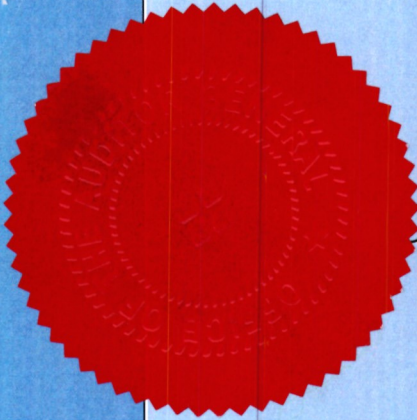


REPUBLIC OF KENYA



*Paper Laid*  
*By Hon Wadhvani, MP on*  
*behalf of LOMP at the*  
*table of the House on*  
*13/6/2018*



OFFICE OF THE AUDITOR-GENERAL



PARLIAMENT  
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# REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF  
THE REVENUE STATEMENTS OF THE STATE  
DEPARTMENT FOR CORRECTIONAL  
SERVICES**

**FOR THE YEAR ENDED  
30 JUNE 2017**



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**RECEIVER OF REVENUE**  
*STATE DEPARTMENT FOR CORRECTIONAL SERVICES*

**REVENUE STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED**  
**JUNE 30, 2017**

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

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**I. KEY ENTITY INFORMATION AND MANAGEMENT**

**(a) Background information**

The state department for correctional services is under the **Ministry of Interior and Coordination of National Government**. At cabinet level, the State Department is represented by the Cabinet Secretary for **Ministry of Interior and Coordination of National Government**, who is responsible for the general policy and strategic direction of the State Department. The State Department has not been formally appointed by the National Treasury as Receiver of Revenue for the financial year under review due the transfer of Betting Control and Licencing regulator from State Department for Coordination of National Government to the State Department for Interior and then to the **State Department for Correctional Services**. The movement affected budgeting for the expected amount of revenue as the budget had already been done earlier with the exclusion of Betting Control and Licencing.

**(b) Principal activities**

The Receiver of Revenue collects revenue from betting and licensing. Revenue collected is remitted to the National Treasury in accordance with Section 81 (2) of the PFM Regulations 2015.

**(c) Key Management**

The State Department for Correctional Services' day-to-day management is under the following key organs:

Cabinet Secretary	- Dr. Fred Matiang'i, EGH
Principal Secretary	- Amb. Richard T. Ekai, CBS
Senior Management;	
▪ Commissioner General of Prisons	- Isaiah M. Osugo, CBS
▪ Senior Director of Administration	- Clare A. Omolo
▪ Head of Planning	- James Nyabochoa
▪ Chief Finance Officer	- Sarah Kerandi
▪ Head of Accounting Unit	- Joseph K. Mwangi

**(d) Entity Headquarters**

P.O. Box 30478- 00100  
Telposta Towers  
Kenyatta Avenue  
Nairobi, KENYA

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES**  
**REVENUE STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**(e) Entity Contacts**

Telephone: (254) -20-2228411  
E-mail: [ps@correctional.go.ke](mailto:ps@correctional.go.ke)  
Website: [www.correctional.go.ke](http://www.correctional.go.ke)

**(f) Independent Auditors**

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

**(g) Principal Legal Adviser**

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

**(h) Bankers**

Central Bank of Kenya  
P O Box 600000-00200  
Nairobi, Kenya  
Website: [www.cbk.go.ke](http://www.cbk.go.ke)

**RECEIVER OF REVENUE ENTITY - STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**II. STATEMENT OF RECEIVER OF REVENUE'S RESPONSIBILITIES**

Section 82 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, a receiver of revenue shall prepare an account of the revenue received and collected by that receiver during that financial year.

