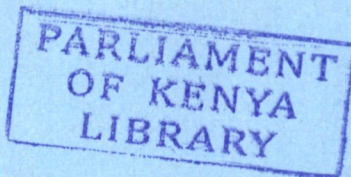


REPUBLIC OF KENYA



Paper laid by Hon.
Aden Duale, M.P. - Leader
of Majority Party on
Wednesday 4/3/2015
(Afternoon sitting)
RDK

KENYA NATIONAL AUDIT OFFICE



REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS

OF THE OFFICE OF

CONTROLLER OF BUDGET

FOR THE YEAR ENDED

30 JUNE 2014

REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS
OF THE OFFICE OF
CONTROLLER OF BUDGET**

**FOR THE YEAR ENDED
30 JUNE 2014**



OFFICE OF THE CONTROLLER OF BUDGET
ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2014

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

TABLE OF CONTENTS	Page
I. KEY ENTITY INFORMATION AND MANAGEMENT	1
II. FORWARD BY THE CONTROLLER OF BUDGET	13
III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES.....	18
IV. REPORT OF THE AUDITOR GENERAL ON THE OFFICE OF THE CONTROLLER OF BUDGET (VOTE 212) FOR THE YEAR ENDED 30 TH JUNE 2014	20
V. STATEMENT OF RECEIPTS AND PAYMENTS.....	22
VI. STATEMENT OF ASSETS AND LIABILITIES.....	23
VII. STATEMENT OF CASHFLOW.....	24
VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED.....	26
IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT	27
X. SUMMARY STATEMENT OF PROVISIONINGS.....	28
XI. SIGNIFICANT ACCOUNTING POLICIES.....	29
XII. NOTES TO THE FINANCIAL STATEMENTS.....	31
ANNEX I-PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	37
ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER	39

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Office of the Controller of Budget (OCOB) is a creation of the Constitution as promulgated on 27th August, 2010. OCOB is an independent office and it became operational upon the appointment of the Controller of Budget on 27th August, 2011.

As an independent office, COB has the following mandate: -

- To oversee implementation of the budgets of the National and County Governments. (Article 228 (4)).
- To approve and authorize withdrawals from Public Funds; Equalization Fund (Article 204 (9)), Consolidated Fund (Article 206 (4)), and Revenue Fund (Article 207 (3)) if satisfied that the same is in accordance with the law (Article 228 (5)).
- Financial advise where a Cabinet Secretary has stopped transfer of Funds to a State Organ or Public Entity and there is need to renew the decision to stop further transfer of Funds (Article 225 (2)).
- Quarterly reporting to the Legislature on implementation of budgets of National and County Governments (Article 228 (6)).
- Annual reporting to Executive and Legislature (Article 254 (1)).
- Adhoc reporting to Executive and Legislature (Article 254 (2)).
- Publishing and publicizing reports (Article 254 (3)).
- To conduct investigations on its own motion or on a complaint made by a member of the public (Article 252 (1)(a)).
- To conduct Alternative Dispute Resolution Mechanisms to resolve disputes (Article 252 (1)(b)).

Vision

“To be the leading and independent oversight institution in public financial management”

Mission

To guarantee prudent public financial management through overseeing implementation of the government budgets by controlling and monitoring the use of public funds and reporting on budget implementation for the benefit of all Kenyans.

Core Values

In carrying out its mandate, the Office of the Controller of Budget will uphold the following core values: Honesty and Integrity, Professionalism, Accountability and Transparency, Innovation and Creativity, Teamwork, Efficiency and, Independence.

Key Strategic Objectives

Strategic Objective 1: To ensure timely approval of withdrawals from the Consolidated Fund, County Revenue Fund and Equalization Fund.

Strategic Objective 2: To oversee and regularly monitor the utilization of public funds released to government entities.

Strategic Objective 3: To enhance openness, accountability and public participation in prudent public financial management.

Strategic Objective 4: To provide advice on financial, planning and budgeting issues.

Strategic Objective 5: To build capacity of the office to deliver on its mandate.

Strategic Objective 6: To ensure the public has access to comprehensive, understandable, credible and timely information

(b) Principal Activities.

The core mandate of the Office of the Controller of Budget is to oversee the implementation of budgets of both national and county governments, approve withdrawals from public funds and report to Parliament on budget implementation every four months.

