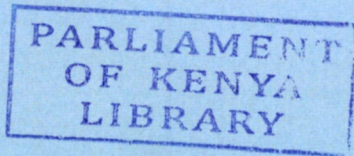


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
EQUALISATION FUND**

**FOR THE YEAR ENDED
30 JUNE 2016**

THE NATIONAL TREASURY



Republic of Kenya

The National Treasury

Financial Statements for the Equalisation Fund

For the Financial Year ended 30th June 2016

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1. Overview of the Equalisation Fund

1.1 Background of the Fund

The Equalisation Fund is established under article 204(1) of the Constitution of Kenya and is administered as per the Public Financial Management Act, 2012 and its Guidelines on the administration of the Equalisation Fund gazette notice no. 1711 of 13th March 2015.

The purpose of the Equalisation Fund is to provide basic services including water, roads, health facilities and electricity to marginalised areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible. The Constitution under Article 216(4) obligated the Commission on Revenue Allocation to determine, publish and regularly review a policy in which it shall set out the criteria by which to identify the marginalized areas. This policy was approved by Parliament in December, 2014 and stated that the policy shall be effective for three financial years from the date of its approval. This means that the current policy is applicable for the financial years 2014/2015, 2015/2016 and 2016/2017.

The marginalization policy identified fourteen (14) counties to benefit from the Fund for the first three years namely: Turkana; Mandera; Wajir; Marsabit; Samburu; West Pokot; Tana River; Narok; Kwale; Garrisa; Kilifi; Taita Taveta; Isiolo and Lamu.

Article 204 (1) requires that one half per cent (0.05%) of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalisation Fund. As at 30th June 2016 the total accumulated entitlement to the Fund for the financial years 2011/2012 to 2015/2016 are estimated at Kshs 15,402,759,850 as shown on the table below:

Financial Year	Equalisation Fund Entitlement (0.5% of most recent audited and approved revenues) Kshs
2011/2012	2,340,759,850
2012/2013	2,646,500,000
2013/2014	2,646,500,000
2014/2015	3,884,500,000
2015/2016	3,884,500,000
Total	15,402,759,850

1.2 Administration of the Fund

1.2.1 The Equalisation Fund Advisory Board

An Equalisation Fund Advisory Board was established pursuant to Section 4.1 of the Guidelines on the administration of the Equalisation Fund, 2015. The Board is mandated to advise the Cabinet Secretary on the proper and effective performance of the Fund. The Board consists of the following members:

- (a) The Principal Secretary for the time being responsible for matters relating to finance who is also the Chairperson;
- (b) The Principal Secretary for the time being responsible for matters relating to Devolution and Planning or his or her representative;
- (c) The Principal Secretary for the time being responsible for matters relating to water or his or her representative;
- (d) The Principal Secretary for the time being responsible for matters relating to roads or his or her representative;
- (e) The Principal Secretary for the time being responsible for matters relating to health or his or her representative;
- (f) The Principal Secretary for the time being responsible for matters relating to energy or his or her representative;
- (g) The Principal Secretary for the time being responsible for matters relating to national coordination or his or her representative; and
- (h) Four other members of either gender appointed by the Cabinet Secretary from outside the public service.

1.2.2 The Administrator of the Fund

The Director General Accounting Services and Quality Assurance has been designated as the Administrator of the Equalisation Fund pursuant to Section 24 (5) of the PFM Act, 2012 that mandates the Cabinet Secretary to the National Treasury to designate a person to administer a national public fund.

The Administrator of the Fund is also the Secretary to the Board with the responsibilities of arranging the business of the Board's meetings, keeping records of the proceedings of the Board, and perform such other duties as the Board may direct.

1.2.2 Withdrawals from the Fund

Where a withdrawal is authorized under an Act of Parliament that approves the appropriation of money, the National Treasury shall make a requisition for the withdrawal and submit to the Controller of Budget for authorization. Withdrawals from the Fund shall be deposited into the respective spending agencies account.

1.3 Financial reporting requirements

The National Treasury is responsible for preparation of the reports relating to the Fund and submitting to the Auditor-General and a copy of the statements to the National Treasury, Commission on Revenue Allocation and the Controller of Budget not later than three months after the end of each financial year pursuant to Section 24 of PFM Act, 2012.

This report covers the operations of the Equalisation Fund for the financial year ended 30th June 2016.

1.4 Commentary on the financial statements of the Fund

The Equalisation fund received Kshs 6.0 billion during the financial year 2015/2016 compared to Kshs 0.4 billion received in the previous year. The funds were received through the National Treasury.

No funds have been transferred or spent from the Equalisation fund since its establishment.

