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Commission on Revenue Allocation

Promoting an equitable society

CRA

Annual Report and Financial Statements 2014/2015

Equity | Teamwork | Excellence | Transparency | Employee satisfaction | Integrity

COMMISSION ON REVENUE ALLOCATION

ANNUAL REPORT AND FINANCIAL STATEMENTS
2014 - 2015

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Abbreviations

AHADI	Agile Harmonized Assistance for Devolved Institutions
CFSP	County Fiscal Strategy Paper
CIC	Commission for the Implementation of the Constitution
CIDPs	County Integrated Development Plan
ECD	Early Childhood Development
ERP	Enterprise Resource Planning
FY	Financial Year
GDP	Gross Domestic Product
IBEC	Intergovernmental Budget and Economic Forum
IFMIS	Integrated Financial Management Information System
JTT	Joint Technical Committee on Assets and Liabilities
KAM	Kenya Association of Manufacturers
KEPTAP	Kenya Petroleum Technical Assistance Project
NTA	National Taxpayers Association
PFMA	Public Finance Management Act
SRC	Salaries and Remuneration Commission
SUNY	State University of New York
TA	Transition Authority
TCTAL	Technical Committee on Transfer of Assets and Liabilities
TISA	The Institute for Social Accountability
UNDP	United Nations Development Programme

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Statement by the Chairman

As a Commission we played our role in supporting county governments by analysing county budgets to ensure adequate resources are allocated to development as compared to recurrent expenditure.

The Commission on Revenue Allocation main mandate is to make recommendations on Kenya's revenue sharing in accordance to Article 216 of the Constitution of Kenya, 2010. The Commission has been making recommendations concerning the basis for the equitable sharing of resources raised by national government between national and county governments and among county governments in a transparent and participatory manner. Counties are now sharing Kenya's revenue to finance the bulk of their recurrent and development expenditures.

Counties have recorded massive achievements. These achievements include: expansion and equipping of health facilities; enhancing the availability of medicine in hospitals; construction of early childhood development centres; provision of clean water; construction of roads, such as the first ever tarmac road in parts of northern Kenya and introduction of improved agricultural practices.

As a Commission we played our role in supporting county governments by analysing county budgets to ensure adequate resources are allocated to development as compared to recurrent expenditure. To this end, the Commission in execution of its mandate as highlighted in Article 216(2) of the Kenyan Constitution on prudent financial management for counties, recommended budget ceilings. Budget ceilings aim at curbing excess recurrent expenditure.

The Commission further issued a circular on financing of major capital projects by county governments. The circular urged county governments to use long term finance of between five to ten years for major capital projects such as purchase or construction of governor's and speaker's residences, construction of new county assemblies and construction of new executive offices.

The Commission engaged governors as well as the Senate committees on Devolved Government and Finance and Commerce and Budget on the Second-Generation Revenue Sharing Formula among county governments so as to contribute to the development of a formula that would greatly assist all counties to be at par.

The Commission further engaged the Judiciary urging it to speed up the hearing of cases on devolution in order to enhance smooth implementation of devolution.

Some of the challenges of implementing devolution that still need to be addressed include: the lack of a substantive legislative framework on county taxation, determination of revenue to be shared using last audited accounts, boundary disputes/conflicts as well as the need for more public participation in the drafting of finance bills.

Going forward, I assure you of the commitment of the Commission under my leadership in supporting counties to ensure successful implementation of devolution in order to contribute to the attainment of our motto which is 'Promoting an Equitable Society.'

Micah Cheserem
Chairman

Statement from The Commission Secretary / Chief Executive Officer

An Economic Policy Framework guidebook has been developed to assist county governments establish policy and legislative frameworks for raising revenue that are consistent with the Constitution, and the overall national policy framework

It is with great enthusiasm I present to you the Commission's annual report and financial statements for 2014-2015. This report highlights the programmes and activities that were undertaken, successes attained and challenges faced during the reporting year. It provides recommendations on how to address these challenges.

Some of the programmes and activities that were undertaken and are articulated in this report include: review of the first revenue sharing formula and the development of a second revenue sharing formula submitted to the Senate; supported counties to increase their own revenue through automation and adoption of ICT; recommended a total of Ksh347.6 billion which comprised of Ksh282.4 billion as equitable share for county governments and Ksh65.2 billion as conditional grants; developed budget ceilings for county governments for FY 2015/16 in a consultative process with county governments and the Senate; costing of government functions; provided legal advice and technical input to new/ proposed policies and laws and trained counties on budgetary processes.

In addition, in conjunction with partners, the Commission developed model county revenue laws to promote proper financial management by county governments in order to ensure transparency and accountability.

Further more, the Commission developed the Constitutional and Legislative Policy guidebook intended to guide drafters of county revenue laws on various constitutional and legal issues. The Economic Policy Framework guidebook was developed to assist county governments establish policy and legislative frameworks for raising revenue that are consistent with the Constitution, and the overall national policy framework.

In implementing our mandate, the Commission received support from various stakeholders. The Commission expresses its appreciation to the support it received from the following: the United States Agency for International Development (USAID) under a program called Agile Harmonized Assistance for Devolved Institutions (AHADI) through the Research Foundation for the State University of New York (SUNY). AHADI greatly supported a project on county revenue automation. The Kenya Association of Manufacturers also provided support in developing legislation for counties.

I also wish to thank other constitutional Commissions, independent offices, and other development partners who supported CRA. It is through this support that we successfully undertook our mandate. I also wish to extend my sincere gratitude to CRA Commissioners and staff whose tireless work enabled the Commission effectively carry out its support to counties and National Government.

George Ooko
Commission Secretary / CEO

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Mandate and role of the Commission

Micah Cheserem, Chairman and Fatuma Abdikadir, vice chairperson, Commission on Revenue Allocation at a media briefing on the recommendation for sharing of revenue among county governments.

1 Mandate and role of the Commission

1.1 Mandate of CRA

The Commission on Revenue Allocation (CRA) is an independent Commission set up under Article 215 of the Constitution of Kenya 2010. Its core mandate is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments, and among county governments.

1.2 Vision

A trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

1.3 Mission

To make recommendations on equitable sharing of revenue, financing of, and financial management for both national and county governments.

1.4 Values

To achieve its mission and vision, the Commission is committed to the following:-

- **Equity** – CRA will be guided by the spirit of fairness and inclusion.
- **Teamwork** – CRA will always encourage participation of all members of staff in its operations. CRA believes in people working together to achieve results.
- **Excellence** – CRA will maintain quality control and strive for the highest standards in all aspects of our work.
- **Transparency** – All service delivery and operations of the Commission will include citizen's participation.
- **Employee satisfaction** – CRA will strive to attract and retain staff with high morale.
- **Integrity** – CRA staff will abide and uphold Chapter Six of the Constitution.

1.5 Functions of CRA

The functions of the Commission include:

1 Recommend the basis of equitable sharing of revenue raised by national government between national and county governments.

2 Recommend the basis of equitable sharing of revenue raised by national government among county governments.

3 Recommend on matters concerning the financing of both the national government and county governments.

4 Recommend on matters concerning financial management of both national and county governments.

5 Define and enhance revenue sources of national government.

6 Define and enhance revenue sources of county governments.

7 Encourage fiscal responsibility by national government.

8 Encourage fiscal responsibility by county government.

9 Be consulted and its recommendations considered before parliament passes any bill appropriating money out of the Equalization Fund.

10 Be consulted on any Bill that includes provisions dealing with sharing of revenue.

11 Be consulted on any bill that includes provisions dealing with any financial matter concerning county governments.

12 Publish and review the policy that sets out criteria for identifying marginalized areas in actualization of the Equalization Fund.

13 Be consulted and its' recommendations considered by Parliament for all laws being enacted relating to devolved government.

2

CRA Performance Review and Achievements

George Ooko, Chief Executive Officer, Commission on Revenue Allocation at a media briefing on the recommendation for sharing of revenue among county governments.

2 CRA Performance Review and Achievements

2.1 Introduction

In the financial year 2014/2015, the Commission carried out several activities in line with its mandate of recommending the basis for equitable sharing of revenues raised nationally between national and county governments, and among county governments.

The Commission developed a second revenue sharing formula for revenue sharing among county governments; provided recommendations on revenue sharing between national and county governments; reviewed county fiscal strategy papers; developed county ceilings to guide counties' recurrent expenditure; and analysed county budgets to evaluate their implementation and ensure they comply with the law.

In collaboration with stakeholders, the Commission developed policies and laws that encourage and support businesses.

This chapter highlights the main achievements of the Commission from 1st July, 2014 to 30th June, 2015.

Micah Cheserem, Chairman CRA flags off new ambulances acquired by Kitui County to assist in healthcare

2.2 Development of the Second Revenue Sharing Formula

Article 203 of the Constitution provides the criteria for revenue sharing among county governments. Schedule 6 of the Constitution provides that the first and second determinations of the basis of the division of revenue among counties shall be made at three year intervals, and five years thereafter.

In accordance with the provisions of Article 216(1) (b), read together with 217(2) (b) and the sixth schedule (16), the Commission on Revenue Allocation reviewed the first revenue sharing formula used in the FY 2013/14 and finalized the process and submitted the recommendation to the Senate in November 2014.

Different methodologies contributed to the generation of the second revenue sharing formula. These methodologies include: review of the first revenue sharing formula; review of international literature on intergovernmental transfers; and focus group discussions with county governments and experts.

In accordance with provisions of Article 201 of the Constitution in regard to openness, accountability and public participation in financial matters, the Commission also held consultations with various stakeholders and sought for submission of memoranda.

The stakeholders consulted include: the public, the Council of Governors, the Senate, professional bodies, county executive members, religious organizations, civil society organizations, youth organizations, academic community, professional bodies and trade unions, among others.

Based on stakeholders' consultation and benchmarking reports, the Commission recommended the use of seven parameters in the second revenue sharing formula. The parameters are: population, basic equal share, poverty, land area, fiscal responsibility, development factor and personnel emolument factor as indicated in Table 1.

The recommendation for the criteria for revenue sharing among the counties for the financial years 2012/2013 – 2014/2015 as compared to 2015/16, 2016/17 and 2017/18 as submitted by the Commission to the Senate is presented in the following table.

