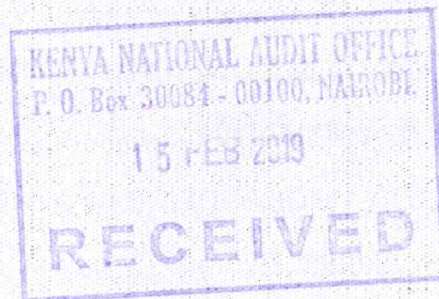




**KENYA REVENUE
AUTHORITY**

**ANNUAL REPORT &
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**



KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

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KEY INFORMATION AND MANAGEMENT

(a) Background Information

Kenya Revenue Authority (KRA) is a statutory body established by an Act of Parliament, KRA Act Cap 469 of 1995.

MISSION Building Trust through Facilitation so as to foster Compliance with Tax and Customs Legislation.

VISION A globally trusted revenue agency facilitating tax and customs compliance.

CORE VALUES

- Trustworthy
- Ethical
- Competent
- Helpful

(b) Principal Activities

The Authority's objectives are the assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the Act.

(c) Key Management

The Authority's day-to-day management is under the following key organs;

- Office of the Commissioner General
- Domestic Taxes Department
- Customs & Border Control Department
- Corporate Support Services Department
- Investigations and Enforcement Department
- Strategy Innovation & Risk Management Department
- Legal Service & Board Coordination Department

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

- | | |
|---|-------------------------|
| - Commissioner General | John K. Njiraini |
| - Domestic Taxes Department | Benson Korongo |
| - Customs Border Control Department | Julius Musyoki |
| - Corporate Support Services Department | Ezekiel Saina |
| - Investigations and Enforcement Department | David Yego |
| - Strategy, Innovation & Risk Management Department | Mohamed Omar |
| - Legal Services & Board Coordination Department | Wairimu Nganga |
| - Intelligence & Strategic Operations | James Mburu |

**KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS
AT JUNE 2018**

(e) Headquarters

Times Tower Building,
Haile Selassie Avenue,
P.O. Box 48240 – 00100, Nairobi, Kenya.

(f) Contacts

Telephone (254) 020-310900, 2810000, 315553
Email callcentre@kra.go.ke , cic@kra.go.ke
Website www.kra.go.ke

(g) Bankers

National Bank of Kenya Ltd,
Harambee Avenue Branch,
P.O. Box 41862-00100 Nairobi, Kenya

(h) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University Way
P.O. Box 30084
GOP 00100
Nairobi, Kenya

(i) Principal Legal Advisor

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

BOARD OF DIRECTORS

1. AMB. DR. FRANCIS MUTHAURA, MBS, EGH

Amb. Dr. Muthaura was appointed as the Chairman of the Board with effect from 22nd May, 2018.

He holds a Bachelor of Arts Degree in Economics and Political Science and Post Graduate Diploma in International Relations from the University of Nairobi. He is also a holder of Honorary Doctorate Degrees from the Kenyatta University and Kenya Methodist University.

He has served as a career diplomat; Chairman of the Lamu Port and Lamu-Southern Sudan-Ethiopia Transport (LAPSSET) Corridor Development Authority; Britam Holdings Limited; Head of Public Service and Secretary to the Cabinet.

2. HON. MS. ROSE WARUHIU

Hon. Rose Waruhiu was appointed as a Member of the Board with effect from 21st October, 2016.

She holds a Bachelor of Arts (Economics) Degree, from Makerere University College, and a Certificate in Higher Education Administration from the University of Manchester.

She has worked as a consultant in the private and public sector, undertaking assignments in policy formulation and documentation; public management; strategy development; planning and advocacy.

She has served as a Board Member of the Kenya Post Bank Board and Council Member of the Jomo Kenyatta University of Science and Technology University Council. In 1990, she was offered a fellowship at the Harvard Institute of Politics.

She has held leadership positions as Chair/Convenor of several initiatives in the pro-democracy movement in Kenya and civil society. She served as a Member of Parliament in Kenya and East Africa Legislative Assembly.

She has been Chairperson and Member of the Audit and Risk and Strategy, Policy and Research Committees of the Authority's Board of Directors respectively.

3. MR. PAUL ICHARIA

Mr. Paul Icharia was appointed as a Member of the Board with effect from 11th November, 2016.

He holds a Bachelor of Science Degree in Finance, from the California State University and Master of Business Administration in Global Management, from the University of Phoenix. He is a professional with extensive experience in Financial Services, Business Development and Social Services Development.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

He has served as a Financial Consultant and in senior positions at the Royal Bank of Canada (RBC) and Citigroup in the United States of America.

He has been the Chairman and Member of the Strategy, Policy and Research, and Audit and Risk Committees respectively.

4. ENG. LEONARD ITHAU

Eng. Leonard Ithau was appointed as a Member of the Board with effect from 30th May, 2018.

He holds a Bachelor of Science Degree in Civil Engineering, from the University of Nairobi, and Master of Science Degree, in Construction Management, from University of Birmingham, England.

He has served in the public service at the Kenya Ports Authority and as Projects Management Consultant in various private bodies. He is currently the Executive Director of Quemec Limited.

He is a registered engineer (Engineers Board of Kenya) and a Member of the Association for Project Management (UK).

5. MR. CHARLES MAKORI OMANGA

Mr. Charles Makori Omanga was appointed as a Member of the Board with effect from 30th May, 2018.

He holds a Bachelor of Science in Management Information Systems Degree from USIU – Africa and Master of Business Administration Degree from the University of Leicester, United Kingdom.

He has served in the private sector as Relationship and Product Manager at Citibank Kenya; Regional Head, Trade Finance (EA); Head, Public Sector at the Barclays Bank of Kenya; Head, Corporate Banking, CFC Stanbic Bank Limited and on Boards of several companies. He is currently co-Managing Principal, Horizon Africa Capital Limited.

He is a member of the Institute of Certified Investment and Financial Analysts (ICIFA).

6. MR. MUKESH K R SHAH

Mr. Mukesh K. R. Shah was appointed as a Member of the Board with effect from 30th May, 2018.

He is a Director and founder of Strategic Consultants Limited, a practice which he established in 1992, providing specialised consultancy services in the areas of strategic planning, high level advisory to family owned business advisory, business revival and reconstruction, and mergers and acquisitions to national and international clients.

Previously, he worked for Price Waterhouse UK and Pricewaterhouse Kenya for eighteen (18) years and held a position of partner for over nine (9) years.

He holds directorships in private companies mainly in a professional capacity, and is a non-executive Director of Carbacid Investments Limited, a company listed on the Nairobi Stock Exchange and of Commercial Bank of Africa Limited, a leading bank in East Africa.

He is also a Fellow of the Chartered Association of Certified Accountants (UK), Member of the Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of the Certified Public Secretaries of Kenya (ICPSK).

7. MS. SUSAN MUDHUNE, MBS

Ms. Susan Mudhune was appointed as a Member of the Board with effect from 30th May, 2018.

She holds a Bachelor of Arts (Education) Degree from the University of Nairobi and Master of Business Administration Degree from the same University.

She has served in various management positions in the local banking industry for over twenty (20) years, from which she retired in 2001.

She has served as a non-executive director in various Boards, been Chairperson of the Board of Kenya Commercial Bank Group and past National Chairperson of the Kenya Girl Guides Association.

She is a Certified Corporate Governance trainer and Member of Women Corporate Directors (Kenya Chapter) and Institute of Directors (Kenya).

In recognition of her outstanding achievements, she is a holder of the Moran of the Burning Spear (MBS), Fellow of the Institute of Bankers; Management; and Directors.

8. COMMISSIONER GENERAL, MR. JOHN K. NJIRAINI, CBS

He was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012. Previously, he had served as the Commissioner in charge of Large Taxpayers Office.

He holds a Bachelor of Commerce Degree and Master of Business Administration Degree, both from the University of Nairobi.

