

REPUBLIC OF KENYA



3/5/2018

OFFICE OF THE AUDITOR-GENERAL

REPORT

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ON

**THE FINANCIAL STATEMENTS OF
COMMISSION ON REVENUE ALLOCATION**

**FOR THE YEAR ENDED
30 JUNE 2017**



OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
29 SEP 2017
RECEIVED

COMMISSION ON REVENUE ALLOCATION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2017

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

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I. KEY COMMISSION INFORMATION AND MANAGEMENT

(a) Background information

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

(b) Principal Activities

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

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

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

(c) Key Management

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

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

(d) Commission Headquarters

Commission on Revenue Allocation
14 Riverside Drive
Grosvenor suite 2nd and 3rd Floor
P.O Box 1310-00200 Nairobi
Tel: (020) 4298000

(e) Commission Contacts

Telephone: (254) (020) 4298000
E-mail: info@crakenya.org
Website: www.crakenya.org

(f) Commission Bankers

1. Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya
2. Kenya Commercial Bank
KICC Branch
Harambee Avenue
P. O. Box 46950-00100 Nairobi
Tel: (020) 29248501,
Fax: (020) 29248501,
3. I & M Bank
Riverside Branch,
14 Riverside Drive
P. O. Box 30238 – 00100 Nairobi

(g) Independent Auditors

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

(i) Commissioners



Dr. Jane Kiringai

Chairperson

Dr. Jane Kiringai is a seasoned economist with experience spanning over twenty years. She started her career as an economist in the Ministry of Finance determining the aggregate budget framework and ministerial and sectoral budget ceilings.

Before joining CRA she worked as a senior Economist with the World Bank covering a broad range of economic development issues, including macroeconomic analysis and forecasting, public expenditure management and fiscal decentralization. She has also worked with other development institutions including Department for International Development (DFID), the European Commission Delegation, and as a Policy Analyst with Kenya's Policy think tank, Kenya Institute for Public Policy Research and Analysis (KIPPRA).

Dr. Kiringai holds a PhD in Economics from University of Nottingham, UK, a Masters in Development Economics from Williams College, US, a Bachelor of Philosophy in Economics and a Bachelor of Science in Mathematics and Computer Science both from University of Nairobi.



Mr. Humphrey Wattanga

Vice Chairperson

Mr. Humphrey Wattanga holds a Masters in Business Administration from the Wharton School of Finance, USA, and a Bachelor's degree in Biochemistry (cum laude) from Harvard University, USA.

He has over 15 years' global experience serving as a business development, corporate finance and transaction advisor to private equity entities, private sector companies, development

finance institutions, governments and public organisations.

He is a Peer Review member of Grand Challenges Canada; a member of the Brookings Institution's review panel on the potential and limitations of Social Impact Bonds; and an integral party in the conceptualization, structuring and rollout of the M-Akiba platform, the world's first mobile-only government bond



Prof. Edward Oyugi

Commissioner

Professor Edward Akong'o Oyugi holds a PhD in Psychology and Paedagogy from the University of Cologne, Germany and post-doctoral training from University of Cologne, Germany and University of Bayreuth, Germany.

He has held senior academic and research positions in several universities such as Kenyatta University, Bayreuth University (Germany), University of Heidelberg, (Germany), United States International University, Kenya and Tangaza College, Kenya.

He has been a member of the National Economic and Social Council and the Task Force on Devolution. He was also the executive Director of Social Development Network (SODNET) for several years.

Professor Oyugi has published extensively and written several books, articles, book chapters, and papers on diverse subjects. He has received several awards including Otto Benecke Foundation Award (1980) and Hellmann/Hammett Award of the Fund for Free Expression, New York (1992).



Dr. Irene Asienga

Commissioner

Dr. Irene Koech Asienga has over 15 years' experience in research, teaching and administration.

Prior to joining the Commission on Revenue Allocation, Dr. Asienga worked as a Senior Lecturer and Director of Kabarak University, Nairobi Campus. Under this capacity, she was responsible for mentoring, teaching, grading and supervising students. She was also involved in preparation and implementation of the campus strategic plan, coordination of academic programs, supervision of teaching and non-teaching staff, academic advising, marketing the campus programs, drawing up annual reports for the campus and preparation of annual estimates of income and expenditure. She is a former Dean, Business School and Head of Commerce Department at the same university.

She holds a doctorate degree in Economics from the University of Strathclyde, Scotland, UK; a Master of Arts in Economics from the University of Malawi and a Bachelor of Arts in Economics from the University of Nairobi.

