

REPUBLIC OF KENYA



Paper laid
By Hon Aden Duale,
Leader of Majority on
Thurs 13/11/14
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REPORT

OF

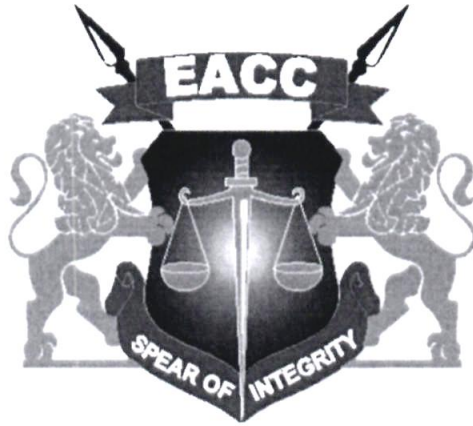
THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
ETHICS AND ANTI-CORRUPTION COMMISSION
(EACC)**

**FOR THE YEAR ENDED
30 JUNE 2014**



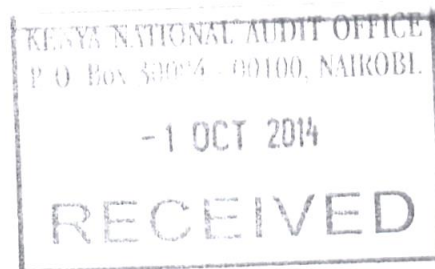


ETHICS AND ANTI CORRUPTION COMMISSION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2014

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



I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Ethics and Anti-Corruption Commission (EACC) is a statutory body established under the Ethics and Anti-Corruption Act, 2011. Its mandate is to combat corruption and economic crime through education, prevention, and law enforcement. Although, the Commission is empowered to conduct mediation, conciliation and negotiation, a distinction ought to be made between a power and a function. The commission is headed by a chairman and two members who are responsible for the general policy and strategic direction.

(b) Principal Activities

The principal activities of the Commission are to investigate corruption and economic crimes, recover lost public property and obtain compensation for damaged public property, prevent corruption, conduct public education on the dangers of corruption and promote ethics and integrity.

(c) Key Management

The Commission's day-to-day management is under the following key organs:

1. The Office of the Chief Executive Officer
2. Directorate of Investigations and Asset Tracing
3. Directorate of Preventive Services
4. Directorate of Legal Services
5. Directorate of Ethics and Leadership
6. Directorate of Finance and Planning
7. Directorate of Human Resources and Administration
8. The Department of Supply Chain Management

(d) Fiduciary Management

This is vested on the Chief Executive Officer who is the accounting officer and is managing the day to day operations of the commission.

Designation

1. Secretary / Chief Executive Officer (CEO)
2. Deputy Chief Executive Officer – Technical Services

Name

Halakhe Waqo
Michael Mubea

(e) Fiduciary Oversight Arrangements

1. Finance and Planning Committee
2. Risk and Audit Committee
3. Operations Committee
4. Human Resource and Training Committee

(f) Entity Headquarters

Integrity Center
Valley Road / Milimani Junction
P.O. Box 61130-00200
Nairobi, Kenya

(g) Entity Contacts

Headquarters, Nairobi
Integrity Centre
Milimani/Valley Road Junction
Po Box 61130-00200, Nairobi
E-maileacc@Integrity.go.ke

(h) Entity Bankers

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

Kenya Commercial Bank
Milimani Branch
P.O. Box 69695-00400
Nairobi

(i) Independent Auditors

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

(j) Principal Legal Adviser

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

COMMISSION MEMBERS



Mr. Mumo Matemu, MBS
Chairman



Ms. Irene C. Keino, MBS
Vice-Chairperson



Prof. Jane K. Onsongo
Commissioner



Mr. Halakhe D. Waqo, ACI Arb
Commission Secretary

MANAGEMENT TEAM



Mr. Halakhe D. Waqo, ACI Arb
Chief Executive Officer



Mr. Michael K. Mubea
Deputy Chief Executive
Officer



Mr. Abdi A. Mohamud
Director -
Investigations



Mr. Vincent O. Okong'o
Director - Preventive
Services



Mr. David K. Too
Director - Legal Services



Ms. Lucy W. Kinuthia
Director - Ethics and
Leadership



Ms. Jennifer Kimani
Director - Finance
and Planning



Dr. Mary Kamaara
Ag Director - Human
Resources and Administration

II. CHAIRMAN'S STATEMENT

I welcome this opportunity to endorse another year of great strides by the Commission, as outlined in this report. In exercise of the mandate conferred to the Commission by the Constitution of the Republic of Kenya and the enabling statutes, the Commission has continued to discharge its mandate without relenting.