(i) The roles and functions

- Oversight Role
- Controlling Role
- Reporting Role
- Advisory Role
- Investigation Role
- Arbitration/Mediation Role
- Public Participation

(ii) Key Strategic Priorities

During the year the Office of the Controller of Budget undertook the implementation of the following key strategic priorities:

- Monitoring of budget implementation for both national and county governments' projects and programmes .
- Capacity building of both OCOB staff and county staff on skills to improve budget execution.
- Timely Processing of exchequer requests for both national and county governments.
- Preparing quarterly budget implementation reports and special reports to both houses of Parliament for the national and county governments.
- Reviewing budgets of county governments to ensure compliance with the law.
- Providing budget implementation information to the public through media and public forums..
- Capacity building of the public through sensitization to effectively participate in the budgeting process and hold public officials to account through social accountability audit frameworks.
- Preparing procedure manuals to guide county governments in preparation of exchequer withdrawal requests.
- Performing research on budget implementation key issues raised in the Quarterly Budget Implementation report to advise both Parliament and Executive accordingly.
- Participating in the budget preparation process as envisaged in the law.

(c) Key Management.

The *entity's* day-to-day management is composed of;

S/NO.	NAME	DESIGNATION
1	Mrs. Agnes Odhiambo	• Controller of Budget
2	Mr.Stephen Masha	• Deputy Controller of Budget
3	Mr.Macklin Ogolla	• Director Corporate Services

4	Mr.Joshua Musyimi	• Director Research and Planning
5	Mr.Joseph Tulula	• Chief Internal Auditor
6	Mr.Patrick Kamore	• Chief Fiscal Analyst-National Government
7	Mr.Mark Kipkoech	• Chief Fiscal Analyst-County Government
8	Mr.Stephen Wangaji	• Chief Manager Public Relations & Communication
9	Ms.Irene Arimi	• Chief Manager Human Resource & Administration
10	Ms.Judith Muli	• Chief Manager Information Communication and Technology
11	Ms.Pamela Okatch	• Manager Finance & Accounts
12	Mr.Anthony Lusuli	• Manager, Supply Chain Management
13	Mr.George Tuti	• Legal Officer

(d) Fiduciary Management.

The key management personnel who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

S/NO.	NAME	DESIGNATION
1	Mrs. Agnes Odhiambo	• Controller of Budget
2	Mr.Stephen Masha	• Deputy Controller of Budget
3	Mr.Macklin Ogolla	• Director Corporate Services
4	Mr.Joshua Musyimi	• Director Research and Planning
5	Mr.Joseph Tulula	• Chief Internal Auditor
6	Ms.Pamela Okatch	• Manager Finance & Accounts

7	Mr. Anthony Lusuli	• Manager, Supply Chain Management
8	Mr. George Tuti	• Legal Officer

(e) Fiduciary Oversight Arrangements

(i) Audit Committee Activities

Section 73(5) of the Public Finance Management Act, 2012 provides that every national government public entity shall establish an audit committee whose composition and functions shall be as prescribed by the regulations. The OCOB has established an Audit Committee which has the authority to ensure that the OCOB adopts, maintains and applies appropriate accounting and financial reporting processes and procedures; facilitate the independence of the internal and external audit process and addressing issues arising from the audit process; and ensure that the OCOB maintains effective risk management and internal control systems.

The Committee monitors the effectiveness of the internal control systems and regularly receives reports from the internal and external auditors. The Audit Committee has direct access to the External Auditors, and OCOB internal audit function.

The Committee's membership comprises of 3 members namely:

S/NO.	NAME	ROLE
1	Mr. Joshua Musyimi	• Chairman
2	Ms. Judith Muli	• Member
3	Ms. Pamela Okatch	• Member
4	Mr. Joseph Tulula	• Secretary

Our key achievements during the year included the following:-

- Developed an Audit Committee Charter to guide the operations of the Audit Committee
- Developed an Internal Audit Charter to guide the overall operations of the Internal Audit Department

- Developed the Internal Audit Manual to guide the day to day operations of the Internal Audit functions.
- Reviewed the Internal Audit's reports on various OCOB's functions.

(ii)Parliamentary Committee Activities

Article 228 (6) of the Constitution requires the Controller of Budget to submit to each house of parliament a report on budget implementation of the national and county governments every four months. In line with this requirement, OCOB has continually engaged Parliamentary Committees to increase awareness on budget implementation and debate on issues under consideration by Parliament. This has benefited the overall budget implementation process by informing the review of proposed laws, facilitating more informed policy-making and ensuring greater government accountability. The OCOB engagement with Parliament ranged from making written submissions, giving evidence and presentations during committee hearings, consultation on budget implementation, and provision of expert advice on findings and recommendations for action by Government and Parliament. Specifically, key engagements were with the following committees:

- Senate Committee on Finance, Commerce and Budget
- Standing Public Accounts Committee of the National Assembly
- Standing committee on Budget and Appropriations of the National Assembly
- Departmental committee on Finance, Planning and Trade of the National Assembly.

