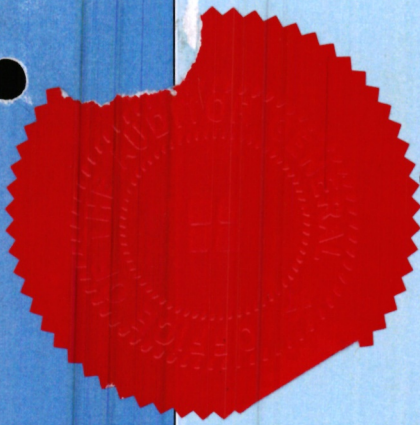


REPUBLIC OF KENYA



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REPORT



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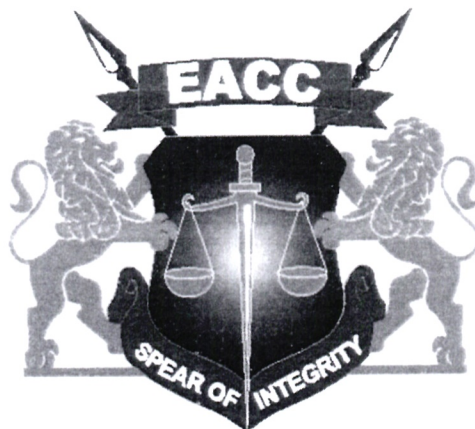
THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
ETHICS AND ANTI-CORRUPTION
COMMISSION

FOR THE YEAR
ENDED 30 JUNE 2017





ETHICS AND ANTI CORRUPTION COMMISSION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

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

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
- 7 NOV 2017
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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 four 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

Name

- | | |
|--|------------------|
| 1. Secretary / Chief Executive Officer (CEO) | Halakhe D. Waqo |
| 2. Deputy Chief Executive Officer – Technical Services | Michael K. Mubea |

(e) Fiduciary Oversight Arrangements

1. Enforcement Committee
2. Corruption Prevention, Education and Public Engagement
3. Finance, Planning and Supply chain
4. Human resource and Support Services
5. Audit Committee

(f) Entity Headquarters

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

(g) Entity Contacts

Headquarters, Nairobi
Integrity Centre
Jakaya Kikwete /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 - 00200
Nairobi, Kenya

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

Housing Finance Company
Kenyatta Avenue
P.O. Box 30088 - 00100
Nairobi, Kenya

(i) Independent Auditors

Office of Auditor General
Anniversary Towers, University Way
P.O. Box 30084
GPO 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



Arch Bishop (Rtd) Eliud,
Wabukala, EBS- Chairman



Sophia Lepuchirit
Vice Chairperson



Dr. Babar Abdi Maalim
Commissioner



Paul Mwaniki Gachoka, FCIArb
Commissioner



Rose Mghoi M. Macharia
Commissioner



Mr. Halakhe D. Waqo, CBS, MCIArb
Commission Secretary

MANAGEMENT TEAM



Mr. Halakhe D. Waqo, CBS, MCIArb
Chief Executive Officer



Mr Michael K. Mubea, EBS
Deputy Chief Executive Officer



Mr. Abdi A. Mohamud, MBS
Director-Investigations



Mr. David K. Too
Director-Legal Services



Ms. Lucy W. Kinuthia
Director-Ethics &
Leadership



Ms. Jennifer Kimani
Director-Finance &
Planning



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

II. CHAIRMAN'S STATEMENT

I am pleased to present the Commission's financial statements for the year ended 30th June 2017, my first as Chairman of the Ethics and Anti-Corruption Commission (EACC).

The Commission operates in a dynamic governance environment influenced by macroeconomic, socio-political, and regulatory factors among others. Consistent with its robust performance in recent years, once again economic growth in Kenya was solid in 2016, coming in at an estimated 5.8 percent. This has been supported by a stable macroeconomic environment, low oil prices, earlier favourable harvest, rebound in tourism, strong remittance inflows, and an ambitious public investment drive.

Corruption continues to manifest itself in a number of ways ranging from petty to grand in nature, political to bureaucratic in focus and from incidental to systemic in scope. Emanating essentially from the exploitation of public office for private gain, corruption radiates from government through agencies and impacts upon the individuals and/or organisations required to liaise with those agencies in order to obtain basic services. Given the range and impact of corrupt behaviour, the Commission revised its strategy taking into cognizance causes of corruption, the political and socio-economic environment in which corruption thrives and the broader links between corruption, organised crime and international illicit capital flows. The Commission is more focused on changing the narrative and is aiming at bringing on board all Kenyans to participate in the fight against corruption.