As at 30th June 2016, the Equalisation Fund had a cumulative balance of Kshs 6.4 billion compared to the balance of Kshs 0.4 billion as at 30th June 2015. The balances represented the funds held in the bank account of the Fund which is maintained at the Central Bank of Kenya.

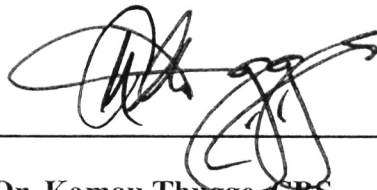
2. Statement of Responsibility

The Accounting Officer to the National Treasury accepts responsibility for the financial statements of the Equalisation Fund, which has been prepared on the Cash Basis method of accounting, using appropriate accounting policies in accordance with the International Public Sector Accounting Standards (IPSAS) and as prescribed by the Public Sector Accounting Standards Board (PSASB).

The Equalisation Fund financial statements have been extracted from the accounting records maintained by National Treasury, and the information provided is accurate and complete in all material respects.

The Accounting Officer to the National Treasury confirms the completeness of the accounting records maintained for the Equalisation Fund, which have been relied upon in the preparation of the Financial Statements as set out on page 4 to 10 for the period ended 30th June 2016.

Signature: _____



Name: **Dr. Kamau Thugge, CBS**
Principal Secretary, The National Treasury

Date: _____

23 / 2 / 2017

REPUBLIC OF KENYA

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NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON EQUALISATION FUND FOR THE YEAR ENDED 30 JUNE 2016- THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Equalisation Fund set out on pages 5 to 11, which comprise the statement of financial assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows and statement of budget and actual performance for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with 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 Accounting Officer-National Treasury is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with 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 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

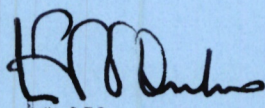
Report of the Auditor-General on the Financial Statements of Equalisation Fund for the year ended 30 June 2016

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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Equalisation Fund 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.



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

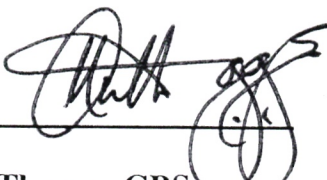
Nairobi

03 April 2017

3. Statement of Receipts and Payments for the year ended 30th June 2016

		Period to 30th June 2016	Period to 30th June 2015
	Notes	Kshs	Kshs
Receipts			
Receipts from The National Treasury	7.2.1	6,000,000,000	400,000,000
Total Receipts		6,000,000,000	400,000,000
Payments and transfers			
Payments and transfers	7.2.2	-	-
Total payments and transfers		-	-
Surplus		6,000,000,000	400,000,000

The notes on pages 10 to 11 of these statements form an integral part of these financial statements.

Signature: 

Dr. Kamau Thugge, CBS
Principal Secretary,
The National Treasury

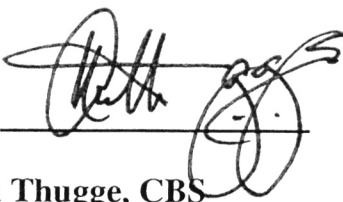
Signature: 

Bernard Ndungu, MBS
Administrator of the Fund
The National Treasury

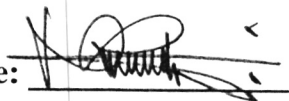
4. Statement of Financial Assets as at 30th June 2016

	Note	As at 30 th June 2016 Kshs	As at 30 th June 2015 Kshs
Financial Assets			
Cash and Cash Equivalents			
Bank Balances	7.2.3	6,400,000,000	400,000,000
Total Cash and Cash Equivalent		6,400,000,000	400,000,000
Accounts Receivables			
Outstanding Imprests		-	-
Total Financial Assets		6,400,000,000	400,000,000
Financial Liabilities			
Accounts Payables – Deposits And Retentions		-	-
Net Financial Assets		-	-
Represented By			
Fund Balance B/Fwd	7.2.4	400,000,000	-
Surplus/Deficit for the year		6,000,000,000	400,000,000
Net Financial Position	7.2.5	6,400,000,000	400,000,000

The notes on pages 10 to 11 of these statements form an integral part of these financial statements.