Table 1: Revenue sharing criteria for FY 2012/2013 – 2014/2015 as compared to 2015/16 - 2017/18

FIRST FORMULA 2012/2013 - 2014/2015		SECOND FORMULA 2015/2016 – 2017/2018	
PARAMETER	**WEIGHT (%)**	**PARAMETER**	**WEIGHT (%)**
Population	45	Population	45
Basic Equal Share	25	Basic Equal Share	25
Poverty	20	Poverty	18
Land Area	8	Land Area	8
Fiscal Responsibility	2	Personnel Emoluments	2
		Development Factor	1
		Fiscal Responsibility	1
Total	**100**		**100**

Source: CRA

The weights of population, equal share and land area have been retained at 45 per cent, 25 per cent, and 8 per cent respectively in the second revenue sharing formula while poverty and fiscal responsibility parameters have their weights reduced to 18 per cent and 1 per cent from 20 per cent and 2 per cent respectively. Other parameters introduced in the second formula include:

Development factor: This parameter considers social economic development indicators such as education, health, water and infrastructure to capture the respective dimensions of social deprivation among counties.

Personnel emolument factor: This parameter was introduced to cushion counties against high expenses on salaries for devolved staff. This was taken as a short term measure as staff rationalization exercise in counties is finalised.

Table 2 provides indicative allocations for counties using the second formula 2015/16- 2017/18.

Table 2: Indicative Allocations by the Second Formula 2015/16 – 2017/2018 Criterion.

No.	County	First Formula	Second Formula
1	Baringo	4,440,659	4,201,643
2	Bomet	4,724,969	4,617,134
3	Bungoma	7,675,860	7,529,197
4	Busia	5,440,342	5,166,686
5	Elgeyo/Marakwet	3,270,497	3,255,765
6	Embu	3,838,006	3,729,722
7	Garissa	5,771,775	5,680,588
8	Homa Bay	5,635,058	5,695,966
9	Isiolo	3,056,614	3,188,310
10	Kajiado	4,412,695	4,957,387
11	Kakamega	8,908,384	8,816,065
12	Kericho	4,487,148	4,638,725
13	Kiambu	7,463,671	8,172,406
14	Kilifi	7,441,333	8,659,948
15	Kirinyaga	3,538,279	3,613,592
16	Kisii	7,093,750	6,646,586
17	Kisumu	5,681,364	5,911,840
18	Kitui	7,267,374	7,179,074
19	Kwale	5,125,789	6,270,979
20	Laikipia	3,449,603	3,435,516
21	Lamu	2,051,921	2,109,118
22	Machakos	6,768,775	6,504,621
23	Makueni	5,969,766	5,914,843
24	Mandera	8,955,866	8,349,657
25	Marsabit	5,189,552	4,914,354
26	Meru	6,493,816	6,737,443
27	Migori	5,836,954	5,701,704
28	Mombasa	5,197,984	6,191,213
29	Murang'a	5,356,090	5,361,787

Source: CRA

Table 2: Indicative Allocations by the Second Formula 2015/16 – 2017/2018 Criterion - (continued)

No.	County	First Formula	Second Formula
30	Nairobi City	12,996,834	14,044,809
31	Nakuru	8,116,473	8,130,282
32	Nandi	4,755,189	4,542,827
33	Narok	5,287,991	5,320,887
34	Nyamira	4,154,610	4,146,022
35	Nyandarua	4,307,146	4,082,992
36	Nyeri	4,449,297	4,388,429
37	Samburu	3,552,345	3,203,826
38	Siaya	4,995,385	4,913,067
39	Taita/Taveta	3,309,620	3,322,549
40	Tana River	3,984,623	4,469,803
41	Tharaka -Nithi	3,137,622	3,144,961
42	Trans Nzoia	5,099,701	4,861,310
43	Turkana	10,479,215	8,144,409
44	Uasin Gishu	5,190,971	5,103,600
45	Vihiga	3,871,479	3,883,685
46	Wajir	7,232,832	6,833,906
47	West Pokot	4,313,777	4,089,767
	Total	**259,779,000**	**259,779,000**

2.3 Recommendation on Revenue Sharing between National and County Governments - FY 2015/16

Article 202(1) of the Constitution stipulates that revenue raised nationally shall be shared equitably among national and county governments. Further, Article 217(2)(b) states that in determining the basis of revenue sharing, the Senate shall request and consider recommendations from the Commission on Revenue Allocation.

The Commission in 2015/16 recommended a total of Ksh347.6 billion which comprised of Ksh282.7 billion as equitable share for county governments and Ksh.65.2 billion as conditional grants. Table 3 indicates the respective equitable share recommended by the Commission, National Treasury and Intergovernmental Budget and Economic Council (IBEC) as revenues due for counties for financial year 2015/16. The conditional grants are used as a mechanism for achieving particular national government objectives.

Table 3: Recommendations on County Allocations 2015/2016 (Ksh. Billions)

Description		CRA	National Treasury	IBEC
Allocation to County Governments FY 2014/15		227	227	227
Additional Revenues for 2015/16				
I	Adjustment for Revenue Growth (Using a three year average growth of revenue & GDP =10.41)	23.6	23.9	23.9
II	Additional costs for county structures based on SRC and Transition Authority Circulars	12.5	-	4.5
III	Devolved functions being performed by National Government in FY 2014/15 to be transferred as Shareable Revenue	0	1.5	1.5
	15% of fuel levy for maintenance of county roads	3.3	-	3.3

Table 3: Recommendations on County Allocations 2015/2016 (Ksh. Billions) - *continued*

	Personnel emoluments, operations and maintenance (Livestock, Fisheries, Health, Library Services and Consumer Protection)	1.5	1.5	1.5
	Slum upgrading and housing development	0.2	-	-
	Leasing of medical equipment	3.3	-	-
IV	Underfunded devolved functions that need additional funding			
	Provision for ECD infrastructure	3	-	-
	Village polytechnics	3	0.9	0.9
VI	Unfunded devolved functions under agriculture and emergency fund	5.3	0.5	0.5
Total Equitable Share		**282.7**	**253.5**	**258**

Source: CRA

Table 4 presents the recommendation on conditional grants as made by the Commission, Treasury and the IBEC to county governments for the financial year 2015/16.

Table 4: Recommendation on Conditional Grants to Counties (in millions)

Conditional Grants	CRA	National Treasury	IBEC
Level 5 hospitals	3.6	2.1	2.1
Free maternal health care	4	4.3	4.3
Fertilizer and seed subsidy	3	-	-
Kenya Rural Roads Authority (KeRRA)	21.2	-	-
Kenya Urban Roads Authority (KURA)	8	-	-
Regional Development Authority (RDA)	4.3	-	-
Water Services Boards (WSB)	14.8	-	-
National Youth Service	6.3	-	-
15% of fuel levy for maintenance of county roads	-	3.3	3.3
Leasing of medical equipment	-	4.5	4.5
Healthcare facilities compensation for forgone user fees	-	0.9	0.9
Total	**65.2**	**15.1**	**15.1**

Source: CRA and National Treasury

2.4 Review of County Fiscal Strategy Papers

Section 117(5) of the Public Finance Management Act (2012) stipulates that in preparing the county fiscal strategy paper (CFSP), the County Treasury shall seek and take into account views of the Commission on Revenue Allocation. A CFSP contains policies and priorities for the county with regards to revenues, expenditures and borrowing for the next financial year. It ensures effective linkage between policies, plans and budgets in the medium term.

The CFSP provides expenditure ceilings for county departments, units and agencies and provides priority areas for investment of the county in line with the county integrated development plan and sectoral plans.

During the period under review, the Commission reviewed 42 CFSPs for 2015/2016 – 2017/2018 and sent recommendations to respective counties. Some of the common issues that emerged include: low absorption of development funds; unrealistic projection of own revenue collection; excessive expenditure on non-priority areas; and, weak monitoring and evaluation frameworks.

Dialysis machines at Machakos Level 5 Hospital: This equipment is used in the clinical purification of blood as a substitute for the normal function of kidneys

2.5 Public Financial Management in County Governments

2.5.1 *County Budget Ceilings*

Section 107 of the Public Finance Management Act (PFMA) 2012 in the medium term provides that county governments need to spend at least 30 per cent of their budget on development and 70 per cent on recurrent expenditure. In implementing the fiscal responsibility principles the Commission developed county ceilings to guide counties' recurrent expenditures of county assemblies and executives during the budgeting process.

In line with the Commission's mandate of recommending on matters concerning the financing and financial management of national government and county governments, the Commission analysed county budgets for 2014/15 to ensure that they comply with law and are in line with the Commission's recommended budget ceilings.

The budget ceilings were developed through a consultative process with county governments and the Senate. The consultative meetings brought together accounting officers from both county executives and assemblies. The aim of the consultation was to develop objective costing of new structures which culminated in the ceilings that were submitted to Senate for approval.

H.E. Sospeter Ojaamong, Governor Busia County (right) discusses budget ceilings with Prof. Joseph Kimura (centre), CRA Commissioner and George Ooko, CEO

The Commission arrived at a consensus with county governments on the ceilings that had been issued. This involved adjustment and negotiations. The meetings highlighted a number of issues, among them the need to finance:

(i) The establishment of physical structures for some counties that did not have pre-existing ones.

(ii) Medical insurance for county government staff in line with Salaries and Remuneration Commission (SRC) circulars.

(iii) Public participation as envisioned in the Constitution.

These discussions revealed that there was need for capacity building among both county government officials as well as members of the public in public finance management.

The principles of devolution are anchored on three main objectives: resource distribution, service delivery and fiscal responsibility. All these can be achieved through prudent utilization of resources which the Commission upholds. In light of this, the Commission recommended to Senate a ceiling of Ksh. 45.6 billion comprising of Ksh. 25 billion for county assemblies and Ksh. 20.6 billion for county executives for 2015/2016.

2.6 Costing of Government Functions

Since inception of devolution, the government has used several methods to come up with costs of devolved functions. However, more predominantly historical costing has been used in making various recommendations for revenue sharing. The Transition Authority in collaboration with the Commission are in the process of finalising a comprehensive exercise on costing of government functions to determine the proportion of funds and other resources necessary for the performance of functions assigned to national and county governments.

Costing of functions informs planning and budget process at the national and county governments in order to enhance efficiency and effectiveness in the use of resources. The first phase of the costing exercise covers five sectors namely: Agriculture, Livestock and Fisheries, Transport and Infrastructure, Water and Natural Resources, Health, Foreign Affairs and International Trade.

