

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
STATE DEPARTMENT OF EAST AFRICAN
AFFAIRS (VOTE 1182)**

**FOR THE YEAR ENDED
30 JUNE 2016**



STATE DEPARTMENT OF EAST AFRICAN AFFAIRS

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016**

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

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

Table of Content	Page
I. KEY ENTITY INFORMATION AND MANAGEMENT.....	ii
II. FORWARD BY THE CABINET SECRETARY.....	iv
III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES.....	xi
IV. REPORT OF THE AUDITOR GENERAL.....	xii
V. STATEMENT OF RECEIPTS AND PAYMENTS.....	1
VI. STATEMENT OF ASSETS.....	2
VII. STATEMENT OF CASH FLOW.....	3
VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED.....	4
IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT.....	6
X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT.....	7
XI. SUMMARY STATEMENT OF PROVISIONINGS.....	8
XII. SIGNIFICANT ACCOUNTING POLICIES.....	9
XIII. NOTES TO THE FINANCIAL STATEMENTS.....	11

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

- Ministry of East African Community Integration, Labour and Social Protection was formed by Executive Order No.1 of May 2016 by merging the Ministry of East African Community(State Department of East African Affairs) and the Ministry of Labour and Social security Services.
- At Cabinet level, the Ministry of East African Community Integration, Labour and Social Protection is represented by the Cabinet Secretary who is responsible for the general policy and strategic direction of the Ministry.

(b) Key Management

The Department day-to-day management is under the following key organs:

- Senior Management Committee
- Ministerial Human Resource Advisory Committee
- Ministerial Tender Committee
- Ministerial Training Committee

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2015 and who had direct fiduciary responsibility were:

Designation	Name
Accounting Officer	Betty C. Maina
Integration Secretary	Barrack Ndegwa
Director of Administration	Christopher Musumbu
Chief Finance Officer	Pauline Luganje/Nelson Mose
Senior Assistant Accountant General	Samson M. Ongalo
Director Political Affairs	David Njoka
Director Social Affairs	Alice Yalla
Director Productive & Services	Alfred Kitolo
Director Economic Affairs	Richard Sindiga

(d) Entity Headquarters

Co-operative Bank House
16th – 19th Floor
Haile Selassie Avenue
P.O. Box 8846 - 00200
Nairobi, KENYA

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

(e) Entity Contacts

Telephone:(254)-02245741/2211614
E-mail: ps@meac.go.ke
Website: www.meac.go.ke

(f) Entity Bankers

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

(g) Independent Auditors

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

(h) Principal Legal Adviser

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

II. FORWARD BY THE CABINET SECRETARY

KEY ACHIEVEMENTS

Market access

Kenya's main Top 10 export markets in 2015 were; Uganda, Netherlands, United Kingdom, Pakistan, Tanzania, United Arab Emirates, DR Congo, Egypt and Rwanda; who take about 60% of Kenya's total exports to the world.

The East African Community (EAC) is the major market for Kenya accounting for a quarter of the total exports over the last three years. The market size expanded with the admission of South Sudan into EAC. The table below indicates the performance of export into EAC between 2013 and 2016 (inclusive of South Sudan):

Kenya trade with EAC countries (Ksh billion)

Country	2013	2014	2015	2016
Uganda	65.4	60.78	68.57	60.16
Tanzania	40.5	42.73	33.66	34.74
Rwanda	13.5	14.44	17.95	17.49
Burundi	5.6	7.85	6.59	7.24
South Sudan	16.7	19.8	17.06	16.32
Total EAC	141.68	145.62	143.83	138

Source: Economic Survey 2017

There are several reasons that explain the recent decline in Kenya's exports to EAC. These include:

- Industrialisation in the region has built up local capacity to produce the goods once produced in Kenya
- Decreasing competitiveness of Kenya for manufacturing and increased competition from China and India;
- Challenges associated with the implementation of single window system;
- Unfavourable tax regimes in Kenya;
- High cost of energy which has made some goods uncompetitive in EAC market compared to similar goods originating from outside EAC; and
- Limited pipeline capacity for oil distribution of oil products

Removal of Non-Tariff Barriers (NTBs)

To promote cross border trade within the region, the Community has undertaken to address the Non-Tariff Barriers that impede the ease of doing business in the region. One hundred and six (106) NTBs have been

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

reported resolved cumulatively since 2009 including eight (8) that were resolved in June 2016. The notable NTBs resolved by Kenya are;

- i) Introduction of High Speed Weighing in Motion System (HS-WIMS). It records the weight of the truck doing 50kms per hour using an installed sensor.
- ii) Removal of Police Road blocks in the Northern Corridor and introduction of Highway Police Patrols
- iii) Introduction of a compulsory requirement under the SCT for all trucks loaded within Kenya and destined to Uganda to be verified, issued with a C2 document and exit note at an ICD located on Mombasa road; and

The Notable NTBs imposed by other Partner States against Kenya that have been resolved are;

- i) Discrimination of Ready to Drink Products of East African Breweries (Kenya) Ltd Products by Tanzania
- ii) Plastics Stripping products exported from Kenya not accorded preferential treatment by Uganda and Tanzania.
- iii) Bar Soap produced by BIDCO not being accorded preferential treatment when exported to Uganda and the application of 10% duties.
- iv) Arbitrary uplifting of value of the exports of the Air filters for internal Combustion manufactured by Mutsi Moto, Kenafric products leading to high charges on VAT by Tanzania.
- v) United Republic of Tanzania has introduced a railway development levy of 1.5 per cent for imports from Kenya by Tanzania.
- vi) Kenyan trucks entering Tanzania charged a levy of US\$ 200.
- vii) Tourist vans from Kenya not allowed entry to Tanzania;

