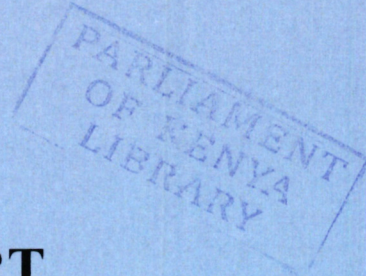


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



REPORT

OF


THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
COUNCIL OF GOVERNORS SECRETARIAT

FOR THE YEAR ENDED

30 JUNE 2018

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	07 NOV 2019
DAY:	THURSDAY
TABLED BY:	Hon Asen Dvane Leader of Majority Party
CLERK-AT THE TABLE:	Lemuno Mosey



COUNCIL OF GOVERNORS

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

14 JAN 2019

RECEIVED

COUNCIL OF GOVERNORS

REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018

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

Council of Governors
Annual Reports and Financial Statements
For the year ended June 30, 2018

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KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The Council of Governors was established under section 19 of the Intergovernmental Relations Act (2012) with the mandate to provide a mechanism for consultation amongst county governments, share information on performance of the counties in execution of their functions, facilitate capacity building for governors and consider reports from other intergovernmental forums on national and county interests amongst other functions

The Council of Governors has a governing body as provided for under Section 19 of the Intergovernmental Act consisting of the Chairman, Deputy Chairman, co-opted the position of whip and Eighteen Committees

(b) Principal Activities

The Council provides a forum for;

- a) Consultation amongst County Governments;
- b) Sharing of information on the performance of the counties in the execution of their functions with the objective of learning and promotion of best practices and where necessary, initiating preventive or corrective action;
- c) Considering matters of common interest to County Governments;
- d) Dispute resolution between counties within the framework provided under this Act
- e) Facilitating capacity building for governors;
- f) Receiving reports and monitoring the implementation of inter-county agreements on inter-county projects; 12. Council of Governors Strategic Plan 2017-2022 13. Council of Governors Strategic Plan 2017-2022
- g) Consideration of matters referred to the Council by members of the public;
- h) Consideration of reports from other intergovernmental forums on matters affecting National and County interests or relating to the performance of counties; and
- i) Performing any other function as may be conferred on it by this Act or any other Legislation or that it may consider necessary or appropriate.

Vision

Prosperous and democratic Counties delivering services to every Kenyan.

Mission

To be a global benchmark of excellence in devolution that is non-partisan; providing a supporting pillar for County Governments as a platform for consultation, information sharing, capacity building, performance management and dispute resolution.

(c) Key Management

The entity's day-to-day management is under the Accounting officer who is the Chief Executive Officer

(d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2018 and who had direct fiduciary responsibility were:

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No.	Designation	Name
1.	CEO	Jacqueline Mogeni
2.	Head of Finance	David Kisabuli
3.	Head of Procurement	James Kamau
4.	Head of Legal	Rosemary Njaramba
5.	Head of Human Resources	Caroline Odandi
6.	Head of Administration	Festus Omariba

(Include all positions regarded as top management in your organisation).

(e) Fiduciary Oversight Arrangements

- *Audit and finance committee activities*
 - 1) **Financial Statements:**
Review the Council's interim and annual financial statements.
 - 2) **Variances:**
Obtain explanations from management for significant variances between comparative reporting periods and question management regarding any significant financial reporting issues raised during the fiscal period and the method of resolution.
 - 3) **Internal Controls:**
Inquire as to the adequacy of the organisation's system of internal controls and review periodic reports from management regarding internal controls, which should include an assessment of risk with respect to financial reporting.
 - 4) **Auditor:**
Non-audit Services: Approve all audit and non-audit services to be provided to the Council by the independent auditor. The Chair of the Committee may pre-approve such services on behalf of the Committee provided that such approvals are presented at the Committee meeting following such pre-approval. In order to obtain pre-approval, management should detail the work to be performed by the independent auditor and obtain the assurance from the independent auditor that the proposed work will not impair their independence.

KEY ENTITY INFORMATION AND MANAGEMENT (Continued)

(f) Entity Headquarters

P.O. Box 4040-00100
Delta House - Westlands,
Waiyaki way
Nairobi, KENYA

(g) Entity Contacts

Telephone: (254) 20 221 4359
E-mail: info@cog.go.ke
Website: www.cog.go.ke

(h) Entity Bankers

Co-operative Bank of Kenya
Parliament road
P.O. Box 5772
City Square 00200
Nairobi, Kenya

Kenya Commercial Bank Ltd
Sarit Centre Branch
P.O.Box 48400, 00100
Nairobi, Kenya




National Bank of Kenya
Westlands Branch
P.O. Box 1613-00606
Nairobi

(i) Independent Auditors

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

Council of Governors
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THE EXECUTIVE COMMITTEE

 <p>H.E. Josphat Koli Nanok</p>	<p>Chairman, Governor Turkana County</p>
 <p>H. E. Anne Waiguru</p>	<p>Vice Chairman, Governor Kirinyaga County</p>
 <p>H.E. Mohamud M. Ali</p>	<p>Whip, Governor, Marsabit County</p>

MANAGEMENT TEAM



Jacqueline Mogeni

The Chief Executive Officer, who is also the Accounting Officer



Rosemary Njaramba

Head of Legal



David Kisabuli

Head of Finance



Caroline Odandi

Head of Human Resources

CHAIRMAN'S STATEMENT



I would also like to commend the county governments for working so hard in translating individual governors' visions, into workable plans through the CIDPs. So far we have twenty (20) approved CIDPs out of the forty-seven (47) expected CIDPs. The remaining 27 counties are in the last stages of approval by the County Assemblies.

The year 2017-2018 has been a significant year for the Council of Governors. It has been a transitional year and also marks the first year of the second generation County Governments. The Council of Governors has relentlessly continued to pursue and fulfil its mandate since the year 2013 as stated in the Intergovernmental Relations Act (2012). The Council has been able to achieve this milestone through the Committees in the various sectors. However, it has not been a smooth journey as expected. The national government and other intergovernmental agencies and stakeholders have been very instrumental in making inclusive and participatory governance a reality between the two levels of government through the Intergovernmental structures as stated in section 4 of the IGRA (2012) Act. One of these forums is the Joint Agriculture Sector Consultation Mechanism (JASCOM) for the Agriculture sector.

The Year 2017/2018 has been a significant year for me as the Chair of the Council of Governors. It was not only a tough year for the council for losing one of their own in a tragic car accident; the late Dr. Wahome Gakuru, Governor Nyeri County, but also a year of many firsts for the country. For the first time in history the country went through the general elections twice, in August and October. This was a blow to the economy having been faced with one-hundred days (100) health workers strike earlier in the year. Delays were faced in implementing county functions in all sectors since transfer of funds from the national government to counties was one of the major drawbacks. I would like to take this opportunity to applaud the political truce between our two leaders H. E President Uhuru Kenyatta and Rt. Hon. Raila Odinga which has heralded a new phase of harmonious working across the political divide. Despite the challenges that came with transition, the Council was able to attain some significant milestone in fulfilling the promise of devolution. We held a successful Induction for Governors and Deputy Governors.