The main engagement with Parliament was in the submission of quarterly budget implementation review reports per Article 228 (6) of the Constitution. Other engagements were on financial management in the Public sector as follows:

- 5th July, 2013: Presentation to the Senate committee on Finance, Commerce and Budget on issues raised on the budgets of County governments which were being prepared with disregard to the existing financial procedures and regulations relating to budgetary processes.
- 10th July, 2013: Provided advice to the Senate Committee on Finance, Commerce and Budget regarding the County Allocation of revenue Bill.

- August, 2013: Undertook and investigated on the irregular alterations to the budget of Turkana County after it was approved by the County Assembly upon request by the Standing committee on Finance, Commerce and Economic Affairs.
- On 15th and 16th November 2013: Participated in a conference on Accountability Networking by Public Accounts Committee of the National Assembly.
- 16th December, 2013: Held a consultative meeting with the Chairperson, Speakers Forum and other stakeholders to discuss the challenges encountered in the revision of the 2013/14 County budgets.
- 4th February, 2014: Submission on taxes, levies and fees imposed by County governments, establishment of the Nairobi County Fund and approval of loans to County governments to the Senate committee on Finance, Commerce and Budget.
- 7th April, 2014: Presentation on the County Budget Implementation Review Report for the Half Year of FY 2013/14 to the Senate committee on Finance, Commerce and Budget.
- 14th April, 2014: Analysed and advised the Senate committee on Finance, Commerce and Budget on the proportion of the allocation of budgets between the two Recurrent and Development Expenditure for the FY 2014/15.

Parliament and the OCOB have complemented each other in their oversight roles. This has enhanced accountability among public entities.

(iii) Development Partner Oversight Activities

The Office of the Controller of Budget has collaborated with development partners, in particular GIZ, Germany, DANIDA, USAID and World Bank to build capacity for its staff, county government staff and the staff of county assemblies to facilitate proper and efficient delivery of its mandate and improve budget implementation.

(iv) Other Oversight Activities

The Controller of Budget in running the office is assisted by various committees with specific terms and reference in carrying out the activities and includes; Executive Management Committee, ICT Steering Committee, Tender Committee, Inspection and Acceptance Committee, Human Resource Management Advisory /Training Committee and

Budget Implementation Committee. Some of the key functions undertaken by the committees are as follow:

1. Executive Management Committee

This committee makes recommendations and policies on major decisions that have impact on the office operations. The committee is composed of the Controller of Budget, Deputy Controller of Budget, Directors and Heads of Departments. The role and functions of the Executive Management Committee include:

- Planning – establishing and reviewing strategic and operational plans for office of the Controller of Budget (OCOB).
- Policy and decision making – establishing policies/procedures that guide the operations of OCOB and record decisions and actions on matters concerning OCOB.
- Management – ensuring that all staff properly perform their tasks according to their job description and further ensuring that the OCOB mandate is properly administered.
- Legal – ensuring that at all times, OCOB complies with the laws of Kenya in discharge of its mandate.
- Financial – ensuring that all finances are properly managed; that financial records are audited annually and that the principles of public finance management articulated under Article 201 of the Constitution are adhered to.
- Evaluation – monitoring all activities of OCOB and ensuring that the feedback contributes to the continuous improvement in governance and service delivery.
- In execution of its functions, the Management Committee has the power to appoint sub-committees to assist it in discharging its mandate.

In discharging their duties, Members of the Executive Management Committee are:

- Guided by the provisions of Chapter Six of the Constitution;
- Adhere to the rule of law;

- Make decisions impartially, without fear or favour in accordance with Article 249 of the Constitution.

2. ICT Steering Committee

The committee provides advice to the Controller of Budget with regard to strategic decision in Information and Communication Technology (ICT) with particular attention to risk management, compliance and change management. It is composed of a minimum of six (6) members, who collectively represent the major departments of OCOB in the four directorates: Budget implementation, Corporate Services; Legal, and Research & Planning.

The Committee ensures that OCOB's ICT strategic objectives and their implementation remain aligned with the mandate and strategic objectives of the organization. The key roles of the ICT Steering Committee are to:

- Develop ICT strategies and plans that ensure the cost effective application and management of ICT systems and resources throughout OCOB.
- Monitor and evaluate ICT projects and achievements against ICT Strategic Plan.
- Provide advice and recommend to COB and management team on significant ICT issues.
- Create ad hoc committees to address strategic ICT issues as required.

3. The Human Resource Management Advisory/Training Committee (HRMAC)

The Human Resources Management Advisory/Training Committee advises, the Controller of Budget on the HR issues and staff development. It is composed of Directors and all Heads of Departments. Some of its functions include;

- To consider officers training requests and recommend to the Controller of Budget those to be trained for the approved training programmes.
- Investigates and make recommendations to the Controller of Budget on staff disciplinary matters;
- Discuss and make recommendations on existing HR regulations and policies to the Controller of Budget;
- Discuss and make recommendations to Controller of Budget on general staff welfare and motivation issues among others

4. Tender committee

This committee is constituted in accordance with the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006. The main function is to adjudicate on tender and procurement transactions to facilitate the office and advise COB on procurement related issues.