Establishment of the EAC Single Customs Territory

A Single Customs Territory (SCT) has been established in EAC to facilitate faster clearance and movement of cargo from the port of entry to the destination. Under this arrangement Rwanda and Uganda have stationed their customs officers at the Port of Mombasa to carry out cargo clearance. The SCT is expected to reduce the cost of doing business by eliminating duplication of processes as well as reducing the administrative costs and regulatory requirement. The benefits arising from implementation of the SCT include:

- a. All intra-regional traded goods between Kenya, Uganda, Rwanda and Tanzania are cleared under SCT scheme.
- b. Burundi also made incremental coverage of goods traded with other Partner states under the SCT.
- c. All goods to Rwanda through Dar es Salaam port are cleared under SCT and a turnaround of 3 to 4 days has been realized on this corridor in tandem with the reduction in turnaround time earlier realized on northern corridor.
- d. Customs officers from Uganda, Rwanda, and Burundi were deployed and are operating in Kenya and Tanzania. Likewise Tanzania has officers deployed in Nairobi and Mombasa. The flexibility in deployment of Customs Officers has further eased clearance of goods such that goods move directly from points of dispatch in a Partner State to the owner's premises in another partner State without going through further customs checks.

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

- e. A Single declaration under SCT is made electronically, processed and released by the authorities from the country of destination prior to loading of goods and release from the port. This has reduced documentation currently used to release goods up to destination by 80%, hence reducing paper and simplifying the administrative burden.
- f. Real time sharing of customs information upon arrival of goods at the port has lessened internal border controls.
- g. Turnaround time of trucks from Mombasa to Kampala has reduced from 18 days to 4 days and to Kigali has reduced from 21 days to 6 days.

Intra-EAC Investment flows

In 2014 the total value of intra-EAC investment decreased by 12.2 percent from US\$ 236.6 million in 2013 to US\$ 207.7 million in 2014 while the number of registered projects decreased to 68 compared to 70 projects registered in 2013. Tanzania and Uganda continued to attract large amount of intra-EAC Investment whereby Tanzania received US\$ 104.1 million and Uganda received US\$ 75.1 million in 2014. Kenya continued to be main source of intra-EAC investment inflows.

In 2014, the intra-EAC investments accounted for 7.2 percent of Rwanda's total FDI and these came from Kenya, Uganda and Tanzania. Uganda, Kenya and Tanzania had shares of 72.7 percent, **20.7 per-cent** and 6.4 percent, respectively, in 2014. The total projects registered by Tanzania as intra-EAC investments were 37, with Kenya taking the lion's share of 32 projects distributed by sectors of finance, insurance, real estate and business, manufacturing, transportation, communication and storage and community, social and personal services. In the case of Uganda the number of projects registered increased from 19 projects in 2013 to 20 projects in 2014; of these **16 were from Kenya and 4 were from Tanzania**. No projects were registered from Rwanda or Burundi during the year. In the case of Burundi the value of intra-EAC investment decreased from US\$ 31.0 million in 2013 to US\$ 1.4 million. Similarly, the number of registered projects also decreased from 11 in 2013 to 2 projects in 2014. KCB remains the largest Bank in Burundi.

The Common Market has created opportunities for cross-border investment especially financial and distribution services. For example, Kenya companies such as Nakumatt, KCB, Equity Bank and

Cooperative Bank are some of the Kenya companies that have invested across the borders in the EAC. Cross-listing of companies in the stock exchanges has also been achieved for selected companies such as KCB, Jubilee and Nation Media Group are traded in Dar-es-Salaam, Kampala and Kigali.

COMESA – EAC – SADC Tripartite Free Trade Area

Negotiations on the Tripartite Free Trade Area Agreement (TFTA) were concluded and the FTA launched June 2015. The establishment of a Free Trade Area will improve intra-regional trade by creating a wider market of nearly 600 million people and a total GDP of approximately US\$1.0 trillion, increase investment flows, enhance competitiveness and develop cross-regional infrastructure. The TFTA will:

- Bolster intra-regional trade by creating a wider market of nearly 600 million people and a total GDP approximately US\$1.0 trillion;
- Increase investment flows;
- enhance industrial capacity and competitiveness; and

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

- Develop cross-regional infrastructure to enhance connectivity and reduce costs of doing business; free movement of business.

EAC-EU EPA Agreement:

Negotiations for the EAC-EU Economic Partnership Agreement (EPA) were concluded in October, 2014. Kenya and Rwanda have already signed the EPA Agreement and the rest of the EAC Partner States are expected to do the same at later date.

Financial Services Sector

Currency convertibility has been achieved for the five EAC currencies easing doing business in the Community.

EAC Financial Sector integration is being implemented through the EAC Financial Sector Development and Regionalization Project with the higher level objective to support the broadening and deepening of the financial sector through the establishment of a single market in financial services among EAC Partner States. This will make a wide range of financial products and services available to all, at competitive prices. It involves: financial inclusion and strengthening market participants; harmonization of financial laws and regulations; mutual recognition of supervisory agencies; integration of financial market infrastructure; development of the regional bond market; and capacity building. Some achievements including, among others, cross-regional mobile banking, financial education issues in EAC Partner States, program on certification on banking, development of insurance, and pension sector policies and strategies for implementation, and demutualization of the stock exchanges in the EAC.

Other achievements include the ongoing harmonization of compilation of Monetary and Financial Statistics in the EAC Partner States, inter-operability of card switches and Payment and Settlement System Integration in the region.

