,727	1,224,772

The amounts represent assets and funds provided by Donors both directly or through the National Treasury towards reform and modernization programmes undertaken by the Authority in all departments for revenue enhancement and efficient service delivery. 5 vehicles were donated by JICA in the year.

19. DESIGNATED FUNDS

LEGAL CLAIM FUND		
	2016/2017	2015/2016
	KSh. '000	KSh. '000
1 July	204,949	230,465
Expenses	(142,701)	(25,516)
30 June	62,248	204,949

The legal claim funds are received from the Treasury for settling legal awards against the Authority in revenue related court cases.

20. RETIREMENT BENEFIT COSTS

During the year ended 30th June, 2016, KSh. 1,198.0 million (2015 KSh. 1,025.4 million) was paid as contributions to the staff pensions scheme. The scheme changed from a defined benefit plan to a Hybrid scheme with a defined benefit section and a defined contribution section with effect from 1 July 2005. Under the defined benefit scheme, the employer contribution on actuarial advice was maintained at 13.2% per member while a rate of 14% was adopted for the defined contribution scheme. Employees contribute 7.5% of their salaries for both sections of the scheme. The value placed on the existing final assets per the last valuation of 30th June 2016, was KSh. 15.984 Billion (2015, KSh. 15.215 billion) while the present value of past service liabilities at that date was KSh. 14.817 billion (2015 KSh. 13.808 billion).

21. CAPITAL COMMITMENTS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Approved and contracted	216,642	162,911
Approved and not contracted	908,330	208,902
	1,124,972	371,814

22. RECURRENT COMMITMENTS

	2016/2017	2015/2016
	KSh. '000	KSh. '000
30 June	839,252	1,183,207

The above represents items and activities approved and contracted but not yet delivered.

23. EMPLOYEES

The number of employees at the end of the year was;

	2016/2017	2015/2016
30 June	6,232	5,927

Included above are employees on Permanent and Pensionable, Contract and Temporary terms.

24. DEFERRED GRANT INCOME RECONCILIATION

These relate to grants from the World Bank under the Government of Kenya for projects to facilitate efficient and effective collection of taxes.

(i) Deferred grant income reconciliation

	2016/2017	2015/2016
	KSh. '000	KSh. '000
At 1 July as restated	82,085	218,695
Received in the year	-	-
Amortisation	82,085	136,611
At 30 June	-	82,085

(ii) Deferred grant income amortisation

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Grant income to be amortised within one year	-	82,085

25. RELATED PARTIES

The Government of Kenya is the principal shareholder in Kenya Revenue Authority.

During the year, the following transactions were carried out with related parties as analysed as follows:-

(a) Transaction

(i) Government of Kenya

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Capital Grants	626,000	4,234,947
Agency Income	15,458,009	15,358,009
	16,084,009	19,592,956

(ii) Key management compensation

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Salaries and other short - term employment benefits	115,920	69,600
	115,920	69,600

(iii) Directors' remuneration

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Fees and other emoluments (note 5)	28,690	25,688
	28,690	25,688

(b) Balances

Due (to)/from related parties

	2016/2017	2015/2016
	KSh. '000	KSh. '000
Amount due from Treasury (note 11)	3,444,499	2,131,332
Contribution to Government pension fund (note 16)	(24,290)	(25,616)
	3,420,209	2,097,464

26. FINANCIAL RISK AND CAPITAL MANAGEMENT

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Authority's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk.

The Authority's financial risk management objectives and policies are detailed below:

(i) *Credit risk*

The Authority has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as agency and other receivables.

The carrying amount of financial assets recorded in the financial statements representing the Authority's maximum exposure to credit risk is made up as follows:

	<i>Fully Performing</i>	<i>Past Due</i>	<i>Impaired</i>
	<i>KSh. '000</i>	<i>KSh. '000</i>	<i>KSh. '000</i>
At 30th June, 2017			
Receivables	553,968	-	-
Bank Balances	6,524,721	-	-
At 30th June, 2016			
Receivables	506,549	-	-
Bank Balances	10,052,218	-	-

The credit risk associated with these receivables is minimal hence no allowance for uncollectible amounts has been recognised in the financial statements.

(ii) *Market risk*

The board has put in place an internal audit function to assist it in assessing the risk faced by the Authority on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the Authority's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

The Authority's Corporate Risk Department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

There has been no change to the Authority's exposure to market risks or the manner in which it manages and measures the risk.

(a) *Foreign currency risk*

The Authority has transactional currency exposures. Such exposure arises from foreign denominated bank balances.

The carrying amount of the Authority's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	<i>Ksh</i>	<i>Others</i>	<i>Total</i>
	<i>KSh. '000</i>	<i>KSh. '000</i>	<i>KSh. '000</i>
At 30th June, 2017			
Financial assets (Bank balances)	32,913	-	32,913
Liabilities			
Payables	-	-	-
Net foreign currency liability	32,913	-	32,913

(b) *Interest rate risk*

Interest rate risk is the risk that the Authority's financial condition may be adversely affected as a result of changes in interest rate levels. The Authority's interest rate risk arises from fixed and security deposits. This exposes the Authority to cash flow interest rate risk.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The Authority analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of financial performance if current floating interest rates increase/decrease by five percentage (5% as a decrease/increase of KSh. 32,913,000 (2015: KSh. 43,277,000).

(iii) *Price risk*

The Authority does not hold investments that would be subject to price risk; hence this risk not relevant.