5. Inspection and Acceptance Committee

This committee is constituted in accordance with the Public Procurement and Disposal Act, 2005 and the Public Procurement and Disposal Regulations, 2006. The committee's major function is to facilitate the OCOB by ensuring goods and services supplied are as per specifications and there is value for money.

6. Budget Implementation Committee

This is a sub-committee of the Executive management committee set up to ensure the resources are utilised as per the OCOB budgetary allocation and work plan. It also monitors the implementation of the departmental budgets to ensure efficient and effective utilisation of the resources by the office while delivering its mandate.

7. Legal Activities

In the FY 2013/2014, the following firms were prequalified for the provision of legal services:

NO	BIDDER NAME	POSTAL ADDRESS	TOWN
1	ACHACH AND CO.ADVOCATES	4958-00200	NAIROBI
2	B.M. MUSAU AND ADVOCATES		NAIROBI
3	MBOYA,WINGONG'U AND WAIYAKI	74041-00200	NAIROBI
4	MILLER AND CO.ADVOCATE	45707-00100	NAIROBI
5	RACHIER AD AMOLLO ADVOCATES	55645-00200	NAIROBI
6	V.A. NYAMONDI AND CO.ADVOCATES	51431-00200	NAIROBI

In the FY 2013/2014, OCOB was engaged in the following litigation matters:

- **Petition No. 281/13 LSK –vs- Parliamentary Service Commission & 5 Others and Petition 282/13 Cosmus Ngeno & 2 Others –vs- The Attorney General & 4 Others** both of which were on the issue of the Members of Parliament remuneration.
- **Petition No. 251/14 Nduta Kweheria & 2 Others –vs- The Attorney General & 2 Others** which challenged the constitutionality of the CDF Act, 2013.
- **Petition 2254/13 Pius Atok Ewoton –vs- Josephat Nanok & 3 Others** which challenged the budget process in Turkana County for FY 2013/14.
- **Machakos H.C.C Misc Applic. No. 246/13 Roselyn Mwikali & Anor –vs- The Controller of Budget & 6 Others** which was challenging the approval of the Appropriations Bill, 2013 by Makueni County Assembly.

OCOB did not engage the services of any of the pre-qualified firms as the Office was represented by the Attorney General as per the provisions of Article 156(4) (b) of the Constitution of Kenya, 2010.

(i) Entity Headquarters

P.O. Box 35616-00100
Bima House 12th Floor
Harambee Avenue
Nairobi, KENYA

(j) Entity Contacts

Telephone: (254) 020-2211068
E-mail: cob@cob.go.ke
Website: www.cob.go.ke

(k) Entity Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

(l) Independent Auditors

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

(m) Principal Legal Adviser

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

II. FORWARD BY THE CONTROLLER OF BUDGET

This report covers the FY 2013/14. During this period, the OCOB was allocated Ksh.402.6million which was revised to Ksh.371.5million in the Supplementary Estimates to cater for the main programme of *control and management of public finances* in four sub-programmes, namely Budget Review and Analysis; County Services; Research and Planning and Administrative Support Services.

The actual expenditure of Ksh.306.7million was based on economic classification and included: Compensation of employees (Kshs.159.8m), use of goods and services (Kshs.122.9m) and acquisition of non -financial assets (Kshs.24.0m). To realise this objective, the Office relied on its strategic plan to guide activities, policy formulation and work plans and made the following progress and achievements:

1. Approval of withdrawals from public funds

Exchequer requests from MDAs and County Governments are approved in time to ensure smooth delivery of services to the public.

2. Exchequer Issues to National and County Government

Total exchequer issues of Kshs.1.28 trillion or 95 per cent of the total revised net estimates was released. This is an increase of Kshs.134.7 billion from Kshs.1.14 trillion issued in FY 2012/13. Kshs.862.4 billion was issued for the recurrent activities representing 97 per cent of the revised net recurrent estimates. Exchequer issues for development activities were Kshs, 223.7 billion while Kshs 193.4 billion were issued to County Governments representing 81 per cent and 100 per cent of the respective revised net estimates.

3. Exchequer Releases for Consolidated Fund Services

The Office released Kshs. 258.7 billion to cater for Consolidated Fund Services, which was allocated Kshs. 265.4 billion during the year 2013/2014 after revision in the fourth quarter of the year. The actual expenditure on CFS was Kshs.310.8 billion. The office has recommended that the National Treasury should urgently reconcile the accounts to ensure transparency in the utilization of public funds.