On-going road construction – Embu County

2.6.1 Devolved Fiscal Systems and Transfers

The Commission analysed county budgets for 2013/14 to evaluate their implementation, comparing respective allocations for recurrent expenditure against development expenditure. The analysis was aimed at informing future engagements on budget implementation between the Commission and counties. This will inform the Commission's recommendations and views on the projects counties should carry out in subsequent financial periods.

2.7 Revenue Enhancement

The Commission has established that county governments are facing challenges in drafting county revenue legislation, revenue collection and administration. Further, the business community has highlighted challenges it faces with reference to some guidelines and legislations passed by county governments impeding investment in counties. In some cases, the business community, under their umbrella organizations, have taken county governments to court citing lack of public participation in matters affecting them.

In view of the above challenges, the Commission resolved to work with stakeholders to develop policies and laws that encourage and support businesses while generating revenue for county governments. Subsequently, the Commission organized a National Conference with the theme 'Doing Business in the County' from 12-14 October 2014, with participants drawn from national and county governments as well as representatives of the business community.

The conference resolved that county governments should design/amend their revenue raising laws in accordance with constitutional and other legislative provisions. However, some counties have limited capacity to undertake drafting of legislation and policy. In view of the challenge, the Commission, in partnership with the Kenya Association of Manufacturers (KAM) engaged services of consultants to provide technical assistance to county governments in the review/development of suitable revenue legislation that will boost revenue collection, and assist counties to attract and retain investors.

A meeting was organized between the Commission and the Chairperson of the Intergovernmental Budget and Economic Council (IBEC) to present the resolutions of the Forum on "Doing Business in the County". The meeting resolved that the Commission on Revenue Allocation and the National Treasury would take leadership in resolving issues of double taxation.

Commissioner Meshack Onyango (seated third left) with delegates at the coastal county cluster meeting on county revenue raising legislation, themed, 'Doing business in counties'.

The Commission subsequently held cluster meetings for the 47 counties, providing a forum for all stakeholders to share their views on proposed laws. This technical assistance to county governments culminated in the preparation of:

a) Two Policy documents, namely:

i. The Legislative Policy Framework

ii. Economic Policy Framework

b) Five model revenue bills, namely the:

i. **County Revenue Administration Bill:** This confers power and responsibility for the administration of county revenue laws on a public official who is to be held accountable for that administration.

ii. **County Rating Bill (for Property Rates):** provides for the imposition and collection of property rates by a county government in accordance with Article 209(3) (a) of the Constitution.

iii. **County Trade Licensing Bill:** provides for a county government to grant trade licenses in accordance with Part 2 of the Fourth Schedule of the Constitution. A trade license authorizes a person to conduct a business in the county, including a profession, trade or occupation.

iv. **County Public Participation Bill:** provides for the establishment of a legal framework for facilitating public participation in county government policy processes and service delivery.

v. **Model County Finance Bill:** amends the law relating to various taxes and duties that a county government has jurisdiction over.

c) A **Model County Tariff Policy** that provides the basis of the fees, rates or charges for services counties provide. The objective of the tariff policy is to ensure that:

i. Tariffs of county government comply with legislation prevailing at the time of implementation.

ii. County government services are financially sustainable, affordable and equitable.

iii. Needs of the aged and disabled are taken into consideration.

iv. There is consistency in application of tariffs throughout a county.

v. The policy is drawn in line with principles outlined in the County Government Act 2012.

The model laws can be downloaded from: www.crakenya.org/information/recommended-county-revenue-laws

County governments have received the five bills and tariff policy highlighted above for their customization and adoption. Counties that collect a large portion of their revenue from the agriculture sector received a draft bill called **County Agricultural Produce Cess Bill** which is expected to provide imposition of cess on any kind of agricultural crop or animal produce within a county.

Counties were advised not to overstate their own local revenue in their county budgets to avoid huge funding gaps leading to budget deficits.

2.8 Partnerships

The Commission also participated in the following national activities that were done jointly with partners and other constitutional bodies:

2.8.1 Preparation and validation of inventory of assets and liabilities

The Commission continued to support the Transitional Authority (TA) in its mandate of preparation and validation of inventory of assets and liabilities from defunct local authorities so as to facilitate the legal transfer of assets and liabilities to counties. The support has been through membership and participation in the Technical Committee on Transfer of Assets and Liabilities (TCTAL) and Joint Technical Committee on Assets and Liabilities (JTT).

During 2014/15, county sub-committees on assets and liabilities were formed in the 47 counties with a view to speed up preparation of an inventory of assets and liabilities. As a result, unaudited inventory of assets and liabilities registers were developed in counties. Further, consultants are to be engaged to audit inventory registers and to resolve

CRA Commissioner Amina Ahmed with the County Transitional Coordinator Transition Authority Hassan Boru, handing over the unaudited inventory of assets and liabilities to the Isiolo County Assembly Speaker, Mohammed Tubi.

arising issues which include: determination of ownership of disputed land and buildings, value and confirm land sizes and authenticate claims as regards liabilities.

Some of the challenges experienced while undertaking the inventory included lack of asset registers and supporting documentation to process claims in regard to liabilities.

2.9 ICT County Engagement

The Constitution of Kenya 2010 (Article 216)(2) gives CRA the mandate to advise and recommend on matters concerning the financing and financial management of county governments while Article 216(3)(b) gives CRA the mandate to define and enhance revenue sources of both national and county government. The Constitution, through Article 216(3)(c) also mandates the Commission to encourage fiscal responsibility by county governments as they manage public finance.

2.9.1 *Guidelines*

The Commission in partnership with the National Treasury issued guidelines to county governments on minimal requirements to be adhered to while procuring revenue management systems. A revenue management system is an application that automates revenue administration functions in county governments which then enhances revenue collection and promotes governance through a transparent process.

The guidelines outline:

(i) Standards to be used to procure revenue management systems.

(ii) Advice on policy, regulations and legislation through information systems.

(iii) The need to monitor compliance on fiscal responsibilities through information systems.

In view of the above, county governments requested technical support from the Commission in the identification of revenue sources and guidance on procuring and managing implementations of revenue management systems.

The following Counties were supported in 2014/2015: Kericho, Taita Taveta, Lamu, Baringo, Bomet, Kwale, Kajiado, Kakamega, West Pokot, Kisii, Mombasa, Nyamira, Marsabit, Siaya, Nakuru, Nyandarua, Laikipia, and Kiambu.

The following objectives guide the technical assistance services offered by CRA to counties:

(i) Examination of different local revenue collection sources and including them in the revenue management system.

(ii) Reviewing the effect of revenue collection on service delivery, and how both activities can be improved through systems.

(iii) Identifying constraints limiting local revenue collection.

(iv) Assessing and recommending revenue enhancement measures.

(v) Recommending processes that encourage prudent financial management, specifically through the use of ICT systems.

2.9.2 *County Revenue Automation Conference 2015*

A key recommendation identified while working with county governments is automation of revenue collection in order to seal revenue leakages and therefore increase their revenue.

In order to bridge the gap between revenue and ICT teams in counties, share experiences and improve on industry best practices, the Commission is planning for a County Revenue Automation Conference to be held in FY 2015-2016.

The objectives of the conference are as follows:

(i) To provide an understanding of the legal framework as the foundation of revenue management.

(ii) To discuss automation processes (ICT systems and procurement processes).

(iii) To discuss the role of ICT in revenue mobilization and revenue management.

(iv) To review and share counties' case studies on revenue management automation.

(v) To identify the type and extent of which e-revenue management systems have been implemented and adopted in county governments in Kenya.

(vi) To identify the problems and challenges encountered during implementation and adoption of e-revenue management system in counties.

On-going construction of Busia Medical Training College- Busia County, October, 2014

2.10 Proposed Policies and Laws

The Commission provided legal advice and technical input to new/ proposed policies and laws. Some of these laws are as follows:

2.10.1 *County Governments (Amendment) (No. 2) Bill 2014*

This bill sought to establish a County Development Board to be chaired by the Senator within the county. The Commission proposed for the formation of a county leader's consultative forum instead, to be chaired by the Governor. The Commission made its proposal in its effort to quell distrust between senators and governors, with governors suspicious that senators wanted to control the affairs of the county governments through this proposed law. The Bill has not yet been passed.

2.10.2 *County Governments (Amendment) (No.4) Bill 2014*

This bill sought to provide for the election of county deputy speakers, and the functions of deputy governors. The bill was in response to the fact that there is a lacuna in law for the position of deputy speaker, and the functions of the deputy governor. The Bill has not yet been finalized.

2.10.3 Public Finance Management (Amendment) Bill 2015

This bill sought to increase county development expenditure from 30% to 60%. CRA wrote to Senate for it to be retained at 30% in accordance with international best practice. The amendment was not passed by Parliament.

2.10.4 Intergovernmental Relations (Amendment) Bill 2014

This bill sought to make provision for a Council of Deputy Governors, and a Council of County Assemblies. The legality of the amendment was raised because the Intergovernmental Relations Act contains adequate mechanisms that would represent the interests of entire county governments, including those of deputy governors and county assemblies through the Council of Governors and the Summit. The Bill has not been passed by Senate.

2.10.5 Community Land Bill 2015

The Commission made comments on the Land Bill because it directly affects county governments regarding the benefit of communities from community land, and the management of community land by communities and county governments. Comments from the Commission were sent to the Commission for the Implementation of the Constitution. The bill has undergone first reading in Senate.

2.10.6 National Sovereign Wealth Fund Bill 2014

The Bill is critical in public finance management because it provides for a Futures Fund for the benefit of future generations, and an Infrastructure Fund, among others. The Commission studied the operation of national sovereign wealth funds, particularly in Norway, and made input to the Bill. Comments were sent to the Commission for the Implementation of the Constitution.

2.10.7 Public Finance Management Regulations 2014

The PFM Regulations are critical to the mandate of the Commission particularly in the financing and financial management of county governments under Article 216 (2) of the Constitution. The Commission made comments on the Regulations and submitted them to the National Treasury.

2.10.8 *Division of Revenue Bill 2014*

The Commission made its comments on this Bill as required under Article 218(2) (c) of the Constitution.

Governors, Chairman CRA and Commissioners, address a press conference following consultations on the second revenue sharing formula in Kwale County

2.10.9 *County Allocation of Revenue Bill 2014*

The Commission made its comments on this Bill as required under Article 218(2) (c) of the Constitution.