Council of Governors
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For the year ended June 30, 2018

The Council also held the Fifth Annual Devolution Conference which was the first devolution conference held through sectors which were aligned to the President's direction of the Big 4 Agenda. This was also an opportune moment for the Council to lay the foundation for the second generation county governments. The presence of the leaders from both political divides was a show of good faith for the prosperity of the country and devolution at large. It was also a great honour to have H.E William Samoei Ruto launch the Inaugural Speeches Book of the second generation of Governors 2017-2022; which is not just any book, but an accountability tool for all the governors of the 47 counties.

I would also like to commend the county governments for working so hard in translating individual governors' visions, into workable plans through the CIDPs. Up to this moment, we have twenty (20) approved CIDPs out of the forty-seven (47) expected CIDPs. The remaining 27 counties are in the last stages of approval by the County Assemblies. We expect that all the remaining CIDPs will be approved before the end of the first quarter of the new financial year

As we forge ahead to the next year, my heart is full of expectation and filled with a lot of hope at the same time. Though the beginning was faced with darkness, a ray of hope has been seen through the milestones seen in the previous year. To my peers, let's thrust ahead with passion, zeal and confidence to ensure we deliver up to the last statement of our promise to the people of Kenya in ensuring the success of devolution.



H.E. Josphat Koli Nanok
Chairman, Council of Governors

Council of Governors
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For the year ended June 30, 2018

REPORT OF THE CHIEF EXECUTIVE OFFICE



The secretariat continues to be the ‘oil in the engine’ and supporting the county governments in the running of the day to day issues by providing platforms for counties to consult, learn, compare experiences and explore new and innovative ideas.

In the year under review, Governors continue to speak in one collective voice in matters policy, continue to share best practices and develop innovative solutions to the challenges that come with implementing the devolution agenda. The secretariat continues to be the ‘oil in the engine’ and supporting the county governments in the running of the day to day issues by providing platforms for counties to consult, learn, compare experiences and explore new and innovative ideas.

This report highlights the financial activities and status relating to programs and activities that were undertaken, successes attained and challenges faced while working towards attainment of the Councils vision and mission and delivery of the second generation Council of Governors strategic plan 2017-2022. Some of the achievements include induction for 47 Governors and 47 Deputy Governors as well as all the County Executive Committee Members. One of the challenges faced is underfunding of the Secretariat and thus some of the planned activities were not implemented.

As we take time to reflect upon the past year and ponder the coming one let me take this opportunity to thank every individual and institution and development partners with whom we worked closely including United Nations Development (UNDP); AHADI; UN WOMEN; USAID- HIGDA and Symbiocity Kenya. Not forgetting the National Government, Independent Commissions, civil societies, media and private sector. The various activities reported herein were made possible through their continued collaboration, guidance, financing and intervention. We wish to let you know that your cooperation remains dear to us, now and in the future.

Council of Governors

Signed:


Chief Executive Officer

CORPORATE GOVERNANCE STATEMENT

During the period, the Legal Committee coordinated 6 Council meetings in the FY 2017/2018. Of the 6 Council meetings, 3 were held in 2017 i.e. 31st August 2017, 7th and 15th December 2017 while the other 3 were held in 2018, i.e. 23rd January 2018, 5th March, 2018 and 4th June, 2018. The meetings mainly focused on discussing the various issues that impact all 47 counties including electing Committee Chairs and the Executive.

Council of Governors
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For the year ended June 30, 2018

REPORT OF MANAGEMENT

The management submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the *entity's* affairs.

Principal activities

The principal activities of the Council are;

1. To implement the decisions of the Council and the Committees;
2. To constantly share information with the Counties;
3. To process requests from Counties and offer policy advise where necessary;
4. To convene, in every quarter, County Executive Committee Members so that they develop positions on legislative and policy issues that affect County Governments;
5. To convene other officers such as Chief Officers, County Attorneys and Directors also for deliberation of matters affecting County Governments;
6. To coordinate capacity building initiatives for Governors, County Executive Committee Members, Chief Officers, County Attorneys, Chiefs of Staff, County Secretaries and other County officials;
7. To rigorously protect the interests of Counties at policy level by for instance participating in inter-agency meetings, committees and taskforces;
8. To ensure that County resources are safeguarded in all negotiations on upcoming projects;
9. To coordinate sectoral intergovernmental forums between the Counties and the National Government;
10. To receive and document best practice to promote learning between the Counties; and
11. To support and link with the office of the Deputy Governors.

Results

The results of the entity for the year ended June 30, 2018 are set out on page 1 and 2

The Executive Council

The members of the Executive Council who served during the year are shown on page iv.

STATEMENT OF COUNCIL'S' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 22 of the *Intergovernmental Relations Act*, - require the management to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The management are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The management are also responsible for safeguarding the assets of the entity.

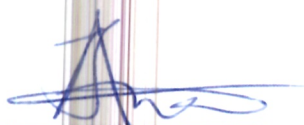
The management are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2018 . This responsibility includes: (i) maintaining adequate 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 entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The management accept responsibility for the entity'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 Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act) – *entities should quote applicable legislation as indicated under*). The management are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The management further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

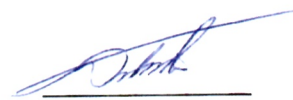
Nothing has come to the attention of the management to indicate that the entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The entity's financial statements were approved by the management on 28th September 2018 and signed on its behalf by:



Chief Executive Officer



Accountant
ICPAK Member Number 17785

Council of Governors
Annual Reports and Financial Statements
For the year ended June 30, 2018

REPORT OF THE INDEPENDENT AUDITORS ON THE COUNCIL OF GOVERNORS

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
Mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CONCIL OF GOVERNORS SECRETARIAT FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of set out on pages 1 to 28, which comprise the statement of financial position as at 30 June 2018, 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 do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Property, Plant and Equipment

Property, plant and equipment figure of Kshs.54,931,849 as at 30 June 2018 as reported on the statements of financial position and note 17 of the financial statements includes additions totaling Kshs.2,677,357 whose composition and its reconciliation from the initially reported expenditure on acquisition of assets totaling Kshs.1,668,116 were not provided for audit verification. In addition, the amount of Kshs.2,677,357 was different from the ledger balance of Kshs.4,003,317 resulting in an unexplained variance of Kshs.1,325,960.

Further, the payment documents availed for audit in support of purchase of computers amounted to Kshs.1,931,960 while the financial statement have a figure of Kshs.1,407,116 resulting in unreconciled and unexplained difference of Kshs.524,844. Additionally, the balance of property, plant and equipment has been introduced in the financial year ended 30 June 2018 even though some of the assets included in the balance have been acquired over the years the secretariat has been in existence. No reconciliation of the opening balance cost of property, plant and equipment to the annual acquisition of assets expenditure over the years of the secretariat's operations has been provided for audit review.