He served as the Chief Executive of the Institute of Certified Public Accountants of Kenya (ICPAK) between 1996 and 2006; Lecturer, Department of Accounting, University of Nairobi between 1984 to 1994 and in various audit capacities with Deloitte Haskins & Sells (now Deloitte) and Price Waterhouse (now PricewaterhouseCoopers).

He has also served in various Government Boards and Task Forces including the Permanent Public Service Remuneration Review Board, Local Authorities Transfer Fund Advisory Board, Registration of Accountants Board and Pending Bills Closing Committee, among others.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

EX OFFICIO MEMBERS

9. Cabinet Secretary, the National Treasury– Mr. Henry K. Rotich

Mr. Henry K. Rotich is the Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds Masters and Bachelor degrees in Economics from the University of Nairobi. Prior to his appointment, he had worked at the Treasury, Ministry of Finance and the Central Bank of Kenya. He had been earlier attached to the International Monetary Fund (IMF) local office in Nairobi.

He has been a Director of several Boards of State Corporations including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

10. CPA Mr. Bernard Ndung'u, MBS

He was appointed as a Member of Board with effect from 15th September 2014 as the alternate to the Cabinet Secretary National Treasury.

He holds a Bachelor's Degree in Commerce from Nairobi University and a Master's degree in Public Finance Management from the University of London. He is also a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

He is the Director General, Accounting Services and Quality Assurance at the National Treasury.

He is the Chairman of the Public Sector Accounting Standards Board (PSASB) of Kenya and represents the Cabinet Secretary, National Treasury in the boards of Kenya Revenue Authority (KRA), Kenya Accounting and Secretaries Examination Board (KASNEB) and Kenya Medical Supplies Authority (KEMSA).

He has worked on a wide range of public and private finance management specialties having worked with accounting firms PricewaterhouseCoopers (PwC) and Ernst & Young (EY) prior to joining National Treasury.

11. Attorney General- Honorable Paul Kihara Kariuki

He was admitted to the Bar in 1978 after completing his Post Graduate Diplomain Law at the Kenya School of Law Nairobi. He practiced law at Ndung'u, Njoroge and Kwach Advocates, Hamilton, Harrison and Mathews Advocates as well as other legal establishments.

In 2003 he was appointed to serve as Principal and Chief Executive Officer at the Kenya School of Law. In the same year, he was appointed Judge of the High Court of Kenya where he served in both the Civil and Commercial Divisions for several years. Between 2009 and 2013, he served as the first Director at the Judiciary Training Institute, where he established operational systems for the technical arm

of the Judiciary incorporating professional development for all Judges, Magistrates and Paralegal Staff of the Judiciary. He was appointed the President of the Court of Appeal in 2013 and as the Attorney General of the Republic of Kenya in March 2018.

As the President of the Court of Appeal he was instrumental in decentralization of the court to Malindi, Kisumu and Nyeri Counties. He also led the development of the blue print10 point strategy for the transformation of the courts that culminated in the Court of Appeal Bill and the Strategic Plan of the Court of Appeal of Kenya.

He has served as the Chancellor or the Honorary Legal Advisor for the Anglican Church of Kenya, Member of the Kenya Anti-Corruption Authority Advisory Board and the Chairman of the Thomas Banados House and Rotary International.

He is an esteemed member of the Law Society of Kenya, Commonwealth Lawyers Association and International bar Association.

12. Mary Ann Muthoni Njau-Kimani (Alternate director to the Attorney General).

She is an advocate of the High Court of Kenya with thirty (30) years' post admission experience both in private and public law practice.

She also holds a Master's degree in Business and Administration from the University of Nairobi.

She a Senior Deputy Solicitor General and the Secretary Justice and Constitutional Affairs, the current Head of the State Department of Justice, Office of the Attorney General & Department of Justice.

She is an accredited mediator and a certified Justice Rapid Response UN- Women SGBV Justice Expert, with management, financial, research, consultancy and training experience and skills.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

DIRECTORS WHOSE TERMS TERMINATED DURING THE 2017/2018 FINANCIAL YEAR

1. DR. EDWARD SAMBILI, CBS

Dr. Edward Sambili was appointed as the Chairman of the Board with effect from 21st October, 2016.

He holds a Doctor of Philosophy degree in Economics from the University of Lancaster. He has experience and expertise in sustainable development, national planning and poverty analysis; human security and governance; macroeconomic issues; Public Sector Reforms, Results Based Management; Policy formulation, implementation and Monitoring and Evaluation.

He has served in the public service as a Senior Lecturer in Economics at the Egerton University, Permanent Secretary - Ministry of State for Planning, National Development and Vision 2030 and Deputy Governor, Central Bank of Kenya.

He has also been a Consultant/Advisor for United Nations bodies.

2. MR. EVANS KAKAI

Mr. Evans Kakai was first appointed as a Member of the Board with effect from 3rd October, 2013. He was reappointed with effect from 21st October, 2016.

He holds a Business Administration Degree, from the Catholic University of East Africa, and Master of Business Administration (Strategic Management) Degree from the University of Eastern and Southern African Management Institute.

He is a Certified Public Accountant of Kenya (CPA-K) and Managing Director of EKV Consultants Limited, a consultancy firm offering consultancy services in Kenya, Uganda, Tanzania and South Sudan. He is a UN agency Certified Auditor, undertaking donor confirmation assignments in Kenya, Uganda and South Sudan for various international UN Agencies.

He was Chairman of the Support Services Committee, Vice Chairman of the Staff Committee, Member of the Strategy, Policy and Research and Trustee of the KRA Staff Pension Scheme.

3. MS. CONSTANTINE KANDIE

Ms. Constantine Kandie was first appointed as a Member of the Board with effect from 14th August, 2013. She was reappointed with effect from 21st October, 2016.

She holds an International Business Administration Degree and Master of Business Administration (Marketing) Degree, both from United States International University. She has wide experience in governance, strategic management and leadership; management of staff teams, across a broad spectrum of professionals, and specialises in enterprise development.

She has served as Council Member and Chairperson of the Disciplinary Committee, Management University of Africa (MUA); Board Member and Secretary, Professional Women Empowered (ILO); Board Member, Eastern Africa Regional Board – Practical Action International; Director, Eastern Africa Grain Council; Director - World Fair Trade Organisation (WFTO) and Committee Member and Secretary, Kenya Federation for Alternative Trade (KEFFAT).

She is a Member of the Kenya Institute of Management.

She served as the Chairperson and Vice Chair of the Board of Trustees, KRA Staff Pension Scheme and Audit and Risk Committee of the Authority's Board respectively.

4. MR.ABDI BARE DUALE

Mr. Abdi Bare Duale was first appointed as a Member of the Board with effect from 3rd June, 2014. He was reappointed with effect from 15th June, 2017.

He holds a Master of Business Administration Degree from Edith Cowan University in Australia.

He has served in both public and private service as a Board Member, Kenya Bureau of standards and Nerix Pharma Limited; General Manager, Medina Pharmacy Limited; Managing Director, Medina Chemicals Limited and Executive Chairman, Nomad Palace Hotel limited.

He was the Chairman and Member of the Staff and Support Services Committees of the Authority's Board of Directors respectively.

5. AMB. DR. RASHID ALI, OGW, MBS, HSC

Amb. Dr. Rashid Ali was appointed a Member of the Board with effect from 11th November, 2016.

He holds a Doctor of Philosophy degree in Public Administration. He has expansive work experience in Private and Public Sectors.

He has served in the public service as an Ambassador of the Republic of Kenya to the Islamic Republic of Oman and Deputy Secretary, Administration (Ministry of Tourism, Trade and Industry; Ministry of Foreign Affairs and International Co-operation; Ministry of Environment and Natural Resources) and Assistant Secretary, Ministry of Lands and Settlement.

He has also served as Director, Kenya National Chamber of Commerce and Industry and Kenya Meat Commission.