She has interests in public finance, environmental, agricultural and development economics and has published widely in peer reviewed journals.



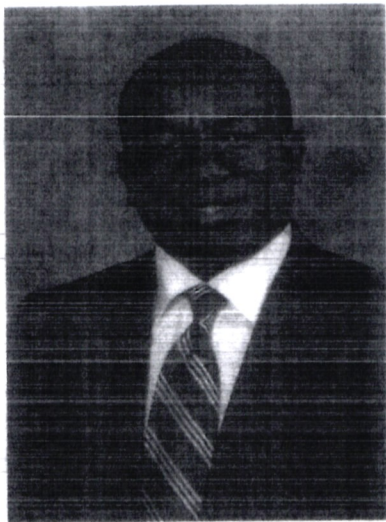
Mr. Kishanto Suuji

Commissioner

Mr. Kishanto ole Suuji has over twenty seven years' experience in public service and the financial sector.

Prior to joining the Commission on Revenue Allocation, Mr. Suuji worked as a Director at Kenya School of Monetary Studies, Central Bank of Kenya, where he rose through the ranks in various departments of the bank. Under this capacity, he was in charge of the Finance and Administration Department.

He holds an MBA from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a B.A. in Economics and Government from University of Nairobi.



Mr. Peter Gachuba

Commissioner

Mr. Peter Gachuba is an Investment Banker with over 20 years of Investment Banking and Private Equity experience. Prior to joining CRA, Mr. Gachuba worked as the Managing Partner of Strategic Africa Fund, Strategic Africa Advisors from 2012 to 2016 and as the Managing Partner of AfriCap Fund, a specialized Private Equity Fund based in Johannesburg, South Africa from 2004 to 2010.

Mr. Gachuba has also worked for Kestrel Capital, Cooperative Bank of Kenya, Acacia Fund Limited, CDC Capital Partners, KPMG and Loita Capital Partners. He has also served as a Non- Executive Director in many boards including Faulu Microfinance Bank, Equity Bank Limited, and has worked in USA, South Africa, Mozambique, Malawi, Uganda and Tanzania.

He holds an Accounting and a Master's Degree in International Business from Southern New Hampshire University in New Hampshire, USA.



Prof. Peter Kimuyu

Commissioner

Professor Peter Kiko Kimuyu holds a PhD in Energy Economics from University of Nairobi, a M.Sc. in Energy Economics from University of Surrey, UK, an M.A. in Economics from University of Nairobi, and a B. Ed. in Economics and Mathematics from University of Nairobi.

He is the founder director of the School of Economics in the University of Nairobi and former Executive Director of the Institute of Policy Analysis and Research.

He has held board-level appointments with the Export Promotion Council, Privatization Commission and KCB Group. He is a trustee with Africa International University, Technical Advisor to Scott Christian University and a lapsed member of the New York Academy of Sciences.

Professor Kimuyu has published extensively and written several books, articles, book chapters, and papers on diverse development issues.



Ms. Fouzia Abdikadir

Commissioner



Ms. Fouzia has over 10 years' experience in financial management. Prior to joining the Commission on Revenue Allocation, she worked as a finance manager.

She holds a Postgraduate Diploma in Portfolio Management and Investment Analysis from the London School of Commerce, U.K. and a Bachelor of Commerce-Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She is currently undertaking an MBA from the University of Wales Institute, Cardiff. She also has certification in civic leadership from Tulane University (USA).

Commissioner Fouzia is a Mandela fellow (Young African Leadership

	<p>Initiative, 2014) and she has also published on the challenges of the girl child in Africa education in the Hunger Report by Bread for the World.</p>
<div data-bbox="161 613 453 965" data-label="Image"> </div> <div data-bbox="161 1003 437 1039" data-label="Caption"> <p>Dr. Kamau Thugge</p> </div> <div data-bbox="161 1072 520 1102" data-label="Text"> <p>PS Treasury/ Commissioner</p> </div>	<p>Dr. Thugge holds a Bachelors of Arts (Economics) from Colorado College, USA, Master in Economics from Johns Hopkins University, USA and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University, USA. Dr. Kamau Thugge is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) both in the policy making Departments and non-policy making Departments as Economist/Senior Economist and Deputy Division Chief.</p>