Report of the Auditor-General on the Financial Statements of Council of Governors Secretariat for the year ended 30 June 2018

Consequently, the accuracy of the property, plant and equipment balance of Kshs.54,931,849 as at 30 June 2018 could not be ascertained.

2. Cash and Cash Equivalents

Cash and Cash Equivalent balances of Kshs.293,307,432 as at 30 June 2018 includes an amount of Kshs.100,000,000 in respect of guarantee on staff mortgage that is being held by Kenya Commercial Bank. The amount has not been confirmed by the bank and no documents were availed to show existence of the amount.

Further, the Kshs.100,000,000 balance was to earn interest at a rate of 10% per annum but the financial statements have not captured the expected interest of Kshs.10,000,000 in respect of year 2017/2018 and Kshs.1,945,205 in respect of financial year 2016/2017. Under the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.293,307,432 could not be confirmed.

3. Presentation and Disclosure of Financial Statements

3.1 Non Compliance with Public Sector Accounting Standards Board Pronouncements and Guidelines

The Public Sector Accounting Standards Board (PSASB) under guidelines No 2 on "Financial Reporting and internal Auditing Standards Pronouncement" under paragraph 2.2.2 approved that all the Semi-Autonomous National and County Government Agencies shall apply International Public Sector Accounting Standard (IPSAS) Accrual based Standards. The Council of Governors presented financial statements based on cash basis of accounting which was rewarded and an amended set presented to Auditor-General. On examination of the revised Financial Statement of Council of Governors, it has been noted that the financial statements were been revised and prepared using the IPSAS Accrual based standards as per the PSASB's pronouncement made via the Kenya Gazette No 18 of 2014 but the comparative information for the financial year 2016/2017 have not been restated using accrual basis in line with IPSAS 3, Accounting Polices, changes in Accounting Estimates and Errors.

In consequence, the Financial Statements' opening balances cannot be confirmed.

3.2 Unexplained Adjustments and Errors

The reconciliation between the figures in the first set of financial statements (Cash basis of Accounting) and the revised financial statement (Accrual Basis of Accounting) have not been fully explained for the following accounts.

<u>Account Name</u>	<u>Unexplained Amount</u> <u>(Kshs.)</u>
Property, Plant and Equipment	1,284,241
Communication	42,094
Training	1,182,057
Hospitality	300,000

Notes 8, 10, 11, 12, 13, 14, 16 and 18, to the financial statements does not agree with the statement of financial performance as required. Further, Notes 16, 17, 18, 19 and 20 to the financial statements do not agree with the statement of financial position.

Consequently, the accuracy of the financial statements as at 30 June 2018 could not be confirmed.

4. Use of Goods and Services

4.1 Rental Proceeds, Utilities and Services

The statement of financial performance under general expenses reflect a figure of Kshs.457,884,882 .Included in this figure is Kshs.196,856,645 for rental proceeds and services as shown under note 13 of the financial statements that is in respect of office space on 2nd, 5th, 6th, 7th, 8th, 9th, 10th and 11th floor of the Delta House Building. The following anomalies were however noted;

- (i) The lease agreement for 11th floor was not availed for audit examination.
- (ii) The procurement documents to show how the office space for all the eight floors was identified and acquired were not availed for verification.
- (iii) The valuation undertaken by Ministry of Lands, Housing and Urban Development indicates that rental values of Kshs.100 per square feet but the rental charges to the Council of Governors were at a rate of US\$1.40 per square feet which was 40% above the market price.
- (iv) No explanation was provided for documentation of the contract in United States Dollars (US\$) and the use of higher rental charge compared to the government advised market value.

Under the foregoing, the the accuracy and propriety of the Rental Proceeds, Utilities and Services balance of Kshs.196,856,645 for the year ended 30 June 2018 could not be ascertained.

4.2 Domestic Travel and Subsistence

The financial statements at note 13 reflects a figure of Kshs.15,354,184 in respect of domestic travel and subsistence. A review of the payment showed that included in this figure, are payments for charter services on behalf of Meru County and Kisii County Governments totaling Kshs.7,168,855 and Kshs.661,440 respectively. No justification has been provided why the Council of Governors orders and pays for charter services on behalf of County Governments as this floats the procurement process at the Counties. The amount was not an expenditure of the Council of Governors and therefore there is clear over statement of this expenditure. Further, the amount was to be recovered from Meru County Government and should have been included under receivables. There was no documentary evidence provided to show that this amount was paid back to the council. Further, the management

should have reported an outstanding amount of Kshs.2,773,714 as owing from Meru County which should be a receivable but has not been disclosed in the financial statements.

In addition, the bills of Kshs.7,168,855 were incurred in the financial year 2016/2017 and even though the procurement was presumably done by the Council of Governors, the amount was not disclosed as pending bills in the financial year 2016/2017. No justification has been provided for settling of these bills by Council of Governors Secretariat as there were no pending bills disclosed in the 2016/2017 financial year.

In view of the foregoing, the accuracy and propriety of the expenditure of Kshs.15,354,184 in respect of domestic travel and subsistence could not be ascertained.

5. Transfers from Government Entities

The Statement of financial performance reflects a figure of Kshs.220,545,600 being transfers from Other Government Entities. The figure constitutes Kshs.45,599,492 for Inter-Governmental Contributions, Kshs.84,946,107 for rentals on County Government Liaison office and Kshs.90,000,000 in respect of Devolution Conference Support from the forty seven (47) County Governments.

The Council of Governors in a meeting held on 23 January 2018 agreed that each county was to contribute Kshs.12,500,000 and Kshs.10,000,000 towards inter-governmental and devolution conferences, respectively. However, out of the total expected revenue of Kshs.681,500,000, the Secretariat received Kshs.290,212,315 only in respect of the two items from the counties in the financial year ended 30 June 2018 resulting in a shortfall of Kshs.451,900,500 which has not been recognized in the financial statements even though they have been prepared on accrual basis of accounting. In addition, the expected revenue declined from Kshs.681,500,000 in 2016/2017 to Kshs.587,500,000 in 2017/2018 while the revenue amount received declined from Kshs.290,212,35 to Kshs.135,599,492 . No evidence has been provided to show that the amounts receivable from the county governments for the financial year 2016/2017 totaling Kshs.391,287,685 was ever recovered from the respective counties during the current year.

As a result, the accuracy and completeness together with the outstanding contributions from the County Governments cannot be confirmed.

6. Compensation of Employees

6.1 Gratuity

The statement of receipts and payments reflect a figure of Kshs.115,205,977 in respect of compensation on employees. Included in this figure, is Kshs.25,242,161 disclosed under note 3 of the financial statements as staff gratuity paid during the year under review.

The figure of Kshs.25,242,161 includes payments totaling to Kshs.22,652,421 indicated as gratuity for past years whose breakdown was not availed for audit verification.