During this reporting period the Commission concluded the Job Evaluation exercise and implementation of the same is underway. The Commission also developed its first Strategic Plan for the period 2013-2018. The strategic goals during this period will be: To prevent and combat the occurrence of corruption, economic crime and unethical conduct; to trace, recover and reconstitute corruptly acquired assets; to foster a culture of intolerance to corruption and unethical practices

Under the auspices of the Kenya Leadership and Integrity Forum (KLIF) which brings together a total of fourteen (14) stakeholders from the public, private, civil society and religious sectors in Kenya, the Commission is involved in the development and implementation of the Kenya Integrity Plan (KIP). The Commission in conjunction with the Office of the Attorney General is also involved in the development of the National Anti-Corruption Policy.

The Commission is in the process of establishing additional offices across the country to enable citizens at the county level be involved in the fight against corruption. This is in line with the provisions of the Constitution regarding public participation. In addition, the Commission has entered into partnerships with a number of institutions through Memorandums of Understanding (MOUs) to strengthen the resolve to fight corruption. Within the East African region, the Commission is actively involved in the activities of the East African Association of Anti-Corruption Authorities (EAAACA). The association is important in enhancing cooperation, mutual assistance and information sharing aimed at combating corruption within the region.

On behalf of the Commission, I would like to thank the Management and all members of staff for yet another successful year. We appreciate the dedication, professionalism, integrity and the courage with which they perform their tasks. I would also like to thank my fellow Commissioners for their commitment to the work of the Commission. Our vision is a Corruption free Kenyan society that upholds integrity and the rule of law. I, therefore, call upon all Kenyans and stakeholders to individually and collectively make a conscious decision not to participate in or tolerate corruption in any of its manifestations. Let us partner with the Commission in its endeavour to prevent and combat corruption in the country.

Thank you



MUMO MATEMU, MBS
CHAIRMAN

III. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Commission has the pleasure to present this annual report for the financial year 2013/2014, which is the second report since it took over from the Kenya Anti-Corruption Commission following the changes in the anti-corruption institutional framework introduced by the promulgation of the Ethics and Anti-Corruption Commission Act in 2011. Those changes necessitated a transition process which the Commission was engaged in for the better part of the last reporting period. It is my pleasure to state that most of the transitional challenges that faced the Commission then have been addressed, and the Commission is now fully and firmly focused on delivering on its mandate as a fully established entity.

The Commission draws its mandate from a multitude of laws. Foremost in the legal framework is the Constitution of Kenya, especially Chapter six on leadership and integrity. Several laws have been enacted in implementing the requirements of the constitution, and these include the Ethics and Anti-Corruption Commission Act, 2011 and the Leadership and Integrity Act, 2012. The Commission also enforces the Anti-Corruption and Economic Crimes Act, which is the principle law that provides for the investigations, prosecution and adjudication of corruption and economic crime offences in Kenya. Over and above these laws, the Commission also derives partial mandate in other pieces of legislation such as the Public Officer Ethics Act, the Public Procurement and Disposal Act and regulations, among others. Apart from the hitherto known mandate of combating and preventing corruption, which is what most members of the public associate the Commission with, it was also endowed with the wider function of mainstreaming ethics and integrity in both the public and private sector, as required under chapter six of the Constitution.