(j) Management

 <p>George Ooko Commission Secretary</p>	<p>He holds a Masters of Business Administration degrees and Bachelor of Commerce from the University of Nairobi. He has vast experience from both the public and private sectors. He was formerly a Senior Executive at Barclays and NIC Banks.</p> <p>He is the founding CEO of Coffee Development Fund where he served from 2007 to 2011 and has practical experience in establishing and managing public sector special fund. He is also the first CEO at Commission on Revenue Allocation since August 2011.</p>
 <p>Angela Kariuki Director Corporate Services</p>	<p>She holds a Masters in International Commercial Law (LLM) from the University of Nottingham (UK) and a Bachelor of Laws (LLB) from the University of Sheffield (UK). She is an Advocate of the High Court of Kenya; member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya. Mrs. Kariuki has been with the Commission from inception for a period of six years. She has broad professional experience in the areas of human capital management, facilities management, supply chain management, strategic planning and corporate governance, legal compliance with regards to securities law, corporate law, policy formulation and implementation.</p> <p>She previously worked with the Capital Markets Authority for nine years and Kilonzo & Company Advocates for two years.</p>



James Katule
Director Fiscal Affairs

He holds a Masters of Business Administration from the Eastern and Southern Africa Management Institute (ESAMI) and a Bachelor of Arts in Economics & Business Education from Kenyatta University. He is a Certified Public Accountant and a member of ICPAK. He has a wealth of experience in financial management, administration, people management and procurement gained in working for the Kenya National Trading Corporation, the International Centre for Insect Physiology and Ecology (ICIPE), International Livestock Research Institute (ILRI), the Africa Medical Research Foundation (AMREF) and most recently, Capital Markets Authority (CMA).



Sheila Yieke
Director Legal and Public Affairs

She is an Advocate of the High Court of Kenya and holds an MBA, Finance from the United States International University and a Certified Public Secretary (K). In addition she is alumni of the International Development Law Organization (IDLO) and a member of the Chartered Institute of Purchasing and Supplies (UK). She has worked with Sotik Tea and Sotik Highlands Tea Estates, Kenya Investment Authority and Kosgey and Masese Co. Advocates. Internationally she has worked at the UN, IGAD, NORDIC and UNOPS.



Joseph Kuria
Director ICT

He holds a Master's Degree in Business Administration, Strategic Management from the University of Nairobi and a BSc. Degree in Computer Science from Egerton University. He is currently pursuing a PhD in Information Systems.

He holds the following professional certifications: MCP, MCSE, MCDBA, CISA, CEH, MCT, PMP and PRINCE2. He is a member of Information Systems Audit and Control Association (ISACA). He has over 16 years working experience in both



Dr. Amenity P.
Nyakundi

Advisor Natural Resource

Dr. Amenity Nyakundi has a distinctive knowledge in the field of natural resources development, energy, and environment. He holds PhD in Environment Technology from JKUAT; an MA in (planning) from the University of Nairobi, a B.Sc in geology from Poona University, advanced certificate in Geothermal Energy- University of Pisa (Italy), Certificate of Corporate Governance (KIM), Certificate in Strategic leadership Development (Kenya School of Governance) and senior management course (Government Training Institute Mombasa).

Dr. Nyakundi previously worked in the office of the former Prime Minister (Coordinating Inter-Ministerial Energy and Environment projects).He also worked in the Ministry of Energy for over Twenty Five (25) years and has extensive experience in energy project planning, development and management.

	<p>Public and Private Sector. Mr. Kuria is a leading technology strategist with experience spanning systems and network architecture, business re-engineering, data center technologies, application development, global vendor management, budgeting and project portfolio management. He is a strategic adviser to both National and County governments of Kenya on the adoption of computer based financial and revenue management systems and deployment of Integrated Shared Services across government.</p>
 <p data-bbox="507 1041 877 1142"> Lineth Oyugi Director Research and Policy </p>	<p data-bbox="901 817 1460 1142"> Lineth Oyugi holds a Masters of Arts in Economics from the University of Nairobi and a 4th year Phd student of Economics at University of Nairobi. She has vast knowledge and experience in Research having worked for the Federation of Kenya Employers as the Head of Research and Policy Advocacy </p> <p data-bbox="901 1176 1460 1433"> Additionally Lineth has worked with the Institute of Policy Analysis and as a Research Fellow, Macroeconomics programme and also with the Ministry of Finance and Ministry of Planning and National Development as an Economist. </p>

II. CHAIRPERSON'S STATEMENT

It is both an honour and a privilege to deliver this statement, my first as chairperson of the Commission. Together with the second group of commissioners we joined CRA in February 2017. I am therefore pleased to present to you the Commission's annual report for 2016-2017.

This being our first report as new commissioners, the commissioners and I are grateful for the opportunity to serve the country and make a difference in the devolution mandate by ensuring equitable sharing of revenue. We acknowledge the enormous contribution and the strong foundation laid by the first commission which forms the springboard of our work.