Facilitation of movement of people

The 17th Summit in March 2016 adopted the implementation of an EAC e-passport. The roll-out programme for the e-passport runs up to 2018 when the current national passports will be phased out. The e-passport meets the international requirements for more secure travel documents and will therefore ease the travel of the East Africans across the world.

In addition under the Northern Corridor arrangements, Kenya, Rwanda and Uganda have adopted the use of national Identity Cards as travel documents to ease cross-border movements.

Joint inspection of medical schools and harmonization of medical training and carrying out of joint disease surveillance to combat communicable diseases like Ebola

Labour mobility

Access to employment opportunities has increased under the EAC Common Market commitments on free movement of labour and professional. Under this arrangement, professionals such as engineers, architects and accountants have entered into Mutual Recognition Agreements (MRAs) that have enhanced cross-border trade in services.

In addition, Kenya and Rwanda waived work permit fees for the citizens of East Africa in 2013 while Uganda waived on reciprocal basis in 2014. The initiatives are aimed at enabling workers to provide their services in

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

the other Partner States. Harmonisation of procedures for issuance of work permits for attainment of uniformity and reduction of lead-time in the issuance. Signing of Mutual Recognition Agreements (MRAs

) by various professional bodies to facilitate free movement of professionals across the region. Harmonized curricula and education frameworks, at secondary schools and University levels to facilitate movement of students and exchange of lecturers

Progress towards the Establishment of a Monetary Union

Following the signing of the protocol on the establishment of the EAC Monetary Union in November 2013, all the Partner States concluded ratification of the Protocol in 2015 setting stage for the establishment of the EAC Monetary Union (EAMU). EAMU will facilitate reduction of transaction costs and removal of foreign exchange volatility between Partner States. The elimination of fluctuation risk will promote international trade and attract investment. This will in turn lead to enhanced economic growth and poverty reduction which are key aspirations of Kenya Vision 2030. The Community is currently preparing the Bills to operationalize the institutions that will manage EAMU. So far the bills for the establishment of the East African Statistics Bureau, East African

Monetary Institute, and East African Surveillance and Enforcement Commission have been finalized. The former two have been considered by the Sectoral Council on Finance and Economic Affairs (SCFEA) and forwarded to the legal and Judicial Affairs. The latter is yet to be considered by SCFEA.

Joint Development of Regional Infrastructure

Implementation of a number of infrastructure projects have commenced while others have been completed during the last three years. These include the following:

- a) Commencement of works on Voi-Taveta-Arusha road: - construction of the road commenced in 2014 and is scheduled to be completed in three years. This road will facilitate cross-border movement through linking the Northern and Central Corridors. The joint development made it easy to access credit through the regional window.
- b) Finalization of One-Stop Border Posts (OSBP):- The implementation of OSBP is aimed at facilitating cross-border movements through reduction of the time taken in clearance procedures. Along the Kenya borders, six (6) OSBPs were selected for the facilities namely: Namanga, Busia, Malaba, Taveta, Isebania and Lunga Lunga. Out of the six Taveta OSBP is operational after being launched in February 2016. Lunga Lunga and Isebania OSBPs are also complete while Namanga, Busia and Malaba OSBPs are near completion. To facilitate the operations of the OSBP a Bilateral Agreement between Kenya and Tanzania and Kenya and Uganda have been concluded and signed. The OSBP Act has been set to become operational on 1st October, 2016.

One Area Network

The cost of roaming calls across the region has been a major impediment to cross-border trade. The Community therefore decided to establish one-area network with lower calling rates of US\$0.10 c. This was to be attained by 1st July, 2015. Meanwhile Kenya, Uganda and Rwanda fast tracked implementation and adopted the concept with the lower roaming rates for voice with no receiving charges in February, 2015.

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

Education

Harmonization of curricula, examinations, certification and accreditation of education and training institutions, exchange of education ideas and collaboration in areas of education and training has increased mobility of students, lecturers and researchers.

The Regional Policy and Qualifications Framework for Higher Education (EAQFHE) has been concluded as a precursor of transforming East African region into a Common Higher Education Area for improved access to high quality and affordable higher education and training, and increased employability. Establishment and operationalization of the East African Kidney Institute to boost capacity in training, research and provision of renal services.

Youth

The EAC Youth ambassadors programme has been established to ensure effective involvement of the youth in regional integration process. Every year, two University students are selected competitively through a regional debate competition to serve as regional integration Champions at University level. We have established EAC Clubs in the following Universities, St Pauls University, Dedan Kimathi University; Pwani University; Maseno, Africa Nazarene University; University of Nairobi, University of Kabianga and Technical University of Mombasa

At secondary schools level, we are establishing EAC clubs to serve as a vehicle for sensitization of young people on EAC regional integration programme. 8 clubs were established at: Mangu High School, Moi Forces Academy, Nairobi school, Ruthimitu, High school, Mary Leakey Girls, Lenana School, Mary Hill Girls, and Precious Blood Girls Reruta. We organize Secondary Schools Debate on topical regional integration issues. The best five students are feted during the Head of State Summit.

The EAC has also established “Incubator for Integration and Development in East Africa (IIDEA) programme in 2016. The purpose of IIDEA is to make East African integration more tangible and credible through relevant, visible, exemplary and encouraging projects. IIDEA provides financially and advisory supports to innovative project ideas to put into practice and to demonstrate integration benefits derived from the use of the EAC Common Market Protocol. Several Kenyan Youth, women and civil society organizations have applied for consideration. The project is funded by GIZ up to a maximum of USD 50,000 per project.

Culture and Sports

Kenya hosted the 2nd Edition of the East African Arts and Culture Festival/ Jumuiya ya Afrika Mashariki Utamaduni Festival (JAMAFEST). Over 20,000 delegates from the region participated in the event. Kenyans were able to show case their talents in arts, Drama, and music. Trade networks were established during the festival.