He is a Fellow of the Institute of Directors (UK), The British Institute of Management; The Institute of Professional Manager and Administration and member of the Kenya Institute of Management.

He was a Vice Chairman and Member of the Support Services and Staff Committees of the Authority's Board of Directors respectively.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

MANAGEMENT TEAM

1. John Njiraini, CBS

He was appointed Commissioner General of Kenya Revenue Authority on 3rd March, 2012 for a period of three (3) years. The contract was renewed for a further term of 3 years and subsequently extended up to 30th June 2019.

2. Julius Musyoki

He was appointed Commissioner of Customs & Border Control with effect from 1st August 2015. He left the Authority's service upon contract expiry on 31st October 2018.

3. Benson Korongo, HSC

He was appointed on a 3-year contract as Commissioner of Domestic Taxes with effect from 1st June 2016. He left the Authority's service upon resignation on 30th September 2018.

4. Ezekiel Saina, HSC

He was appointed on a 3-year contract as Commissioner of Corporate Support Services with effect from 1st June, 2016 and is still in service.

5. Mohamed Mohamud

He was appointed Commissioner of Strategy Innovation & Risk Management from 1st October, 2015 with the contract being renewed for a further 3-year term with effect from 1st October 2018.

6. Wairimu Ng'ang'a, OGW

She was appointed on a 3-year contract as Commissioner of Legal Services & Board Coordination with effect from 1st July 2016 with the contract subsequently extended to expire upon her retirement on 28th February 2019.

7. David Yego

He was appointed Commissioner of Investigations from 22nd March, 2017 and is still in service.

8. James Mburu

He was appointed Commissioner of Intelligence & Strategic Operations from 3rd April, 2017 and is still in service.

CHAIRMAN'S STATEMENT

Foreword

It is my singular honour and pleasure to present the Annual Report and Financial Statements of the Kenya Revenue Authority (KRA) for the Financial Year 2017/18, covering the final implementation period of the **Sixth Corporate Plan (2015/2016 - 2017/2018)** and **KRA Vision 2018**, anchored on the theme **"Building Taxpayer Trust Through Facilitation for Enhanced Tax Compliance"**. The focus of the KRA Vision 2018 was to enhance revenue collection with a view to enabling the Government to achieve fiscal surplus by 2018. To give traction to this vision, KRA initiated an ambitious Transformation Agenda, supported by technology as a game changer for enhanced service delivery and intelligence driven revenue administration.

It is important to place KRA's revenue collections for the 2017/18 within global and national contexts so as to get a realistic picture of the factors that underpinned its performance during the year under review.

Global Economy

For the first time in the post-2008 financial crisis, there was relative improvement in global economic and financial performance, leading to a growth rate of 3.6%. The improved performance was buoyed by a rebound in investments, improved international trade, favourable oil and commodity prices occasioned by increased capital spending in USA and Eurozone. The marginal gains in the Kenyan economy and tax revenues during the year under review were therefore, quite consistent with the global economic realities.

Kenyan Economy

The Kenyan economy had mixed fortunes during the FY 2017/18. Notwithstanding the disruptions occasioned by prolonged electioneering period, adverse weather and constricted credit disbursements to the private sector, the Kenyan economy remained largely resilient during the year under review. Notable performance was realized in such sectors as: Accommodation and Food Services; Information and Communication Technology; Education; Wholesale and Retail Trade; Insurance and Public Administration, which recorded growth of between 6.5% and 14.7%. This was however, tampered by a relative poor performance in key sectors, including Manufacturing, Agriculture, Forestry, Fishing and Financial Services (except Insurance). The depressed economic outlook in the course of the year under review led to revised growth projection to 4.8% from 5.8%. It is instructive to note that tax collections grew by 5.1% over 2016/17 collections, thus outperforming both the global and Kenyan economic growth by 1.5% and 0.3%, respectively.

Revenue Performance

During the FY 2017/18, the Authority collected **Kshs 1.435 trillion** against a target of **Kshs 1.541 trillion**. This represents a performance rate of **93.1%** and revenue growth of **5.1%** over **Kshs 1.365 trillion** collected in FY 2016/17. Revenue growth outperformed the economy by about 0.3%, an indication that the KRA Transformation Agenda has already

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

began to shore up revenue administration efficiency. Revenues collected by KRA are broadly divided into Exchequer Revenue and Agency Revenue.

Exchequer Revenue

Exchequer revenue comprises Income Tax, Value Added Tax, Customs Duty, and Excise Tax. During 2017/18, KRA collected Exchequer revenue totalling **Kshs 1.34 trillion** against a target of **Kshs 1.453 trillion**, translating to a performance rate of **92.2%**.

Agency Revenue

KRA collects Agency revenue on behalf of a number of government departments, state corporations and agencies. During the year under review, a total of **Kshs 94,185 million** was collected in Agency revenue against a target of **Kshs 86,172 million**, translating to a performance rate of **109.3%**.

Economic Outlook

Globally

The FY 2018/19 promises a positive outlook for the global economy, with a forecasted marginal growth of 3.9% compared to 3.7% realized in 2017/18. This is predicated primarily on improved domestic demand in advanced economies, and a marked improvement in performance of Emerging Market economies. Going forward, this positive economic growth is expected to shore up significant growth in economies with large export potential.

Kenya

Kenya's real GDP is projected to expand by 5.9% in FY 2018/2019. This growth will be supported mainly by investments in Manufacturing, Food Security, Universal Health, and Affordable Housing, which constitute strategic sectors of "The Big Four Agenda".

As the pre-eminent revenue collector for the Government, KRA is at the core of the implementation of "The Big 4 Agenda" as well as continue to improve the business climate of the country. Accordingly, the National Treasury has given KRA a revenue collection target of **KShs 1,809,999 million** for FY 2018/19, representing a growth of 26.1% over the revenue collection of FY 2017/18.

KRA is responding to this ambitious revenue target, by deepening the Transformation Agenda, which is expected to enhance its capacity for Domestic Revenue Mobilization. With the implementation of the Seventh Corporate Plan (2018/19 – 2020/21) underway, the focus shifts to key priorities of the country's development agenda as spelt out in the **Kenya Vision 2030**, the Third Medium Term Plan (MTP 2018 -2022), the Budget Policy Statement 2018, "The Big Four Agenda" as well as the country's commitment to the Sustainable Development Goals. To effectively discharge its mandate, KRA is transforming into an **intelligent tax administration** that efficiently utilises data and digital capabilities to revolutionize interactions with taxpayers, with the ultimate target of becoming "**simple at the front, smart at the back.**"

Appreciation

On behalf of the KRA Board of Directors, I wish to thank Management and Staff for their continued hard work, commitment and dedication to duty, that helped realize improved revenue collection by **Kshs 69,969 million** over the 2016/17 collections. We thank all the compliant taxpayers for honourably discharging their civic duty to this country. Last but not least, we thank all stakeholders who have availed time and resources to support KRA revenue mobilization initiatives.

In a very special way, I thank H. E. The President, the National Treasury and Planning Ministry, County Governments, and Parliament for standing by KRA Board, Management and Staff in the discharge of their onerous mandate of revenue collection

Lastly, I wish to extend my gratitude to my fellow Board Members for demonstrating commitment, collegiality and hard work during the just ended Financial Year 2017/18. It's my prayer and belief that these wonderful attributes will be sustained to help realize improved revenue performance Financial Year 2018/19.

Thank You.



**AMB. DR. FRANCIS K. MUTHAURA, MBS, EGH
CHAIRMAN**

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COMMISSIONER GENERAL'S STATEMENT

Introduction

It gives me great pleasure to present to you the highlights of the Kenya Revenue Authority (KRA) performance for the FY 2017/18. This financial year was the third and last Plan Year in the 6th Corporate Plan under the theme "Building Taxpayer Trust through Facilitation for Enhanced Tax Compliance" and aimed at building trust-based relationships with the taxpayers to enhance voluntary compliance. Over the just concluded period, successes have been registered, challenges encountered and lessons learnt. These lessons and feedback from the implementation of the 6th Corporate Plan have been incorporated into the development of the 7th Corporate Plan running from FY 2018/19 to 2020/21.