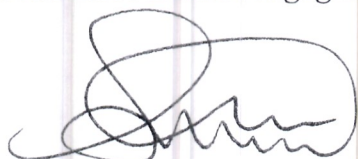
Our notable success this year is, having Parliament pass the Division of Revenue Act (DORA) 2017/18, which shares revenue between the national and county governments and which His Excellency the President assented to; and the launch of the devolution portal, <http://data.crakenya.org>.

During our six year term of office, the second commission will be responsible for formulating the third generation formula for sharing revenues among the forty seven county governments. We will also formulate the second marginalization policy and identify the criteria for allocating the equalization fund. While these two activities are the immediate priorities, the commission has an elaborate work program for the other mandates of the commission, which are enumerated in the five year strategic plan that also coincides with the term of the commission.

To achieve the strategic objectives and the vision, "**No Kenyan Left Behind**", the commission has constituted five committees of the commission as provided for by the CRA Act 2011. The committees are aligned with the mandate of the commission; equitable sharing of revenue, prudent public financial management, revenue enhancement, transitional equalization; and institutional capacity and resource mobilization.

The commission has also put in place an elaborate stakeholder engagement program to deepen the collaborative with relevant stakeholders notably, national and county governments, Parliament, constitutional commissions, independent offices, development partners, private sector, the public, the media, among others.

I would like to thank all our partners for their support since we took office and we look forward to even more fruitful engagements in the coming year.



Dr. Jane Kiringai

CHAIRPERSON

Date: 29/09/2017

III. REPORT OF THE COMMISSION SECRETARY / CEO

This financial year saw the transition from the first CRA commissioners, who served from 2011-2016, handing over to new commissioners who are serving for the period 2017-2022. The Commission focused its activities on review of the first policy identifying marginalised areas, revenue enhancement in counties, recurrent budget ceilings, mediation between county assemblies and county executives on various matters related to budgets and financial responsibilities, contributing to policies on devolution, natural resources and county revenue as well as providing recommendations to counties on automation of their revenue streams.

The Commission held various stakeholder engagements with the Senate on sharing of revenue among counties, the Parliamentary Budget Office on budget, finance and economic matters in relation to Parliament among others. Through KEPTAP a World Bank funded project, CRA build the capacity of counties to manage resource exploration for sustainable development through capacity building workshops.

Further, the Commission commenced a review of its first strategic plan and development of a new strategic plan for 2017-2022. The key objectives that have emerged in the new strategic plan are as follows: equitable revenue sharing, prudent public financial management, revenue enhancement and transitional equalization.

CRA was recognised and awarded by the Council of Governors on the role we have and continue to play to ensure the smooth implementation of devolution. The award serves as a constant reminder that our work is impactful. Consequently we are motivated by the award to continue undertaking our mandate with a view to promoting an equitable society.

As part of good corporate governance and in compliance with the requirements of the Public Finance Management Act and Regulations, the Commission started the process of recruiting independent members for the Audit, Corporate Governance and Risk Management Committee. This was necessitated by the requirements of Gazette Notice no.2691 of 15th April 2016, which required independent constitutional commissions to have at least two independent members in their audit committees. Having independent members in the committee will ensure that there's proper oversight on corporate governance, risk management and internal control processes of the Commission.

Am grateful to various stakeholders who continue to support the work of the Commission as well as to the members of the secretariat who ensure that our work is undertaken conscientiously.



George Ooko

COMMISSION SECRETARY/ CEO

Date: 29/09/2017

IV. REPORT OF THE COMMISSIONERS

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

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

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

Principal activities

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

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

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

Results

The results of the Commission for the year ended June 30, 2017 are set out on page 1 to 16.

Commissioner

The members of the Commission who served during the year are shown on page VI In accordance with CRA's act.

Auditors

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

By Order of the Commission



Dr. Jane Kiringai
CHAIRPERSON

Date:29/09/2017.....

V. STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

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

The Commissioners are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 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 Commission; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Commission; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Commissioners accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Commission's Act. The Commissioners are of the opinion that the Commission's financial statements give a true and fair view of the state of Commission's transactions during the financial year ended June 30, 2017, and of the Commission's financial position as at that date. The Commissioners further confirm the completeness of the accounting records maintained for the Commission, which have been relied upon in the preparation of the Commission's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Commission's financial statements were approved by the Commission on 29/09/17 and signed on its behalf by:



Dr. Jane Kiringai
CHAIRPERSON

Date: 29/09/2017

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMISSION ON REVENUE ALLOCATION FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Commission on Revenue Allocation set out on pages 1 to 14, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, 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 Commission on Revenue Allocation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAs). I am independent of Commission on Revenue Allocation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in the audit of the financial statements of the current year. There were no Key Audit Matters to report in the year under review.