4. Monitoring and reporting on budget implementation

The OCOB monitored and prepared four statutory reports to Parliament on the implementation of the budgets of the national and county government in compliance with Article 228(6) of the Constitution of Kenya, 2010. These reports highlighted the following key challenges among others;

National Government

- Delays in submission of Expenditure Reports by MDAs
- Timing of the Supplementary Budgets
- Low level of Development Expenditure
- Adoption of IFMIS by National Government Entities
- Reconciliation of Consolidated Fund Services

County Government

- Intermittent use of IFMIS
- Underperformance in Local Revenue Collection
- Low Absorption of Development Funds
- Operationalization and financial independence of the County Government.
- Lack of Audit Functions and Committees
- Frequent Budget Revisions
- Inadequate Budget Monitoring, Evaluation and Reporting Framework
- Failure to deposit Local Revenue into the County Exchequer Accounts
- Delay in submission of Expenditure Reports
- Inadequate staffing and staff capacity.
- High Expenditure on domestic and foreign travel

The office provided the following recommendations that will improve budget implementation.

National Government

- All MDAs should submit their financial returns by 10th of the subsequent month to the end of each quarter.
- The supplementary budget should be passed in good time during the financial year to allow appropriate planning and budget implementation.
- The need to enhance efforts to achieve a higher absorption rate of development expenditure.

- The adoption of IFMIS by all MDAs to improve accuracy in preparation of government financial statements
- The reconciliation of the Consolidated Fund Services

County Government

- The adoption of IFMIS by all Counties for transparency and standardised reporting
- Counties must set realistic local revenue targets and institute appropriate measures to ensure efficient and effective local revenue collection
- The National Government should disburse funds to the counties on a timely basis.
- The accounting officers are designated for all County Government entities to enhance budget execution.
- The counties should establish effective internal audit departments and Audit committee.
- The counties should institute adequate plans to ensure that instances of budget revisions are minimised. Where e necessary such revisions should be informed by appropriate reconciliations of withdrawals and expenditures and should be undertaken in good time to allow time for budget execution.
- All counties to develop M&E frameworks to ensure effective implementation o development projects.
- The counties to ensure that all local revenue collected are deposited in the County Revenue Fund.
- All County Government should submit their financial returns on a timely basis in order to ensure timely preparation of the budget implementation review report.
- The counties government should initiate resource mapping of the available human resource and build capacity of the existing staff in order to enhance performance .Where ether is inadequate capacity, counties should liaise with the Ministry of Devolution and Planning for possible staff secondment.
- Foreign travel be minimised and coordinated by the MoFA&IT to facilitate proper planning and enhance prudent use of public funds.

5. Enhancing Public Access to budget execution information

In line with Section 39(8) of the PFM Act, 2012 the Office made efforts to ensure that the public receives timely and accurate information on budget implementation by regularly

publishing and publicising budget implementation reports in both print and electronic media.

- The office has set up an interactive website to enable the public to access information on budget implementation.

6. Enhancing Capacity for Budget Implementation

- **Capacity Building at the County level.**

The Office, in collaboration with key stakeholders has actively been involved in the development of curriculum for the county executives and staff to facilitate capacity building on budget preparation and implementation for County Executives and members of the County Assembly.

- **Improved Institutional Capacity at OCOB**

The OCOB has continuously carried out training for its staff to equip them with the necessary skills to enable the office achieve its mandate.

7. Enhancing prudent public financial management

The office has developed the procedure manuals for regulations and guidelines for exchequer withdrawal requests to be used by MDAs and County governments when processing their exchequer requests. The office has also developed a framework for monitoring usage of public funds at both the National and County levels.

8. County visits by OCOB

The Office organised county visits in the FY 2013/14. The visits were aimed at establishing whether County treasuries maintained exchequer records, whether the County Budget Coordinators (CBCs) maintained exchequer records, to ascertain the extent of exchequer record keeping by both the county treasuries and CBCs, whether procedures were in place for the exchequer requisitions process. Further, the visits were meant to train officers of the county treasuries and CBCs how to open and maintain exchequer records (Ledger and cashbook). Moreover the visits were also undertaken in order to monitor and ascertain the extent of the use of IFMIS, IPPD, G-PAY, and E-revenue and to determine challenges in revenue collection and budget implementation.

During the visits we established among other things that exchequer records (ledger and cashbooks) were not properly maintained. Some counties were experiencing IFMIS connectivity problems and that some counties were using revenue at source contrary to Sec 109(2) PFM Act, 2012 and Article 207 of the Constitution.

There was also inadequate human resource capacity to implement the budget especially for budget officers, accountants and procurement officers, as well as weak internal controls

evidenced by lack of internal audit arrangements such as the internal audit departments and committees as stipulated on Sec 155 of the PFM Act, 2012.