Joint promotion of Tourism

The Community undertook to promote the region as a single tourists destination. In this regard, a single-visa has been agreed upon in the Community. Meanwhile Kenya, Rwanda and Uganda have already adopted the single-visa and are already using the single tourist visa to enable tourists visit all the three countries at a reduced cost of USD100.

Republics of Rwanda and Uganda have been demanding for share of the proceeds from single tourist visa from Kenya. Since the law has not been amended to allow this Kenya has not been able to meet this expectation of the two countries participating in the joint promotion of Tourism.

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

These are just a few of the achievements realised in EAC integration in the recent past. The SDEACI and the Kenya Chapter of the East African legislative Assembly Regularly engage in sensitization of the Kenyan public on EAC matters.

CONCLUSION

I wish to thank all the staff in the Ministry for diligently and effectively working towards the implementation of our policy and agreed Annual work plan(s). I understand the many challenges we went through during the implementation exercise, but working together as a team and putting the resource available where they were planned to be, we will make Kenya a great nation, creating substantial wealth and many job opportunities. The opportunities in the sector are enormous. We desire more stable and reliable funding, especially for the Ministry's flagship projects, staff development, applied research and necessary tools to unlock the enormous potential in Kenya, in the immediate future.

We, at the Headquarters, need to develop a close and trusted working partnership with the Partner States so that the Regional Integration and investments can continue contributing to the economic growth of Kenya and improve the standard of living of our people.

ACKNOWLEDGEMENT

On behalf of my Ministry, I wish to take this early opportunity to thank the Government for the support in funding the strategic steps we have taken in building capacity for Kenya to manage Regional Integration and investments.

Signed.....

Mrs Phyllis J. Kandie
CABINET SECRETARY

Date.....

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

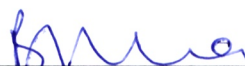
The Accounting Officer in charge of the State Department of East African Community Integration is responsible for the preparation and presentation of the department's financial statements, which give a true and fair view of the state of affairs of the department and as at the end of the financial year (period) ended on June 30, 2016. 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 Department (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Accounting Officer in charge of the State Department of East African Community Integration accepts responsibility for the Department's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the Department's financial statements give a true and fair view of the state of the Department's transactions during the financial year ended June 30, 2016, and of the Department's financial position as at that date. The Accounting Officer in - charge of the State Department of East African Community Integration further confirms the completeness of the accounting records maintained for the Department's, which have been relied upon in the preparation of the Department's financial statements as well as the adequacy of the systems of internal financial control.

The Accounting Officer in charge of the State Department of East African Community Integration confirms that the entity has complied fully with applicable Government Regulations and the terms of external financing covenants (where applicable), and that the entity's funds received during the year under audit were used for the eligible purposes for which they were intended and were properly accounted for. Further the Accounting Officer confirms that the Department's financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

Approval of the financial statements

The Department's financial statements were approved and signed by the Accounting Officer on 15/06/ 2017.


Principal Secretary


Senior Assistant Accountant General



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STATE DEPARTMENT OF EAST AFRICAN AFFAIRS (VOTE 1182) FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the State Department of East African Affairs (Vote 1182) set out on pages 1 to 24, which comprise a statement of financial assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation: recurrent and development combined for the year then ended, and a summary of significant accounting policies and other explanatory notes in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

The Principal Secretary – State Department of East African Affairs is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of these financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance that 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

Report of the Auditor-General on the Financial Statements of State Department of East African Affairs for the year ended 30 June 2016

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 Department'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 qualified audit opinion.

Basis for Qualified Opinion

1. Unsupported Development Expenditure

In the previous year, the Department recognized revenue of Kshs.54,790,890 from Trade Mark East Africa (TMEA) and expensed it off without adequate supporting documentation in contravention of Section 68 2(a) of the Public Finance Management Act, 2012. Similarly during the year under review, the Department further recognized revenue of Kshs.26,238,158 from the same institution and expensed the entire amount without accompanying supporting documentation.

The Department is therefore in breach of the Public Finance Management Act, 2012 and consequently, the propriety of expenditure totalling Kshs.26,238,158 expensed during the year under review cannot be confirmed.

2. Arrears of Subscriptions to East African Community

Article 132(1) of the East African Community (EAC) Treaty-1999, stipulates that there shall be a budget for the organs and institutions of the Community, except the self-accounting institutions. Article 132 (4) provides that the budget of the Community shall be funded by equal contributions by the partner states and receipts from regional and international donations and any other sources as may be determined by the Council. However, documentation availed for audit revealed that the Country through the State Department of East African Affairs has not consistently paid its contributions resulting in arrears of Kshs.75,279,970 (USD.744,609) as at 30 June 2016.

Failure to honour contributions to the East African Community Treaty impacted negatively on the financial affairs of the East Africa Community and the integration agenda.

3. Pending Bills

During the year under review, the Department made payments of bills totalling Kshs.3,719,204 relating to 2014/2015 and prior years but which had not been disclosed as pending bills in the year or supported with verifiable documents contrary to Section 72 (1) of the Public Finance Management Act, 2012. Failure to pay bills in

the year they relate to distorts the financial statements for the year and adversely affects provisions for the subsequent years they have to be charged.

Consequently, the authenticity and propriety of the payments could not be ascertained.

Qualified Opinion

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the State Department of East African Affairs as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with Public Finance Management Act, 2012.