Responsibilities of Management and Those Charged with Governance 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 cease operations, or have no realistic alternative but to do so.

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.

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

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 misstatements, 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. 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 and weakness 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 conducted 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 and for the purpose of giving an assurance 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 assumption 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 or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the 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 or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commission to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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.



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

Nairobi

16 April 2018

VII. STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Revenue from non-exchange transactions			
Transfers from other governments – gifts and services-in-kind	1	318,957,000	324,537,110
		318,957,000	324,537,110
Revenue from exchange transactions			
Finance income - outstanding receivables	2	-	-
Other income	3	609,709	1,797,500
		609,709	1,797,500
Total revenue		319,566,709	326,334,610
Expenses			
Employee costs	4	161,534,180	157,605,156
Commissioner's Expenses	5	15,319,278	14,555,631
Depreciation and amortization expense	6	17,021,325	29,990,722
Repairs and maintenance	7	7,096,596	6,955,000
General expenses	8	130,628,119	115,849,676
Finance costs	9	7,449	115,660
Total expenses		331,606,946	325,071,845
Other gains/(losses)			
Gain on sale/Write off of assets	12.a	-	-
Loss on foreign exchange transactions	13.a	-	(171,609)
Unrealized gain on fair value of investments		-	-
Impairment loss		-	-
Surplus before tax		(12,040,237)	1,091,156
Taxation			
Surplus for the period		(12,040,237)	1,091,156
Attributable to:			
Surplus/(deficit) attributable to minority interest		-	-
Surplus attributable to owners of the controlling entity		-	-
Surplus / (Deficit)		(12,040,237)	1,091,156

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

VIII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Note	2016-2017 Kshs	2015-2016 Kshs
Assets			
Current assets			
Cash and cash equivalents	10	9,596,070	15,821,198
Receivables from non-exchange transactions	11	30,843,894	36,305,766
		40,439,963	52,126,964
Non-current assets			
Property, plant and equipment	12	41,290,940	52,795,392
Intangible assets	13	3,551,762	2,731,763
Mortgage Account (Restricted cash)	14	90,805,126	80,805,126
		135,647,828	136,332,281
Total Assets		176,087,791	188,459,245
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	15	5,970,825	6,302,041
		5,970,825	6,302,041
Non-current liabilities			
Non-current employee benefit obligation			
Total Liabilities		5,970,825	6,302,041
Net Assets		170,116,966	182,157,204
Reserves		(12,040,237)	1,091,156
Accumulated surplus		182,157,203	181,066,047
Total Net Assets		170,116,966	182,157,203

The Financial Statements set out on pages 1 to 15 were signed on behalf of the Commission by:

COMMISSION SECRETARY / CEO

Sign.....

Date..... 29/09/2017.....

CHAIRPERSON

Sign.....

Date..... 29/09/2017.....

IX. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30 June 2017

Attributable to the owners of the controlling entity

	Accumulated surplus Kshs '000
Balance as at 30 June 2015	181,066,047
Surplus/(deficit) for the period	1,091,156
Transfers to/from accumulated surplus	-
Balance as at 30 June 2016	<u><u>82,157,203</u></u>
Surplus for the period	-
Transfers to/from accumulated surplus	(12,040,237)
Balance as at 30 June 2017	<u><u>170,116,966</u></u>

X. STATEMENT OF CASH FLOWS

	Note	2016-2017 Kshs	2015-2016 Kshs
Cash flows from operating activities			
Net cash flows from operating activities	16	9,611,744	35,579,773
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	12	(3,789,433)	(8,784,974)
Purchase of intangible assets	13	(2,547,441)	(2,888,290)
Mortgage Account (Restricted cash)	14	(10,000,000)	(80,805,126)
Net cash flows used in investing activities		(16,336,874)	(92,478,390)
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
(Increase) /Decrease in deposits	11	500,000	1,000,000
Net cash flows used in financing activities		500,000	1,000,000
Net increase/(decrease) in cash and cash equivalents		(6,225,130)	(55,898,617)
Cash and cash equivalents at 1 July 2015	10	15,821,199	71,719,816
Cash and cash equivalents at 30 June 2017	10	9,596,069	15,821,199