Operating Environment

Kenya's GDP growth rate was estimated at about 5.0% in FY 2017/18 compared to a forecast of 5.3%. The GDP growth is expected to rise to 5.9% in FY 2018/19.

The key elements of the macro-economic environment that directly impacted revenue collection in the FY.2017/18 included the following:

- The overall rate of inflation declined from 9.2 percent in June 2017 to 4.50 percent in December 2017 and further to 4.3 percent in June 2018.
- The foreign exchange market remained relatively stable throughout the year.
- The exchange rate of Kenya Shilling to US Dollar averaged at 102.4 during the Financial Year compared to 102.5 for the FY 2016/17.
- The value of total exports decreased from KSh 52.7 billion in May 2017 to KSh 49.3 billion in December 2017, but increased to KSh 52.9 billion in June 2018. On the other hand, the value of imports declined from KSh 151.4 billion in May 2017 to KSh 141.8 billion in December 2017, but rose to KSh 160.6 billion in June 2018.
- The average yield rate for 91-day Treasury bill rate declined from 8.4 percent in June 2017 to 8.0 percent in January 2018. This further declined to 7.2 percent in June 2018, indicating a general decline in interest rates in the economy.
- The Nairobi Securities Exchange (NSE) 20 share index increased from 3,607 points in June 2017 to 3,811 points in December 2017, but declined to 3,286 points in June 2018.

The macro-economic indicators above show that the Kenyan economy experienced depressed performance in the FY 2017/18. Despite this relatively poor economic performance, the actual revenue collection grew by over KShs 69 billion.

Revenue Performance

Cumulative revenue collections (July 2017 - June 2018) stood at KShs 1,435.24 billion against a target of KShs 1,541.23 billion, representing a performance rate of 93.1 percent and growth of 5.1 percent.

Table 1: Revenue Collections (Ksh. Billion)

Department	Actual 2017/18	Target 2017/18	Performance Rate (%)	Actual 2016/17	Growth (%)
Customs Services	469.97	484.97	96.9	443.5	+6.0%
Domestic Taxes	961.91	1,051.82	91.5	917.6	+4.8%
Road Transport	3.37	4.44	75.7	4.1	-17.9%
Total	1,435.24	1,541.23	93.1	1,365.3	+5.1%

Customs and Border Control Department

Customs collections during FY 2017/18 amounted to KShs 469.97 billion against a target of KShs 484.97 billion translating to a performance rate of 96.9% and a growth of 6.0% over FY 2016/17. Net import duty grew by 7.9% to KShs 93.7 billion while net excise duty grew by 5.3% to KShs 83.4 billion. Annual collections in Petroleum Taxes amounted to KSh. 147.7 billion while Trade Taxes amounted to KShs 318.0 billion recording a growth of 5.4% and 6.8% respectively over FY 2016/17.

The recorded performance was buoyed by the change in composition of dry imports. The share to total imports of the value of goods in the 10%, 25% and the >25% tariff bands grew in 2017/18 over 2016/17, while that of the 0% tariff band declined resulting to a positive revenue impact of KShs 7.6 billion on import duty. The share of value of VATable goods however decreased by 6.1 percentage points from 73.6% in 2016/17 to 67.5% in 2017/18 with a resultant adverse revenue impact of KShs 15.1 billion on import VAT.

Domestic Taxes Department

Domestic taxes collections during FY 2017/18 amounted to KShs 961.9 billion against a target of KShs 1,051.8 billion, translating to a performance rate of 91.5% and a growth of 4.8% over FY 2016/17.

Direct domestic taxes collected during the financial year amounted to KShs 654.8 billion representing a 90.2% performance rate and growth of 4.2% over FY 2016/17. Direct domestic taxes included: PAYE-56%; Corporate Taxes-24%, withholding taxes-15%, and the remaining 5% comprised individual taxes, Turn-Over-Tax, Capital Gains Tax and Rental Income Tax.

Indirect taxes collected during the Financial Year amounted to Ksh. 302.4 billion representing 93.6 % performance and a growth rate of 5.5% over FY 2016/17. This growth in indirect taxes was mainly driven by a 6.2% growth in VAT from KShs 193.1 billion to KShs 205.1 billion, 35.7% growth in withholding VAT from KShs 72.0 billion to KShs 97.8 billion, and 26.4% growth in excise duty on money transfer from KShs 12.6 billion to KShs 15.9 billion.

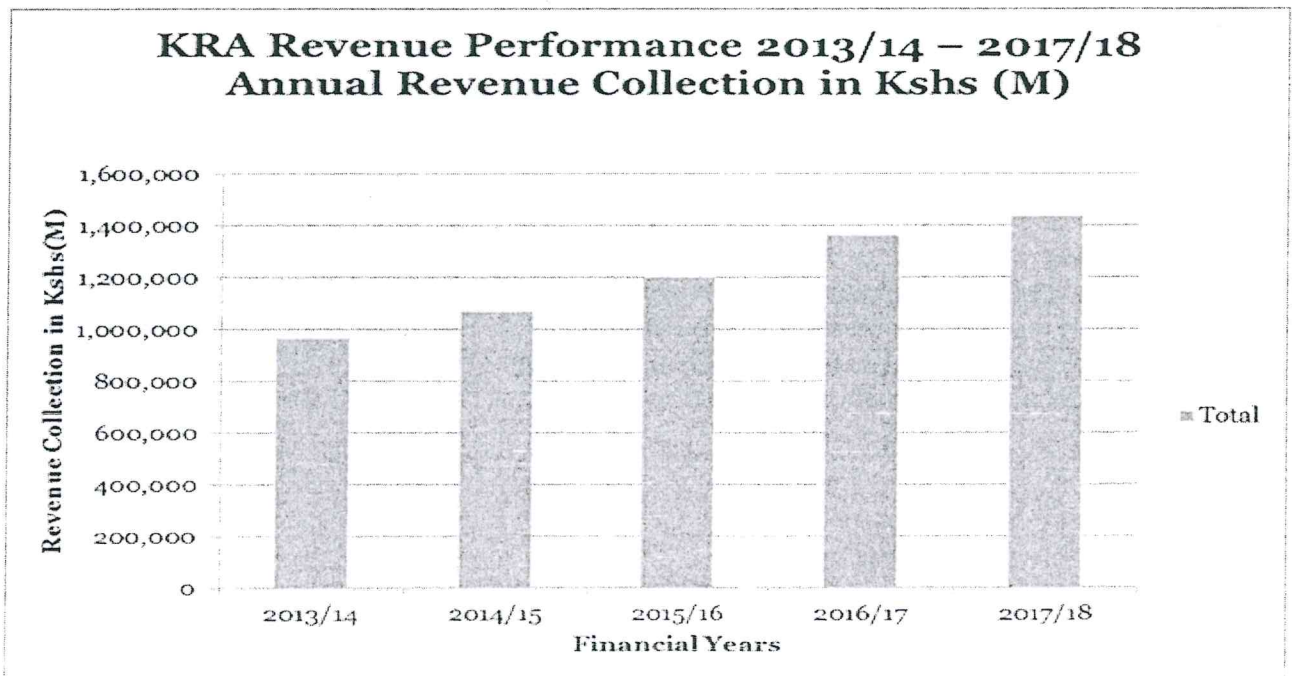
KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

Road Transport Department

Transport revenue accounted for 0.23% of the total collections in FY 2017/18 recording a decline in growth of -17.9 % compared to FY 2016/17. This department has since been transferred to the National Transport and Safety Authority (NTSA).