Challenges and emerging issues

In undertaking its activities to ensure that management of public finances complies with the Constitution of Kenya, 2010 and the PFM Act, 2012, the Office experienced number of challenges that largely affected the execution of budgets. These included:

1. Legal framework

OCOB is a new institution that requires adequate legal framework to enable it to function properly. The Controller of Budget Bill 2011 is yet to be passed by Parliament and enacted into law that will facilitate operationalization of the office.

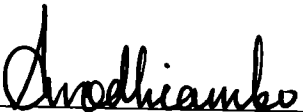
2. Inadequate capacity.

There is need to build the capacity of the Office to deliver on its mandate by carrying out continuous staff training and developing policies and procedure manuals to guide staff in their respective functions.

3. Financial management systems

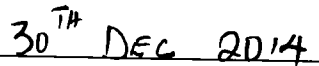
The IFMIS has not been operationalized fully in some MDAs and County Governments to facilitate reporting of budget implementation. The lack of comprehensive financial management reporting poses a major challenge to monitoring and reporting on budget implementation.

The office of the Controller of Budget shall continue to enhance its capacity to effectively deliver on its mandate.



Mrs. Agnes Odhiambo

CONTROLLER OF BUDGET



DATE

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the *Office of the Controller of Budget* is responsible for the preparation and presentation of the *entity's* financial statements, which give a true and fair view of the state of affairs of the *entity* for and as at the end of the financial year (period) ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the *entity*; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the *Office of the Controller of Budget* accepts responsibility for the *entity's* financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the *entity's* financial statements give a true and fair view of the state of *entity's* transactions during the financial year ended June 30, 2014, and of the *entity's* financial position as at that date. The Accounting Officer charge of the *Office of the Controller of Budget* further confirms the completeness of the accounting records maintained for the *entity*, which have been relied upon in the preparation of the *entity's* financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the *Office of the Controller of Budget* confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year

under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the *entity's* financial statements have been prepared in a format that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The *entity's* financial statements were approved and signed by the Accounting Officer on 30th DEC 2014.



Mrs. Agnes Odhiambo

CONTROLLER OF BUDGET

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NAIROBI



KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF OFFICE OF THE CONTROLLER OF BUDGET FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Office of the Controller of Budget set out on pages 21 to 38, which comprise the statement of assets and liabilities as at 30 June 2014, and the statement of receipts and payments, statement of cash flow, summary statement of appropriation: recurrent and development combined summary statement of appropriation: recurrent and summary statement of provisionings 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 8 of the Public Audit Act, 2003. 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.

Management's Responsibility 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 (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 4 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public Audit Act, 2003. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

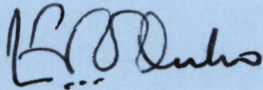
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Controller of Budget as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

12 January 2015

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2013-2014	2012-2013
		Kshs '000'	Kshs '000'
RECEIPTS			
Exchequer releases	1	370,000	275,000
Domestic Currency and Domestic Deposits	2	2,493	5,447
Reimbursements and Refunds	3	138	-
TOTAL RECEIPTS		372,631	280,447
PAYMENTS			
Compensation of Employees	4	159,470	43,364
Use of goods and services	5	119,683	94,033
Social Security Benefits	6	3,591	-
Acquisition of Assets	7	23,965	103,288
TOTAL PAYMENTS		306,709	240,684
SURPLUS/DEFICIT		65,922	39,762

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30TH DEC 2014 and signed by:



Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET



Pamela Okatch
MANAGER FINANCE & ACCOUNTS

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2013-2014 Kshs '000'	2012-2013 Kshs '000'
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8A	64,872	42,612
Cash Balances	8B	392	68
Prepayment	8D	658	234
TOTAL FINANCIAL ASSETS		65,922	42,914
REPRESENTED BY			
Fund balance b/fwd	9		3,151
Surplus/Deficit for the year		65,922	39,762
Prior year adjustments		-	-
NET FINANCIAL POSITION		65,922	42,914

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th Dec 2014 and signed by:


 Mrs. Agnes Odhiambo
 CONTROLLER OF BUDGET


 Pamela Okatch
 MANAGER FINANCE & ACCOUNTS

VII. STATEMENT OF CASHFLOW


	Note	2013-2014	2012-2013
		Kshs '000'	Kshs '000'
Receipts for operating income			
Exchequer Releases	1	370,000	275,000
Reimbursements and Refunds	3	138	-
Payments for operating expenses			
Compensation of Employees	4	(159,470)	(43,364)
Use of goods and services	5	(119,683)	(94,033)
Social Security Benefits	6	(3,591)	-
Adjusted for:			
Changes in imprest			(234)
Changes in advance		(658)	-
Adjustments during the year			
Net cash flow from operating activities		86,736	137,369
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	7	(23,965)	(103,288)
Net cash flows from Investing Activities		(23,965)	(103,288)
CASHFLOW FROM BORROWING ACTIVITIES			
Domestic Currency and Domestic Deposits	2	2,493	5,447
Net cash flow from financing activities		2,493	5,447
NET INCREASE IN CASH AND CASH EQUIVALENT		65,264	39,528