XI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs
Revenue					
Government grants and subsidies	355,781,774	-	355,781,774	318,957,000	(36,824,774)
Finance Income	-	-	-	-	-
Other Income (A.I.A)	800,000	-	800,000	609,709	(190,291)
Total income	356,581,774	-	356,581,774	319,566,709	(37,015,065)
Expenses					
Compensation of employees	189,514,550	(2,555,450)	186,959,100	169,334,573	17,624,527
Repair and Maintenance	7,163,361	1,634,600	8,795,961	7,096,596	1,699,365
General Expenses (Operation and Maintenance)	143,301,698	(2,704,550)	140,597,148	121,811,462	18,785,686
General Expenses (Capital Expenditure)	16,604,165	3,625,400	20,229,565	16,336,874	3,892,691
Finance cost	-	-	-	7,448	(7,448)
Depreciation	-	-	-	17,021,325	(17,021,325)
Loss on Foreign Exchange Transactions	-	-	-	-	-
Total expenditure (O&M)	356,581,774	-	356,581,774	331,608,278	24,973,496
Surplus/(Deficit) for the period				<u>(12,041,569)</u>	

XII. NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

(a) Significant Accounting Policies

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

1. Basis of Accounting

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

The Financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Commission. The Accounting policies have been consistently applied to all the years presented

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

2. Non-Current Assets

Non- Current assets are stated at cost or valuation less accumulated depreciation. Depreciation is calculated on the cost of the fixed assets on a straight line basis at annual rates estimated to write off these assets over their expected useful life.

The approved mortgage scheme set up by the Commission is also classified as restricted cash since its utilisation goes beyond one year after the balance sheet date. The scheme is mainly set up to facilitate members of staff to benefit from Government funded loans by accessing affordable mortgage facilities. The scheme draws its strength from the SRC's circular Ref No. SRC/ADM/CIR/1/13. III (128) dated 17th December, 2014 and CRA's internal rules

3. The Depreciation rates used are as follows:

Motor Vehicle	25%
Furniture & Fittings	12.5%
Office Equipment and Accessories	30%
Computers & Printers	30%
Software (Intangible assets)	33%

4. Retirement Benefits Obligations

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

5. Recognition of Revenue and expenses

Income is recognised in the period in which it's earned, Government funding is however recognised on receipt. Income is not accrued if its recoverability is considered doubtful. The Revenue constitutes all funds accruing to the Commission in the form of Exchequer allocations, Appropriation in Aid and Donor funding.

6. Cash and Cash equivalents

For the purposes of the cash flow statements, cash and cash equivalent comprise cash in hand and cash book balance at the end of the period.

7. Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contractual obligations during the year or in the past. Such bills are accrued in the year in which they are incurred

(b) Notes to the Financial Statements

1. Transfers from other governments

	2016-2017 Kshs	2015-2016 Kshs
Unconditional grants (Operational Grant-GOK)		
1st Quarter Exchequer	72,457,000.00	77,500,000
2nd Quarter Exchequer	87,400,000.00	78,900,000
3rd Quarter Exchequer	113,000,000.00	90,700,000
4th Quarter Exchequer	46,100,000.00	77,437,110
	318,957,000.00	324,537,110
Part of 4th Quarter Exchequer - Receivable	-	-
	318,957,000.00	324,537,110
Conditional grants		
Other organizational grants	-	-
	-	-
Total government grants and subsidies	318,957,000.00	324,537,110

2. Finance income - outstanding receivables

	2016-2017 Kshs	2015-2016 Kshs
Total receivables finance income outstanding	-	-

3. Other income (A.I.A)

	2016-2017 Kshs	2015-2016 Kshs
Interest on Deposit and other receipts	536,779.00	-
Sale of Tender	-	3,000
Sale of Newspapers/Assets	4,555.00	-
Insurance Refund	68,375.00	1,794,500
	609,709.00	1,797,500

4. Employee costs

	2016-2017 Kshs	2015-2016 Kshs
Basic salaries	89,485,849.85	87,106,985
Casual Labour	1,466,882.00	-
Top up for seconded staff	266,160.00	527,820
House Allowance	19,195,928.85	18,920,472
Commuter Allowance	8,805,915.10	8,743,730
Responsibility Allowance	3,920,000.00	4,080,000
Telephone Allowance	3,120,099.65	3,114,990
Special Duty	1,818,000.00	1,840,591
Leave Allowance	1,080,833.70	1,320,000
Security Allowance	720,000.00	720,000
Acting Allowance	-	47,140
Pension contribution	16,176,247.20	15,322,182

Gratuity	1,657,468.00	1,657,468
Medical Insurance	13,820,795.46	13,371,560
Medical - Ex Gratia	-	-
Travel Insurance	-	814,518
Group Life Insurance	-	17,700
Wages	-	-
Terminal Dues	-	-
	161,534,179.81	157,605,156

The cost of staff salaries and benefits increased significantly because of; Annual increment, hiring of more staff in the course of the year which also increased the medical expense and the provision for pension.