COLLECTIONS TREND FOR THE FINANCIAL YEARS 2013/14 TO 2017/18 (KSHS MILLIONS)

	2013/14	2014/15	2015/16	2016/17	2017/18
C&BC					
Exchequer	289,689	313,291	325,272	352,939	375,888
Agency	42,142	45,132	60,731	90,585	94,180
Total C&BC	331,831	358,424	386,002	443,524	470,068
DTD					
Exchequer	626,335	705,718	808,702	917,061	961,399
Agency	1,966	1,508	1,543	581	506
Total DTD	628,301	707,227	810,245	917,643	961,905
TRD					
Exchequer	2,959	2,964	2,859	3,060	2,961
Agency	732	982	1,052	1,042	405
Total DTD	3,691	3,947	3,911	4,102	3,366
Total					
Exchequer	918,982	1,021,974	1,136,833	1,273,060	1,340,248
Agency	44,841	47,623	63,326	92,209	95,091
Total	963,823	1,069,597	1,200,159	1,365,269	1,435,339



Notwithstanding the challenges enumerated above, revenue collections have consistently grown by an average of 14.3% while maintaining cost of collection consistently below 1.5%.

Revenue Administration Transformation

KRA continued to scale up its Transformation Agenda aimed at leveraging technology for enhanced service delivery and intelligence driven compliance. The transformation initiatives implemented during the year included:

iTax

This is a web-based system that provides tax administration services including electronic registration of taxpayers, electronic filing, self-service ledger accounts, electronic receipting of tax payments and back office functions for Domestic Taxes Department. During this financial year, key achievements included:

- Delivery of Debt module.
- Invoice auto reconciliation module under the last stage of Quality Assurance.
- Discussions on transition management given the huge impact to many stakeholders (ongoing).
- Implementation of online customer support framework (ongoing).
- Personal Identification Number, Business Process Reengineering (PIN BPR) completed and development discussions initiated.

New Data Centre (NDC)

This project aims at implementing an enterprise risk management framework that will help KRA build resilience for business processes recovery and resumption in case of a disaster. The project will also improve IT operational efficiency and reliability. The New Data Centre facility, which is about 98% operational, will enhance availability, continuity and response times of business systems. Progress made so far include:

- Systems migration, testing and changeover.
- Integration with iTax and payment gateway in progress.
- Prioritization of systems migration order completed and Migrations include iSupport, Corporate Website and Integrated Customs Management System (iCMS).

Integrated Customs Management System (iCMS)

The increasing trade volumes across Kenya's boundaries and the attendant risks call for a versatile Customs Management System in which stand-alone modules, systems, smart gates, and other security installations are integrated. The aim of the iCMS project is to automate all Customs processes while adopting best technology practices for trade facilitation by integrating the different systems used for Customs processes in the KRA. The progress made so far in implementation of iCMS include:

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

- 50% completion of the development work. (Full iCMS suite expected delivery date revised to September 2018).
- Completion and use of direct assessments.
- Quality assurance for warehousing module complete and due for pilot at Jomo Kenyatta International Airport (JKIA).
- Sea and Land Cargo for dry imports completed and pending integration with KPA system.
- Air Cargo module pilot and roll out is in progress at all airports.

iSupport System

To help enhance efficiency in its processes, KRA implemented a core technology application based on the SAP enterprise resource planning (ERP) platform, which is aimed at scaling and accelerating organizational decision-making and enhancing business management. This platform will assist KRA transform business operations and to meet the demands of a Digital Economy.

This project aims at;

- Providing timely and accurate information to support efficient tax administration operations, planning and reporting for the Authority;
- Stimulating integration of financial and operational activities through streamlined and efficient workflows and documents management;
- Building centralised service capability;
- Providing better business insight and
- Tracking key operational performance indicators on a real time basis, for prompt management decision making.

The iSupport system rollout rate is 90% and modules so far rolled out include Travel Management, Payroll, Performance Management, Medical Management, e-Recruitment, and Assets Disposal modules. Learning Management Solution is undergoing testing.

Tax Invoice Management System (TIMS)

Under the VAT enhancement strategy, the need for ensuring simplicity and accuracy in input, output, credit VAT information and reconciliation between filed returns and payments is paramount. In this regard, the Authority sought to implement a Tax Invoice Management System which is aimed at ensuring:

- Real time validation of invoices at the trader tills prior to issuance to the customer and KRA tax system.
- Standardization of tax invoices and receipts.

- Simplification of return filing in order to enhance voluntary compliance.
- Improve accuracy of VAT data for transactional purchases and sales information

Regional Electronic Cargo Tracking System (RECTS)

The Regional Electronic Cargo Tracking System (RECTS) was launched in March 2017 with the aim of boosting security by curbing diversion of transit cargo along the Northern Corridor, among other malpractices. The concept was anchored on the 2014 Northern Corridor directive to countries such as Kenya, Rwanda and Uganda to embrace electronic monitoring of cargo across the region. Besides securing the cargo, RECTS saves on time and cost of doing business. Less time is spent at border points disarming and arming of seals as the system allows for seals to be armed at starting point and disarmed upon reaching the final destination. RECTS and iCMS are set to be integrated to ensure high efficiency in cargo clearance as well as profiling of importers.

Integrated Scanner Management Solution (iSMS)

The objective of this project is to provide a centralized integrated scanner management solution with real time processing, inspection information collection, inspection data management and advanced analysis capability. Key achievements in this project include:

- Completion of network analysis to enhance bandwidth.
- Relocation of Inland Container Depot Embakasi scanners to Malaba.
- First version of the iSMS software was deployed for testing.
- Integration scoping with other systems is ongoing.

Key Achievements during the 6th Corporate Plan Period

FY 2017/18 marked the final year for the implementation of the 6th Corporate Plan (2015/16-2017/18). The Plan represented a shift in KRA's focus from enforcement to taxpayer facilitation in line with the vision to "Facilitate Kenya's Transformation through Innovative, Professional and Customer Focused Tax Administration." In pursuit of this ambitious vision, KRA implemented the following four (4) key strategic objectives;

- i. Enhancing revenue mobilization by broadening the taxpayer base using smart intelligence and risk-based compliance strategies;
- ii. Strengthening administrative capacity and enhancing transparency and fairness through organizational change and business process optimization;
- iii. Creating a staff establishment that is professional, courteous, accessible and pro-active in responding to customer problems; and
- iv. Enabling business by leveraging technology to achieve full electronic customer service leading to enhanced operational efficiency and high customer satisfaction.

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

Key Outcomes Achieved during the Plan Period

Revenue Enhancement Perspective: The cumulative revenue collection during the period under review amounted to KShs 4.0 trillion rising from Ksh. 1.069 trillion in FY 2014/15 to Ksh. 1.435 trillion in FY 2017/18. Active taxpayers grew from 1.6 million in FY 2014/15 to 3.94 million by June, 2018. Through the Alternative Disputes Resolution (ADR) initiatives, KShs 6.745 billion held up in tax disputes was freed up. The Authority continues to build capacity in ADR as this mechanism is speedy, non-adversarial and more effective. Further, the real estate sector contributed KShs 12.09 billion in revenue collected from 58,934 additional land lords recruited into the tax net. In addition, KRA has continued engagements with County Governments for collaborations in revenue collection. As at June, 2018, engagements with Kisii and Kericho County Governments were at an advanced stage.

Customer Perspective: To deliver customer focused services and raise customer satisfaction levels, KRA services were availed in 24 service centres and 52 Huduma Centres across the country. At least 78% of all complaints received were conclusively resolved and 276 stakeholder groupings were engaged by KRA. In addition, a taxpayer education strategy, tax curriculum proposal, tools for needs assessment and sector programme were implemented to enhance voluntary compliance. In line with this, KRA-wide customer service standards aimed at cultivating an all-inclusive and collaborative customer service environment were developed and implemented. An exit survey for FY 2016/17 established a customer satisfaction level of 71.9%.