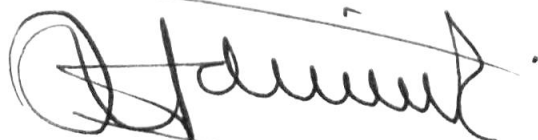
This wide mandate ensured the need for scaling up of Commission programmes and activities, which is reflected in the contents of this report. Of essence was the need to ensure that the Commission services were scaled to the County governments following the adoption of the devolved system of government in 2013. The report is also issued in the backdrop of the just launched Commission's Strategic Plan 2013-2018, an ambitious and goal-oriented plan through which the Commission intends to steer its strategic direction and focus in the course of the next five years. Since the launch, the Commission has rolled out on a high scale programmes and activities towards implementation of the plan objectives, from which major achievements have been realized. These are provided in detail in this report.

The report period also coincided with another important activity in the country which is expected to have far reaching ramifications on anti-corruption initiatives, namely the review of Kenya on implementation of its obligations under the United Nation's Convention against Corruption. The UNCAC is the main international convention which addresses all matters to do with corruption and has the highest membership among states of any other convention on corruption. It is significant that Kenya was the first country to both sign and ratify the convention in 2003, hence the review is timely in order to identify measures which need to be taken at the country level in order to ensure full compliance with the Convention objectives.

I am happy to report that the Commission has continued to receive support from all our stakeholders, especially the government of the Republic of Kenya which has granted us immense support. The budgetary allocation to the Commission during the period; and the continued promise of support from the government in future is a clear indication that the government is firmly committed to the entrenchment of accountability and the fight against corruption. We have also witnessed increased collaboration and cooperation from our development partners who have continuously dedicated resources for some of the Commission's programmes and activities.

I wish to thank the Commission and all members of staff for their dedication and commitment towards achievements of the Commission goals and objectives during the period. Despite the occasional challenges that the Commission has had to grapple with over time, our staff have remained resilient and focused in the performance of their duties, no doubt guided by the Commission's core values of integrity, professionalism, fidelity to the law, courage, teamwork and innovation. As the Commission embarks on implementing programmes for the next reporting year, I encourage all of us to maintain that spirit. Together, we shall achieve more.

Thank you,

A handwritten signature in black ink, appearing to read 'Halakhe D. Waqo', written over a horizontal line.

HALAKHE D. WAQO, ACI Arb
SECRETARY/CHIEF EXECUTIVE OFFICER

IV. CORPORATE GOVERNANCE STATEMENT

The commission operations and financial responsibilities are overseen by the Chief Executive Officer. The operations are guided by an approved annual budget that is based on programs whose performance is monitored through outputs and outcomes. The budget is informed by detailed work plans that translate in to annual procurement plans.

The commission has put in place the following standing committees for oversight purposes; Finance and Planning Committee, Risk and Audit Committee, Operations Committee and Human Resource and Training Committee. These committees are comprised of the commissioners and independent representatives co-opted from various directorates. In addition an internal audit department charged with continuous review of systems of internal controls and overall risk management is in place.

Operational performance is monitored on a monthly basis through periodic financial reporting of actual expenditure versus budget performance which provides feedback to user departments on appropriate action plans. Quarterly financial statements are also produced to facilitate continuous evaluation of the overall financial performance of the commission. The commission prepares annual statutory financial statements which are audited by the Kenya National Audit Office (KENAO) who certifies them before inclusion in the annual report.

V. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

The EACC's corporate social responsibility is based on the fact that, as part of the Kenyan society, we have responsibilities that go beyond our legal obligations for the benefit of the society at large. Our corporate social responsibility entails community engagement, supporting community activities, responding to emerging challenges, donating to charities, helping the needy and application of ethical conduct and participating in matters of topical national interest in Kenya. Our CSR strategy involves building relationships and partnerships and working together with organizations that we believe advance the wellbeing of Kenyans. The EACC's CSR decisions are made not only in the best interest of the Commission but also that of our society.

VI. REPORT OF THE COMMISSIONERS

The commissioners submit their report together with the audited financial statements for the year ended June 30, 2014 which show the state of the Commission's affairs.

Principal activities

The principal activities of the Commission are to investigate corruption and economic crimes, recover lost public property and obtain compensation for damaged public property, prevent corruption, conduct public education on the dangers of corruption and promote ethics and integrity.

Results

The results of the entity for the year ended June 30, 2014 are set out on page 1 to 17.