Consequently, the validity and accuracy of the figure of Kshs.25,242,161 in respect to gratuity could not be ascertained since the previous year comparative information on financial statements has not been restated to accrual basis of accounting.

6.2 Unauthorized Expenditure

As reported in the previous year, the Council of Governors Secretariat management recruited and promoted in various categories which resulted in an increase in amount of salaries and wages to Kshs.89,963,816 in 2017/2018 from Kshs.60,227,174 in 2016/2017 an increase of Kshs.29,736,642 or about 49.4%. The Secretariat staff continued getting salaries and allowances without advice from the salaries and Remunerations Commission contrary to the provisions of Article 230 (4) of the constitution of Kenya 2010.

In the circumstance, the propriety of employees cost of Kshs.115,876,227 for the year ended 30 June 2018 could not be confirmed.

7. Rent Receivable

The statement of financial position reflects an amount of Kshs.21,024,903 as rent receivable being amount of rent due from various county governments in respect of liaison offices. The Council of Governors Secretariat entered into lease agreement with Garden Properties Ltd in 2014 for office space at Delta Corner Tower. At the point of leasing the space all the 47 County Governments were to take up and pay for some space to establish their liaison offices. The County Governments have since established county liaison offices in the building and rent is payable quarterly by the counties to the Secretariat who in turn remits it to the landlord. However, some counties have not been remitting their quarterly rent obligations to the Secretariat and an amount of Kshs.21,024,903 was outstanding as at 30 June, 2018. The basis of working out the outstanding rents for each county was not provided.

In the circumstances, the Secretariat being the tenant, faces possible eviction and possibility of litigation and or penalties on rent receivables.

8. Council of Governors Secretariat Expenditure

The Council of Governors is a creation of section 19 of the Inter-Governmental Relation Act, 2012. However, the Act does not recognize the existence and function of Council of Governors Secretariat. Section 17 of the Inter-Governmental Relation Act, 2012 stipulates that the Inter-Governmental Technical Committee may employ officers and staff for its secretariat as are necessary for proper discharge of the functions of the Committee, the Council of Governors and the Summit. The Council of Governors Secretariat has over the last three financial years entered to several contracts and paid a total of Kshs.2,044,741,170 whose appropriation may be inappropriate as detailed below:

Year	Amount (Kshs.)
2017/2018	624,625,524
2016/2017	685,983,151
2015/2016	<u>734,132,495</u>
	<u>2,044,741,170</u>

In view of the foregoing, the legality of Council of Governors Secretariat, the propriety and legality of payments made by Council of Governors secretariat and the validity of the contracts entered into by the Secretariat could not be confirmed.

9. Unresolved Prior Year

The following issues reported in the audit report for the financial year ended 30 June, 2017 are yet to be resolved:

9.1 Bank Guarantee

Included in the statement of assets as at 30 June 2017 is a bank guarantee deposit of Kshs.300,000 number TFBG/15/0090 which was issued on account of Council of Governors by Cooperative Bank of Kenya to Toyota Kenya effective 10 February, 2015 and expiring on 31 January, 2016. Upon expiry of the guarantee, the deposit was not lifted or formally rolled over. In addition, no evidence of either renewal or cancellation of the guarantee has been provided for audit review. This effectively means that the guarantee deposit has been held by the bank for over three years but was not disclosed as an asset in the two preceding financial years. In the circumstances, I am unable to confirm the accuracy and validity of the bank guarantee reported and the accuracy of the accounting records recognizing the guarantee in the current year.

9.2 Staff Loan Fund

9.2.1 The Council of Governors Secretariat entered into an agreement with KCB Bank Limited on 20 April 2017 through which, the bank was appointed as a financier to the Secretariat employees' special housing scheme. According to the terms and conditions of the agreement, the Council of Governors Secretariat obligations included confirming to KCB Bank in writing that any applicant seeking to use the facility is a permanent employee. However, no document was provided for audit review to confirm prior approval of the housing scheme and agreement by the Council of Governors. In addition, the Council of Governors Secretariat does not have permanent staff contrary to one of the conditions of the agreement.

9.2.2 The statement of assets as at 30 June 2017 reflects staff loan fund balance of Kshs.100,000,000 representing a deposit placed with the KCB Bank Limited to guarantee the special staff housing scheme between the Secretariat and the Bank. The deposit earns interest at a rate of 10% but only to the extent that there are no equivalent loans advanced to the staff. An amount equivalent to loans advanced to staff is transferred from

the interest bearing deposit account to a non-interest bearing in lien deposit account. The following anomalies have noted regarding the loan fund:

- (i) The commitment of the Kshs.100,000,000 was not factored in the approved budget for 2016/2017. Alternatively, approval if any for reallocation of the funds to the item was not provided for audit verification.
- (ii) There was no explanation on rationale for the bank not to pay interest on deposit transferred to lien deposit account yet the staff were paying to the bank interest on loans advanced to them.
- (iii) The process of appointment of KCB Bank as the scheme administrator was not documented to enable verification of the legality and efficiency of the process.

9.3 Transfers from Government Entities

The statement of receipts and payments reflects transfer from government entities totaling Kshs.361,259,779 in respect of contributions from County Governments in the financial year 2016/2017. The contributions relate specifically to rent for liaison offices, inter-governmental contribution and devolution conference support but only one county government honored its obligation in full towards inter-governmental contribution while twenty counties did not give any monies at all for the same. Eight county governments similarly did not contribute any monies at all for the devolution conference support.

The failure to collect budgeted receipts from the County Governments while the planned activities are undertaken would adversely affect the continued operation of the Council and financial sustainability of the Secretariat.

9.4 Compensation of Employees

During the year under review, the Council of Governors Secretariat management recruited and promoted staff in various categories. This resulted to an increase in the amount of compensation paid to Kshs.60,227,174 in 2016/2017 from Kshs.29,422,841 paid the previous year, an increase of 30,804,333 or about 105%.

As reported in the previous year, the staff of the Secretariat continued to be paid salaries and allowances without advice of the Salaries and Remuneration Commission contrary to the provisions of Article 230(4) b of the Constitution of Kenya 2010. Consequently, the validity of compensation of employees' expenditure of Kshs.60,227,174 cannot be confirmed under the circumstances.

9.5 Legal Expenses

The legal fees of Kshs.41,849,005 disclosed under Note 3 to the financial statements includes an amount of Kshs.31,142,450 paid to one lawyer that was handling cases between the Council and various arms of the National Government including Senate, National Assembly and, the

Independent Electoral and Boundaries Commission among others. No proper justification has been provided for appointing the lawyer to handle all these cases.