The new strategic orientation will be implemented in actions to raise public discourse on the state of corruption and cultivate public acceptance that corruption is undesirable. In addition, the actions will aim to get each level of society, including learning institutions, to accept its responsibility for tackling the vices. The strategies therein require stronger collaboration among all of us and more so, call for increased budgetary allocation for implementation of programmes.

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, proficiency, 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. Therefore, I 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.



ARCHBISHOP (RTD) ELIUD WABUKALA, EBS

CHAIRMAN

III. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Commission has the pleasure to present the financial statements for the financial year 2016/2017. The financial statements comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Net Assets and Statement of Cash Flows. The Commission continued to employ prudent financial management in line with Government Financial Regulations and International Public Sector Accounting Standards (IPSAS) resulting in facilitation of efficient and effective operations as well as comprehensive absorption of the annual budget provided.

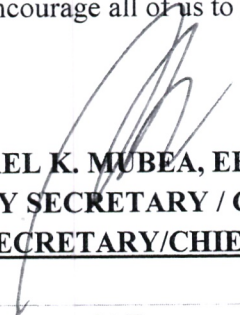
The Commission draws its mandate from several laws. Foremost in the legal framework is the Constitution of Kenya; in particular Chapter Six on Leadership and Integrity. Pursuant to the Constitution, other laws have been enacted to operationalize the requirements of the Constitution and these include 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 principal law that provides for the investigations, prosecution and adjudication of corruption and economic crimes offences in Kenya.

Guided by our mission to promote integrity and combat corruption through law enforcement, prevention and education, the Commission has implemented extensive programmes to intensify the war against corruption and unethical conduct. In addition, the report is issued at the backdrop of a democratic transition through August 8, 2017 General Elections and the Commission undertook various programmes expansion and employed new strategy to further the fight against corruption and promote ethical leadership. The Commission strategy of reducing the prevalence of corruption and unethical conduct is underscored of our commitment to upscale programmes and activities, which is reflected by 18% increase in budgetary allocation.

During the reporting period, the Commission undertook a refocused automation of the Leadership and Ethics programmes which include self-declaration modules, leadership and integrity Act monitoring module and Declaration of income, assets and liabilities module among others. When operationalized, the automated system shall improve efficiency of our operations. The Commission also strengthened its staff compliment by recruiting 242 officers, which is the highest number to join the commission in a financial year. Within the short stint of their employment, commendable results have been registered, through efficient and timely delivery of our services.

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. I thank all stakeholders and our development partners for increased collaboration and cooperation in the fight against corruption.

I wish to thank the Commissioners 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 staffs have remained resilient and focused in the performance of their duties, 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.


MICHAEL K. MUBEA, EBS
DEPUTY SECRETARY / CEO- TECHNICAL SERVICES
FOR: SECRETARY/CHIEF EXECUTIVE OFFICER

IV. CORPORATE GOVERNANCE STATEMENT

The Commission operations and financial responsibilities are overseen by the Chief Executive Officer who is the accounting officer. The operations are guided by an approved annual budget 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; Enforcement, Preventive Services, Corporate Services and Risk and Audit. These committees are comprised of the commissioners and officers 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.

Programmes are monitored against the set targets and appropriate feedback provided. 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 Office of Auditor General 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.

REPORT OF THE COMMISSION

The Commission submits its report together with the audited financial statements for the year ended June 30, 2017 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, 2017 are set out on page 1 to 18.

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.

VI. 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 2015/2016. The Management is also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Management is also responsible for safeguarding the assets of the Commission.

The management is 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, 2017. 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 accepts 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 Public Finance Management Act and the Ethics and Anti-corruption Act. The management is 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, 2017, and of the Commission's financial position as at that date. The Management further confirms 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 Commission's Financial Statements were approved by the Commission on 28th July 2017 and signed on its behalf by:



Arch Bishop (Rtd) Eliud Wabukala, EBS
Chairperson



Michael K. Mubea, EBS
Deputy Secretary / CEO- Technical Services
For: Secretary/Chief Executive Officer

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON ETHICS AND ANTI-CORRUPTION COMMISSION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Ethics and Anti-Corruption Commission set out on pages 1 to 19, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive receipts and payments, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 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.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Ethics and Anti-Corruption Commission as at 30 June 2017, and its financial performance and its cash flows for the year then ended, in accordance with International Public sector Accounting Standards (Accrual Basis) and comply with Ethics and Anti-Corruption Commission Act, 2011.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. I am independent of the Commission in accordance with ISSAI 30 on Code of Ethics. I have fulfilled my other ethical responsibilities in accordance with other ethical requirements applicable to performing audit of the financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to Note 20 to the financial statements which reflects an amount of Kshs.28,513,500 held in an idle account that is not earning interest.