2.10.10 *Public Audit Bill 2014*

The Commission worked with the Commission for the Implementation of the Constitution on this Bill as it directly relates to the mandate of the Commission in the financing and financial management of county governments, and fiscal responsibility under Article 216(2) and (3) (c) of the Constitution. If public audit is carried out adequately under Article 229 of the Constitution, the mandate of the Commission in fiscal responsibility and financial management will be greatly enhanced. The Bill was passed by the National Assembly on 18th June 2015.

2.10.11 Public Finance Management (Amendment) Bill 2014

This Bill concerned public debt under Chapter 12 of the Constitution. The Bill was to enable national government to raise funds through the issuance of external securities. The Commission presented its comments. The amendment Bill was passed by Parliament in 2014.

2.10.12 Public Procurement and Disposal Bill, 2014

County governments have highlighted that they face challenges with procurement processes as the main reason for low absorption of funds. The Commission reviewed the bill and largely approved its provisions which aim at ensuring that procurement processes are simple, and take advantage of new technologies. The Bill was passed by National Assembly on 18th June 2015.

2.10.13 Finance Bill 2014

This bill included new taxation measures for natural resource incomes.

2.10.14 Statute Law Miscellaneous Amendment Bill, 2014

The Commission reviews the Statute Law Miscellaneous Amendment Bill every year to ensure that any proposed amendments are not averse to the principles and objects of devolution, and the principles of public finance.

2.10.15 Mining Bill, 2014

This Bill was passed with a schedule for the sharing of royalties from mineral resources between national government, county governments and communities as follows:

(i) National government – 70%

(ii) County governments – 20%

(iii) Communities where minerals reside - 10%

The Commission was instrumental in the debate and passage of this Bill with the above schedule, as it ensured that benefits from mineral resources trickle down to community level.

2.10.16 Natural Resources (Benefit Sharing) Bill, 2014

The Bill makes provision for the sharing of benefits from natural resources between national government, county governments and communities. It specifically makes the following proposals for benefit sharing:

(i) 20% to be paid into a National Sovereign Wealth Fund, of which 60% shall go into a futures fund; and 40% to a natural resources fund;

(ii) Of the remaining 80%, 60% to be paid to the national government; and 40% to the county government where the natural resource resides;

(iii) Of the share of the county government, 40% is to be assigned to local community projects; and 60% for the benefit of the entire county. The Bill also establishes a Natural Resources Benefit Sharing Authority to determine and oversee the sharing of benefits from natural resources.

The Commission wrote to the Senate in May 2015, recommending that the sharing of revenue from natural resources should be made by the Commission on an annual basis as opposed to creating a new Authority as the mandate of the Commission also extends to sharing of revenue from natural resources. The Commission also recommended the definition of a local community to be a 'sub county' as opposed to a 'ward'.

The Bill was passed by Senate on 24th June 2015.

A team from CRA lead by Prof. Wafula Masai listen to Murang'a Governor, Mwangi wa Iria in the Governor's Office during a county visit in Murang'a

2.10.17 *Water Bill 2014*

This Bill contains water reforms in order to align the water framework in the Water Act 2002 with the devolved framework under the Constitution. The major reform required is the role of county governments in the management of water services, and the provision of water and sanitation services to citizens within the county. The Commission worked closely with the Commission on the Implementation of the Constitution in the development of this Bill.

2.10.18 *Division of Revenue Bill 2015*

The Commission made comments on this Bill to the Senate as required under Article 218(2) (c) of the Constitution.

2.10.19 *County Allocation of Revenue Bill 2015*

The Commission made its comments on this Bill to the Senate as required under Article 218(2)(c) of the Constitution.

2.10.20 *National Energy and Petroleum Policy 2015*

The Ministry of Energy prepared the Petroleum Energy Bill 2015 and Petroleum (Exploration, Exploitation and Production) Bill 2015. The bills make proposals for the sharing of revenue from petroleum resources, which directly affects the mandate of the Commission in making recommendations on the sharing of revenue between the two levels of government, and among county governments. The proposed laws contain the following proposals on the sharing of revenues from energy and petroleum resources:

(i) Establishment of a National Energy Conservation Fund

(ii) Establishment of a Consolidation Energy Fund

(iii) 75% of revenue from oil to go to national government

(iv) 20% of revenue from oil to go to county government in which there are petroleum operations, but should not exceed 200% of the equitable share of the county government; and

(v) 5% of revenue from oil to go to the community in which there are petroleum operations.

The Commission made the following recommendations for the improvement of the Bills:

(i) Proceeds from oil should not be used to finance budgets but should be used as much as possible for the purposes of a Futures Fund.

(ii) National Sovereign Wealth Fund: the percentage of proceeds from oil to be deposited in the Fund should be fixed in the law and not left to the discretion of the Cabinet Secretary. The Fund should be managed by the Central Bank of Kenya and not the National Treasury. Finally, the law must have very clear procedures on deposits and withdrawals from the Fund.

(iii) The Petroleum Fund should be managed by the Central Bank of Kenya.

2.10.21 Forest Conservation and Management Bill 2014

The Commission worked with Strathmore University to provide comments on the Bill to the Senate Committee on Land and Natural Resources. The Bill is important as it provides for streamlining the management of forests with the devolution framework under the Constitution.

2.10.22 Legal Notice No. 34 Public Finance Management (National Government) Regulations 2015

The Commission made comments relating to the financial management of national government institutions on the Regulations and submitted them to the Senate. The PFM Regulations are critical to the mandate of the Commission particularly in the area of fiscal responsibility under Article 216(3) (c) of the Constitution.

2.10.23 Legal Notice No.35 Public Finance Management (County Governments) Regulations 2015

The Commission made comments on the Regulations relating to the financing and financial management of county governments and submitted them to the Senate in April 2015. The PFM Regulations are critical to the mandate of the Commission particularly in the financing and financial management of county governments under Article 216(2) of the Constitution.

2.10.24 National Assembly PFM (Amendment) Bill 2015

This Bill contains amendments of various provisions of the PFM Act which have great implications on the financing and financial management of county governments, for instance, ceilings on recurrent expenditure, disbursement of funds etc. The Commission made comments on the amendments to the National Assembly. The Bill has gone through first reading in the National Assembly.

2.11 Equalization Fund

On implementation of the Equalization Fund, the Commission provided technical input in the following:

2.11.1 Honourable Lati Lelelit's Constitution of Kenya (Amendment) (No.2) Bill 2013

This Bill sought to provide that monies from the Equalization Fund shall be disbursed to constituencies where marginalized areas identified under Article 216(4) exist. The Commission had already determined the criteria for identifying marginalized areas under Article 216(4) of the Constitution and had identified marginalized areas in the context of counties. The Commission therefore wrote to the National Assembly, advising that the proposed amendment would require a referendum since it affects the objects and principles of devolved government.

2.11.2 Cabinet Secretary's Guidelines on the implementation of the Equalization Fund 2015

The Cabinet Secretary for Finance published and submitted to Parliament guidelines for the implementation and management of the Equalization Fund in April 2015.

The guidelines mainly provided that the National Treasury shall manage the Equalization Fund, from which shall be disbursed conditional grants to county governments.

The Commission wrote to Parliament and advised that the funds should be disbursed directly to county governments as conditional grants, and should be managed directly by county governments as recommended by the Commission in the Criteria it used to identify Marginalized Areas in 2013.

2.11.3 *Principles of Revenue Sharing*

The Commission reviewed Article 203 of the Constitution. This was necessitated by the fact that the annual Division of Revenue Bill and County Allocation of Revenue Bill for 2012/13 and 2013/14 were not based on the interpretation of the principles of equitable sharing of revenue under Article 203 of the Constitution.

The National Treasury therefore applied its interpretation of the constitutional principles under Article 203(1) in the Division of Revenue Bill, particularly that of national interest, and national obligations. The Commission consulted the Commission for the Implementation of the Constitution on the interpretation of Article 203(1) of the Constitution. The matter is with the CIC.

2.12 Projects

The Commission organized county training for the County Budget and Economic Forum to sensitize counties on the importance of public participation and the need to constitute the forums in line with Section 137 of the PFMA, 2012.

In partnership with International Budget Partnership Institution, The Institute for Social Accountability (TISA) and National Taxpayers Association (NTA), trainings were organised for county executive committees and County Budget and Economic Forums so that the Forums work could be enhanced in accordance with section 187 of the PFMA 2012.

The Commission continues to provide technical support to county governments on drafting of laws impacting on revenue, upon request under section 161 of the PFMA, 2012. In this regard Lamu and Mombasa counties requested the Commission to assist in the drafting of bills impacting on revenue as follows:

Mombasa County

(i) Mombasa Carriage of Food Bill 2014

(ii) Mombasa Port Authority Bill 2014

(iii) Mombasa Ferries and Harbours Bill 2014

(iv) Mombasa Wholesale Market Control and Licensing Bill 2014

(v) Mombasa Public Nuisance Bill 2014

(vi) Mombasa Public Works Bill 2014

Lamu County

(i) Revenue Administration Bill 2015

(ii) Trade License Bill 2015

(iii) County Valuation and Rating Bill 2015

The Commission participates in the Intergovernmental Budget and Economic Forum (IBEC) Legal Committee, and Loans and Grants Committee. The two committees advocate for PFM reforms to address challenges of devolution, and also issues relating to loans and grants in the context of devolution.

2.13 Natural Resources Management

With respect to the emerging discoveries in the natural resources sector, the Constitution in Article 69(a) requires the State to ensure sustainable exploitation, utilization, management and conservation of natural resources. The state is also required to ensure the equitable sharing of the accruing benefits and utilize natural resources for the benefit of the people of Kenya (Art. 69 (h)).

The Commission is tasked with natural resource policy formulation and reforms, in relation to revenue enhancement. The Commission further aims at providing technical advice and overseeing implementation of strategies on effective natural resource exploitation and revenue sharing.

The Commission:

(i) Operationalized the Kenya Petroleum Technical Assistance Project (KEPTAP).

(ii) Gave recommendations for inclusion into the Mining Act and Petroleum (Exploration, development and production) bill during review.

(iii) Offered technical advice to Mombasa County regarding natural resource revenue enhancement.

(iv) Offered technical advice to National Lands Commission in developing natural resources regulations.