9.6 Domestic Travel and Subsistence

Domestic travel and subsistence expenditure of Kshs.43,097,567 disclosed under Note 4 to the financial statements includes payments amounting to Kshs.7,671, 260 in respect of helicopter and charter to a service provider during the year under review. However, documents in support of procurement and sourcing of the service provider whose contract was signed on 15 September, 2016 were not provided for audit verification. Consequently, the propriety of this expenditure cannot be ascertained.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7(1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Responsibilities of Management and Those Charged with Governance

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the International Public Sector Accounting Standards Accrual basis of accounting

unless the management either intends to liquidate the 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7(1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of Council of Governors in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance

with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

23 August 2019

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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2017-2018	2016-2017
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfer from Government Entities	7	220,545,600	361,259,779
Proceeds from Domestic and Foreign Grants	6	105,062,143	78,549,775
Grants from Ministry of Devolution	8	107,000,000	101,193,624
Grants from Ministry of Devolution (Kenya Symbiocity Programme)		25,000,000	52,009,000
Receipts in-kind	16	48,690,233	73,427,547
Rent Receivable	21	21,024,903	
Total revenue		527,322,879	666,439,725
Expenses			
Use of goods and services	9	5,427,341	5,492,162
Employee costs	10	115,876,227	60,227,174
Depreciation and amortization expense	18	15,647,801	-
Repairs and maintenance	13	10,651,379	9,957,559
General expenses	14	457,884,882	502,528,719
Kenya Symbiocity Programme	15	51,771,466	24,470,975
Payments In-kind	16	48,690,233	73,427,547
Total expenses		705,949,329	676,104,136
Remission to National Treasury		-	-
Net Surplus for the year		(178,626,450)	(9,664,411)

The notes set out on pages 6 to 28 form an integral part of these Financial Statements

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STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	2017-2018	2016-2017
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	17	293,307,432	388,191,565
Rent Receivable	21	21,024,903	
Non-current assets			
Property, plant and equipment	18	54,931,849	9,879,015
Total assets		369,264,184	398,070,580
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	19	68,341,937	-
Non-current liabilities			
Non-current employee benefit obligation		23,454,839	-
Total liabilities		91,796,776	
Net Assets		277,467,408	398,070,580
Reserves		388,191,565	407,734,991
Adjustment; Fixed Assets	20	67,902,293	
Accumulated surplus		(178,626,450)	(9,664,411)
Total net assets and liabilities		277,467,408	398,070,580

The Financial Statements set out on pages 6 to 28 were signed on behalf of the management by:

Chief Executive Officer
 Name: Jacqueline Mogeni

Signed.....

Date... 30/09/2018

Head of Finance
 Name: David Kisabuli
 ICPAK Member Number: 17785

Signed.....

Date... 30/09/18

**STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED 30 JUNE 2018**

	Retained earnings	Capital/ Development Grants/Fund	Total
At July 1, 2016	167,489,644	-	167,489,644
Total comprehensive income	(19,543,426)	-	(19,543,426)
At June 30, 2017	147,946,218	-	147,946,218
At July 1, 2017	147,946,218	-	147,946,218
Total comprehensive income	(178,626,450)	-	(187,193,435)
At June 30, 2018	(30,680,232)	-	(39,247,217)

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

		2017-2018	2016-2017
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfer from Government Entities		220,545,600	361,259,779
Proceeds from Domestic and Foreign Grants		105,062,143	78,549,775
Grants from Ministry of Devolution		107,000,000	101,193,624
Grants from Ministry of Devolution (Kenya Symbiocity Programme)		25,000,000	52,009,000
Total Receipts		457,607,743	593,012,178
Payments			
Use of goods and services		5,427,341	5,492,162
Employee costs		115,876,227	60,227,174
Repairs and maintenance		10,651,379	9,957,559
General expenses		457,884,882	502,528,719
Kenya Symbiocity Programme		51,771,466	24,470,975
Total Payments		641,611,295	602,676,589
Net cash flows from operating activities		(184,003,552)	(9,664,411)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(2,677,357)	(9,879,015)
Net cash flows used in investing activities		(2,677,357)	(9,879,015)
Cash flows from financing activities			
Increase in payables		68,341,937	
Gratuity Fund		23,454,839	
Net cash flows used in financing activities		91,796,776	-
Net increase/(decrease) in cash and cash equivalents		(94,884,133)	(19,543,426)
Cash and cash equivalents at 1 JULY	28	388,191,565	407,734,991
Cash and cash equivalents at 30 JUNE	28	293,307,432	388,191,565

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE YEAR ENDED 30 JUNE 2018

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Transfer from Government Entities	215,722,750	215,722,750	215,722,750	220,545,600	4,822,850
Proceeds from Domestic and Foreign Grants	169,530,567	169,530,567	169,530,567	105,062,143	(64,468,424)
Grants from Ministry of Devolution	247,900,000	247,900,000	247,900,000	107,000,000	(115,900,000)
Grants from Ministry of Devolution (Kenya Symbiocity Programme)	-	-	-	25,000,000	
Total income	633,153,317	633,153,317	633,153,317	457,607,743	(175,545,574)
Expenses					
Use of goods and services	5,400,000	5,400,000	5,400,000	5,427,341	(27,341)
Employee costs	125,827,308	125,827,308	125,827,308	115,876,727	9,951,081
Repairs and maintenance	14,805,368	14,805,368	14,805,368	10,651,379	4,153,989
General expenses	468,149,642	468,149,642	468,149,642	457,884,882	10,264,760
Kenya Symbiocity Programme (ref. to Programme Statements)				51,771,466	
Total expenditure	614,182,318	614,182,318	614,182,318	641,611,795	24,341,989
Surplus for the period	18,971,000	18,971,000	18,971,000	(184,004,052)	(199,887,563)

Budget note

i. Transfer from Government Entities:

Most counties did not honour their commitment of support to the Council during the year apart from the Devolution Conference where the council realized 96% of the expected amount.

ii. Proceeds from Domestic and Foreign Grants:

There was drastic reduction of grants from development partners during the period.

iii. Grants from Ministry of Devolution:

The allocation of supplementary budget of Kshs 115,900,000 was not disbursed by end of the financial period.

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Council of Governors is established by and derives its authority and accountability from Intergovernmental Relations Act (IGRA 2012). The entity is wholly owned by the Government of Kenya and is domiciled in Kenya.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the entity.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (include any other applicable legislation), and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Standard	Impact
IPSAS 39: Employee Benefits	<p>Applicable: 1st January 2018</p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach</p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2018.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

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. Recurrent grants are recognized in the statement of comprehensive income.

b) Budget information

The original budget for FY 2017/18 was approved by the Council. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

c) Property, plant and equipment

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 entity 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.

d) Leases

Financial leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

e) Intangible assets

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.

i) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements. *The Council did not maintain reserve during the period.*

j) Changes in accounting policies and estimates

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

k) Related parties

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa.

l) 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

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changes in value. Bank account balances include amounts held at the various commercial banks including bank guarantees held at the end of the financial year.

m) Budget information

The original budget for FY 2017-2018 was approved by the Council of Governors. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget.