27. CONTINGENT LIABILITIES

These include:

- An amount of KSh.. 2 million included in utility deposits representing a bank guarantee to Kenya Power and Lighting for Times Tower power supply.
- An amount of KSh. 1,297,759 representing a guarantee to Telkom Kenya Limited for supply of telephone facilities in the Times Tower building.

- Pending legal cases and court awards against the Authority estimated at KSh. 4,454,051,492 at the financial year end. The Treasury is expected to meet the cost of settling the awards should they materialize.

28. COMPARATIVES

Where necessary, comparatives have been adjusted to conform to changes in presentation in the current year.

GAZETTE NOTICE NO. 11209

EAST AFRICAN COMMUNITYMANAGEMENT ACT, 2004

APPOINTMENT OF CUSTOMS AREAS

PURSUANT to section 12 of the East African Community Customs Management Act, 2004, the Commissioner of Customs and Border Control appoints the following as Customs Areas for ninety (90) days effective from the date of this Gazette Notice:

- (a) The place specified in the first column of the First Schedule, as Customs area for the purposes of the Act and the limits shall be those set out in the second column of that schedule.
- (b) The places specified in the first column of the Second Schedule of the Customs areas for the purposes set out in the third column of that Schedule, limits shall be those set out in the second column of that schedule.

FIRST SCHEDULE

Appointment and Limits of Customs area

Place	Limits
Mitchell Cotts KPA Peripheral Facility	The area on L.R. No.15099, within the area bounded by a perimeter wall and delineated in black on Deed Plan No.206996, Schematic layout plan (drawing deposited in the office of the Commissioner of Customs and Border Control)

SECOND SCHEDULE

(a) Appointment of entry and exits to and from Customs Area

Place	Limits	Purpose
Mitchell Cotts KPA Peripheral Facility	The areas marked "A and B" on the Mitchell Cotts Schematic layout plan (Deed Plan No.206996) deposited in the office of the Commissioner of Customs & Border Control)	Entry and Exit

(b) Appointment of places for storage of cargo

Place	Limits	Purpose
Mitchell Cotts KPA Peripheral Facility	The areas marked "C " on the Mitchell Cotts Schematic layout plan (Deed Plan No. 206996) deposited in the office of the Commissioner of Customs and Border Control	Storage of containerized cargo

(c) Appointment of places for examination of Cargo

Place	Limits	Purpose
Mitchell Cotts KPA Peripheral Facility	Such place at which a proper officer may require goods to be produced for examination within the Customs areas	Examination of goods

Dated the 25th October, 2018.

JULIUS MUSYOKI,
Commissioner of Customs and Border Control.

GAZETTE NOTICE NO. 11210

EAST AFRICAN COMMUNITYMANAGEMENT ACT, 2004

APPOINTMENT OF CUSTOMS AREAS

PURSUANT to section 12 of the East African Community Customs Management Act, 2004, the Commissioner of Customs and Border Control appoints:

- (a) The place specified in the first column of the First Schedule, as Customs areas for the purposes of the Act and the limits shall be those set out in the second column of that schedule.
- (b) The places specified in the first column of the Second Schedule of the Customs areas for the purposes set out in the third column of that Schedule, limits shall be those set out in the second column of that schedule.

FIRST SCHEDULE

Appointment and limits of Customs area

Place	Limits
Makongeni KPA Peripheral Facility	The area on L.R. No. 209/8197, within the area bounded by a perimeter wall and delineated in red on drawing number N.1988, Schematic layout plan (drawing deposited in the office of the Commissioner of Customs and Border Control)

SECOND SCHEDULE

(a) Appointment of entry and exits to and from Customs Area

<i>Place</i>	<i>Limits</i>	<i>Purpose</i>
Makongeni KPA Peripheral Facility	The areas marked "A, B and C" on the Makongeni Schematic layout plan (drawing no. N.1988) deposited in the office of the Commissioner of Customs and Border Control	Entries and Exits

(b) Appointment of places for conveying and unloading of goods

<i>Place</i>	<i>Limits</i>	<i>Purpose</i>
Makongeni KPA Peripheral Facility	The areas marked "D" "E" and "F" being the rail lines on the Makongeni Schematic layout plan (drawing no. N.1988) deposited in the office of the Commissioner of Customs and Border Control	Rail lines for train container wagons of imports to the storage yard and goods shed

(c) Appointment of places for storage of cargo

<i>Place</i>	<i>Limits</i>	<i>Purpose</i>
Makongeni KPA Peripheral Facility	The areas marked "G" on the Makongeni Schematic layout plan (drawing no. N.1988) deposited in the office of the Commissioner of Customs and Border Control	Storage of containerized cargo

(d) Appointment of places for examination of Cargo

<i>Place</i>	<i>Limits</i>	<i>Purpose</i>
Makongeni KPA Peripheral Facility	Such place at which a proper officer may require goods to be produced for examination within the Customs areas	Examination of goods

(e) Appointment of places for Scanning

<i>Place</i>	<i>Limits</i>	<i>Purpose</i>
Makongeni KPA Peripheral Facility	The area marked "H" on the Makongeni Schematic layout plan(drawing no. N.1988) deposited in the office of the Commissioner of Customs and Border Control	Scanning

Gazette Notice No.7647 of 2018 is revoked.

Dated the 25th October, 2018.

JULIUS MUSYOKI,
Commissioner of Customs and Border Control.