2.14 Media and Communication Workshop

Communication on the implementation of county projects and provision of services to the public has not been adequate. Conversely, media coverage on devolution is constantly filled with negative information which tends to be political and undermines public perception on development and service provision.

In view of the inadequate media coverage on the positive aspects of county projects implementation and service delivery, the Commission organized for a consultative media and communication workshop from 26th to 28th May 2015 for county directors /county heads of communication and media. The purpose of the workshop was to engage with media and county communication directors/heads, so as to build capacity on reporting about devolution. This would enhance how counties communicate project implementation and service delivery to the public, in order to promote understanding and decision making on devolution.

Present at the meeting were representatives from the Commission, UNDP, Kenya Correspondents Association, editors from mainstream and electronic media, Media Council of Kenya and county directors/heads of communication.

Achievements from the workshop were: enhanced capacity of county directors/heads of communication to package, report and communicate development projects and provision of services in counties; production of newsletters, magazines, videos and enhancement of county web content to highlight county achievements.

In addition, media linkages between county directors/heads of communication were forged with editors present from Royal Media, Standard Newspapers, Radio Africa Group, Kenya Broadcasting Corporation (KBC) as well as Nation Media Group. This will contribute to easy access of information from counties.

Participants at the county media and communication workshop, May 2015

2.15 Training and Capacity Development

Training and development is an essential organizational function that provides opportunities for individual employees to upgrade their core competencies, knowledge, skills and attitudes. Trained employees undertake duties and responsibilities competently thus contributing to the attainment of the Commission's mandate.

Table 5: Staff Trainings

The Commission executed various trainings to staff as follows:

No	COURSES	INSTITUTION	PARTICIPANTS
1	(a) Executive Drivers course	Kenya Institute of Management	7
	(b) Cash and Treasury Management		1
	(c) Monitoring and Evaluation Certification		1
	(d) Public Finance		1
2	Senior Management Course	Kenya School of Government	5
3	ICPAK seminar (Msa)	Institute of Certified Public Accountants of Kenya	1
4	IHRM Annual Congress (Msa)	Institute of Human Resource Management	1
5	(a) Prince 1 and 2	Computer Learning Centre	1
	(b) Prince 1 and 2		2
6	Crisis Communication and Management	Public Relations Society of Kenya	1
7	Minute and Board Paper writing and proficiency in conducting meetings	Institutional Consultants Kenya	15

In the same year the following international trainings took place:

(i) Training on fiscal decentralization, June, 2015.

(ii) Bench marking on devolution in Addis Ababa, Ethiopia.

Staff and trainers at the course on minute writing and proficiency in conducting meetings

2.16 Selection and Recruitment

In 2014/2015 the Commission carried out recruitments as follows:

Table 6: Selection and Recruitment

No	Department	Position
1	Communications	Manager, Communication
2	Corporate services	Manager, HR and Administration
3	Corporate Services	Procurement Assistant
4	Corporate Services	Driver
5	Natural Resource Management	Manager, NRM

2.17 Implementation of an Enterprise Resource Planning (ERP) System at CRA

The Commission deployed an Enterprise Resource Planning (ERP) System to enhance productivity within the Commission. The application covers functionalities that are not captured in IFMIS such as asset and performance management. The ERP system provides an integrated view of core business processes within the Commission and improves efficiency in operations.

The system will process online services request in human resources, finance and procurement sections.

2.18 Records Management System Implementation

The Commission in conjunction with the Directorate of Public Service Management deployed an Integrated Records Management System that automates mail management functions at the registry section. The system manages tracking and dispatching of mail correspondences thus promoting efficiency and timely response to correspondence.

3

Development Partners

MRI Machines – Machakos county

3 Development Partners

3.1 Introduction

In order to achieve its mandate, the Commission collaborated with several development partners. The level of collaboration included technical capacity assistance, budgetary support and participation in forums.

3.1.1 County/CRA Consultative meetings

The Commission partnered with UNDP, SUNY – Ahadi Kenya and the World Bank in running a devolution program in which consultative meetings were held with county officials on the review of the formula for sharing revenue, budget ceilings, division of revenue and other activities related to financing and financial management.

Hon. Ekwe Ethuro, Senate Speaker addresses participants at a consultative forum with the Devolved Government and Finance, Commerce and Budget committees of the Senate on the Second Revenue Sharing Formula among county governments.

3.1.2 Review/development of revenue legislation

The Commission, in partnership with the Kenya Association of Manufacturers (KAM) recruited and engaged services of consultants to provide technical assistance to county governments in the review/ development of suitable revenue legislation that will boost revenue collection, and assist counties to attract and retain investors.

4

Corporate Social Responsibility (CSR)

Pupils from Stara Children's Rescue Centre.

4 Corporate Social Responsibility (CSR)

The Stara Children's Rescue Centre and school pupils, teachers and CRA team

4.1 Introduction

During the reporting year, as part of its corporate social responsibility, the Commission visited the Stara Children's Rescue Centre in Kibera. The Commission staff interacted with the children and delivered food items.

The Stara Children's Rescue Centre serves as a school and a feeding centre. The home has 530 children aged 3-18 years; 70% of the children are orphans, 15% from poor single parent families, 10% poor and 5% neglected and abused children. The home currently cares for 48 HIV positive children and is continuously testing the existing population to ensure nutrition and health needs are taken care of. The home was started by a group of 30 women who contributed money to take care of each other's children needs as most women had passed away from HIV and AIDS.

The Stara Children's Rescue Centre boasts of three alumni students having graduated from high school and now pursuing undergraduate studies at the Strathmore University through the help of well-wishers and some corporate entities.

5

The Future: Lessons Learned, Challenges and Way Forward

Banana's growing from cultured tissue – Busia County

5 The Future: Lessons Learned, Challenges and Way Forward

5.1 Introduction

The Commission has been recommending sharing of revenue raised nationally between national government and county governments and among county governments for the past two years. This chapter highlights lessons learnt, challenges faced and the way forward. The lessons learned in the financial year 2014/2015 are highlighted below:

5.2 Lessons Learned

5.2.1 Costing of County Functions

Comprehensive costing of county governments should be undertaken to ensure that all items are budgeted for.

5.2.2 Need to Develop a Standard Account Reporting Format

When analysing reports from county governments, the Commission has realized that there is need to liaise with the Accounting Standards Board to enforce a standard reporting format for county governments, ideally in the same program-based budgeting format. To achieve this, there will be need to consult the Accounting Standards Board, the Auditor General, Office of the Controller of Budget and the Institute of Certified Public Accountants of Kenya (ICPAK) to develop a standard format.

5.2.3 Need to Promote Communication Activities in Counties

There is need to increase budgetary allocations towards funding the communication function in counties. Also, there is need to enhance packaging and messaging of information on development projects for public consumption. This can be achieved by continuous capacity building and offering refresher courses on public information dissemination to county communication officials and journalists.

Early childhood centre being constructed at Siaya township school

5.3 Challenges Experienced During the Implementation Period

During the period under review, the Commission faced challenges in the course of delivering its mandate. Some of the challenges include:

5.3.1 Budget Ceilings

Most county governments felt that the ceilings recommended did not adequately cater for all necessary items making their implementation difficult. For instance, counties felt that ward offices, operation and maintenance costs were not well-funded. To remedy this, the Commission held several meetings with counties to address their challenges on case-by-case basis.

5.3.2 Inadequate Funding of Activities

The Commission's budget should be properly funded to ensure that the Commission's activities are undertaken.

5.3.3 Court Cases

a) *Demand notice from Ajaa Olubayi & Co Advocates* on the revenue allocation of Busia's Kshs.566, 612,679 to Bungoma County, due to population census errors. Busia County was advised to seek redress from the Senate, which is the final body that determines the final allocations of revenue to county governments.

Solar powered water aquifer – Turkana County

b) *Constitutional Petition No. 368 of 2014* that involved the Commission's recommendations on recurrent expenditure ceilings for county governments for the FY 2014/15.

Speakers of the 47 county assemblies contested that the Commission on Revenue Allocation does not have the mandate to set ceilings on recurrent expenditures for county governments; and that any recommendation by the Commission regarding ceilings for county governments' recurrent expenditures is not binding and can be disregarded by county assemblies.

The matter was concluded and judgement delivered in February 2015. The Judge ruled that recommendations from the Commission on ceilings for county governments' recurrent expenditures are not mere recommendations, but are to be given considerable weight.

The Judge also mentioned that the mandate of the Commission to make recommendations on ceilings for county governments' recurrent was in the law through the County Allocation of Revenue Act, 2012 that amended section 107 of the Public Finance Management Act, 2012. The Speakers of the County Assemblies should have challenged the new law, but they did not, so the matter was overtaken by events.

New trauma center awaiting equipment at Makindu Hospital, Makueni County: the centre is expected to provide medical care to victims of road accidents on the Nairobi-Mombasa highway

c) *Constitutional Petition No. 271 of 2015* involving the Commission's recommendations for recurrent expenditures for county governments for financial year 2015/16. The Council of Governors sued the Senate for increasing ceilings for recurrent expenditures for 34 county assemblies by Kenya Shillings 2.5 billion for 2015/16. The Commission has been enjoined as an interested party because of making the ceiling recommendations to Senate. The matter is on-going.

d) *Judicial Review Application No. 175 of 2015* concerning valuation of rates in Kiambu County vis-a-vis the role of CRA under section 161 of the PFMA 2012. A resident of Kiambu County challenged the Commission for failing to advise the county government of Kiambu on the valuation roll under section 161 of the PFMA, 2012. The matter is on-going, although the Commission has no role in county valuation rolls.

e) *Constitutional Petition No.259 of 2015* regarding the first generation horizontal revenue sharing formula, particularly the population parameter. The matter is still on-going.

H.E. Prof. Paul Chepkwony, Governor Kericho County (3rd left), Ms. Rose Osoro, Commissioner CRA (4th left), Gabriel Lagat, Deputy Governor Elgeyo Marakwet county (partially hidden on the right) observe the value addition in products made from maize at the first ever Kericho Investor Conference in November, 2014.

5.4 Way Forward

5.4.1 Civic Education

There is need for the Commission and other devolution stakeholders to conduct civic education on the principles of revenue sharing and recommendations that are developed.

5.4.2 Monitoring and Evaluation

There is a need to develop a monitoring and evaluation tool to continuously monitor counties on impact of revenue allocation.