The entity's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

n) Comparative figures

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

o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Ent'ty'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. State all judgements, estimates and assumptions made: e.g

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. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

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

Provision for Depreciation

The depreciation rates used are as follows;

Class	Rate
Motor vehicle	25%
Furniture & Fitting	12.5%
Office Equipment & Accessories	30%
Computers & Printers	30%

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6 PUBLIC CONTRIBUTIONS AND DONATIONS

Name of the Donor	2017-8	2016-7
	Kshs	Kshs
Devolution Conference Registration and Others	66,281,119	74,248,475
UNICEF Kenya	2,000,000	4,051,300
HDI Marketers Ltd	-	250,000
Kenya Vision 2030	1,000,000	-
Kenya Post Office	1,000,000	-
Osho Chemical Industries Limited	1,000,000	-
Children Invets	3,000,000	-
KIPPRA	1,200,000	-
Resolution Insurance	5,000,000	-
Amref Kenya	1,300,000	-
Isuzu East Africa Limited	1,000,000	-
Cooperative Bank of Kenya	5,000,000	-
Kenya Commercial Bank	7,500,000	-
Ford Foundation	2,927,024	-
Deloitte Limited	250,000	-
EACC	2,680,000	-
Kenya Private Sector Alliance	1,000,000	-
Seven Seas Technology Group	100,000	-
Commission On Revenue Allocation	500,000	-
Water Services Trust Fund	1,500,000	-
UNDP	500,000	-
The Youth Agenda	134,000	-
County Pension Fund	190,000	-
TOTAL	105,062,143	78,549,775

Most of the contribution and donations above relates to Devolution Conference and Governors induction program.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 TRANSFERS FROM OTHER GOVERNMENTS

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2017-2018
			KShs	KShs	KShs
County Governments	220,545,600	-	-	220,545,600	220,545,600
Total	220,545,600	-	-	220,545,600	220,545,600

The detailed matrix is included under appendix IV

8 TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2017-2018
			KShs	KShs	KShs
Ministry of Devolution	132,000,000	-	-	132,000,000	132,000,000
Total	132,000,000	-	-	132,000,000	132,000,000

The details of the reconciliation have been included under appendix III

9 USE OF GOODS AND SERVICES

Description	2017-2018	2016-2017
	KShs	KShs
Electricity	4,704,914	5,029,532
Security	722,427	462,630
Total good and services	5,427,341	5,492,162

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10 EMPLOYEE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Salaries and wages	89,963,816	60,227,174
Employee related costs - contributions to pensions and medical aids	25,242,161	
Employee costs	104,297,977.40	60,227,174

11 DEPRECIATION AND AMORTIZATION EXPENSE

Description	2017-2018	2016-2017
	KShs	KShs
Property, plant and equipment	15,647,801	-
Total depreciation and amortization	15,647,801	-

12 REPAIRS AND MAINTENANCE

Description	2017-2018	2016-2017
	KShs	KShs
Motor Vehicle	8,331,519.21	7,141,226
Furniture & Fittings	1,387,664.44	2,816,333
Total repairs and maintenance	9,719,183.65	9,957,559

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 GENERAL EXPENSES

Description	2017-2018	2016-2017
	KShs	KShs
Rental, Proceeds, Utilities and services	196,856,645	151,502,964
Communication, supplies and services	3,654,805	3,422,976
Domestic travel and subsistence	15,354,184	43,097,567
Foreign travel and subsistence	16,185,005	20,485,267
Printing, advertising and information supplies & services	10,014,131	19,008,479
Training, Conferences and workshops expenses	132,255,284	174,423,084
Hospitality supplies and services	61,332,442	37,091,987
Insurances	10,125,538	11,607,390
Legal Fees	12,106,847	41,849,005
Total general expenses	457,884,882	502,488,719

14 CASH AND CASH EQUIVALENTS

Description		2017-2018	2016-2017
		KShs	KShs
Current account	17(a)	192,788,490	2587,728,803
Cash in Hand		218,942	162,762
Staff mortgage	17(b)	100,000,000	100,000,000
Bank Guarantee		300,000	300,000
Total cash and cash equivalents		293,307,432	388,191,565

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15 RECEIPTS/PAYMENTS IN-KIND

IN-KIND DONATIONS FROM DEVELOPMENT PARTNERS		
ORGANIZATION	TYPE OF SUPPORT	AMOUNTS
UNDP	The Integrated Programme to Support Devolution is designed to support the implementation of Devolution to achieve improved good governance and socio-economic development in Kenya	34,922,231
UN Women	<p>'Effective Implementation of the Gender Functions at the County Level</p> <p>A Program to facilitate capacity building for Counties to advance the gender equality and women's empowerment work. Thus, the work under this project focused on the objectives outlined below;</p> <ul style="list-style-type: none"> (a) Building the capacity of CECMs in charge of Gender (b) Creating linkages with, and clarifying the role of the National Government in relation to that of County Governments in Gender matters and; (c) Facilitating the participation and involvement of County Governments in international events touching on gender. 	7,940,787
UNICEF	<ul style="list-style-type: none"> a) Provision of Technical Support on matters relating to Early Child Education Policies and laws. b) Provision of support to Governors and Deputy Governors Induction c) Provision of support to the 5th Annual Devolution conference, d) Provision of support towards Health Committee 	5,827,176
	Total	48,690,194

16 **DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS**

Financial institution	Account number	2017-2018 KShs	2016-2017 KShs
a) Current account			
Kenya Commercial bank	01164902318	16,515,471	54,463,552
Kenya Commercial bank	1212164717	23,454,839	-
Cooperative Bank	0114320133800	31,935,233	76,296,801
Cooperative Bank	0113420133800	9,925	18,349,184
National Bank of Kenya	01001113869200	120,873,022	138,619,266
Sub- total		192,788,490	287,728,803
b) Staff mortgage			
Kenya Commercial bank		100,000,000	100,000,000
Sub- total		100,000,000	100,000,000
c) Guarantee			
Cooperative Bank		300,000	300,000
Sub- total		300,000	300,000
d) Others			
Petty Cash		218,942	162,762
Sub- total		218,942	162,762
Grand total		293,307,432	388,191,565

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 PROPERTY, PLANT AND EQUIPMENT

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Summary of Fixed Asset Movements

Details	Office Machines Kshs	Office Furniture Kshs	Computers Kshs	Motor Vehicles Kshs	Total Kshs
Cost					
As at 1 July 2017	1,920,000	19,303,690	6,285,985	40,392,618	67,902,293
Additions	1,944,116	733,241			2,677,357
Disposals	-	-	-	-	-
Adjustments	-	-	-	-	-
As at 30 June 2018	3,864,116	20,036,931	6,285,985	40,392,618	70,579,650
Net Book Value					
As at 1 July 2017	1,920,000	19,303,690	6,285,985	40,392,618	67,902,293
As at 30 June 2018	3,864,116	20,036,931	6,285,985	40,392,618	70,579,650
Depreciation Charge					
	1,159,234.80	2,504,616	1,885,796	10,098,154.50	15,647,801
Net Book Value	2,704,881	17,532,314	4,400,190	30,294,464	54,931,849