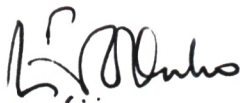
Emphasis of Matter

Fixed Assets Register and Summary

The management of the Department did not provide an assets register for audit verification contrary to the Public Finance Management Act, 2012. Further, contrary to International Public Sector Accounting Standards, the financial statements do not include a summary of fixed assets but instead show a comparative extract of the financial statements which, however, does not disclose the nature, value and status of the assets owned by the Department as at 30 June 2016.

In the circumstances, it has not been possible to verify and confirm the assets owned by the Department in the year under review.

My opinion is not qualified in respect of this matter.



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

Nairobi


27 June 2017

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended 30 June, 2016

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2015-2016 Kshs	2014-2015 Kshs
RECEIPTS			
Proceeds from Domestic and Foreign Grants	1	26,238,158	54,790,890
Exchequer releases	2	1,614,400,000	1,480,600,000
Other Receipts	3		336,400
TOTAL RECEIPTS		1,640,638,158	1,535,727,290
PAYMENTS			
Compensation of Employees	4	179,956,099	157,461,617
Use of goods and services	5	388,165,139	419,262,352
Transfers to Other Government Units	6	23,825,839	14,011,958
Other grants and transfers	7	1,029,995,095	911,253,895
Acquisition of Assets	8	5,882,219	30,703,244
TOTAL PAYMENTS		1,627,824,391	1,532,693,066
SURPLUS/DEFICIT		12,813,767	3,034,224

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 15/06/ 2017 and signed by:



 Principal Secretary



 Senior Assistant Accountant General

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

VI. STATEMENT OF ASSETS

	Note	2015-2016	2014-2015
FINANCIAL ASSETS			
Cash and Cash equivalent			
Bank Balances	9A	16,235,989	11,306
Cash Balances	9B	443,554	43,405
Total Cash and cash Equivalents		16,679,543	54,711
Accounts Receivables-Outstanding Imprest and Clearance Accounts	9C/D	6,193,174	5,457,472
TOTAL FINANCIAL ASSETS		22,872,717	5,512,183
Financial Liabilities			
Accounts Payables-Deposits	11	7,024,723	2,477,956
NET FINANCIAL ASSETS		15,847,994	3,034,227
REPRESENTED BY			
Fund Balance b/fwd	10	3,034,227	0
Surplus/Deficit for the year		12,813,767	3,034,227
NET FINANCIAL POSITION		15,847,994	3,034,227

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 15/06/17 2017 and signed by:


 Principal Secretary


 Senior Assistant Accountant General

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

VII. STATEMENT OF CASH FLOW

		2015-2016	2014 - 2015
		Kshs	Kshs
Receipts for operating income			
Proceeds from Domestic and Foreign Grants	1	26,238,158	54,790,890
Exchequer Releases	2	1,614,400,000	1,480,600,000
Other Revenues	3		336,400
		1,640,638,158	1,535,727,290
Payments for operating expenses			
Compensation of Employees	4	(179,956,099)	(157,461,617)
Use of goods and services	5	(388,165,139)	(419,262,352)
Transfers to Other Government Units	6	(23,825,839)	(14,011,958)
Other Grants and transfers	7	(1,029,995,095)	(911,253,895)
Changes in Working Capital		3,811,064	2,979,515
Net Cash flows from operating activities		22,507,051	30,757,955
CASHFLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8	(5,882,219)	(30,703,245)
Net cash flows from Investing Activities		<u>(5,882,219)</u>	<u>(30,703,245)</u>
NET INCREASE IN CASH AND CASH EQUIVALENT		16,624,832	54,711
Cash and cash equivalent at BEGINNING of the year	9A	54,711	-
Cash and cash equivalent at END of the year		16,679,543	54,711

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 15/06/2017 and signed by:


 Principal Secretary


 Senior Assistant Accountant General

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
 Reports and Financial Statements
 For the year ended 30 June, 2016

III. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Reasons for variance
	a	b	c=a+b	d	e=c-d	f=d/c %	
RECEIPTS							
Exchequer releases	1,664,097,404	94,297,812	1,619,799,592	1,614,400,000	5,399,592	100%	
Transfers from Other Government Entities - (AIA)	66,500,000	-	66,500,000	26,238,158	38,761,842	40%	a
Other Receipts – Sales of incidental goods		-		-			
Total Receipts	1,729,097,404	94,297,812	1,684,799,592	1,640,638,158	44,161,434	97%	
PAYMENTS							
Compensation of Employees	204,439,287	24,600,000	179,839,287	179,956,099	116,812	100%	
Use of goods and services	445,238,690	18,681,848	426,601,842	388,165,139	38,436,703	91%	
Transfers to Other Government Units	25,600,000	-	25,600,000	23,825,839	1,774,161	93%	
Other grants and transfers	1,029,995,095		1,029,995,095	1,029,995,095		100%	
Acquisition of Assets	75,279,332	51,015,964	24,263,368	5,882,219	18,381,219	24%	b
TOTALS	1,780,597,404	94,297,812	1,686,299,592	1,627,824,391	152,773,013	91 %	

(a) The low absorption of TMEA funds was due to failure to implement activities under output 5- highlighted in the work plan. This was occasioned by:

1.) 5.1-5.4 was not implemented due to non-responsiveness in the procurement of consultancy to evaluate the impact of the Technical Assistance on Communication an Awareness creation(5.1) which would have led to implementation of 5.2-5.4

2.) 5.5-5.6.Erection of the digital screens in Lunga Lunga and Taveta border points was not implemented due to the large margin variation in pricing.

The activities under output 5 were estimated to cost USD 400,000 I.E Ksh. 40,000,000

- b) Assets were not acquired during the financial year due to the change of PFM staff hence procurement plans could not be implemented on time.