Directors

The members of the Commission who served during the year are shown on page iv in accordance with Ethics and Anti-Corruption Act, 2011.

Auditors

The Auditor General is responsible for the statutory audit of Ethics and Anti-corruption Commission in accordance Public Audit Act, 2003 and the Ethics and Anti-Corruption Commission Act, 2011.

VII. STATEMENT OF MANAGEMENT RESPONSIBILITIES

Section 164 of the Public Finance Management Act, 2012 and section 26 of the Ethics and Anticorruption Act, require the Management to prepare Financial Statements in respect of EACC, which give a true and fair view of the state of affairs of the Commission at the end of the financial year and the operating results of the Commission for the period 2013/2014. The Management are also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Management are also responsible for safeguarding the assets of the Commission.


The management 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 ended on June 30, 2014. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Commission (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management 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 Public Sector Reporting Standards (IPSAS), and in the manner required by the PFM Act and the EACC Act. The management 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, 2014, and of the Commission's financial position as at that date. The Management further confirm the completeness of the accounting records maintained for the Commission, which have been relied upon in the preparation of the Commission financial statements as well as the adequacy of the systems of internal financial control.

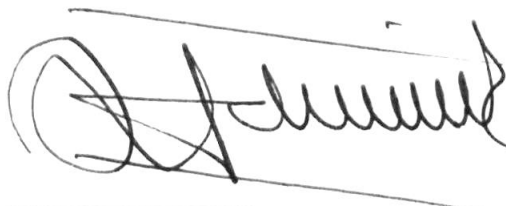
Nothing has come to the attention of the Management to indicate that the Commission will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Commissions Financial Statements were approved by the Management on 25th August 2014 and signed on its behalf by:



Mr. Mumo Matemu
Chairman



Mr. Halakhe D. Waqo
Secretary/Chief Executive Officer

VIII. REPORT OF THE INDEPENDENT AUDITORS ON THE COMMISSION

REPUBLIC OF KENYA

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E-Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON THE ETHICS AND ANTI-CORRUPTION COMMISSION (EACC) FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Ethics and Anti-Corruption Commission (EACC), which comprise the statement of financial position as at 30 June, 2014 and statement of financial performance, a statement of changes in net assets; a statement of cash flows; a statement of comparison of budget and actual amounts 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 14 of the Public Audit Act, 2003.

I have obtained all the information and explanation which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's responsibility for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 statement to the Auditor-General in accordance with the provisions of Section 13 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 provision of Section 15 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 on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

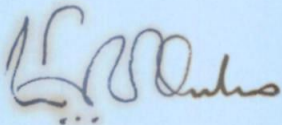
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected

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 Commissions' 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 accompanying financial statements present fairly, in all material respects the financial position of the Ethics and Anti-Corruption Commission (EACC) as at 30 June, 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and Comply with the Ethics and Anti-Corruption Commission Act, 2011.



Edward R.O. Ouko, CBS
AUDITOR-GENERAL

15 October, 2014

STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Revenue from exchange transactions			
Exchequer Receipts	1	1,130,000,000	1,220,000,000
Donor grants	1	350,000	14,662,375
Finance income - external investments	2	-	1,353,945
Other income	3	34,000	1,453,838
Total revenue		1,130,384,000	1,237,470,158
Expenses			
Employee costs	4	802,012,279	884,877,664
Depreciation and amortization expense	5	64,759,005	57,483,951
Repairs and maintenance	6	19,077,428	21,106,913
General expenses	8	272,294,560	282,181,131
Total expenses		1,158,143,272	1,245,649,659
Other gains/(losses)			
Gain on sale of assets	9	-	2,250,027
Surplus before tax		(27,759,272)	(5,929,474)
Taxation		-	-
Surplus for the period		(27,759,272)	(5,929,474)

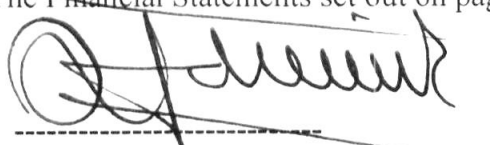
The notes set out on pages 6 to 17 form an integral part of the Financial Statements