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18 ACCOUNTS PAYABLE

S/NO.	SUPPLIER	CLASS	AMOUNT (Kshs)
1.	Golf Hotel	Conference	960,000
2.	Safari Park	Conference	506,250
3.	African Touch Safaris	Local Travel	371,580
4.	Longrock Tours and Travel	Local Travel	71,200
5.	Longrock Tours & Travel	Local Travel	71,200
6.	Casael Investment	Office Repairs	797,000
7.	Premier Safaris	Local Travel	135,715
8.	Pride Inn	Conference	30,000
9.	Sports view Hotel	Conference	92,000
10.	Convent Hotel	Conference	312,000
11.	M/S Long rock tours and travel	Local Travel	153,300
12.	M/s Qaribu Inn	Conference	100,000
13.	Travelers Beach Hotel	Conference	8,000
14.	Premier Safaris	Local Travel	52,150
15.	African Touch Safaris	Local Travel	104,800
16.	Premier Safaris	Local Travel	45,540
17.	Arseniq Media	Printing	4,800
18.	Travelers Beach Hotel	Conference	70,950
19.	Premier Safaris	Local Travel	308,695
20.	Safari Park Hotel and Casino	Conference	222,000
21.	Naivasha County Hotel-Sawela Lodges	Conference & Workshop	311,000
22.	Nation Media Group Limited	Advertising, Awareness	499,999
23.	The Standard Group	Advertising, Awareness	499,999
24.	Royal Media Services	Advertising, Awareness	500,000
25.	Toyota Kenya Limited	Motor Vehicle Maintenance	135,195
26.	Qaribu Inn	Catering Services	122,000
27.	Rex Kiosk	Subscription; Newspapers,	19,057
28.	Sunrise Tours And Safaris	Travel Costs	29,735
29.	African Touch Safaris	Travel Costs	66,855
30.	Cedars Travel & Tours Limited	Travel Costs	27,132
31.	Chandaria Industries	General Office Supplies	106,604
32.	Layton International Supplies	General Office Supplies	235,700
33.	Equinox Solutions Limited	Sanitation & Cleaning	489,842
34.	Longrock Tours & Travel Ltd	Travel Costs	22,400
35.	Cedars Travel & Tours Limited	Travel Costs	62,615
36.	Tondwe Africa Group LTD	Travel Costs	80,185
37.	Realedge Africa	Travel Costs	44,820
38.	Green Bay Travel Limited	Travel costs	72,670
39.	Green Bay Travel Limited	Travel costs	8,500
40.	Sheywe Guest House	Accommodation and Meals	40,000
41.	Acacia Premier Hotel	Accommodation and Meals	1,642,760
42.	Grand Royal Swiss Hotel	Accommodation and Meals	2,250,800

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43.	Law Society of Kenya	Subscription to Professional	72,670
44.	Silverbird Travel Plus Ltd	Travel Costs	24,995
45.	Scangraphics Kenya Limited	General Office Supplies	105,600
46.	Soverign Hotel	Accommodation and Meals	193,750
47.	Sosa Cottages	Accommodation and Meals	1,552,840
48.	Keagles Knitwear Limited	General Office Supplies	75,000
49.	Qaribu Inn	Catering Services	91,200
50.	Sarova Whitesands Beach Resort	Accommodation and Meals	148,931
51.	Knight Frank Property Management Ltd	Rent outstanding as at 30.06.2018	21,024,903
52.	Pricewaterhouse Coopers	End Term Review of CIDPs	33,367,000
	Total		68,341,937

19 EMPLOYEE BENEFIT OBLIGATIONS

Description	Defined benefit plan	Post-employment medical benefits	Other Provisions	2017-2018	
				KShs	KShs
Current benefit obligation	-	-	-	-	-
Non-current benefit obligation	23,454,839	-	-	23,454,839	-
Total employee benefits obligation	23,454,839	-	-	23,454,839	-

The entity operates a defined benefit scheme for all full-time employees from July 1, 2018. The scheme is based on 31 percentage of salary of an employee at the time of retirement. The liability at the end of the year is as follows:

20 CASH GENERATED FROM OPERATIONS

	2017-2018	2016-2017
	KShs	KShs
Surplus for the year before tax		
Adjusted for:		
Depreciation	15,647,801	-
Non-cash grants received	(48,690,233)	(73,427,542)
Increase in payables	68,341,937	-
Net cash flow from operating activities	35,299,505	(73,427,542)

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21 RENT RECEIVABLE/PAYABLE

	County	Amount (Kshs)
1	Bomet County Government	(56,252)
2	Bungoma County Government	599,467
3	E-Marakwet County Government	1,145,652
4	Isiolo County Government	1,197,667
5	Kisii County Government	881,850
6	Kisumu County Government	883,343
7	Kitui County Government	2,317,945
8	Lamu County Government	1,172,293
9	Marsabit County Government	886,428
10	Meru County Government	881,828
11	Mombasa County Government	1,153,980
12	Nakuru County Government	2,109,812
13	Nyamira County Government	1,169,815
14	Nyeri County Government	(41,725)
15	Samburu County	923,943
16	Siaya County Government	1,119,011
17	Taita-Taveta County Government	1,171,025
18	Tana River County Government	599,467
19	Turkana County Government	881,850
20	Vihiga County Government	1,145,652
21	Wajir County Government	881,850
	Total	21,024,903

22 FINANCIAL RISK MANAGEMENT

The entity's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The entity's financial risk management objectives and policies are detailed below:

(i) Credit risk

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the management. The amounts presented in the statement of financial position are net of allowances for doubtful

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receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2018				
Bank balances	293,307,432	293,307,432	-	-
Total	293,307,432	293,307,432	-	-
Bank balances	388,191,565	388,191,565	-	-
Total	388,191,565	388,191,565	-	-

The Council has no credit risk exposure as at the end of the financial period.

23 RELATED PARTY BALANCE
Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions.

Government of Kenya (Continued)

- i) State Department of Devolution
- ii) County Governments
- iii) Key management;

	2018 Kshs	2017 Kshs
a) Grants from the Government		
Grants from National Government	107,000,000	101,193,624
Grants from County Government	220,545,600	361,259,779
Proceeds from Domestic & Foreign Grants	105,062,143	78,549,775
Donations in kind	48,690,233	73,427,547
Grants from Ministry of Devolution (Kenya Symbiocity Programme)	25,000,000	52,009,000
Total	506,297,976	666,439,725

24 DIVIDENDS/SURPLUS REMISSION

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The entity did not make any surplus during the year (FY 2017/8 Nil) and hence no remittance to the Consolidated Fund.

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25 TAXATION

The council does not generate its own source revenue, hence did not remit income tax during the period

26 EVENTS AFTER THE REPORTING PERIOD

There were no material adjusting and non-adjusting events after the reporting period.

27 Currency

The financial statements are presented in Kenya Shillings (Kshs).