Cash and cash equivalent at BEGINNING of the year	9	-	3,151
Cash and cash equivalent at END of the year		65,264	42,680

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 30th Dec 2014 and signed by:



 Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET



 Pamela Okatch
MANAGER FINANCE & ACCOUNTS

OFFICE OF THE CONTROLLER OF BUDGET
Reports and Financial Statements
For the year ended June 30, 2014 (Kshs'000)

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget Kshs '000'	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	-	-	-	-	-	-
Reimbursements and Refunds	-	-	-	-	-	-
Totals	-	-	-	-	-	-
PAYMENTS						
Compensation of Employees	243,813	-82,322	161,491	159,470	2,069	99%
Use of goods and services	142,636	33,548	176,184	119,683	56,501	68%
Social Security Benefits	11,091	-7,500	3,591	3,591	0	100%
Acquisition of Assets	5,012	25,200	30,212	23,965	6,247	79%
TOTALS	402,552	-31,074	371,478	306,709	64,769	83%

The entity financial statements were approved on 30th Dec 2014 and signed by:



Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET





Pamela Okatch
MANAGER FINANCE & ACCOUNTS

IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget Kshs '000'	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation
	a	b	c=a+b	d	e=c-d	f=d/c %
RECEIPTS						
Exchequer releases	-	-	-	-	-	-
Reimbursements and Refunds	-	-	-	-	-	-
Totals	-	-	-	-	-	-
PAYMENTS						
Compensation of Employees	243,813	-82,322	161,491	159,470	2,021	99%
Use of goods and services	142,636	33,548	176,184	119,683	56,501	68%
Social Security Benefits	11,091	-7,500	3,591	3,591	0	100%
Acquisition of Assets	5,012	25,200	30,212	23,965	6,247	79%
TOTALS	402,552	-31,074	371,478	306,709	64,769	83%

The entity financial statements were approved on 30th DEC 2014 and signed by:


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X. SUMMARY STATEMENT OF PROVISIONINGS

[The provisioning summary statement is required for entities that have a vote in the National Budget.]

- Details of General Accounts On Vote

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
GAV Provisioning account balance	64,769	140,456
Total	64,769	140,456

- Details of Exchequer Account

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Exchequer Provisioning account balance	1,478	106,141
Total	1,478	106,141



Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET



Pamela Okatch
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XI. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the *entity* and all values are rounded to the nearest thousand (Kshs'000). The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *entity*.

2. Recognition of revenue and expenses

The *entity* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*. In addition, the *entity* recognises all expenses when the event occurs and the related cash has actually been paid out by the *entity*.

3. In-kind contributions

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

4. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily

convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

5. Pending bills

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

6. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The *entity's* budget was approved as required by Law and as detailed in the Government of Kenya Budget Printed Estimates. A high-level assessment of the *entity's* actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

7. Comparative figures

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

8. Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

XII. NOTES TO THE FINANCIAL STATEMENTS

1 EXCHQUER RELEASES

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Total Exchequer Releases for quarter 1	80,000	5,000
Total Exchequer Releases for quarter 2	40,000	70,000
Total Exchequer Releases for quarter 3	70,000	-
Total Exchequer Releases for quarter 4	180,000	200,000
Total	370,000	275,000

2 DOMESTIC CURRENCY AND DOMESTIC DEPOSITS

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Retention –Fine Tops Enterprises	1,217	3,933
Retention –Specicom Technologies Ltd	497	-
Retention –Africa Management Solutions Ltd	132	-
Retention-Pong Agencies and Real Insurance	313	-
Commissions-payroll	14	-
Insurance Refund	311	-
AIA-Sale of Tender	9	1,514
Total	2,493	5,447

[Analysis of this under Note 10. The amount held as retention and deposits disclosed under Note 8A]

3 REIMBURSEMENTS AND REFUNDS

	2013 - 2014	2012 - 2013
	Kshs	Kshs
Reimbursement from Individuals and Private Organizations	138	-
Total	138	-

4 COMPENSATION OF EMPLOYEES

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Basic salaries of permanent employees	158,897	43,305
Personal allowances paid as part of salary	344	-
Pension and other social security contributions	84	-
Compulsory national social security schemes	145	59
Total	159,470	43,364

5 USE OF GOODS AND SERVICES

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Utilities, supplies and services	805	481
Communication, supplies and services	11,333	2,704
Domestic travel and subsistence	15,024	7,588
Foreign travel and subsistence	2,197	3,212