STATEMENT OF FINANCIAL POSITION

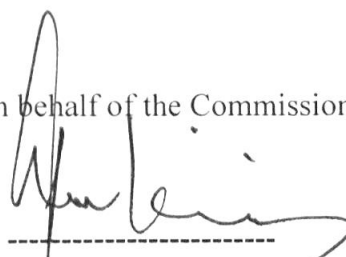
As at 30 June 2014

	Note	2013-2014 Kshs	2012-2013 Kshs
Assets			
Current assets			
Cash and cash equivalents	10	97,041,076	127,224,343
Receivables from non-exchange transactions	11	11,757,902	10,769,595
Inventories	12	15,457,105	15,204,367
		124,256,083	153,198,304
Non-current assets			
Property, plant and equipment	13	281,628,273	301,696,457
Investments(Asset recovery Account)	19	42,154,240	94,096,958
Intangible assets	14	34,154,177	9,376,315
Long term receivables from exchange transactions(Gratuity fund invesment)	20	133,884,050	131,965,661
		491,820,740	537,135,391
Total assets		616,076,822	690,333,695
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	16	20,731,232	16,614,321
Current portion of borrowings(Accrued liabilities and charges)	17	1,850,609	600,000
		22,581,841	17,214,321
Non-current liabilities			
Non-current employee benefit obligation(Gratuity fund)	21	128,113,350	128,035,752
Non-current provisions(Asset recovery account)	39	42,154,239	94,096,958
		170,267,589	222,132,710
Total liabilities		192,849,430	239,347,031
Net assets			
Reserves (Accumulated fund)		230,897,020	258,656,292
Accumulated surplus		192,330,372	192,330,372
		423,227,392	450,986,664
Total net assets and liabilities		616,076,822	690,333,695

The Financial Statements set out on pages 1 to 17 were signed on behalf of the Commission by:



Mr. Halakhe D. Waqo
Secretary/Chief Executive Officer



Mr. Mumo Matemu
Chairman

STATEMENT OF CHANGES IN NET ASSETS**For the year ended 30 June 2014**

	Accumulated fund Kshs	Revenue Reserve Kshs	Total Kshs
Balance as at 30 June 2012	192,330,372	264,585,766	456,916,138
Surplus/(deficit) for the period	-	(5,929,474)	(5,929,474)
Balance as at 30 June 2013	192,330,372	258,656,292	450,986,664
Surplus for the period	-	(27,759,272)	(27,759,272)
Transfers to/from accumulated surplus/(Deficit)	-	-	-
Balance as at 30 June 2014	192,330,372	230,897,020	423,227,392

STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	2013-2014 Kshs	2012-2013 Kshs
Cash flows From Operating Activities		
Surplus/ (Loss) from operations	(27,759,272)	(5,929,474)
Add back non-cash payment (Depreciation)	47,684,479	52,796,497
Add back non-cash payment (Amortization)	17,074,528	4,687,454
Profit on disposal of Assets	-	(2,250,027)
	36,999,735	49,304,450
Income from Operations		
(Increase)/Decrease in inventories	(252,737)	(2,036,354)
(Increase)/Decrease in receivables & Prepayments	(988,307)	(5,307,131)
Increase/(Decrease) in payables	5,367,520	16,261,291
Net cash flows from operating activities	41,126,210	58,222,256
Cash flows From Investing Activities		
Purchase of property, plant and equipment	(27,616,293)	(100,000,276)
Gratuity fund Investment	(1,918,389)	
Purchase of Intangible Assets	(41,852,391)	
Proceeds from disposal of plant, property and equipment	-	3,796,210
Net cash utilized in investing activities	(71,387,073)	(96,204,066)
Cash flows From Financing Activities		
Refund of Surplus to the Treasury		(3,929,908)
Gratuity Fund	77,598	-
Net cash used in Financing activities	77,598	(3,929,908)
Net increase in cash and cash equivalents	(30,183,266)	(41,911,718)
Bank and Cash equivalents at beginning of year	127,224,342	169,136,061
Bank and cash equivalent at end of year	97,041,076	127,224,343