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APPENDIX 1: 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.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1.	Bank Guarantee	The bank guarantee number TFBG/15/0090 was issued on account Council of Governors by Cooperative Bank of Kenya to Toyota Kenya effective from 10 th February 2015 and expiry on 31 st January 2016. However, the Council has since renewed the guarantee since it has been receiving the services and will continue to receive services from Toyota Kenya on credit. (See attached renewal contract agreement)	Management	Resolved	
2.	Staff Loan Fund	The Council did approve the creation of staff loan fund through a Council of Governors resolution. (See attached minutes). This was a mandate to improve the welfare of the staff since they could not access the Government negotiated loan. The Council secretariat had negotiated with the lending Bank for the repayment period of the mortgage to be based on the employee remaining years of service	Management		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		see clause 10 of the agreement between CoG and KCB bank.			
3.	Transfer from Government Entities	We acknowledge that some Counties have not been remitting their quarterly rent obligation to the Secretariat. However, the Council is consistently making effort to following up with the respective Counties who have outstanding arrears.	The Council of Governors, Management		
4.	Compensation of Employees	The structure of the Secretariat was approved by the Council. Further, the Council sort advice from Salaries and Remuneration.	Management		
5.	Legal Expenses	The Intergovernmental Relations Act 2012 at section 20 (b) provides that the Council is a forum for 'sharing of information on the performance of the counties in the execution of their functions with the objective of learning and promotion of best practice, and where necessary initiating preventive or corrective action'. The Council institutes courts matters or defends court cases in line with this mandate and to ensure that the principles and the objects of devolution as enshrined in the Constitution are protected. Please note that the legal fees paid in	Management		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
		the financial year under review are for ongoing cases contracted in the previous financial years.			
6.	Domestic Travel & Subsistence	The council did procure the services of helicopter and charter through competitive bidding as per the provisions in the Public procurement Asset and Disposal Act.	Management		

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APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

Projects

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
1 Kenya Symbiocity Programme	51110060	Sida	4 Years	378,750,000	Yes	Yes
2						

Status of Projects completion

(Summarise the status of project completion at the end of each quarter, ie total costs incurred, stage which the project is etc)

	Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
1	Kenya Symbiocity Programme	378,50,000	70,328,108	19%	378,50,000	70,328,108	Sida

APPENDIX III: INTER-ENTITY TRANSFERS

ENTITY NAME:			
Break down of Transfers from the State Department of Devolution			
FY 17/18			
a. Recurrent Grants			
	Bank Statement Date	Amount (KShs)	Indicate the FY to which the amounts relate
	11/09/2017	26,750,000	2017/8
	10/11/2017	26,750,000	2017/8
	29/01/2018	26,750,000	2017/8
	19/04/2018	26,750,000	2017/8
	07/05/2018	25,000,000	2017/8
	Total	132,000,000	

Finance Manager
 Council of Governors entity

Sign _____

Head of Accounting Unit
 State Department of Devolution

Sign_____

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APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

CONTRIBUTIONS FROM COUNTY GOVERNMENTS

CO DE	COUNTY	INTERGONERN MENTAL CONTRIBUTIO N	LIAISON OFFICE RENT	DEVOLUTION CONFERENCE SUPPORT	TOTAL
01	Mombasa County Government	-	4,122,966	2,000,000	6,122,966
02	Kwale County Government	-	-	2,000,000	2,000,000
03	Kilifi County Government	-	-	2,000,000	2,000,000
04	Tana River County Government	-	2,291,304	2,000,000	4,291,304
05	Lamu County Government	-	1,145,652	-	1,145,652
06	Taita-Taveta County Government	-	2,240,558	2,000,000	4,240,558
07	Garissa County Government	-	-	2,000,000	2,000,000
08	Wajir County Government	3,125,000.00	5,210,924	2,000,000	10,335,924
09	Mandera County Government	1,300,000.00	2,767,818	2,000,000	6,067,818
10	Marsabit County Government	2,589,845.75	2,640,950	2,000,000	7,230,796
11	Isiolo Count Government	2,750,000.00	0.00	2,000,000	4,750,000
12	Meru County Government	-	3,527,422	2,000,000	5,527,422
13	Tharaka Nithi County Government	-	2,291,304	2,000,000	4,291,304
14	Embu County Government	-	-	2,000,000	2,000,000
15	Kitui County Government	3,125,000.00	-	2,000,000	5,125,000
16	Machakos County Government	-	-	2,000,000	2,000,000
17	Makueni County Government	5,000,000.00	1,145,652	2,000,000	8,145,652
18	Nyandarua County Government	3,125,000.00	0.00	2,000,000	5,125,000
19	Nyeri Ciounty Government	-	3,611,218	2,000,000	5,611,218
20	Kirinyaga County Government	-	7,929,021	2,000,000	9,929,021
21	Murang'a County Government	-	-	2,000,000	2,000,000
22	Kiambu County Government	-	-	2,000,000	2,000,000
23	Turkana County Government	3,923,943.00	5,714,846	2,000,000	11,638,788
24	West Pokot County Government	5,000,000.00	0.00	2,000,000	7,000,000
25	Samburu County Government	-	2,645,550	2,000,000	4,645,550
26	Trans-Nzoia County Government	-	-	2,000,000	2,000,000
27	Uasin Gishu County Government	-	-	2,000,000	2,000,000
28	Elgeyo Marakwet County Government	-	1,693,105	-	1,693,105
29	Nandi County Government	-	2,291,304	2,000,000	4,291,304
30	Baringo County Government	-	2,890,771	2,000,000	4,890,771
31	Laikipia County Government	-	0.00	2,000,000	2,000,000
32	Nakuru County Government	-	3,164,719	2,000,000	5,164,719
33	Narok County Government	-	2,687,576	2,000,000	4,687,576

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34	Kajiado County Government	-	-	2,000,000	2,000,000
35	Kericho County Government	8,000,000.00	3,411,583	2,000,000	13,411,583
36	Bomet County Government	-	5,655,079	2,000,000	7,655,079
37	Kakamega County Government	5,625,000.00	0.00	2,000,000	7,625,000
38	Vihiga County Government	2,877,467.00	1,745,119	2,000,000	6,622,586
39	Bungoma County Government	-	1,718,478	2,000,000	3,718,478
40	Busia County Government	-	-	2,000,000	2,000,000
41	Siaya County Government	-	1,745,119	2,000,000	3,745,119
42	Kisumu County Government	-	2,317,945	2,000,000	4,317,945
43	Homa-Bay County Government	-	-	2,000,000	2,000,000
44	Migori County Government	-	2,317,945	2,000,000	4,317,945
45	Kisii County Government	-	3,487,312	2,000,000	5,487,312
46	Nyamira County Government	-	1,693,105	2,000,000	3,693,105
47	Nairobi County	-	-	2,000,000	2,000,000
	TOTALS	45,599,492.75	84,946,107	90,000,000	220,545,600



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