The entity financial statements were approved on 15/06/ 2017 and signed by:



Principal Secretary



Senior Assistant Accountant General

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
 Reports and Financial Statements
 For the year ended June 30, 2016

IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

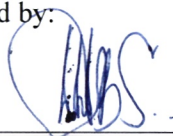
Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Reasons for variance
	a	b	c=a+b	d	e=c-d	f=d/c %	
RECEIPTS							
Exchequer releases	1,664,097,404	44,297,812	1,619,799,592	1,614,400,000	(5,399,592)	100%	
Other Receipts	1,500,000	-	1,500,000	-	-	0%	
Total Receipts	1,664,097,404	44,297,812	1,619,799,592	1,614,400,000	(5,399,592)	100%	
PAYMENTS							
Compensation of Employees	204,439,287	(24,600,000)	179,839,287	179,956,099	116,812	100%	
Use of goods and services	387,183,690	(10,581,848)	376,601,842	363,896,358	(12,705,484)	97%	
Transfers to Other Government Units	25,600,000	-	25,600,000	23,825,839	(1,774,161)	93%	
Other grants and transfers	1,029,995,095	-	1,029,995,095	1,029,995,095	-	100%	
Acquisition of Assets	18,379,332	(9,115,964)	9,263,368	3,912,841	5,350,527	42%	b
TOTALS	1,656,597,404	(44,297,812)	1,612,299,592	1,585,748,725	(26,550,867)	98%	

Notes

- (a) No Assets were boarded due to change in Public Finance Management (PFM) Personnel during the financial year hence no collection of AIA from sale of boarded assets.
- (b) Assets were not acquired during the financial year due to the change of PFM staff hence procurement plans could not be implemented on time.

The entity financial statements were approved on 15/06/ 2017 and signed by:


 Principal Secretary


 Senior Assistant Accountant General

X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilisation Difference	% of Utilisation	Reason for variance
RECEIPTS	a	b	c=a+b	d	e=c-d	f=d/c %	
Exchequer Releases	50,000,000	(50,000,000)					
Transfers from Other Government Entities - (TMEA)	65,000,000	-	65,000,000	26,238,158	(38,761,842)	40%	a
Total Receipts	115,000,000	(50,000,000)	65,000,000	26,238,158	38,761,842	40%	
PAYMENTS							
Use of goods and services	58,100,000	(8,100,000)	50,000,000	24,268,780	(25,731,220)	49%	a
Acquisition of Assets	56,900,000	(41,900,000)	15,000,000	1,969,378	(13,030,622)	13%	a
TOTALS	115,000,000	(50,000,000)	65,000,000	26,238,158	(38,761,842)	40%	

(a) The low absorption of TMEA funds was due to failure to implement activities under output 5- highlighted in the work plan. This was occasioned by:

- 1.) 5.1-5.4 was not implemented due to non-responsiveness in the procurement of consultancy to evaluate the impact of the Technical Assistance on Communication and Awareness creation (5.1) which would have led to implementation of 5.2-5.4
- 2.) 5.5-5.6. Erection of the digital screens in Lunga Lunga and Taveta border points was not implemented due to the large margin variation in pricing.

The activities under output 5 were estimated to cost USD 400,000 I.E Ksh. 40,000,000

The entity financial statements were approved on 15/06/2017 and signed by:


 Principal Secretary


 Senior Assistant Accountant General

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended 30 June, 2016

XI. SUMMARY STATEMENT OF PROVISIONINGS

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

- Details of General Accounts On Vote

	2015 -2016	2014 -2015
	Kshs	Kshs.
GAV Provisioning account balance	18,213,360	139,024,267
Total	18,213,360	139,024,267

- Details of Exchequer Provisioning

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Exchequer Provisioning balance	5,399,592	136,503,767
Total	5,399,592	136,503,767



Principal Secretary



Senior Assistant Accountant General

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of compliance and basis of preparation

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

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

The financial statements have been prepared on the cash basis following the Government's standard chart of accounts.

2. Recognition of revenue and expenses

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

3. In-kind contributions

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

4. Cash and cash equivalents

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

5. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year is treated as receivables. This is in recognition of the government practice where the imprest payments

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

are recognized as expenditure when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

6. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties has been recognized as accounts payables. This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and agencies. Other liabilities including pending bills are disclosed in the financial statements.

7. Noncurrent assets

Noncurrent assets are expensed at the time of acquisition while disposal proceeds are recognized as receipts at the time of disposal. However, the acquisitions and disposals are reflected in the entity fixed asset register a summary of which is provided as a memorandum to these financial statements.

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. As pending bills do not involve the payment of cash in the reporting period, they are recorded as ‘memorandum’ or ‘off-balance’ items to provide a sense of the overall net cash position of the Department at the end of the year. Pending bill form a first charge to the subsequent year budget and when they are finally settled, such payments are included in the statement of receipts and payments in the year in which the payments are made.