People Perspective: KRA continued its endeavours to entrench its core values Trustworthy, Ethical, Competent and Helpful (*Kuwa TECH*) amongst the staff. This has been conducted through a review of sub-cultures, culture change assessment and communication, revamping of KRA's training, promoting innovation, knowledge management, enhancing integrity amongst staff and establishing KESRA as a choice institution for training in fiscal management. An exit survey for FY 2016/17 determined that the employee satisfaction level is 67%.

Internal Processes Perspective: Automation is key in enhancing transparency and fairness in government-to-business interactions. As at the end of FY 2017/18, KRA had been appointed the lead border agency in all land borders as well as custodian of One Stop Border Points. In a bid to become a fully automated single collector, the following KRA systems were implemented: iTax (100%), iCMS (80%), iSupport (90%), Customer Relationship Management (CRM) system (95% implemented), CCMS (100%) and New Data Centre (NDC) 98%. Over the same period, 86% of KRA's business units have implemented the five (5) enterprise Risk Management (ERM) framework tools. These tools are; Risk and Control Self-Assessment Tool; Control Compliance Tool; Key Risk Indicator Tool; Action Tracking Tool; and Incident Recording Management Tool. KRA was re-certified to ISO 9001:2015 Standard over the period.

Key Achievements in the Financial Year 2017/18

The key achievements during the FY 2017/18 include:

Expansion of the Tax Base

During the plan period, KRA sought to adopt a business classification, structure and tax rates similar to those being applied by the County Governments. This was so as to leverage the reach and closeness of local governments and taxpayers. This would be achieved through twinning of PIN to business licensing at the Counties and actively engaging the County Governments for collaborations. As at Quarter three of FY 2017/18, engagements with both Kisii and Kericho Counties were at an advanced stage.

During the FY 2017/18, 461,743 new active taxpayers were recruited resulting to 3,940,000 active taxpayers, cumulatively. The recorded recruitment of taxpayers was enhanced by KRA's deliberate effort to progressively contact non-compliant taxpayers and use of data to drive taxpayer recruitment. In addition, the taxpayer education programme was revamped to target non-compliance. To this end, four sector-based trainings targeting Architects, Engineers, School heads, Accountants, Withholding rental income agents, and Federation of Kenya Employers were held.

The Authority continued to leverage on government automation where various third-party systems (NTSA-TIMS, e-ProMIS, NHIF, NSSF and IFMIS) were identified to further drive recruitment. KRAs integration with these systems is at different levels of implementation.

Revamped Debt Management Programme

During the Financial Year, a full-time team under Strategy, Innovation and Risk Management (SIRM) was formed to implement the Data Cleaning strategy. To do this, data cleaning business rules and a debt strategy were prepared to guide implementation of the initiative. As part of data cleaning, debt division staff were trained, backlog relating to returns were cleared and clearance of payments, waivers, and set-offs is underway.

Further, user acceptance testing was conducted on the debt module on the iTax system in March, 2018. Full roll out of the module will facilitate single view of all taxpayer transactions and improve debt collection.

In total, KShs 28.4 Billion was collected as debt revenue. Delays in forwarding mature debts (30 days) to Account Management Units from stations/divisions including the head office has had a negative effect on fast-tracking debt recovery.

Implementation of Alternative Dispute Resolution (ADR)

During the FY 2017/18, ADR workflows and staff structure were reviewed and approved and job descriptions developed, 33 officers were recruited to fill the ADR structure. At least 38% of disputes were settled through ADR out of which, KShs 3,011.9 million was collected as revenue.

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VAT Enhancement Strategy

VAT's contribution to total revenue was envisaged to improve from 25% to 35% between FY 2014/15 and FY 2017/18. Amongst the measures proposed was implementation of the tax invoice management system (TIMS) to improve VAT data management and to ensure accuracy in input, output and credit VAT information and reconciliation between filed returns and payments.

To improve VAT data management and ensure accuracy in input, output and credit VAT information and reconciliation between filed returns and payments, iTax enhancements were proposed, TIMS implementation strategy documented and Public Key Infrastructure (PKI) for TIMS implemented. The Revenue Enhancement Initiatives aimed at improving VAT performance and reducing non-filing & non-payment led to the implementation of an aggressive stop filer and nil filer programme to reverse the non-filing and non-payment trend. Under this, unclaimed withholding VAT certificates worth KShs 1,903.7 million and unmatched invoices worth KShs 1,643.3 million were assessed. Collections out of these amounted to KShs 477.7 million and Ksh. 437.4 million respectively.

Customer Satisfaction with KRA Services

KRA services were offered in 24 service centres and 52 Huduma Centres across the country. Using the Corporate Complaints Management Framework, 78% of complaints were conclusively resolved. This framework is planned for regional roll-out in 2018/19 and additional staff for the centres have been recruited.

As at June, 2018, electronic filing rate stood at 76%, 60% and 44% for VAT, PAYE and Corporate Taxes respectively. Electronic payment rates also stood at 97%, 93%, and 93% for VAT, PAYE and Corporate Taxes respectively.

Strengthening Taxpayer Service and Marketing and Communication

During the past financial year, KRA fully engaged a media consultancy to offer strategic guidance on creative advertising, public relations and stakeholder engagement. The communication strategy, which aims at achieving effective communication to drive brand loyalty, promote customer centricism, knowledge sharing and KRA brand acceptance, was implemented. KRA has adopted a strategic approach towards International Affairs that facilitates continuous learning of industry best practices, and promotes experience and knowledge sharing. During 2017/18, KRA participated in eight (8) international engagements (in-bound and out-bound). The engagements were with South African Revenue Service (SARS), Rwanda Revenue Authority (RRA), Ghana Revenue Authority (GRA) and African Tax Administration Forum (ATAF), Authorised Economic Operators - Uganda, TMEA - China, Busia OSBP, 7th ATAF Country Correspondents Meeting, Co-hosted the ATAF Tax for Development Course with KESRA; and M&C outward benchmark to Netherlands Tax Administration.

Corporate Social Responsibility (CSR)

During the Financial Year, the CSR Policy was reviewed to guide measurement of CSR effectiveness. A total of 29 CSR activities and 33 publicity campaigns were undertaken to

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

develop and enhance the brand value of KRA. A total of 969 out of 4,853 KRA staff were involved in Corporate Social Responsibility activities.

Promoting innovation

To better meet its customers' needs, KRA set out to introduce new ideas, workflows, methodologies, services and products in pursuit of its core business revenue mobilization for the Government. KRA embarked on an ambitious strategy to institutionalize innovation management, facilitate effective citizen participation, and to grow and innovate information technology to support, enable and optimise business operations. In line with these aspirations, Live Chats, Story za Ushuru Videos and USSD code campaigns were conducted among other sensitization campaigns.

Enhancing Integrity in Revenue Administration

KRA aspired to attain a "Zero-tolerance to Corruption" status by 2018 through a number of interventions including constant review of internal controls to mitigate corruption and a deliberate corporate effort to inculcate transparent, accountable and ethical culture amongst staff and customers. During the financial year under review, the vetting unit was operationalized, a draft lifestyle audit and background checks policy was developed. In line with this, a total of 4,286 staff and 4,893 stakeholders were sensitised on integrity, 2,073 staff sensitized on whistle blowing policy and 32 senior managers trained on corruption related audits.

Human Resource Review

Senior Staff Changes

Dr. Fred Mugambi Mwirigi was appointed on acting capacity as Head of Kenya School of Revenue Administration (KESRA) with effect from 5th March 2018.