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2013-2014	2013-2014	2013-2014	2013-2014	2013-2014
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Public contributions and donations	-	-	-	350,000	350,000
Government grants and subsidies	1,088,066,500	146,000,000	1,234,066,500	1,130,000,000	(104,066,500)
Gains on disposal, rental income and agency fees	11,000,000	-	11,000,000	34,000	(10,966,000)
Total income	1,099,066,500	146,000,000	1,245,066,500	1,130,384,000	(114,682,500)
Expenses					
Compensation of employees	566,164,132	(9,156,579)	557,008,053	556,797,154	210,899
Goods and services	452,859,395	154,571,472	607,430,867	532,388,122	75,042,745
Finance cost	600,000	200,000	800,000	768,870	31,130
Rent paid	79,442,473	(3,114,893)	76,327,580	72,496,524	3,831,056
Grants and subsidies paid	-	1,500,000	1,500,000	402,278	1,097,722
Total expenditure	1,099,066,500	144,000,000	1,243,066,500	1,162,852,949	80,213,551
Surplus for the period	-	2,000,000	2,000,000	(32,468,949)	(34,468,949)

XIV. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparation – IPSAS 1

The Commission's Financial Statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented.

The Financial Statements have been prepared on the basis of historical cost, unless stated otherwise. The Cash Flow statement is prepared using the indirect method. The Financial Statements are prepared on accrual basis.

2. Summary of significant accounting policies

a) Revenue recognition

i) Revenue from non-exchange transactions – IPSAS 23

Income is recognized in the period in which it is received. Government and donor funding is only recognized on receipt. Income is not accrued if its recoverability is considered doubtful. Interest income is recognized on a time proportion basis using the effective interest rate method.

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information – IPSAS 24

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

d) Investment property – IPSAS 16

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment – IPSAS 17

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Commission recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

f) Intangible assets – IPSAS 31

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful life of the intangible assets is assessed as either finite or indefinite.

g) Research and development costs

The Commission expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Commission can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential

- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

h) Inventories – IPSAS 12

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution.

Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

i) Provisions – IPSAS 19

Provisions are recognized when the Commission has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Commission expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Commission does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

j) Changes in accounting policies and estimates – IPSAS 3

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

k) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year.

l) Comparative figures

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

m) Significant judgments and sources of estimation uncertainty – IPSAS 1

The preparation of the Commission's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared.

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

n) Subsequent events

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

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

	2014 Shs	2013 Shs
Unconditional grants		
Operational grant	1,130,000,000	1,210,000,000
Other (development)	-	10,000,000
	<u>1,130,000,000</u>	<u>1,220,000,000</u>
Conditional grants		
Other organizational grants	350,000	14,662,375
Total government grants and subsidies	<u>1,130,350,000</u>	<u>1,234,662,375</u>

2. Finance income - external investments

	2014 Shs	2013 Shs
Cash investments and fixed deposits (interest)	-	1,353,945
Total finance income – external investments	<u>-</u>	<u>1,353,945</u>

3. Other income

	2014 Shs	2013 Shs
Other income (sale of tender)	34,000	1,453,838
Total other income	<u>34,000</u>	<u>1,453,838</u>

4. Employee costs

	2014 Shs	2013 Shs
Employee related costs - salaries and wages	379,633,642	435,233,782
Employee related costs - contributions to pensions and medical aids	180,353,387	201,811,462
Travel, motor car, accommodation, subsistence and other allowances	64,861,737	67,952,045
Housing benefits and allowances	177,163,513	179,880,374
Total employee costs	<u>802,012,279</u>	<u>884,877,664</u>

5. Depreciation and amortization expense

	2014	2013
	Shs	Shs
Property, plant and equipment	47,684,479	52,796,497
Intangible assets	17,074,528	4,687,454
Total depreciation and amortization	64,759,007	57,483,951

6. Repairs and maintenance

	2014	2013
	Shs	Shs
Property	610,658	478,753
Equipment	460,557	1,740,443
Vehicles	17,088,283	11,495,484
Other	917,930	7,392,234
Total repairs and maintenance	19,077,428	21,106,913