Printing, advertising and information supplies & services	22,496	13,095
Rentals of produced assets	1,354	-
Training expenses	9,173	5,719
Hospitality supplies and services	10,025	10,260
Insurance costs	23,150	21,655
Specialized materials and services	1,472	454
Office and general supplies and services	10,905	15,438
Other operating expenses	4,980	9,975
Routine maintenance – vehicles and other transport equipment	1,200	547
Routine maintenance – other assets	2,176	1,231,
Fuel, oil and lubricants	3,393	1,6734
Total	119,683	94,033

6 SOCIAL SECURITY BENEFITS

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Government pension and retirement benefits	3,591	-
Total	3,591	-

7 ACQUISITION OF ASSETS

<u>Non-Financial Assets</u>	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Refurbishment of Buildings	12,425	38,284
Purchase of Vehicles and Other Transport Equipment	-	26,799
Purchase of Office Furniture and General Equipment	1,686	38,159
Purchase of Specialized Plant, Equipment and Machinery	9,854	46
Total	23,965	103,288

8A: Bank Accounts

Name of Bank, Account No. & currency	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Central Bank of Kenya, Recurrent Account no.0010103088	-	42,612
Central Bank of Kenya, Recurrent Account no.1000181338	62,379	-
Central Bank of Kenya, Deposit Account no.1000182369	2,493	-
Total	64,872	42,612

8B: CASH IN HAND

	2013 - 2014	2012 - 2013
	Kshs '000'	Kshs '000'
Location 1	392	68
Total	392	68

8D (i): OUTSTANDING IMPRESTS-2012-2013

<i>Name of Officer or Institution</i>	<i>Date Imprest Taken</i>	<i>Amount Taken</i>	<i>Amount Surrendered</i>	<i>Balance</i>
		Kshs '000'	Kshs '000'	Kshs '000'
<i>Oscar Kwokwo</i>	2/5/2013	50	-	50
<i>Robina Mogaka</i>	2/5/2013	50	-	50
<i>Josiah Babu</i>	2/5/2013	50	-	50
<i>Guyo Boru</i>	2/5/2013	50	41	9
<i>Eliazer Tum</i>	2/5/2013	50	47	3
<i>Geoffrey Rieni</i>		10	-	10
<i>Hesborn Wanyama</i>		62		62
Total				234

8D (ii): PREPAYMENT 2013/2014

<i>Name of Officer or Institution</i>	<i>Date paid</i>	<i>Amount Paid</i>	<i>Amount Recovered</i>	<i>Balance</i>
		Kshs '000'	Kshs '000'	Kshs '000'
<i>Dennis Okungu(training levy)</i>		752	94	658
Total				658

9. BALANCES BROUGHT FORWARD

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Bank accounts	42,612	3,151
Cash in hand	68	
Imprest	234	
Total	42,914	3,151

The balance brought forward to the FY 2013/14 was in the old account which was closed hence not used in the reporting the financial position.

10: OTHER PENDING PAYABLES (See Note 2)

	2013 - 2014 Kshs '000'	2012 - 2013 Kshs '000'
Amounts due to National Government entities	23	1,514
Amounts due to third parties	2,159	3,933
Others -Insurance Refund	311	
Total	2,493	5,447



Mrs. Agnes Odhiambo
CONTROLLER OF BUDGET



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MANAGER FINANCE & ACCOUNTS

ANNEX I-PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.1	The statement of assets and liabilities figures reflected bank balance (Exchequer) of Kshs.42, 385,402.85 while IFMIS trial balances reflected balance of Kshs.3, 003,793.05 resulting to un-reconciled difference of Kshs.39, 81,609.80.	The figures in the financial statements were prepared using the manual ledger, cashbook and the actual vouchers. The IFMIS trial balance did not agree with the manual ledger due to the system errors. The opening balances were reflected in the financial statements but not in the IFMIS.	IFMIS Directorate Director Corporate Services (DCS) and Manager Finance and Accounts.	Not resolved	

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.2	The statement of assets and liabilities reflected Temporary imprest of Kshs.233, 758.20 while the IFMIS Trial Balance reflected Kshs.1, 500 resulting to unreconciled variance of Kshs.232, 258.20.	The imprest holders surrendered Kshs.294 in the month of July 2013.The surrendered were captured in the month of June 2013.This was Because the period was still open in the IFMIS for the surrenders of Imprest hence Kshs 233,758.20 was outstanding at the time of audit.	Director Corporate Services Manager Finance and Accounts	Resolved	

ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset class	Historical Cost 2013-2014 Kshs '000'	Historical Cost 2012-2013 Kshs '000'
Motor Vehicles	-	26,799
Office equipment, furniture and fittings	1,686	17,460
ICT Equipment, Software and Other ICT Assets	9,854	21,752
Total	11,540	66,011