9. Budget

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

10. Subsequent events

Events subsequent to submission of the financial year end financial statements to the National Treasury and other stakeholders with a significant impact on the financial statements may be adjusted with the concurrence of National Treasury



XIII. NOTES TO THE FINANCIAL STATEMENTS

1 PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Date received	Amount in foreign currency	2015-2016	2014-2015
			kshs	kshs
Grants Received from Bilateral Donors (Foreign Governments)				
Trade Mark East Africa (TMEA) - DFID	-		26,238,158	54,790,890
Grants Received from Multilateral Donors (International Organizations)				
(Insert name of donor)	-			0
(Insert name of donor)	-			0
Total			26,238,158	54,790,890

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 EXCHQUER RELEASES

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Total Exchequer Releases for quarter 1	133,100,000	550,500,000
Total Exchequer Releases for quarter 2	680,000,000	156,100,000
Total Exchequer Releases for quarter 3	551,800,000	573,000,000
Total Exchequer Releases for quarter 4	249,500,000	201,000,000
Total	1,614,400,000	1,480,600,000

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS(Continued)

3 OTHER REVENUES

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Receipts from Sale of Incidental Goods	-	336,400
Total		336,400

4 COMPENSATION OF EMPLOYEES

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Basic salaries of permanent employees	113,175,378	104,307,141
Personal allowances paid as part of salary	<u>66,780,721</u>	<u>53,154,476</u>
Total	<u>179,956,099</u>	<u>157,461,617</u>

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

USE OF GOODS AND SERVICES

	2015 - 2016 KSH	2014 - 2015 KSH
Utilities, supplies and services	-	-
Communication, supplies and services	12,757,760	6,287,737
Domestic travel and subsistence	51,127,902	29,232,117
Foreign travel and subsistence	118,461,430	125,335,135
Printing, advertising and information supplies & services	33,707,476	47,742,934
Rentals of produced assets	42,343,528	38,056,707
Training expenses	21,943,564	9,298,027
Hospitality supplies and services	57,291,152	135,782,879
Specialized materials and services	3,009,488	1,038,889
Office and general supplies and services	12,102,916	3,127,287
Fuel, Oil and Lubricants	7,269,746	6,632,857
Other Operating Expenses	18,117,622	10,906,770
Routine Maintenance- Vehicles	6,750,093	3,709,594
Routine maintenance – Other Assets	3,282,460	2,111,417
Exchange Rate Losses	-	-
TOTAL	388,165,139	419,262,352

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 GRANTS AND TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2015 - 2016	2014 - 2015
	Kshs	Kshs
Transfers to National Government entities	23,825,839	14,011,958
TOTAL	<u>23,825,839</u>	<u>14,011,958</u>

6 OTHER GRANTS AND TRANSFERS

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Membership dues and subscriptions to international organizations	1,029,995,095	911,253,895
Total	<u>1,029,995,095</u>	<u>911,253,895</u>

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 ACQUISITION OF ASSETS

<u>Non-Financial Assets</u>	2015 - 2016	2014 - 2015
	Kshs	Kshs
Purchase of Vehicles and other Transport Equipment	-	12,615,448
Overhaul of Vehicles and Other Transport Equipment	620,711	416,510
Purchase of Office Furniture and General Equipment	3,017,130	5,516,650
Purchase of Specialized Plant, Equipment and Machinery	275,000	1,252,700
Research, Studies, Project Preparation, Design & Supervision	1,969,378	10,852,404
Rehabilitation of Civil Works	-	49,532
Total	5,882,219	30,703,244

9A: Bank Accounts

Name of Bank, Account No. & currency	Amount in bank account currency	Indicate whether recurrent, Development, deposit e.t.c	Exc rate (if in foreign currency)	2015 - 2016	2014 - 2015
				Kshs	Kshs
Recurrent A/C -1000210125	-	Recurrent	-	9,211,266	11,306
Development A/C - 100020028	-	Development	-	-	-
Deposit A/C - 1000212659	-	Deposit	-	7,024,723	-
Total				16,235,989	11,306

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9B: CASH IN HAND

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Cash in Hand – Held in domestic currency	443,554	43,405
Total	443,554	43,405

9C: CLEARANCE ACCOUNTS

<i>Description</i>	2015 - 2016	2014 - 2015
	Kshs	Kshs
Foreign Affairs AIE no.331811	4,543,509	4,543,509
Foreign Affairs AIE no.331820	274,106	274,106
Sports, Culture and arts AIE no331810	-	376,400
Total	4,817,615	5,194,015

9D: OUTSTANDING IMPRESTS

Staff Imprests	1,354,878	113,661
Salary Advance	20,680	149,795
	1,375,558	263,456

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

. 10. FUND BALANCE BROUGHT FORWARD

	2015 - 2016	2014 - 2015
	Kshs	Kshs
Bank accounts	16,235,989	11,306
Cash in hand	443,554	43,405
Accounts Receivables	6,193,175	5,457,472
Accounts Payables	(7,024,723)	(2,477,957)
Total	15,847,995	3,034,224

	2015 – 2016	2014-2015
	Kshs	Kshs
11. Accounts Payables	7,024,723	2,477,957
Total	7,024,723	2,477,957

11A: PENDING ACCOUNTS PAYABLE (See Annex 1)

	2015 – 2016	2014-2015
	Kshs	Kshs
Supply of goods & Services	1,958,150	29,860,007
	1,958,150	29,860,017

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

11B: PENDING STAFF PAYABLES (See Annex 2)

	2015 – 2016	2014-2015
	Kshs	Kshs
Staff Payables	-	5,972,102
	<u>-</u>	<u>5,972,102</u>

ANNEX 1 - ANALYSIS OF PENDING PAYMENT VOUCHERS

	SUPPLIER	P.V NO.	LPO/LSO	INVOICE NO.	AMOUNT	REMARKS
1	Ginason Company	4562	1327	011	492,600	NO FUNDS
2	Pago Airways	4990	1427	18843	350,050	NO FUNDS
3	Raydoll Tours	4567	1293	22063	45,500	SYSTEM
4	Jeb Motors	3156	1120	095	26,800	SYSTEM
5	Kenya Bureau of Standards	4842		11644	800,000	NO FUNDS
6	Elken General Agencies	4867		0174	30,000	SYSTEM
7	Viviens Super Florists			1295	41,600	NO FUNDS
8	Viviens Super Florists			1287	46,800	NO FUNDS
9	WideRange Traders	4614	1375	062	124,800	NO FUNDS
	TOTALS				1,958,150	

