

REPORT OF THE AUDITOR-GENERAL ON REVENUE ACCOUNTABILITY STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2019 - KENYA REVENUE AUTHORITY

REPORT ON THE REVENUE ACCOUNTABILITY STATEMENTS

Opinion

I have audited the accompanying revenue accountability statements of Kenya Revenue Authority set out on pages 36 to 61, which comprise of the statement of financial position as at 30 June, 2019, and the statement of revenue collection and transfers, the statement of targets and actual performance by tax head and agency 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 revenue accountability statements present fairly, in all material respects, the revenue position of Kenya Revenue Authority as at 30 June, 2019, and of its revenue performance for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012 and the Kenya Revenue Authority Act, 1995.

Basis for Opinion

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

Emphasis of Matter

Note 14.15(A)(i) to the revenue accountability statements reflects an outstanding revenue balance of Kshs.415,212,646,945 as at 30 June, 2019. Management has indicated that the exercise of validating the debt is on-going and recommendations will be made to The National Treasury on possible write-off of irrecoverable debts. However, any progress made in this regard has not been disclosed. Further, Note 14.15(B) reflects an outstanding refund claims balance of Kshs.86,150,238,705 as at 30 June, 2019 compared to Kshs.54,628,338,378 reported as at 30 June, 2018. No explanation has been provided for the delay in refunding the claims.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Matters

The following prior year issues remained unresolved as at 30 June, 2019.

1. PAYE Returns Without Corresponding Tax Collection

Note 14.1 to the revenue accountability statements for the year ended 30 June, 2018 reflected Income Tax from Individuals - PAYE collected during the year amounting to Kshs.364,103,621,093. However, audit review of 47 County Governments, Assemblies and Executives taxpayers' ledger in the i-Tax system revealed that PAYE returns totalling Kshs.12,909,254,538 were posted in taxpayers' ledgers without any corresponding payments.

In the absence of the revenue receipts to support the reconciliations with the taxpayers' ledgers, the completeness and accuracy of the Income Tax from Individuals- PAYE revenue collection of Kshs.364,103,621,093 for the year ended 30 June, 2018 could not be confirmed.

2. Variance of Closing Cash and Cash Equivalents Balances

As reported in the previous year, the statement of financial position as at 30 June, 2018 reflected a balance of Kshs.22,734,898,175 under cash and cash equivalents. However, a comparison with the amount of Kshs.21,830,770,108 reflected in the certificates of bank balances and bank statement as at 30 June, 2018 revealed variance of Kshs.904,128,067 which was not adequately reconciled or explained.

In the absence of adequate explanation or reconciliation, the completeness and accuracy of the cash and cash equivalents balance of Kshs.22,734,898,175 as at 30 June, 2018 could not be confirmed.

3. Deficiencies in the Presentation of Statement of Budget and Actual Amount

The statement of target verses actual performance by Tax Head and Agency for the year ended 30 June, 2018 reflected a Nil budget amount against actual amount of Kshs.85,075,191 for AIA revenue (Miscellaneous) collection. The AIA revenue (Miscellaneous) was therefore unlawfully collected without budgetary approval.

4. Inadequate Support for Payments of Income Tax-PAYE Refunds

Note 14.14 to the revenue accountability statements indicated that the Authority paid income tax refunds amounting to Kshs.892,536,189 for the year ended 30 June, 2018 out of which refunds totalling Kshs.19,851,523 were paid to non-compliant taxpayers with

outstanding tax balances, penalties and interest. No satisfactory reason has been provided for the non-compliance.

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 International Standard of Supreme Audit Institution (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 revenue accountability statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal controls, 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 revenue accountability statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of revenue accountability 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 revenue accountability statements, Management is responsible for assessing the Authority's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or cease operations.

Management is also responsible for the submission of the revenue accountability 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 revenue accountability statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the revenue accountability 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 Kenya Revenue Authority financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the revenue accountability 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 revenue accountability statements.

In addition to the audit of the revenue accountability statements, a compliance audit was planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the revenue accountability 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 revenue accountability statements and audit of compliance, I consider internal control in order to give an assurance on the

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

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

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

- Identify and assess the risks of material misstatement of the revenue accountability 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.
- 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 Authority'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 revenue accountability 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 Kenya Revenue Authority to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the revenue accountability statements, including the disclosures, and whether the revenue accountability 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 revenue accountability 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.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

14 January, 2021