Signature: 

Dr. Kamau Thugge, CBS
 Principal Secretary,
 The National Treasury

Signature: 

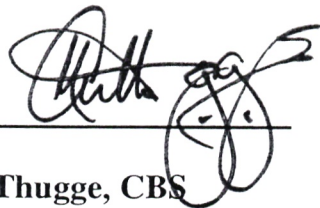
Bernard Ndungu, MBS
 Administrator of the Fund
 The National Treasury

5. Statement of Cash Flows for the year ended 30th June 2016

		Period to 30th June 2016 Kshs	Period to 30th June 2015 Kshs
Receipts from Operating Income			
Receipts from National Treasury	7.2.1	6,000,000,000	400,000,000
Payments and transfers			
Payments and transfers	7.2.2	-	-
Net Cash Flow from Operating Activities		6,000,000,000	400,000,000
Cash flow from Investing Activities		-	-
Cash flow from Financing Activities		-	-
Cash and cash equivalent at the beginning of the year		400,000,000	-
Net Increase in Cash and Cash Equivalent	7.2.4	6,400,000,000	400,000,000
Cash and Cash Equivalent at the end of the Year	7.2.5	6,400,000,000	400,000,000

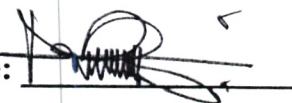
The notes on pages 10 to 11 of these statements form an integral part of these financial statements.

Signature: _____



**Dr. Kamau Thugge, CBS
 Principal Secretary,
 The National Treasury**

Signature: _____



**Bernard Ndungu, MBS
 Administrator of the Fund
 The National Treasury**

6. Summary of Budget versus Actual Performance

The following statement summarizes the outturn against budget:

	Original Estimates Kshs	Revised Estimates Kshs	Total Actual 30 th June 2016 Kshs	% Realized
Receipts				
The National Treasury	6,000,000,000	6,000,000,000	6,000,000,000	100%
Sub-total	6,000,000,000	6,000,000,000	6,000,000,000	100%
Transfers				
Transfers to County Governments	-	-	-	-
Total Transfers	-	-	-	

Commentary:

A total of Kshs 6.0 billion was received into the Equalisation Fund against a budget of Kshs 6.0 billion representing 100% budget realization.

No transfers were made out of the Equalisation Fund during the financial year ended 30th June 2016.

7. Significant Accounting Policies

7.1 Accounting Policies

a) Basis of preparation

The financial statements of the Equalisation Fund have been prepared in accordance with International Public Sector Accounting Standard (IPSAS) cash standards as prescribed by the Public Sector Accounting Standard Board (PSASB) in Kenya.

b) Reporting entity

This report relates to financial operations of the Equalisation Fund. The reporting entity is the National Treasury.

c) Receipts

Receipts to the Equalisation Fund consist of monies appropriated from the Consolidated Fund by an Appropriation Act in any financial year. Receipts are recognized when the cash is received in the Equalisation Fund.

Pursuant to Article 204 (1) and (2) of the Constitution of Kenya, one half per cent of all revenue collected by the national government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly shall be paid to the Equalisation Fund.

d) Payments and transfers

Transfers consist of withdrawal as authorized under an Act of Parliament that approves the appropriation of money from the Fund. Transfers from the Fund are deposited into the respective spending agencies account.

e) Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short term deposits in money market instruments.

f) Presentation Currency

The financial statements are reported in Kenya Shillings, being the currency of legal tender in Kenya.

7.2 Notes to accounts

7.2.1 Income and Non Income Receipts

Receipts into the Equalisation Fund amounted to Kshs 6.0 billion for the period ended 30th June 2016 compared to Kshs 0.4 billion for the comparative period. The following is an analysis of the receipts received into the Equalisation Fund:

Description	Period to 30 th June 2016 Kshs	Period to 30 th June 2015 Kshs
Transfer from the National Treasury	6,000,000,000	400,000,000
Total Receipts	6,000,000,000	400,000,000

7.2.2 Transfers

The National Treasury has not disbursed any funds from the Equalisation Fund since it was set up.

7.2.3 Bank balance of the Equalisation Fund

The bank balance as at 30th June 2016 amounted to Kshs 6.4 billion compared to Kshs 0.4 billion in the previous year.

Bank Name and Account	Denomination of Account	Balance as at 30 th June 2016	Balance as at 30 th June 2015
Central Bank of Kenya, Acc no. 1000183225	Kshs	6,400,000,000	400,000,000
Total		6,400,000,000	400,000,000

7.2.4 Opening balance of the Equalisation Fund

The opening balance as at 1st July 2015 represents accumulated bank balances of the Fund that amounted to Kshs 0.4 billion compared to Nil balance for the previous year.

Description	Balance as at 1 st July 2015	Balance as at 1 st July 2014
Bank balance	400,000,000	-
Total	400,000,000	-

7.2.5 Closing Balance

The closing balance as at 30th June 2016 amounted to Kshs 6.4 Billion while the closing balance as at 30th June 2015 amounted to Kshs 0.4 Billion as reflected in the bank account of the Fund shown below:

Description	Balance as at 30 th June 2016 Kshs	Balance as at 30 th June 2015 Kshs
Bank balance	6,400,000,000	400,000,000
Total Receipts	6,400,000,000	400,000,000