Report of the Auditor-General on the Financial Statements of Ethics and Anti-Corruption Commission for the year ended 30 June 2017

Other Matter

Information Technology Systems

During the year under review, it was noted that the Commission's information technology conformity and disaster recovery plans and back-ups were not kept off-site as required. There was also no formally documented and approved user management standards and procedures. Further, there was no formal process to review user access rights.

My opinion is not qualified in respect of this matter.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public sector Accounting Standards (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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Commission or to ease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

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 Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion 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 of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in financial statements or, if such disclosures are inadequate, to modify my opinion.
My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities to express an opinion on the financial statements.

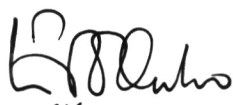
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with management, I determine those matters that were of most significance in the audit of financial statements of the current period and are therefore the key audit matters.

These matters are described in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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

Nairobi

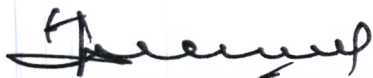
05 December 2017

**STATEMENT OF FINANCIAL PERFORMANCE
AS AT JUNE 30, 2017**

	Notes	2016-2017 Kshs.	2015-2016 Kshs.
Revenue from exchange transactions			
Exchequer Receipts	3	3,035,621,390	2,261,800,000
Donor Grants		-	-
Other income	5	-	370,444
Total Revenue		3,035,621,390	2,262,170,444
Expenses			
Employee costs	6	2,002,305,954	1,494,769,966
Depreciation and amortization expense	7	125,842,431	93,277,979
Repairs and maintenance	8	34,919,851	25,974,996
General expenses	9	623,653,958	489,752,335
Total Expenses		2,786,722,195	2,103,775,275
Other gains/(losses)			
Gain on sale of assets	10	973,030	-
Surplus before tax		249,872,225	158,395,169
Taxation		-	-
Surplus for the period		249,872,225	158,395,169

STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2017

	Notes	2016-2017 Kshs.	2015-2016 Kshs.
Assets			
Current Assets			
Cash and cash equivalents	11	65,503,392	453,023,235
Receivables from non-exchange transactions	12 (a)	37,421,954	32,369,267
Inventories	13	17,230,457	14,724,716
		120,155,803	500,117,218
Non-Current Assets			
Property, plant and equipment	14(a)	523,052,429	416,583,788
Asset recovery Account	20	28,513,501	100,793,629
Intangible Assets	15	31,691,910	15,181,152
Receivables from exchange transactions (Gratuity fund investment)	22	46,163,351	88,232,535
Receivables from exchange transactions (NLC)	14(b)	250,000,000	-
		879,421,191	620,791,104
Total Assets		999,576,994	1,120,908,322
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	17	31,821,000	24,819,785
Current portion of borrowings (Accrued liabilities and charges)	18	8,044,480	2,982,902
		39,865,480	27,802,687
Non-Current Liabilities			
Non-current employee benefit obligation (Gratuity fund)	21	50,575,619	61,561,837
Asset recovery fund	23	28,513,501	100,793,629
		79,089,120	162,355,466
Total liabilities		118,954,600	190,158,153
Net Assets			
Mortgage and Car Loan Revolving Fund	26	-	300,000,000
Reserves (Accumulated fund)	25	688,292,022	438,419,797
Accumulated surplus	24	192,330,372	192,330,372
		880,622,394	930,750,169
Total Net assets and liabilities		999,576,994	1,120,908,322



Arch Bishop (Rtd) Eliud Wabukala, EBS
Chairperson



Michael K. Mubea, EBS
Deputy Secretary / CEO- Technical Services
For: Secretary/Chief Executive Officer

**STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 30 JUNE 2017**

	Accumulated Fund Kshs	Revenue Reserve Kshs	Total Kshs
Balance as at 30 June 2015	192,330,372	280,024,628	472,355,000
Surplus/(deficit) for the period	-	158,395,169	158,395,169
Balance as at 30 June 2016	192,330,372	438,419,797	630,750,169
Surplus for the period		249,872,225	249,872,225
Balance as at 30 June 2017	192,330,372	688,292,022	880,622,394

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2017**

	2016-2017 Kshs.	2015-2016 Kshs.
Cash flows From Operating Activities		
Surplus/ (Loss) from operations	249,872,225	158,395,169
Add back non-cash payment (Depreciation)	109,998,853	85,688,541
Add back non-cash payment (Amortization)	15,843,578	7,589,438
Profit on disposal of Assets	(973,030)	-
	<u>374,741,626</u>	<u>251,673,148</u>
Income from Operations		
(Increase)/Decrease in inventories	(2,505,741)	2,431,842
(Increase)/Decrease in receivables & Prepayments	(5,052,687)	(21,924,355)
(Increase)/Decrease in receivables-NLC	(250,000,000)	-
Increase/(Decrease) in payables	12,062,793	8,767,023
Net cash flows from operating activities	<u>129,245,991</u>	<u>240,947,658</u>
Cash flows From Investing Activities		
Purchase of property, plant and equipment	(218,732,582)	(127,500,703)
Gratuity Fund Investment	(10,986,218)	49,468,598
Purchase of Intangible Assets	(32,354,336)	-
Proceeds from disposal of plant, property and equipment	3,238,118	142,377
Net cash utilized in investing activities	<u>(258,835,018)</u>	<u>(77,889,728)</u>
Cash flows From Financing Activities		
Gratuity Fund	42,069,184	(66,604,011)
Net cash used in Financing activities	<u>42,069,184</u>	<u>(66,604,011)</u>
Net increase in cash and cash equivalents	(87,519,843)	96,453,919
Bank and Cash equivalents at beginning of year	153,023,235	56,569,316
Bank and cash equivalent at end of year	<u><u>65,503,392</u></u>	<u><u>153,023,235</u></u>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FY2016/17

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Public contributions and donations	-		-		-
Government grants and subsidies	2,391,080,000	539,000,000	2,930,080,000	2,785,621,390	-144,458,610
Development Vote	100,000,000	150,000,000	250,000,000	250,000,000	-
Total income	2,491,080,000	689,000,000	3,180,080,000	3,035,621,390	-144,458,610
Expenses					
Compensation of employees	1,679,516,390	324,143,451	2,003,659,841	2,002,296,674	1,363,167
Use of Goods and services	608,654,950	181,165,209	789,820,159	741,344,478	48,475,681
Finance cost	600,000	-	600,000	245,892	354,108
Rent paid	102,308,660	33,691,340	136,000,000	135,725,302	274,698
Development Vote	100,000,000	150,000,000	250,000,000	250,000,000	-
Total expenditure	2,491,080,000	689,000,000	3,180,080,000	3,129,612,346	50,467,654
Surplus/(Deficit) for the period				(93,990,956)	(93,990,956)

VIII. 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

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.

c) 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 there cognition 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.

d) 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.

e) 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.

f) 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.

g) 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.

h) 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.

i) 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.

j) 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.

k) Comparative figures

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

l) 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

m) 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 2017.

3. Transfers from other governments—gifts and services-in-kind		
	2017	2016
	Shs	Shs
Unconditional grants		
Operational grant	3,035,621,390	2,261,800,000
Other(development)	-	-
	<u>3,035,621,390</u>	<u>2,261,800,000</u>
Conditional grants		
Other organizational grants		
Total government grants and subsidies	<u><u>3,035,621,390</u></u>	<u><u>2,261,800,000</u></u>
4. Finance income-external investments		
	2017	2016
	Shs	Shs
Cash investments and fixed deposits (interest)	-	-
Total finance income—external investments	<u><u>-</u></u>	<u><u>-</u></u>
5. Other income		
	2017	2016
	Shs	Shs
Other income	-	370,444
Total other income	<u><u>-</u></u>	<u><u>370,444</u></u>
6. Employee costs		
	2017	2016
	Shs	Shs
Employee related costs-salaries and wages	981,896,105	779,855,804
Employee related costs-contributions to pensions and medical aids	347,236,807	237,730,477
Travel ,motorcar, accommodation ,subsistence and other allowances	271,225,813	170,792,799
Housing benefits and allowances	401,947,229	306,390,885
Total employee costs	<u><u>2,002,305,954</u></u>	<u><u>1,494,769,966</u></u>