5. Commissioner's Expenses

	2016-2017 Kshs	2015-2016 Kshs
Telephone Allowance	2,784,000.00	2,784,000
Leave Allowance	830,000.00	415,000
Security Allowance	5,902,944.50	5,778,206
Domestic Travel costs		2,580,645
Foreign Travel Costs	5,802,333.00	1,029,942
Training Expenses		985,890
Medical Insurance		700,119
Special Expenditure		281,828
Club Membership		
	15,319,277.50	14,555,631

6. Depreciation and amortization expense

	2016-2017 Kshs	2015-2016 Kshs
Computer & Printers	475,843.00	2,055,901
Office Equipment	1,051,843.00	2,322,757
Furniture & Fittings	11,851,655.00	11,851,655
Motor Vehicle	1,914,543.00	11,581,606
Intangible Assets	1,727,441.00	2,178,803
Total depreciation and amortization	17,021,325.00	29,990,722

7. Repairs and maintenance

	2016-2017 Kshs	2015-2016 Kshs
Routine maintenance of Motor vehicles	4,711,397.67	6,067,846
Routine maintenance of Assets	2,385,198.25	887,154
Total repairs and maintenance	7,096,595.92	6,955,000

8. General expenses

	2016-2017	2015-2016
	Kshs	Kshs
Utilities Supplies -Electricity	2,084,131	2,077,495
Utilities Supplies -Water	352,048	342,602
Communication Supplies & Services	4,774,675	4,856,999
Domestic Travel costs	10,729,483	11,472,144
Foreign Travel Costs	301,039	1,970,409
Printing Advertising & Information	4,639,347	5,015,914
Rent Expenses	44,522,725	41,617,360
Hire of Transport	473,830	582,014
Training Expenses	9,103,262	11,980,425
Hospitality Supplies & Services	14,855,283	11,222,081
Insurance Costs (Motor Vehicle & Plant and Machinery)	2,722,770	4,232,906
Specialised Materials & Supplies	300,320	1,306,891
Office & General Expenses	7,075,607	5,715,370
Fuel oils and Lubricants	5,816,733	3,864,335
Security Guards	1,503,406	2,309,774
Cleaning Services	1,860,600	2,190,533
Membership fee, Dues and Subscriptions	1,143,723	
Contracted Professional Services	1,360,574	732,651
Feasibility Study	2,466,550	3,895,774
Refund to other Government entities (NT)	14,078,014	-
	130,164,119	115,385,678
Audit fee	464,000	464,000
	464,000	464,000
Total General Expenses	130,628,119	115,849,678

9. Finance costs

	2016-2017	2015-2016
	Kshs	Kshs
Bank Charges	7,449	115,660
Borrowings (amortized cost)		
Finance leases (amortized cost)		
Unwinding of discount		
Bank overdrafts		
Total finance costs	7,449	115,660

10. Cash and cash equivalents

	2016-2017	2015-2016
	Kshs	Kshs
CBK - Exchequer Accounts (1000181281, 1000181998, 1000182512)	9,245,323	14,343,916
KCB - Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	4,750	-
I&M - Cash Book (01900710961210)	(2,565)	1,555
Cash-on-hand (Petty Cash & office float)	348,561	1,475,727
Co-op Bank of Kenya (01141163485600)	-	-
Short term Deposits	-	-
Total cash and cash equivalents	9,596,070	15,821,198

11. Receivables from current receivables

	2016-2017	2015-2016
	Kshs	Kshs
Prepayments	-	-
Medical Insurance	6,791,888	6,602,206
Group Life	1,666,410	508,993
Motor Vehicle	1,260,966	801,859
Plant & Machinery	827,236	753,271
Dstv and Others	193,780	196,187
	10,740,280	8,862,516
Deposit	-	-
Rent	18,753,322	18,753,322
Fuel	-	-
Motor vehicle maintenance	-	500,000
Provision of Eline (Internet)	50,000	50,000
	18,803,322	19,303,322

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

Debtors	-	-
Outstanding Salary advance from Staff	1,167,000	1,637,500
Outstanding Imprest from staff	-	6,440,892
Others (Jubilee and First Assurance)	133,292	61,536
	1,300,292	8,139,928
Less: impairment allowance	-	-
Total current receivables	30,843,894	36,305,766