Staff Compliment as at 30th June 2018

	Department	Count	Percentage (%)
1	Corporate Support Services	1,043	21.5
2	Customs & Border Control	1,562	32.2
3	Domestic Taxes Department	1,554	32.0
4	Intelligence & Strategic Operation	77	1.6
5	Internal Audit Department	31	0.6
6	Investigation & Enforcement	176	3.6
7	Kenya School of Revenue Administration	54	1.1
8	Legal Services & Board Coordination	75	1.5
9	Marketing & Communication	88	1.8
10	CG / Strategic Operation Office	23	0.5
11	Strategy Innovation & Risk Management	170	3.5
TOTAL		4,853	100.0

The staff numbers do not include short term contract staff

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Staff Motivational and Welfare Programs

In the financial year 2017/18, KRA continued to implement various welfare activities that include wellness programs, health talks, health hikes as well as alcohol and drug abuse prevention programs. The Authority also provided motivational benefits including mortgages, car and laptop loans for staff.

Competency Development

KRA facilitated delivery of 51 technical and cross cutting programs for 1,839 staff and 50 Continuous Professional Development programmes for 296 staff. 317 staff attended phase one training on leadership development (Discovering Leadership Effectiveness) and 227 attended phase two of the same training (Leading at the Speed of Trust).

Automation of Human Resources Management Systems

KRA continued the process of automating Human Resource Division and functions automated during the FY 2017/18 include;

- Organization Management;
- Leave Management;
- Payroll;
- E-Recruitment and
- Medical Scheme Management.

Future Outlook

The Treasury revenue target for the financial year 2018/19 is KShs 1.81 trillion, of which KShs 1.72 trillion (94.9%) is Exchequer revenues and KShs 92.9 billion (5.1%) being the agency revenues that KRA collects. The Treasury target represents a growth of 26.1% over the revenue collection in FY 2017/18 (KShs 1.4 trillion). The revenue performance is expected to be influenced by the improving operating economic environment and the continued implementation of the Revenue Enhancement Initiatives (REI) programme.

During FY 2018/19, Kenya's GDP is projected to expand by 5.9 % from the estimated performance of 5.0% in FY 2017/18. The 2018 Budget Policy Statement indicates that this growth will be supported mainly by the implementation of "The Big Four" Agenda, sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant service sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability. Inflation is expected to remain within the Government's target range underpinned by prudent monetary and fiscal policies, favourable weather outlook, relatively lower international oil prices, and a stable exchange rate. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

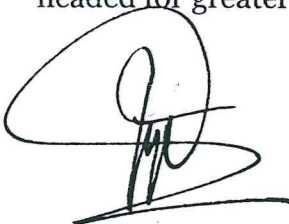
FY 2018/19 marks the beginning of the implementation of the 7th Corporate Plan due to be implemented during the period the FY2018/19 to 2020/21. Our overarching goal in the plan period is 'Revenue mobilization through innovative use of the opportunities created by the reforms, change programme and transformation that the Authority has undertaken during the past plans'. To this end, we have identified four strategic outcomes in the corporate plan, that is: enhanced revenue through improved compliance; improved business climate with

respect to taxation and trading across borders; public confidence in the integrity, professional competence and customer focus of our staff; and being data and intelligence driven organization.

Conclusion

In conclusion, I would like to thank the Board of Directors, Management and Staff for their support, hard work, and for embracing the Transformation Agenda that has enabled KRA to effectively discharge its mandate as the pre-eminent revenue collector for the Government of Kenya. The staff's dedication and commitment to duty led to the revenue growth of 5.1% over FY 2017/18. I also thank the National Treasury for according KRA the much needed goodwill and strong support that facilitated revenue administration in a tranquil environment. Lastly, I extend our gratitude to all our valued taxpayers, partners and stakeholders for their patriotism and unwavering support, without which KRA would not have achieved its strategic goals during the financial year under review.

I am confident that together, and guided by the vision "To Facilitate Kenya's Transformation through Innovative, Professional and Customer-Focused, Tax Administration", KRA is headed for greater heights.



J. K. Njiraini, CBS
COMMISSIONER GENERAL

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the structure and process used to direct and manage the business affairs of the Authority to enhance prosperity, corporate performance and accounting. The Board of Directors is the governing body of the Authority. It formulates policy and charts out the road map for goal attainment, including plans of action.

The Board of Directors is responsible for the governance of the Authority and is accountable to the Cabinet Secretary, National Treasury to ensure compliance with the Kenya Revenue Authority Act, best practice and business ethics. The Directors attach great importance to the need to conduct business and operations of the Authority with integrity, professionalism and in accordance with generally accepted international corporate governance practice.

The Board's responsibilities are broadly set out in Section 6 (6) of the Kenya Revenue Act CAP 469 of the Laws of Kenya, and include:

- a) Review and approval of the policy of the Authority;
- b) Monitoring of the performance of the Authority in carrying out its functions; and
- c) Discipline and control of all members of staff of the Authority, appointed under the Act.

Board Meetings

The Board meets on a monthly basis to review Management performance including revenue collection, operational issues and future planning. The Directors are given appropriate and timely information to enable them maintain full and effective control over strategic, financial, operational, revenue and compliance issues. All the Directors are independent of Management and free from any business relationship that could materially interfere with the exercise of their independent judgment. The Board held sixteen (16) Meetings during the period under review.

Board Committees

The Board had four (4) standing Committees during the year, which met regularly under the Terms of Reference set out by the Board.

Staff Committee (Now Human Resources Committee)

The Committee is responsible for monitoring and appraising the performance of Senior Management, reviewing of human resource policies, approval of remuneration policy for employees and making recommendations on Senior Management appointments to the Board. The Committee met quarterly and its Members were:

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

Previous Membership		Current Membership	
1.	Mr. Abdi Duale (Retired).	1.	Ms. Susan Mudhune.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Leonard Ithau.
3.	Dr. Rashid Ali (Retired).	3.	Mr. Paul Icharia.
4.	Ms. Mary Ann Muthoni Njau–Kimani.	4.	Mr. John K. Njiraini.
5.	Mr. John K. Njiraini.		

Support Services Committee (Now Finance, Administration and Procurement Committee)

The Committee is responsible for review of the Authority’s annual budget; Procurement and Disposal Plans, and related policies, among others. The Committee met monthly and its Members were:

Previous Membership		Current Membership	
1.	Mr. Evans Kakai (Retired).	1.	Ms. Rose Waruhiu.
2.	Dr. Rashid Ali (Retired).	2.	Mr. Charles Omanga.
3.	Mr. Abdi Duale (Retired).	3.	Mr. Bernard Ndung’u.
4.	Mr. Bernard Ndung’u	4.	Mr. John K. Njiraini.
5.	Mr. John K. Njiraini.		

Audit and Risk Committee

The Committee is responsible for review of audit reports, compliance with relevant laws, procedure and standards, quality of financial reporting and oversight on internal control and risk, among others. The Committee assists the Board in discharging its supervisory and good corporate governance responsibilities. The Committee met quarterly and its Members were:

Previous Membership		Current Membership	
1.	Ms. Rose Waruhiu.	1.	Mr. Mukesh Shah.
2.	Ms. Constantine Kandie (Retired).	2.	Ms. Rose Waruhiu.
3.	Mr. Paul Icharia.	3.	Ms. Mary Ann Muthoni Njau–Kimani.
4.	Mr. Bernard Ndung’u.	4.	Mr. Bernard Ndung’u.

Strategy, Policy and Research Committee (Now Revenue, Strategy and Technology Committee)

The Committee is responsible for review of the Authority’s strategic implementation of the Corporate Plan and Reform Programme. It also serves as a forum to encourage continuous research and review of tax policy proposals; regulatory framework and revenue collection. The Committee met quarterly and the Members were:

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

Previous Membership		Current Membership	
1.	Mr. Paul Icharia.	1.	Mr. Leonard Ithau.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Mukesh Shah.
3.	Ms. Rose Waruhiu.	3.	Ms. Rose Waruhiu.
4.	Dr. Rashid Ali (Retired).	4.	Ms. Susan Mudhune.
5.	Ms. Mary Ann Muthoni Njau–Kimani.	5.	Mr. Paul Icharia.
6.	Mr. Bernard Ndung’u.	6.	Ms. Mary Ann Muthoni Njau–Kimani.
7.	Mr. John K. Njiraini.	7.	Mr. Bernard Ndung’u.
		8.	Mr. John K. Njiraini.