7. Depreciation and amortization expense

	2017	2016
	Shs	Shs
Property, plant and equipment	109,998,853	85,688,541
Intangible assets	15,843,578	7,589,438
Total depreciation and amortization	125,842,431	93,277,979

8. Repairs and maintenance

	2017	2016
	Shs	Shs
Property	2,341,040	492,415
Equipment	1,403,019	2,146,629
Vehicles	25,632,687	18,050,935
Other	5,543,105	5,285,016
Total repairs and maintenance	34,919,851	25,974,996

9. General expenses

	2017	2016
	Shs	Shs
Advertising	74,348,659	39,300,493
Audit fees	696,000	600,000
Conferences and delegations	66,661,734	42,066,393
Consulting fees	7,133,771	6,436,840
Consumables	20,724,789	19,253,850
Electricity	9,972,526	10,533,665
Fuel and oil	24,527,725	17,082,488
Insurance	15,084,684	11,653,097
Legal expenses	2,128,910	1,316,691
Licenses and permits	13,882,596	11,901,968
Specialized materials	4,717,087	4,009,960
Postage	2,307,187	1,510,192
Rental	135,725,302	121,171,422
Security costs	78,145,730	60,585,170
Sewage and water costs	1,225,540	1,118,033
Research and development	19,282,504	10,699,383
Telecommunication	13,204,804	16,772,306
Training	106,948,101	90,666,510
Refurbishment of non-residential buildings	5,690,360	11,786,987
Bank charges	245,892	227,562
Wealth declaration system	-	-
Other expenses	21,000,056	11,059,327
Total general expenses	623,653,958	489,752,335

10. Gain on sale of assets

	2017	2016
	Shs	Shs
Property, plant and equipment	973,029	-
Other assets	-	-
Total gain on sale of assets	973,029	

11. Cash and cash equivalents

	2017	2016
	Shs	Shs
Bank	63,713,732	452,416,374
Cash-on-hand and in transit	1,789,660	606,860
Short-term deposits	-	-
Total cash and cash equivalents	65,503,392	453,023,234

12 Receivables from non-exchange contracts**Current receivables**

	2017	2016
	Shs	Shs
Staff imprest	3,965,281	1,201,808
Staff advances	56,337	105,917
Other receivables	33,400,336	31,061,542
		-
		-
Total current receivables	37,421,954	32,369,267

13 Inventories

	2017	2016
	Shs	Shs
Consumable stores	8,544,221	8,527,200
Provision for loss of inventory	(2,923,920)	(2,923,920)
Library books	11,610,157	9,121,437
Total Inventories	17,230,457	14,724,716

14(a) Property, plant and equipment

Rates	0	0.125	0.125	0.125	0.25	0.3333	
	Land	Plant and Equipment	Security Equipment	Furniture, Fixtures & Fittings	Motor Vehicles	Computer Equipment	Total
Cost or Valuation:	Shs	Shs	Shs	Shs	Shs	Shs	Shs
As at 1st July, 2015	120,416,497	58,900,921	56,724,164	43,654,979	331,686,509	143,852,254	755,235,324
Additions during the year	-	9,762,992	654,714	22,746,505	76,436,530	17,899,961	127,500,702
Disposal	-	(103,999)	-	-	-	(231,000)	(334,999)
As at 30th June 2016	120,416,497	68,559,914	57,378,878	66,401,484	408,123,039	161,521,215	882,401,027
Additions during the year	-	21,299,878	72,915,142	5,392,506	71,817,708	47,307,348	218,732,582
Disposal	-	(537,886)	-	(878,300)	(12,530,000)	(27,804,395)	(41,750,581)
As at 30th June 2017	120,416,497	89,321,906	130,294,020	70,915,690	467,410,747	181,024,168	1,059,383,028
Depreciation and impairment							
At 1 July 2015	-	27,378,013	29,575,023	16,110,592	207,253,750	100,003,942	380,321,320
Depreciation	-	5,207,943	3,475,482	6,229,924	50,217,322	20,557,869	85,688,540
Disposals	-	(30,117)	-	-	-	(162,504)	(192,621)
At 30 June 2016	-	32,555,839	33,050,505	22,340,516	257,471,072	120,399,307	465,817,239
Disposals	-	(387,452)	-	(647,241)	(11,529,580)	(26,921,219)	(39,485,492)
Charge for the year	-	7,144,190	12,155,439	6,152,802	55,367,314	29,179,108	109,998,853
At 30 June 2017	-	39,312,577	45,205,944	27,846,077	301,308,806	122,657,196	536,330,600
Net book values							
At 30 June 2017	120,416,497	50,009,329	85,088,076	43,069,613	166,101,941	58,366,971	523,052,429
At 30 June 2016	-	36,004,075	24,328,373	44,060,967	150,651,967	41,121,908	416,583,788