5.4.3 Development of ICT Capacity in Counties

The Commission looks forward to offering technical assistance to county governments on revenue management systems. In addition, the Commission will also implement a County Devolution Portal which will contain county legislations and other statutory documents for improving transparency. This system will be accessible by the public.

5.4.4 Establish a Resource Centre and GIS Database

The Commission plans to develop a GIS database that will enable: data collection, storage, management, retrieval, analysis and display of spatial information and map petroleum and other natural resources in Kenya. In addition, a resource centre is to be developed to be used by the public for research and community awareness.

Ongoing construction of an inpatient facility at Kitui Level IV hospital

6

Financial Statements for the Year Ended 30 June 2015

Newly constructed early childhood education block – Makueni county

I. REPORT OF THE AUDITOR GENERAL.

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMISSION ON REVENUE ALLOCATION FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Commission on Revenue Allocation set out on pages 1 to 14, which comprise the statement of financial position as at 30 June 2015, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year 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 the International Public Sector Accounting Standards (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 audit 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 Commission'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 Commission as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and complies with the Commission on Revenue Allocation Act, 2011 and the Public Finance Management Act, 2012.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 March 2016

II. KEY COMMISSION INFORMATION AND MANAGEMENT

(a) Background information

The Commission was formed by the Constitution under section 215 in December, 2010 and is represented by the Commission Secretary who is responsible for the general policy and strategic direction of the Commission.

(b) Principal Activities

The principal activity of the Commission is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments and sharing of revenue among the county governments.

The Mission of the Commission is to make recommendations for equitable sharing of revenue, financing of, and financial management for both national and county governments.

The Vision is to be a trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

(c) Key Management

The Commission's day-to-day management for the said financial year was under the following team:

1.	George Ooko	Commission Secretary
2.	Angela Kariuki	Director Corporate Services
3.	Joseph Kuria	Director ICT
4.	Sheila Yieke	Director Legal
5.	James Katule	Director Fiscal Affairs
6.	Lineth Oyugi	Director Research
7.	Dr. Amenya Nyakundi	Advisor Natural Resources

(d) Commission Headquarters

Commission on Revenue Allocation
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(e) Commission Contacts

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(f) Commission Bankers

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2. Kenya Commercial Bank
KICC Branch
Harambee Avenue
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Tel: (020) 29248501,
Fax: (020) 29248501,

3. I & M Bank
Riverside Branch,
14 Riverside Drive
P. O. Box 30238 – 00100 Nairobi

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

III. THE COMMISSIONERS

Micah Cheserem
Chairperson of the Commission

He is a qualified Fellow of the Association of Chartered Certified Accountants of London since 1974. He is a former Governor of Central bank of Kenya and the immediate former chairperson of the Capital Markets Authority.

Fatuma Abdulkadir
Vice-Chairperson of the Commission

Holds a Masters in Business Administration and Bachelor of Education. She has been the National Project Coordinator in Arid Lands Resource Management Project. She has wide experience in development and implementation of government policies in Arid and Semi – Arid (ASAL) regions. She has also facilitated the implementation of programmes funded by development partners such as the EU, UNDP, WFP, FAO, UNICEF and OXFAM. She is the immediate former chair of the Kenya Food Security Meeting which coordinates humanitarian interventions of all actors including government donors and NGOs in the food security sector.

Prof. Wafula Masai
Commissioner

He is a holder of a Doctorate in Economic Analysis and Planning, a Masters of Arts in Development Economics and Bachelor of Arts in Economics. For about thirty years he has served as a lecturer and Associate Professor of Economics, Chairman of Economics Department (University of Nairobi), Programmes Director at the African Centre for Economic Growth and economic policy consultant for many international agencies, Kenyan public, private and civil society organizations.

Amina Ahmed
Commissioner

Holds a Bachelor of Arts in Economics and French. She has been the immediate chairperson of the Kenyatta International Conference Centre and a member of the Executive Committee of the One Shilling Foundation. She previously held senior positions in Kenya Commercial Bank for a number of years.

Prof. Joseph Kimura
Commissioner

Holds a PhD in Accounting, MBA in Accounting and Finance and Bachelor of Commerce in Accounting and is a Certified Public Accountant. He holds rank of Fellow of the Institute of Certified Public Accountants of Kenya and is a founder member of the Association of Financial Analysts of East Africa. Prof Kimura has held a large number of positions both in the public and private sectors including the University of Nairobi, United States International University, KASNEB and Higher Education Loans Board among others.

Rose Osoro
Commissioner

Holds a Masters in Business Administration from the University of Nairobi and a Bachelor of Arts from Kenyatta University. She is a Certified Public Accountant (CPA) and Certified Public Secretary (CPS) finalist. She has extensive work experience in public finance with emphasis on budgeting and financial allocation. She is a member of Institute of Certified Public Accountants of Kenya (ICPAK) and Kenya Institute of Management. She previously held positions at the Kenya Forestry Research Institute

Prof. Raphael Munavu
Commissioner

Holds a Ph.D. in Chemistry, a Master of Science degree in Chemistry and Bachelor of Arts in Chemistry. He has held senior academic and administrative positions in Moi University, University of Nairobi; Egerton University, the Kenya National Examinations Council and the South Eastern University College (SEUCO). He has wide research and teaching experience and is a Fellow of the Kenya National Academy of Sciences (KNAS).

Meshack Onyango
Commissioner

Holds a Master of Science Degree in International Banking and Finance (1983) from Herriot – Watt University, Edinburgh, Scotland and a Bachelor of Commerce degree (Accounting option) (1975) from the University of Nairobi and Certificate in Money and Capital Markets Development from the prestigious New York Institute of Finance.

He is a financial sector payments system development expert with thirty years' experience working with the Central Bank of Kenya. He has undertaken various consultancy assignments with varied donor agencies such as UNDP, USAID among others and has been a board member at the Capital Markets Authority. He is also a member of the Kenya Institute of Directors.

Dr.Kamau Thugge
(Commissioner/PS Treasury)

He is a distinguished economist with a PhD in Economics from Johns Hopkins University. He's worked for mainly two organizations before his appointment to The National Treasury as the Principal Secretary. He started his employment in the International Monetary Fund (IMF).

IV. REPORT OF THE COMMISSIONERS

The Public Finance Management Act 2012 requires the Commission to prepare financial statements for each financial year, which includes a Statement of Financial Position showing in details assets and liabilities of the Commission, a Statement of Comprehensive Income, and such other Statements that the Commissioners may deem necessary. CRA Act (22) requires the Commission to ensure that proper books are kept recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Commission. The Commissioners are also responsible for safeguarding assets of the Commission.

The Commissioners accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the CRA Act. The Commissioners are of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Commission and of its operating results. The Commissioners further accept responsibility for maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Commissioners to indicate that the Commission will not remain as a going concern for at least the next 12 months from the date of this statement.

Principal activities

The principal activity of the Commission is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments and sharing of revenue among the county governments.

The **Mission** of the Commission is to make recommendations for equitable sharing of revenue, financing of, and financial management for both national and county governments.

The **Vision** is to be a trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

Results

The results of the Commission for the year ended June 30, 2015 are set out on page 1. to 11.

Commissioner

The members of the Commission who served during the year as detailed on page V In accordance with CRA's act.

Auditors

The Auditor General is responsible for the statutory audit of the Commission in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Commission

Micah Cheserem
CHAIRMAN

Date: ....7th March 2016....

V. STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires the Accounting Officer to prepare financial statements in respect of that Commission, which give a true and fair view of the state of affairs of the Commission at the end of the financial year/period and the operating results of the Commission for that year/period. The Commissioners are also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Commissioners are also responsible for safeguarding the assets of the Commission.

The Commissioners are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 2015. 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 Commission; (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 Commission; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Commissioners accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Commission's Act. The Commissioners are of the opinion that the Commission's financial statements give a true and fair view of the state of Commission's transactions during the financial year ended June 30, 2015, and of the Commission's financial position as at that date. The Commissioners further confirm the completeness of the accounting records maintained for the Commission, which have been relied upon in the preparation of the Commission's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Commissioners to indicate that the Commission 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 Commission's financial statements were approved by the Commission on 22nd September, 2015 and signed on its behalf by:

Micah Cheserem

CHAIRMAN

Date: ....7th March 2016........

VI. STATEMENT OF FINANCIAL PERFORMANCE
For the year ended 30 June 2015

	Note	2014-2015 Kshs	2013-2014 Kshs
Revenue from non-exchange transactions			
Transfers from other governments – gifts and services-in-kind	1	210,500,000	268,348,000
		210,500,000	**268,348,000**
Revenue from exchange transactions			
Finance income - outstanding receivables	2	-	-
Other income	3	10,762,890	14,462,743
		10,762,890	**14,462,743**
Total revenue		**221,262,890**	**282,810,743**
Expenses			
Employee costs	4	135,432,450	137,937,592
Commissioner's Expenses	5	16,819,574	17,617,422
Depreciation and amortization expense	6	42,967,460	44,227,749
Repairs and maintenance	7	4,749,850	5,405,185
General expenses	8	99,105,414	113,005,231
Finance costs	9	982,709	1,627,456
Total expenses		**300,057,456**	**319,820,636**
Other gains/(losses)			
Gain on sale/Write off of assets	12.a	12,000	-
Gain on foreign exchange transactions	13.a	1,015,953	-
Unrealized gain on fair value of investments		-	-
Impairment loss		-	-
Surplus before tax		**(77,766,613)**	**(37,009,893)**
Taxation			-
Surplus for the period		**(77,766,613)**	**(37,009,893)**
Attributable to:			
Surplus/(deficit) attributable to minority interest		-	-
Surplus attributable to owners of the controlling entity		-	-
		(77,766,613)	**(37,009,893)**

The notes set out on pages 6 to 15 form an integral part of the Financial Statements

VII. STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Note	2014-2015 Kshs	2013-2014 Kshs
Assets			
Current assets			
Cash and cash equivalents	10	71,719,815	116,212,317
Receivables from non-exchange transactions	11	39,316,017	34,296,898
		111,035,832	**150,509,215**
Non-current assets			
Property, plant and equipment	12	71,822,337	112,303,543
Intangible assets	13	2,022,276	1,297,570
		73,844,612	**113,601,113**
Total assets		**184,880,445**	**264,110,328**
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	14	3,814,398	5,277,668
		3,814,398	**5,277,668**
Non-current liabilities			
Non-current employee benefit obligation			-
Total liabilities		**3,814,398**	**5,277,668**
Net assets		**181,066,047**	**258,832,660**
Reserves		(77,766,613)	(37,009,893)
Accumulated surplus		258,832,660	295,842,553
Total net assets and liabilities		**181,066,047**	**258,832,660**

The Financial Statements set out on pages 1 to 6 were signed on behalf of the Commission by:

COMMISSION SECRETARY/CEO

Sign..