Board of Trustees

The Authority has a Staff Pension Scheme which is supervised, managed and administered by a Board of Trustees. The Authority, as sponsor of the Scheme, is represented by the following Board Members:

Previous KRA Board Representation		KRA Board Representation after Reconstitution of the Board	
1.	Ms. Constantine Kandie (Retired).	1.	Mr. Paul Icharia.
2.	Mr. Evans Kakai (Retired).	2.	Mr. Charles Omanga.
3.	Mr. Paul Icharia (Retired).	3.	Ms. Susan Mudhune.
4.	Mr. John K. Njiraini.	4.	Mr. John K. Njiraini.

REPORT OF THE BOARD DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June, 2018 which show the state of Kenya Revenue Authority's affairs.

Principal activities

The principal activities of the Authority continue to be assessment and collection of revenue, administration, enforcement of laws relating to and accounting for revenue collected under the relevant Acts.

Results

The results of the Authority for the year ended June, 2018 are set out on pages 32 to 66.

Directors

The Members of the Board who served during the year are shown on page 4 to 10.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.



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By Order of the Board

Board Secretary

Date: 14th Feb. 2018

KENYA REVENUE AUTHORITY ANNUAL REPORT AND FINANCIAL STATEMENTS AS AT JUNE 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Kenya Revenue Authority Act require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year and the operating results of the Authority for that year. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and The KRA Act. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2018, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.


Nothing has come to the attention of the Directors to indicate that the Authority will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Authority's financial statements were approved by the Board on 14th February 2019 and signed on its behalf by:


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**J. K. NJIRAINI, CBS
COMMISSIONER GENERAL**


.....

**AMB. DR. FRANCIS K. MUTHAURA, MBS, EGH
CHAIRMAN**

KENYA REVENUE AUTHORITY

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018

		2017/2018	2016/2017
	NOTE	<u>Kshs'000</u>	<u>Restated Kshs'000</u>
REVENUE			
Revenue from non- exchange transactions			
Deferred grant income amortisation	2	324,635	196,663
Revenue from exchange transactions			
Agency Income	3	17,651,754	15,458,009
Commissions Income	4(a)	1,847,003	1,785,534
Interest Income		348,804	564,529
Other Income	4(b)	558,682	585,147
TOTAL REVENUE		<u>20,730,878</u>	<u>18,589,882</u>
EXPENDITURE			
Administrative Expenses	5	19,541,768	17,888,325
Operating Expenses	6	1,262,468	1,106,777
Maintenance Expenses	7	318,937	287,917
TOTAL EXPENDITURE		<u>21,123,173</u>	<u>19,283,019</u>
Other gains/(losses)			
Gain / (Loss) on sale of assets		(323)	3,561
DEFICIT FOR THE YEAR		<u><u>(392,618)</u></u>	<u><u>(689,576)</u></u>

The notes set out hereto form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018**

	NOTE	2017/2018 Kshs '000	2016/2017 Restated Kshs '000
Assets			
Current Assets			
Cash and Bank Balances	13	7,892,677	6,752,042
Stocks	14	126,635	120,898
Receivables	10	638,511	552,749
		8,657,823	7,425,690
Non-Current Assets			
Property, Plant & Equipment	8	33,569,059	31,230,635
Intangible Assets	9	4,256	12,437
Amount due from Treasury	11	1,295,877	3,444,499
Security Deposits	12	2,434,671	2,386,122
		37,303,863	37,073,693
Total Assets		45,961,686	44,499,383
Liabilities			
Current Liabilities			
Payables	15	2,401,613	1,881,643
Leave Pay and Gratuity Provision	16	1,968,198	1,538,033
Deferred Income Amortisation	24	324,635	177,759
		4,694,446	3,597,435
Non Current Liabilities			
Contribution to Govt Pension Fund	17	7,324	24,290
Designated Fund	18	36,784	62,248
		44,108	86,538
Total Liabilities		4,738,554	3,683,973
Net Assets		41,223,132	40,815,410
Capital grants by the Treasury	19	17,309,410	16,996,410
Deferred Grants Income	24	3,266,072	2,518,434
Accumulated Fund		3,065,501	3,458,119
Revaluation Reserve		17,582,149	17,842,447
		41,223,132	40,815,410
Total net assets and liabilities		45,961,686	44,499,383

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

J. K. Njiraini, CBS
Commissioner General

E.K. Muchai
Head of Finance - ICPAK Member No. 2728

AMB. DR. Francis K. Muthaura, MBS, EGH
Chairman

The notes set out hereto form an integral part of the Financial Statements

KENYA REVENUE AUTHORITY

STATEMENT OF CHANGES IN EQUITY
AS AT 30 JUNE 2017

	Note	Capital Grants by Treasury Shs'000	Deferred Grant Income Shs'000	Accumulated Fund Shs'000	Revaluation Reserve Shs'000	Total Shs'000
Year ended 30 June 2017						
At 1 July 2016 - as previously reported		17,595,182	-	4,804,611	4,099,594	26,499,387
Prior year adjustments	27	(1,224,772)	1,306,857	(656,916)	260,297	(314,534)
As restated		16,370,410	1,306,857	4,147,695	4,359,891	26,184,853
Contribution for the year		626,000	1,585,999	-	-	2,211,999
Increase in revaluation		-	-	-	13,742,853	13,742,853
Charge for the year		-	(196,663)	-	(260,297)	(456,960)
Current portion of deferred income		-	(177,759)	-	-	(177,759)
Restated Deficit for the Year		-	-	(689,576)	-	(689,576)
30 June 2017 - restated	27	16,996,410	2,518,434	3,458,119	17,842,447	40,815,410
Year ended 30 June 2018						
At 1 July 2017 - restated		16,996,410	2,518,434	3,458,119	17,842,447	40,815,410
Contribution for the year		313,000	1,219,149	-	-	1,532,149
Surplus for the year		-	-	(392,618)	-	(392,618)
Charge for the year		-	(324,635)	-	(260,297)	(584,933)
Current portion of deferred income		-	(146,875)	-	-	(146,875)
At 30 June 2018		17,309,410	3,266,072	3,065,501	17,582,149	41,223,132

KENYA REVENUE AUTHORITY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

		2017/2018	2016/2017
		Kshs `000	Restated Kshs `000
CASH FLOWS FROM OPERATING ACTIVITIES	NOTE		
(Deficit) / Surplus for the year		(392,618)	(689,576)
Non- cash movements			
Depreciation	8	731,996	39,222
Amortisation of Intangible Assets	9	8,181	8,181
Increase in Amortisation of Deferred Income	25	146,876	95,674
Revaluation of Assets			-
Loss / (Gain) on disposal of Assets		323	(3,561)
Increase in Security Deposits	12	(48,549)	(52,526)
Increase in Stocks	14	(5,737)	(120,898)
Increase in Debtors and receivables		2,062,859	(1,359,367)
Decrease in Creditors and payables		933,169	(432,364)
Net cash flows from operating activities		3,436,500	(2,515,215)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant & Equipment	8	(3,334,250)	(2,555,189)
Purchase of Intangible Assets		-	(12,768)
Proceeds from sale of Property, Plant & Equipment		3,210	6,036
Net cash flows from investing activities		(3,331,040)	(2,561,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in Contribution by the Treasury & Donors	19	1,060,639	1,919,661
Decrease in designated Funds	18	(25,464)	(142,701)
Net cash flows from financing activities		1,035,175	1,776,960
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		1,140,635	(3,300,176)
Cash and cash equivalents at 1 July		6,752,042	10,052,218
CASH AND CASH EQUIVALENTS AT 30 JUNE	13	7,892,677	6,752,042

The notes set out hereto form an integral part of the Financial Statements