14(b) Receivable from exchange transactions –National Lands Commission (NLC)

	2017	2016
	Shs	Shs
Land and Buildings	250,000,000	-
Total Land and Buildings	250,000,000	-

This represents funds paid to NLC as initial deposit towards compulsory acquisition of EACC office premises

14(c)

BRIEF HISTORY ON THE ACQUISITION OF LAND/PREMISES FOR EACC HEADQUARTERS

The Ethics and Anti-Corruption Commission has been housed in private rental premises since inception in 1990s. The current rent cost for Integrity Center; EACC Headquarters is Kshs 87,008,468/- annually. Due to high rental cost and uncertainty in lease renewals, the Commission decided to acquire its Headquarters first by procuring and developing a plot.

In 2007, the Commission purchased plot L.R. No.26965 in Karen from M/s John Keen Investments Ltd at a total purchase cost including incidental costs of Kshs. 120,416,496.

It was later decided that the location of the land would not be ideal for the Commission's Headquarters due to its limited accessibility to the members of the public and partner institutions.

Various alternatives were explored that would enable the Commission to acquire premises for its Headquarter. The first alternative involved disposing the Karen plot and requesting Treasury to provide additional funds in the Commission's development budget for 2013/14 – 2015/16 MTEF period to allow for purchase of an already built office premise. The second alternative involved requesting Government for an office space. The third alternative involved progressing with the implementation of the Karen project.

EACC wrote to various Government agencies requesting them to help in identifying land or an already built office premise which the Commission could purchase. The Ministry of Housing, Kenya Railways and National Social Security Fund (NSSF) responded to the request made by the Commission. EACC was given an offer by NSSF to buy six floors on the parking silo. In the Commission's 2014/15

Financial Year Budget Estimates, National Treasury provided Kshs 270 Million to cater for the purchase of the office premise. Of this amount, Kshs. 70 Million was to be a direct disbursement by the Government while Kshs. 200 Million was to be realized from the sale of the Karen plot.

On the 27th June 2014, NSSF issued the Commission with a new offer setting the price of the premise at Kshs. 1.36 Billion. On 25th February 2015, the Commission held a special meeting to deliberate on this matter and resolved to terminate the process of acquiring the office premise from NSSF.

On 3rd October, 2016 the National Treasury allowed the Commission to initiate the acquisition process for the headquarters together with the Office of the Director of Public Prosecution. Subsequently, the Commission processed an open tender for the subject procurement. One bid was received from Citiscape Valuers & Estate Agents Limited for Flamingo Tower Limited which was subjected to preset evaluation criteria and found to be responsive. The initial offer was **Kshs 2,950,000,000.00** which was subjected to a series of negotiation and the final negotiated price was agreed at **Kshs 2,688,000,000.00 payable within two financial years namely; 2016/ 2017 and 2017/2018**. However the Ministry of Lands and Physical Planning had valued the office block at **Kshs 2,400,000,000.00** and the procurement had to be terminated on the basis of not being value for money. This was pursuant to Section 63(1) of the Public Procurement and Asset Disposal act, 2015 since the negotiated price was above the Government Valuation.

Consultations were held between the Commission and the Departmental Committee on Justice and Legal Affairs (JLAC) on 30th March, 2017, upon which the Commission was advised to sever joint acquisition of premises with the Office of the Director of Public Prosecutions and consider compulsory acquisition of Integrity Centre or any other suitable premises (National Assembly's letter dated 3rd April, 2017). The Commission then sought further direction from the National Treasury in light of National Assembly's advice which through a letter dated 13th April, 2017, advised the Commission to liaise with the Attorney General to request the National Land Commission to acquire the property on behalf of EACC. Through the Office of the Attorney General the Commission initiated the process of acquisition of permanent premises for its headquarters by compulsory acquisition in accordance with Section 107(1) of the Land Act, 2012 which outlines that, *whenever the National or County Government is satisfied that it may be necessary to acquire some particular land through compulsory acquisition, the respective Cabinet Secretary or the County Executive Committee Member shall submit a request for acquisition of land to the National Land Commission to acquire the land on its behalf.*

In line with procedures and the Land Act (2012) Section 153, the National Land Commission through a letter ref NLC/V&T/AG/001(13) dated 27th June 2017 requested the Commission to make a deposit towards compulsory acquisition. EACC deposited Kshs 250 million with NLC on 30th June 2017 in line with the Commission approval dated 28th June 2017.