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
 Reports and Financial Statements
 For the year ended June 30, 2016

ANNEX 2 – SUMMARY OF FIXED ASSET REGISTER

Asset Class	Historical Cost (Kshs) 2015/2016	Historical Cost (Kshs) 2014/15
Land	-	-
Buildings and Structures	-	-
Transport Equipment	13,236,159	12,615,448
Office Equipment, Furniture and Fittings	2,144,080	511,200
ICT Equipment, Software and Other ICT Assets	11,361,349	9,702,100
Other Machinery and Equipment	-	-
Heritage and Cultural Assets	-	-
Intangible Assets	9,843,875	7,874,497
TOTAL	36,585,463	30,703,245

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

ANNEX 3: OUTSTANDING STAFF IMPRESTS AND SALARY ADVANCES

Names	2015 – 2016 Kshs.	2014 – 2015 Kshs.
Outstanding Imprest	Balance	Balance
Bertha Ngeringwony Rotich - Imprest No. 2292115	-	1
Rose Akinyi Ondenge Nyakwana - Imprest 2292008 & 2245275	-	84,060
Sheila Siyion Koyiet - Imprest 2292036		19,600
Jane Nyambura Kiarie - Imprest 1951644	-	10,000
Esther J Chemirmir	28,482	
Beatrice Mbai	400	
Charles M. Ngujiri	251,080	
Edward Owango	10,000	
Bertha Rotich	172,584	
Peter Maritim	174,836	
Peter Maritim	4,900	
Rehema Muge	154,836	
Lindsay Agesa	36,500	
Faustine Samante	104,300	
Noah Matheka	23,800	
Joseph Kamau Karuiki	174,836	
Joseph Kamau Kariuki	20,000	
Jairo Kamanda	3,500	
Evanson Musau	20,000	
Mary Wambui Ngugi	20,000	
Henry Kirui	8,400	

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

Christopher Musumbu	43,600	
John Njoroge Kihuha	12,600	
Michael Mbugua	12,600	
Dickson Nyambane	10,500	
Dickson Nyambane	11,124	
Timothy Mueller	56,000	
	1,354,878	113,661

SPECIAL IMPRESTS

PECIAL IMPREST (AIES)		-
Foreign Affairs	4,817,617	5,194,017
TOTAL	4,817,617	5,194,017

SALARY ADVANCE

NAME	P/NO	2015-2016	2014-2015
		KSHS	
Stanslaus Netia Nanzushi	1984034528		20,385
Phillip Musau Mutisya	1990121529		32,580
Agnes Muthoki Kimau	1989127847		14,200
Omar Awadh Abeid	2010031621		33,738
Aggrey Indiavo Ndagala	19900029303		48,892
Phoebe Adhiambo	1989008417	16,611.00	
Jane Nyaguthii Thuku	1991018452	2,585.00	

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

Total		20,680.00	149,795
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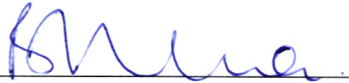
12. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS FINANCIAL YEAR
2014/2015

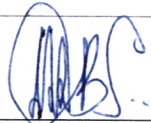
The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

ISSUE RAISED	RESPONSE GIVEN	RECOMMENDED BY PAC	ACTION TAKEN
Unsupported Development Expenditure Ksh. 54,790,890	TMEA provided copies of payment vouchers which were forwarded to the Auditors. Additional letters have been written to TMEA to provide additional documentation.		Additional documents provided were given to the Auditors to confirm sufficiency
Accounts Receivable – Outstanding Imprest	AIE amounts to Sports and Culture has been full accounted for. Follow up with Ministry of Foreign Affairs to account for the uncleared amounts	Auditors to follow up the matter with Foreign Affairs in the ...Audit 2015/2016 of their accounts	A letter has been written to the Accounting officer Foreign Affairs providing accounts details for the department to enable remittance of the amounts. Imprests and salary advances have been fully cleared.
Accounts Payable	The amounts reflected are system required liabilities which could not be cleared due to non-completion of Auto Bank reconciliation module in IFMIS		Auto reconciliation has since been done upto 30 th June, 2016 and the system required liabilities cleared in Financial Year 2015/2016
Arrears of Subscription to East African Community	The country's arrears consist of historical amounts since 1980. These arrears relate only to Inter		The Department has received additional funding which has reduced the arrears to USD 744,609 as at 30 th June, 2016 and continues to engage the

STATE DEPARTMENT OF EAST AFRICAN AFFAIRS
Reports and Financial Statements
For the year ended June 30, 2016

ISSUE RAISED	RESPONSE GIVEN	RECOMMENDED BY PAC	ACTION TAKEN
	University Council of East African (IUCEA). These funds were initially budgeted under the Ministry of Education and the State Department has continued to engage the National Treasury for additional funding to clear the outstanding historical arrears of USD 1,243,103		National Treasury
Inadequately Supported Expenditure	The listed suppliers were paid for goods and services rendered on basis of invoices and not cash basis. The amount of 798,424 was included in the pending bills forwarded from State Department of Commerce in the Report and Financial Statements of 30 th June, 2014 except for payment of 55,099 which was inadvertently left out.		The Accounting officer has enforced the implementation of the requirements of adequate approval and enhanced Internal Central System (ICS) to check that all relevant documents are attached to payment vouchers.
Statement of Cash Flows	The State Department represent changes in working capital that is, changes in current assets and current liabilities		The State Department revised the Financial Statements and the adjustment revised to Kshs. 2,979,515


 Principal Secretary


 Senior Assistant Accountant General