Date...7th March 2016.......

CHAIRMAN

Sign..

Date...7th March 2016.......

VIII. STATEMENT OF CHANGES IN NET ASSETS
For the year ended 30 June 2015

Attributable to the owners of the controlling entity

	Accumulated surplus Kshs '000
Balance as at 30 June 2013	295,842,553
Surplus/(deficit) for the period	(37,009,893)
Transfers to/from accumulated surplus	-
Balance as at 30 June 2014	**258,832,660**
Surplus for the period	(77,766,613)
Transfers to/from accumulated surplus	-
Balance as at 30 June 2015	**181,066,047**

IX. STATEMENT OF CASH FLOWS

	Note	2014-2015 Kshs	2013-2014 Kshs
Cash flows from operating activities			
Net cash flows from operating activities	15	**(40,731,543)**	**(13,187,487)**
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	12	(868,709)	(1,092,175)
Purchase of intangible assets	13	(2,342,248)	(136,300)
Net cash flows used in investing activities		**(3,210,957)**	**(1,228,475)**
Cash flows from financing activities			
Proceeds from borrowings			-
Repayment of borrowings			-
Increase in deposits	11	(550,000)	-
Net cash flows used in financing activities		**(550,000)**	-
Net increase/(decrease) in cash and cash equivalents		**(44,492,500)**	**(14,415,962)**
Cash and cash equivalents at 1 July 2014	10	116,212,317	130,628,278
Cash and cash equivalents at 30 June 2015	10	**71,719,816**	**116,212,317**

X. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget 2014 - 2015 Kshs	Adjustments 2014 - 2015 Kshs	Final budget 2014 - 2015 Kshs	Actual on comparable basis 2014 - 2015 Kshs	Performance difference 2014 - 2015 Kshs
Revenue					
Government grants and subsidies	283,586,889	(7,500,000)	276,086,889	210,500,000	(65,586,889)
Finance Income		-	-	-	-
Other Income (A.I.A)	1,228,593	-	1,228,593	10,762,890	9,534,297
Total income	**284,815,482**	**(7,500,000)**	**277,315,482**	**221,262,890**	**(56,052,592)**
Expenses					
Compensation of employees	131,000,000	(7,500,000)	123,500,000	118,841,957	4,658,043
Commissioner's Expenses	-	-	-	7,927,204	(7,927,204)
Repair and Maintenance	4,635,000	-	4,635,000	4,749,850	(114,850)
General Expenses (Operation and Maintenance)	148,180,482	-	148,180,482	127,799,233	20,381,249
Finance cost	1,000,000	-	1,000,000	982,708	17,292
Total expenditure	**284,815,482**	**(7,500,000)**	**277,315,482**	**260,300,953**	**17,014,529**

XI. NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Accounting

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Commission.

The accounting policies adopted have been consistently applied to all the years presented.

The financial statements have been prepared on accrual basis following the Government's standard chart of accounts. The accrual basis of accounting recognises transactions and events whenever they are incurred.

2. Non-Current Assets

Non-Current assets are stated at Cost or valuation less Accumulated Depreciation

Depreciation is calculated on the cost of the fixed assets on a straight line basis at annual rates estimated to write off these assets over their expected useful life.

3. The Depreciation rates used are as follows:

Motor vehicle	25%
Furniture & Fitting	12.5%
Office Equipment & Accessories	30%
Computers & Printers	30%
Computer Software	33%

4. Retirement Benefits Obligations

The Commission maintains a private Pension Scheme with Jubilee Insurance and administered by ICEA. Further, the employees are members of the statutory National Social Security Fund (NSSF).

5. Recognition of Revenue and expenses

Income is recognized in the period in which it's received while Government funding is only recognized on receipt. Income is not accrued if its recoverability is considered doubtful.

Revenue constitutes all funds accruing to the Commission in the form of Exchequer allocations, Appropriation in Aid and Donor funding.

6. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalent comprise of Cash in hand & Cash book balance as at 30th June, 2015.

7. Exchange Rate

The Commission maintained a USD account mainly for payment of rent for the office premises. The ruling rate used at the time of deposit was **Kshs. 86.8** to the **USD** while the ruling rate at end of financial year was **Kshs. 99.4347** to the **USD**.

8. 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. Such bills are accrued in the year in which they are incurred.

XII. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from other governments – gifts and services-in-kind

	2014-2015 Kshs	2013-2014 Kshs
Unconditional grants (Operational Grant-GOK)		
1st Quarter Exchequer	10,000,000	101,148,000
2nd Quarter Exchequer	61,000,000	75,000,000
3rd Quarter Exchequer	62,500,000	70,000,000
4th Quarter Exchequer	64,000,000	22,200,000
	197,500,000	**268,348,000**
Part of 4th Quarter Exchequer - Receivable	13,000,000	
	210,500,000	**268,348,000**
Conditional grants		
Other organizational grants	-	-
	-	-
Total government grants and subsidies	**210,500,000**	**268,348,000**

2. Finance income - outstanding receivables

	2014-2015 Kshs	2013-2014 Kshs
		-
Total receivables finance income – outstanding	-	-

3. Other income (A.I.A)

	2014-2015 Kshs	2013-2014 Kshs
Interest on Bank Deposit	10,701,215	8,607,612
Sale of Tender	35,675	44,000
Sale of Newspapers/Assets	26,000	1,131
	10,762,890	**8,652,743**
<u>Donor funding</u>	-	
Ford Foundation - KEGOSES Project	-	5,810,000
	-	**5,810,000**
Total other income	**10,762,890**	**14,462,743**

The Commission received donor funding towards some of its activities relating to recommendation of; 1. 2nd Generation Revenue sharing formula and 2. Vertical Sharing formula. The donor who sponsored these activities include;

1. UNDP (United Nations Development Programme)
2. Suny Ahadi

4. Employee costs

	2014-2015 Kshs	2013-2014 Kshs
Basic salaries	75,761,277	76,906,365
Top up for seconded staff	514,320	514,320
House Allowance	15,299,468	15,556,671
Commuter Allowance	7,838,350	8,018,916
Responsibility Allowance	4,040,000	4,274,839
Telephone Allowance	2,809,694	2,858,245
Special Duty	1,632,000	1,723,742
Leave Allowance	1,130,000	1,250,000
Security Allowance	720,000	720,000
Acting Allowance	17,139	308,705
Pension contribution	12,931,045	10,235,827
Accrued Pension	-	1,648,331
Gratuity	1,878,042	4,678,231
Provision for Gratuity	-	-
Medical Insurance	9,305,239	7,677,415
Medical - Ex Gratia	420,386	241,944
Travel Insurance	27,430	67,720
Group Life Insurance	920,720	1,197,221
Wages	94,700	59,100
Terminal Dues	92,639	
Other cash deductions		-
	135,432,450	**137,937,592**

The cost of staff salaries and benefits has increased significantly because of recruitment of more staff in the course of the year which also increased the cost of medical insurance. Provision for Pension was also made for the accrued Pension.

5. Commissioner's Expenses

	2014-2015 Kshs	2013-2014 Kshs
Telephone Allowance	2,784,000	2,784,000
Leave Allowance	415,000	415,000
Security Allowance	5,693,370	5,921,289
Domestic Travel costs	3,133,150	597,036
Foreign Travel Costs	685,155	2,365,265
Training Expenses	-	1,410,602
Medical Insurance	3,652,059	4,018,930
Hospitality Supplies & Services	-	2,600
Special Expenditure	270,000	-
Club Membership	186,840	102,700
	16,819,574	**17,617,422**

6. Depreciation and amortization expense

	2014-2015 Kshs	2013-2014 Kshs
Computer & Printers	5,267,305	6,452,089
Office Equipment	1,817,369	1,872,567
Furniture & Fittings	11,699,239	11,645,124
Motor Vehicle	22,566,005	23,374,830
Intangible Assets	1,617,542	883,139
Total depreciation and amortization	**42,967,460**	**44,227,749**

7. Repairs and maintenance

	2014-2015 Kshs	2013-2014 Kshs
Routine maintenance of Motor vehicles	3,607,078	4,189,187
Routine maintenance of Assets	1,142,772	1,215,998
Total repairs and maintenance	**4,749,850**	**5,405,185**

8. General expenses

	2014-2015 Kshs	2013-2014 Kshs
Utilities Supplies -Electricity	2,148,662	1,979,881
Utilities Supplies -Water	207,884	231,027
Communication Supplies & Services	4,283,729	4,347,645
Domestic Travel costs	14,349,647	14,743,190
Foreign Travel Costs	5,771,044	3,970,696
Printing Advertising & Information	3,508,195	12,288,436
Rent Expenses	34,734,047	31,353,790
Training Expenses	6,086,627	6,055,846
Hospitality Supplies & Services	5,665,165	6,806,417
Insurance Costs (Motor Vehicle & Plant and Machinery)	3,944,044	4,732,384
Specialised Materials & Supplies	391,403	3,309,836
Office & General Expenses	5,777,512	5,269,942
Fuel oils and Lubricants	3,411,154	4,805,526
Security Guards	2,248,297	1,927,000
Cleaning Services	1,930,917	2,042,475
Contracted Professional Services	4,183,088	2,904,893
	98,641,414	**106,768,984**
Audit fee	464,000	464,000
KEGOSES Project	-	5,772,247
Total General Expenses	**99,105,414**	**113,005,231**

9. Finance costs

	2014-2015 Kshs	2013-2014 Kshs
Bank Charges	982,708	1,627,456
Borrowings (amortized cost)		-
Finance leases (amortized cost)		-
Unwinding of discount		-
Bank overdrafts		-
Total finance costs	**982,708**	**1,627,456**

10. Cash and cash equivalents

	2014-2015 Kshs	2013-2014 Kshs
CBK - Exchequer Accounts (1000181281, 1000181998, 1000182512)	(3,245,298)	-
KCB - Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	74,739,717	115,417,724
I&M - Cash Book (01900710961210)	5,130	770,951
Cash-on-hand (Petty Cash & office float)	220,266	23,642
Short-term deposits	-	-
Total cash and cash equivalents	**71,719,815**	**116,212,317**

11. Receivables from non-exchange Current receivables

	2014-2015 Kshs	2013-2014 Kshs
Prepayments		
Medical Insurance	9,960,728	8,167,843
Group Life	560,021	640,710
Motor Vehicle	-	1,922,122
Plant & Machinery	1,315,188	1,696,885
Dstv and Others	432,940	144,478
	12,268,877	**12,572,038**
Deposit		
Rent	18,753,322	18,753,322
Fuel	1,000,000	1,000,000
Motor vehicle maintenance	500,000	
Provision of E1line (Internet)	50,000	
	20,303,322	**19,753,322**

The rent deposit refers to 6 months' rent deposit and it's inclusive of parking fees and service charge for the same period.