12. Property, Plant and Equipment

<u>Cost or Valuation:</u>	Computers & Printers	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	KShs	KShs	KShs	KShs	KShs
As at 30 June 2015	21,620,963	6,503,680	93,593,911	90,793,695	212,512,250
Additions during the year	1,084,880	1,887,489	1,219,330	4,593,275	8,784,974
Disposal					0
Write off					0
Transfer/Adjustments					
As at 30th June 2016	22,705,843	8,391,169	94,813,241	95,386,970	221,297,224
Additions during the year	2,170,304	219,530	1,399,599	-	3,789,433
Disposal					
Write off	(796,824)				
Transfer/Adjustments					
As at 30th June 2017	24,079,323	8,610,699	96,212,840	95,386,970	225,086,655
Depreciation and impairment					
As at 30 June 2015	19,722,747	4,235,396	37,137,587	79,594,184	140,689,913
Depreciation					
Write off	2,055,901	2,322,757	11,851,655	11,581,606	27,811,919
Disposal					0
Impairment					0
Transfer/adjustment					0
At 1 June 2016	21,778,648	6,558,153	48,989,242	91,175,790	168,501,832
Depreciation	475,843	1,051,843	11,851,655	1,914,543	15,293,884
Disposals /Write off	(796,824)				
Transfer/adjustment					
At 30 June 2017	21,457,667	7,609,996	60,840,897	93,090,333	183,795,716
Net book values					
At 30 June 2017	2,621,657	1,000,704	35,371,943	2,296,637	41,290,941
At 30 June 2016	1,898,217	2,268,285	56,456,324	11,199,511	71,822,337

12.a Write off of Fixed Assets

Computers & Printers	2016-2017
	KShs
Cost or Valuation:	
As at 1st July 2016	796,824
Accumulated depreciation	(796,824)
Net Book Value At 30 June 2017	0
Salvage value	0
Gain /Loss on write off	0

13. Intangible assets software

	2016-2017
	KShs
Cost	
At 30 June 2015	5,018,427
Additions	2,888,290
At 30 June 2016	7,906,717
Additions	2,547,441
At 30 June 2017	10,454,158
Amortization and impairment	
At 30 June 2015	2,996,151
Amortization	2,178,803
At 30 June 2016	5,174,954
Amortization	1,727,441
Impairment loss	
At 30 June 2017	6,902,395
Net book values	
At 30 June 2017	3,551,763
At 30 June 2016	2,731,763

13.a Gain/Loss on foreign transactions

	2016-2017	2015-2016
	Kshs	Kshs
KCB USD Account		(171,609)
		(171,609)

14. Mortgage Account (Restricted Cash)

	2016-2017	2015-2016
	Kshs	Kshs
KCB - Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	90,805,126	80,805,126
	90,805,126	80,805,126

The Mortgage scheme is administered by Kenya Commercial Bank (KCB). The loans are issued at an interest rate of 6% being; administration cost at 3% and earnings to the revolving fund also at 3%.

15. Trade and other payables

	2016-2017	2015-2016
	Kshs	Kshs
Trade payables (Suppliers Invoices-Credit Notes)	70,421	874,774
Audit Fees	928,000	464,000
Accrued Pension	-	1,648,331
Gratuity	4,972,404	3,314,936
Other payables	-	-
Total trade and other payables	5,970,825	6,302,041

16. Cash generated from operations

	2016-2017	2015-2016
	Kshs	Kshs
Surplus/Deficit for the year before tax	(12,040,237)	1,091,156
Adjusted for:		
Depreciation and Amortisation	17,021,325	29,990,722
(Non-cash grants received)		
(Contributed assets)		
Impairment		
(Gains and losses on disposal of assets)	-	-
Contribution to provisions		
Contribution to impairment allowance		
(Finance income)		
Finance cost		
Working capital adjustments:		
(Increase in inventory)		
Decrease in receivables	4,961,872	2,010,251
Increase in deferred income		
Decrease in payables	(331,216)	2,487,643
Increase in payments received in advance		
Net cash flows from operating activities	9,611,744	35,579,773

Annex I. PROGRESS ON FOLLOW UP OF AUDIT RECOMMENDATIONS

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

Reference No. on external audit report	Issue / Observation from Auditor	Management Comments	Focal point person to resolve the issue (Name and Designation)	Status: (Resolved/Not Resolved)	Time frame:
Audit Certificate FY 2015/16	Unreconciled balances of the Financial Statements FY 2015/16 with IFMIS Trial balance	The figures differ because of the two different basis of reporting in IFMIS (Cash) and actual basis used (Accrual)	Maureen Junge, Finance Manager	75% resolved	31st December, 2017