8. General expenses

	2014	2013
	Shs	Shs
Advertising	30,808,373	29,758,165
Audit fees	696,000	600,000
Conferences and delegations	19,253,364	20,085,412
Consulting fees	4,248,330	6,412,715
Consumables	6,103,965	7,189,940
Electricity	9,105,929	8,918,678
Fuel and oil	14,852,834	16,240,413
Insurance	1,190,037	3,865,024
Legal expenses	1,292,521	801,814
Licenses and permits	15,318,933	3,628,732

Specialised materials	3,939,699	3,699,177
Postage	855,179	555,415
Rental	72,496,524	75,569,820
Security costs	23,537,800	24,953,680
Sewage and water costs	862,028	672,214
Research and development	7,024,201	9,790,693
Telecommunication	12,885,449	10,353,370
Training	33,873,766	27,845,313
Refurbishment of non-residential buildings	6,022,237	4,757,608
Bank charges	768,870	711,923
Wealth declaration system		20,457,206
Other expenses	7,158,522	5,313,821
Total general expenses	272,294,560	282,181,131

9. Gain on sale of assets

	2014 Shs	2013 Shs
Property, plant and equipment		2,250,027
Other assets	-	-
Total gain on sale of assets	-	2,250,027

10. Cash and cash equivalents

	2014 Shs	2013 Shs
Bank	94,284,417	125,869,585
Cash-on-hand and in transit	2,756,659	1,354,758
Short-term deposits	-	-
Total cash and cash equivalents	97,041,076	127,224,343

11. Receivables from non-exchange contracts

Current receivables	2014 Shs	2013 Shs
Staff imprest	3,986,716	3,563,562
Staff advances	1,827,731	2,943,333
Other receivables	5,943,455	4,262,700
Total current receivables	11,757,902	10,769,595

12. Inventories

	2014 Shs	2013 Shs
Consumable stores	9,264,508	9,011,771
Provision for loss of inventory	(2,923,920)	(2,923,920)
Library books	9,116,517	9,116,517
Total	15,457,105	15,204,367

13. Property, plant and equipment

Cost or Valuation:	Land	Plant and Equipment	Security Equipment	Furniture, Fixtures & Fittings	Motor Vehicles	Computer Equipment	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 1st July, 2012	120,416,497	38,270,957	43,408,460	20,116,487	191,262,411	79,160,772	492,635,584
Additions during the year	-	2,144,557	-	1,488,600	95,193,143	1,173,976	100,000,276
Disposal	-	(180,000)	-	(7,000)	(14,532,400)	(84,000)	(14,803,400)
As at 30th June 2013	120,416,497	40,235,514	43,408,460	21,598,087	271,923,154	80,250,748	577,832,460
Additions during the year	-	233,998	3,873,081	3,004,430	-	20,504,784	27,616,293
Disposal	-	-	-	-	-	-	-
As at 30th June 2014	120,416,497	40,469,512	47,281,541	24,602,517	271,923,154	100,755,532	605,448,752
Depreciation and impairment							
At 1 July 2012	-	17,621,232	19,642,228	8,804,608	130,453,575	60,075,079	236,596,722
Depreciation	-	2,839,187	2,970,779	1,599,667	38,636,775	6,750,089	52,796,498
disposal	-	(99,217)	-	(3,858)	(13,077,519)	(76,623)	(13,257,217)
At 30 June 2013	-	20,361,202	22,613,007	10,400,417	156,012,831	66,748,545	276,136,001
Depreciation	-	2,513,539	3,083,567	1,775,263	28,977,581	11,334,529	47,684,479
Disposals	-	-	-	-	-	-	-
At 30 June 2014	-	22,874,741	25,696,574	12,175,680	184,990,412	78,072,872	323,820,480
Net book values							
At 30 June 2014	120,416,497	17,594,771	21,584,967	12,426,837	86,932,742	22,672,459	281,628,273
At 30 June 2013	120,416,497	19,874,312	20,795,453	11,197,670	115,910,323	13,502,203	301,696,459