Debtors		
Outstanding Salary advance from Staff	1,571,500	1,573,727
Outstanding Imprest from staff	5,110,782	86,275
Others (Jubilee and First Assurance)	61,536	311,536
	6,743,818	**1,971,538**
Total current receivables	**39,316,017**	**34,296,898**

12. Property, plant and equipment

-	Computers & Printers	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
Cost or Valuation:	KShs	KShs	KShs	KShs	KShs
As at 30th June 2013	**20,999,868**	**6,237,029**	**92,580,773**	**93,499,320**	**213,316,990**
Additions during the year	507,095	29,745	594,718	-	1,131,558
Disposal	-	-	-	-	-
Transfer/Adjustments	-	(24,883)	(14,500)	-	(39,383)
As at 30th June 2014	**21,506,963**	**6,241,891**	**93,160,991**	**93,499,320**	**214,409,165**
Additions during the year	174,000	261,789	432,920	-	868,709
Disposal	(60,000)				(60,000)
Write off				- 2,705,625	(2,705,625)
Transfer/Adjustments					0
As at 30th June 2015	**21,620,963**	**6,503,680**	**93,593,911**	**90,793,695**	**212,512,247**
Depreciation and impairment					
At 1 July 2013	**8,063,353**	**546,081**	**13,793,375**	**36,358,974**	**58,761,783**
Depreciation	6,452,089	1,872,567	11,645,124	23,374,830	43,344,610
Disposal	-	-	-	-	-
Impairment	-	-	-	-	-
Transfer/adjustment	-	(622)	(151)	-	(773)
At 30 June 2014	**14,515,442**	**2,418,027**	**25,438,348**	**59,733,804**	**102,105,620**
Depreciation	5,267,305	1,817,369	11,699,239	22,566,005	41,349,918
Disposals	(60,000)				(60,000)
Wite off				(2,705,625)	(2,705,625)
Impairment					0
Transfer/adjustment					0
At 30 June 2015	**19,722,747**	**4,235,396**	**37,137,587**	**79,594,184**	**140,689,913**
Net book values					
At 30 June 2015	**1,898,217**	**2,268,285**	**56,456,324**	**11,199,511**	**71,822,337**
At 30 June 2014	**6,991,522**	**3,823,865**	**67,722,643**	**33,765,516**	**112,303,543**

12.a Sale of office equipment

	Office Equipment
Cost or Valuation:	**KShs**
As at 30th June 2015	60,000
Accumulated depreciation	(60,000)
Net Book Value At 30 June 2015	-
Sale proceeds	12,000
Gain on disposal	**12,000**

13. Intangible assets - software

Cost	**KShs**
At 1 July 2013	**2,539,879**
Additions	136,300
At 30 June 2014	**2,676,179**
Additions – internal development	2,342,248
At 30 June 2015	**5,018,427**
Amortization and impairment	
At 1 July 2013	495,470
Amortization	883,139
At 30 June 2014	**1,378,609**
Amortization	1,617,542
Impairment loss	
At 30 June 2015	**2,996,151**
Net book values	
At 30 June 2015	**2,022,276**
At 30 June 2014	**1,297,570**

13.a Gain on foreign transactions

	2014-2015 Kshs	2013-2014 Kshs
KCB USD Account **(1143027272)**	1,015,953	-
	1,015,953	-

14. Trade and other payables from

	2014-2015 Kshs	2013-2014 Kshs
Trade payables (Suppliers Invoices)	44,598	3,165,337
Audit Fees	464,000	464,000
Accrued Pension	1,648,331	1,648,331
Gratuity	1,657,468	-
Other payables		-
Total trade and other payables	**3,814,398**	**5,277,668**

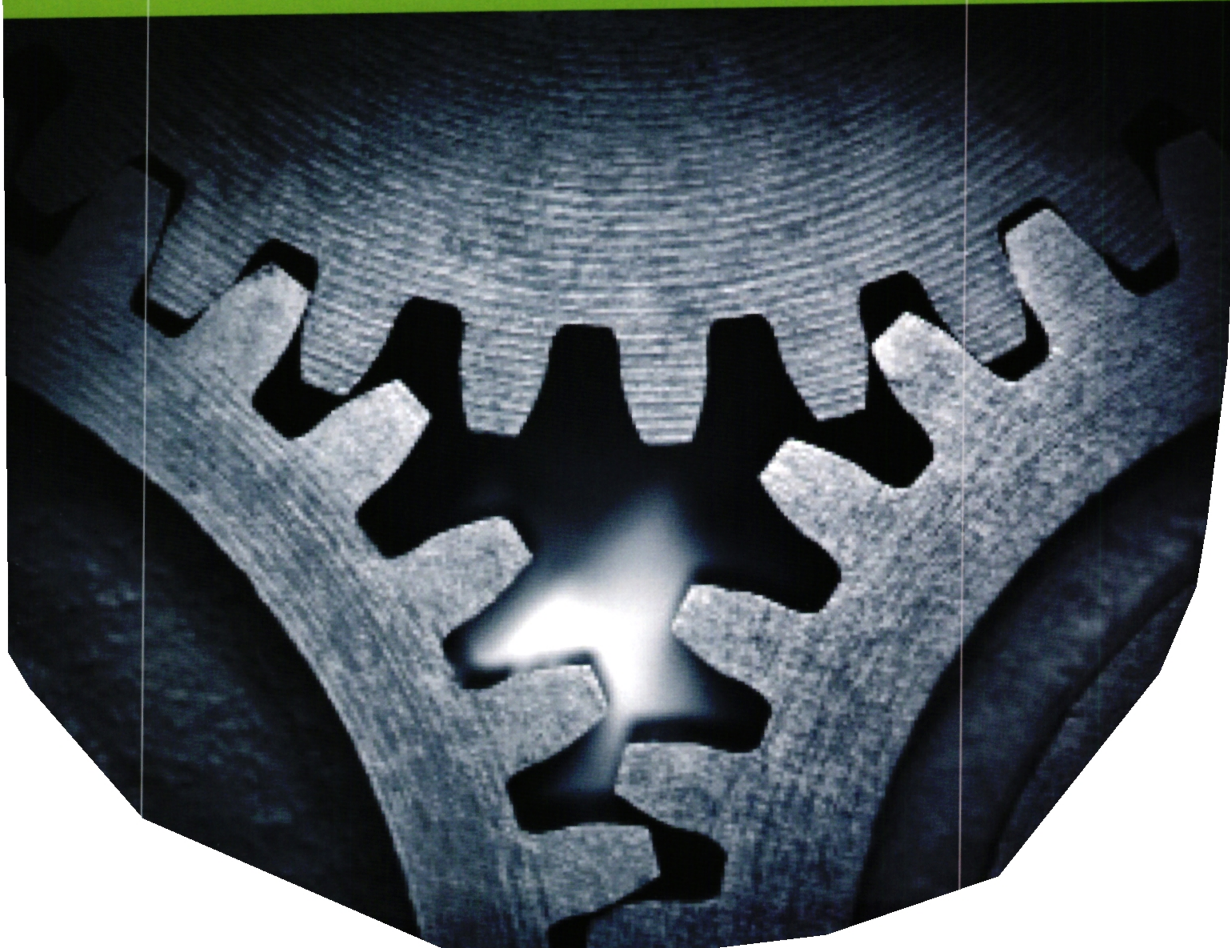
15. Cash generated from operations

	2014-2015 Kshs	2013-2014 Kshs
Surplus/Deficit for the year before tax	(77,766,613)	(37,009,893)
Adjusted for:		
Depreciation and Amortisation	42,967,459.85	44,226,976
(Non-cash grants received)		-
(Contributed assets)		-
Impairment		-
(Gains and losses on disposal of assets)	-	-
Contribution to provisions		-
Contribution to impairment allowance		-
(Finance income)		-
Finance cost		-
Working capital adjustments:		
(Increase in inventory)		-
(Increase in receivables)	(4,469,119)	1,303,026
Increase in deferred income		-
Decrease in payables	(1,463,271)	(21,707,597)
Increase in payments received in advance		-
Net cash flows from operating activities	**(40,731,543)**	**(13,187,487)**

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

SUPPLIER OF GOODS OR SERVICES	VOTE ITEM	ORIGINAL AMOUNT	DATE CONTRACTED	OUTSTANDING BALANCE 2015	OUTSTANDING BALANCE 2014	COMMENTS
Jubilee Insurance – Accrued pension	2710100	1,648,331.00			1,648,331.00	
CIC Insurance	2210900	370.00			370.00	
Pension Deposit A/c	2110100	8,807.00		8,807.00		
Pension Deposit A/c	2110100	8,807.00		8,807.00		
Principal Secretary Min. of Land	2110100	3,000.00		3,000.00		
Pension Deposit A/c	2110100	8,807.00		8,807.00		
Principal Secretary Min. of Land	2110100	3,000.00		3,000.00		
Pension Deposit A/c	2110100	8,807.00		8,807.00		
Principal Secretary Min. of Land	2110100	3,000.00		3,000.00		
Auditor General	2211310	464,000.00		464,000.00		
Grand-Total		**2,156,929.80**	-	**508,228.40**	**1,648,701.00**	

7
Annex



The Management Team

George Ooko
Commission Secretary/CEO

Angela Kariuki
Director Corporate Services

Sheila Yieke
Director Legal Services

Lineth Oyugi
Director Research and Policy

James Katule
Director Fiscal Affairs

Joseph Kuria
Director ICT

Dr. Amenya Nyakundi
Advisor Natural Resource Management

Jacqueline Marita
Manager Communication