The Commission during its 33rd meeting dated 5th September 2017 constituted an advisory committee whose purpose is to review the acquisition process with particular regard to space needs and suitability of surveyed premises. The committee is to prepare a report with recommendations to the Commission.

15. Intangible assets -software

Cost	Shs
At 1 July 2015	139,501,806
Additions	-
At 30 June 2016	139,501,806
Additions-internal development	32,354,336
At 30 June 2017	171,856,141
Amortization and impairment	
At 1 July 2016	124,320,653
Amortization-Charge for the year	15,843,578
At 30 June 2017	140,164,231
Net book values	
As at 30 June 2017	31,691,910
As at 30 June 2016	15,181,152

16. Investment property (land)

	2017	2016
	Shs	Shs
Opening balance as at 1 July	120,416,497	120,416,497
Closing balance at 30 June	120,416,497	120,416,497

17. Trade and other payables from exchange transactions

	2017	2016
	Shs	Shs
Other payables	31,821,000	24,819,785
Total trade and other payables	31,821,000	24,819,785

18. Accrued liabilities and charges

	2017	2016
	Shs	Shs
Accrued audit fees	696,000	696,000
Accrued Expenses-	7,348,480	2,286,902
	8,044,480	2,982,902

19. 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 311,600,000. 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.

20. Asset Recovery Fund Account

	2017 Shs	2016 Shs
Balance brought forward	100,793,629	85,618,468
Funds recovered in the year	13,571,346	15,175,161
Payments	(85,851,475)	-
Total	28,513,500	100,793,629

21. Gratuity Fund Account

	2017 Shs	2016 Shs
Gratuity Fund	50,575,619	61,561,837

22. Gratuity Fund Bank Account

	2017 Shs	2016 Shs
Balance brought forward	88,232,535	21,628,523
Additions	157,469,729	144,962,915
Payments	(199,538,912)	(78,358,904)
Total	46,163,351	88,232,535

	2017 Ksh	2016 Ksh
23. Asset Recovery Fund	28,513,500	100,793,629
24. Accumulated Fund		
Balance brought forward	192,330,372	192,330,372
	192,330,372	192,330,372

25. Revenue Reserve

	2017 Shs	2016 Shs
Balance brought forward	438,419,797	280,024,628
Refund of surplus	-	-
Surplus for the year	<u>249,872,225</u>	<u>158,395,169</u>
Total	<u>688,292,022</u>	<u>438,419,797</u>

26. EACC Staff Car Loan and House Mortgage Scheme

In each of the financial years 2015/16 and 2016/17, the Commission received an exchequer amount; Kshs 300,000,000/-, comprised of Kshs 200,000,000/- and Kshs 100,000,000 Staff House Mortgage and Staff Car Loan respectively.

In financial year 2016/17, separate financial statements have been prepared for EACC Staff Car Loan and House Mortgage Scheme.

27. Related party transactions

Entities and other parties related to the entity include those parties who have abilities to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i. Key Management compensation

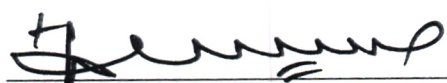
Key management Remuneration

	2017 Ksh	2016 Ksh
Commissioner's allowances	16,800,000	6,240,000
Commission Secretary Salary and Allowances	<u>11,160,000</u>	<u>11,160,000</u>
Total	<u>27,960,000</u>	<u>17,400,000</u>

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.	Court case ongoing	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.	Resolution of the matter ongoing	The matter 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. Development of the wealth declaration system based on the systems designs that were developed by the UNDP project has commenced	Mr David Kaboro	Resolved	The system implementation is ongoing. The System is expected to be fully operational by the end of this financial year



Arch Bishop (Rtd) Eliud Wabukala, EBS
Chairperson



Michael K. Mubea, EBS
Deputy Secretary / CEO- Technical Services
For: Secretary/Chief Executive Officer