14. Intangible assets - software

Cost	Shs
At 1 July 2012	97,649,415
Additions	-
At 30 June 2013	97,649,415
Additions – internal development	41,852,391
At 30 June 2014	<u>139,501,806</u>
Amortization and impairment	
At 1 July 2012	83,585,646
Amortization	4,687,454
At 30 June 2013	88,273,100
Amortization	17,074,528
Impairment loss	-
At 30 June 2014	<u>105,347,628</u>
Net book values	
At 30 June 2014	34,154,178
At 30 June 2013	9,376,315

15. Investment property (land)

	2014	2013
	Shs	Shs
Opening balance at 1 July	120,416,497	120,416,497
Additions	-	-
Depreciation	-	-
Closing balance at 30 June	<u>120,416,497</u>	<u>120,416,497</u>

16. Trade and other payables from exchange transactions

	2014	2013
	Shs	Shs
Other payables	20,731,232	16,614,321
Total trade and other payables	<u>20,731,232</u>	<u>16,614,321</u>

17 Accrued liabilities and charges

	2014	2013
	Shs	Shs
Accrued audit fees	696,000	600,000
Accrued expenses - utilities	1,154,609	-
	<u>1,850,609</u>	<u>600,000</u>

18 Contingency Liabilities

The Commission has given no guarantees to third parties. In the ordinary course of business, the Commission has been sued in various cases with potential exposure estimated at Kshs. 349 million. The Commission is a defendant or co-defendant in various litigations and claims. The outcomes of these litigations and claims are yet to be determined; hence the Commission has not made any provisions in these accounts towards contingent liabilities.

19. Asset Recovery Account

	2014 Shs	2013 Shs
Balance brought forward	94,096,958	87,813,831
Funds recovered in the year	28,216,690	6,288,647
Payments	(80,159,408)	(5,520)
Total	42,154,240	94,096,958

20. Gratuity bank a/c balance

	2014 Shs	2013 Shs
Gratuity Fund	128,113,350	128,035,752

21. Gratuity Fund Bank Account

	2014 Shs	2013 Shs
Balance brought forward	131,965,661	177,779,913
Additions	119,595,865	139,682,537
Payments	(117,677,476)	(185,496,789)
Total	133,884,050	131,965,661

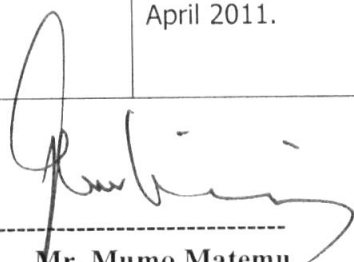
22 Accumulated Fund

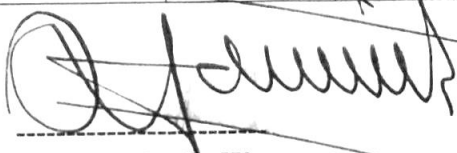
	2014 Shs	2013 Shs
Balance brought forward	192,330,372	192,330,372
Total	192,330,372	192,330,372

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Ref. No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and Designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Excess acting allowance of Kshs 5,862,895/90 paid to immediate former Chief Executive Officer against provisions of circular No OP/CAB/55/1	Details of evidence of overpayment have been provided to her lawyers	Mr David Kaboro and Mr. Vincent Mutilangi.	Not Resolved	The Commission is pursuing the individual. The timeframe is open as it may involve a court process.
2	Loss of 410 toners worth Kshs 2,923,920/-	Services of staff involved were terminated, file forwarded to Director of public prosecutions to institute prosecution.	Mr David Kaboro and Mr. Vincent Mutilangi.	Not Resolved	Open as it may involve court process.
3	Development of United Nations Development Programme (UNDP) funded wealth Declaration Management System. Kshs 20,457,206/- incurred without fully attaining the desired deliverables and goals spelt out in the project's financing agreement signed on 5 April 2011.	Fully fledged Directorate set up to look in to issues of leadership integrity including wealth declaration and conflict of interest. Time elapsed before full disbursement of funds. Only output 2 of the project is outstanding and acquisition of wealth management system is in the strategic plan of 2013-2018	Mr David Kaboro	Resolved	The system implementation is ongoing.


 Mr. Mumo Matemu
 Chairman


 Mr. Halakhe D. Waqo
 Secretary/Chief Executive Officer