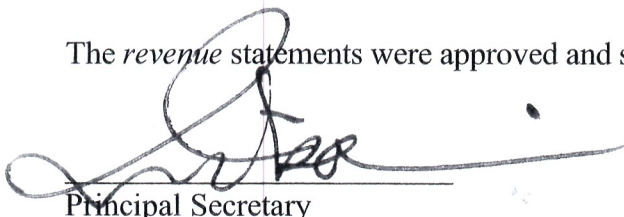
The Principal Secretary in charge of the State Department for Correctional Services is responsible for the preparation and presentation of the Receiver of Revenue account, which gives a true and fair view of the state of affairs of the Receiver of Revenue for and as at the end of the financial year (period) 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 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 Principal Secretary in charge of the State Department for Correctional Services accepts responsibility for the entity's Receiver of Revenue accounts, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS) and relevant legal framework of the Government of Kenya. The Principal Secretary is of the opinion that the entity's Receiver of Revenue account gives a true and fair view of the state of entity's Receiver of Revenue transactions during the financial year ended June 30, 2017, and of the entity's financial position as at that date. The Principal Secretary in charge of the State Department for Correctional Services further confirms the completeness of the accounting records maintained for the Receiver of Revenue, which have been relied upon in the preparation of the Receiver of Revenue account as well as the adequacy of the systems of internal financial control.

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

**Approval of the Revenue Statements**

The *revenue* statements were approved and signed by the Principal Secretary on 30.09 2017



Principal Secretary

Name: **Amb. Richard T. Ekai, CBS**



Principal Accounts Controller

Name: **Joseph K. Mwangi**

ICPAK Member Number: 5841

# REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke  
Website: www.oagkenya.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON THE REVENUE STATEMENTS OF THE STATE DEPARTMENT FOR CORRECTIONAL SERVICES FOR THE YEAR ENDED 30 JUNE 2017

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#### REPORT ON THE REVENUE STATEMENTS

##### Opinion

I have audited the accompanying revenue statements of the State Department for Correctional Services set out on pages 6 to 14, which comprise the statement of arrears in revenue as at 30 June 2017, and the statement of receipts and transfers 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 revenue statements present fairly, in all material respects, the arrears of revenue of State Department for Correctional Services as at June 30, 2017, and of its revenue performance for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that public money has been applied lawfully and in an effective way.

##### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of State Department for Correctional Services 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. 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 judgment, 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.

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*Report of the Auditor-General on the Financial Statements of The Revenue Statements of the State Department for Correctional Services for the year ended 30 June 2017*

## **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 (Cash Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the revenue statements, management is responsible for assessing the State Department's ability 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 cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the revenue 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 State Department'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 revenue statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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 revenue statements.

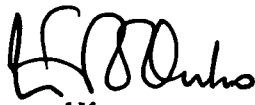
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the revenue 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 State Department's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Department's ability 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 State Department to cease sustaining 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 department 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**

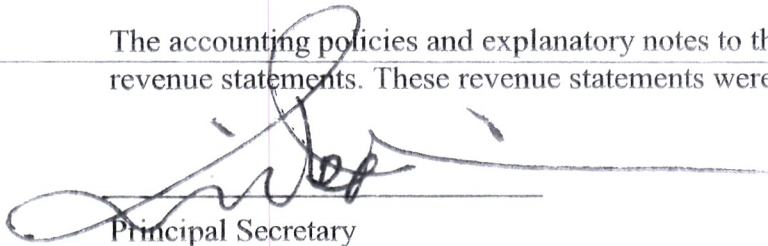
**04 May 2018**

**RECEIVER OF REVENUE ENTITY - STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**III. STATEMENT OF RECEIPTS AND TRANSFERS**

	Note	2016/17 KES	2015/16 KES
<b>NON TAX RECEIPTS</b>			
Other Receipts	1	101,651,876	154,591,272
<b>TOTAL NON TAX RECEIPTS</b>		<b>101,651,876</b>	<b>154,591,272</b>
<b>TOTAL RECEIPTS COLLECTED</b>			
		<b>101,651,876</b>	<b>154,591,272</b>
<b>TRANSFERS TO THE EXCHEQUER ACCOUNT</b>		(101,651,876)	(154,591,272)
<b>BALANCE BROUGHT FORWARD</b>	2	-	-
<b>BALANCE CARRIED FORWARD</b>	2	-	-

The accounting policies and explanatory notes to these revenue statements form an integral part of the revenue statements. These revenue statements were approved on 30.09 2017 and signed by:



Principal Secretary  
Name: **Amb. Richard T. Ekai, CBS**



Principal Account's controller  
Name: **Joseph K. Mwangi**  
ICPAK Member Number: 5841

*(Ref: PFM ACT section 82, 2(a))*

RECEIVER OF REVENUE ENHILI - DLAIE DEFARIMENI FOR UKRELIJIONAL SERVICES  
**REVENUE STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2017**

**IV. STATEMENT OF ARREARS IN REVENUE AS AT 30 JUNE 2017**

Classification of Revenue	Accumulated amount in arrears from prior periods to June 2015 (a)	Amount in arrears for the immediate previous year to 30 June 2016 (b)	Amount in arrears for the current year to June 30 2017 (c)	Total arrears as at 30 June 2017 (a+b+c)	Measures taken to recover the arrears	Assessment to the recoverability of arrears
<b>Non Tax Revenues</b>						
Fees on Use of Goods and services						
Social security contributions						
Property Income						
Fines, penalties and Forfeitures						
Receipts from sale of non-financial assets						
<b>Total arrears</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

  
 Principal Secretary

Name: **Amb. Richard T. Ekai, CBS**



Principal Accounts Controller  
 Name: **Joseph K. Mwangi**  
 ICPAK Member Number: 5841

**RECEIVER OF REVENUE ENTITY - STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**V. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE PERIOD ENDED 30 JUNE 2017**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
	KES	KES	KES	KES	KES
<b>Revenue</b>					
Non tax receipts					
Other Receipts	-	-	-	101,651,876	101,651,876
<b>Total Non-tax receipts</b>	-	-	-	<b>101,651,876</b>	<b>101,651,876</b>
<b>Total receipts</b>	-	-	-	<b>101,651,876</b>	<b>101,651,876</b>

(a) Provide below a commentary on significant underutilization (below 10% of utilization) and any overutilization]

i. The State Department has not been formally appointed by the National Treasury as Receiver of Revenue for the financial year under review due the transfer of Betting Control and Licencing regulator from State Department for Coordination of National Government to the State Department for Interior and then to the State Department for Correctional Services. The movement affected budgeting for the expected amount of revenue as the budget had already been done earlier with the exclusion of Betting Control and Licencing.

ii.

(Explain whether the changes between the original and final budget are as a result of reallocations within the budget or other causes as per IPSAS 1.9.23.)

**RECEIVER OF REVENUE ENTITY - STATE DEPARTMENT FOR CORRECTIONAL SERVICES**  
**REVENUE STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**VI. SIGNIFICANT ACCOUNTING POLICIES**

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

**1. Statement of Compliance and Basis of Preparation**

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

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the *entity*. The accounting policies adopted have been consistently applied to all the years presented.

The revenue statements have been prepared on the cash basis following the Government's standard chart of accounts. The cash basis of accounting recognises transactions and events only when cash is received or paid by the *entity*.

**2. Recognition of Revenue**

The *entity* recognises all revenues from the various sources when the event occurs and the related cash has actually been received by the *entity*.

**3. Budget**

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

**4. Cash and cash equivalents**

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

**5. Revenue in Arrears**

This relates to revenue due and is yet to be received or collected by the receiver of revenue. The revenue in arrears is as disclosed in the Statement of Revenue in Arrears under section IV of these financial statements.

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES  
REVENUE STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**6. Comparative Figures**

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

**7. Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the revenue statements for the year ended June 30, 2017.

**8. Statement of Arrears of Revenue**

The statement of arrears of revenue is not a requirement as per the IPSAS Cash Standard. The IPSAS Cash Standard encourages disclosure of accrual based balances since it's a transitional standard to accrual basis of accounting. The PFM Act, 2012 section 82,2b and section 69(c) of the PFM Regulations 2015 requires a Receiver of Revenue to prepare a statement on revenue of arrears due but not yet collected at the end of the period. This statement has been disclosed under section IV of these financial statements.

**RECEIVER OF REVENUE ENTITY - STATE DEPARTMENT FOR CORRECTIONAL SERVICES**

**REVENUE STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

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**VII. NOTES TO THE FINANCIAL STATEMENTS**

**1. OTHER RECEIPTS NOT CLASSIFIED ELSEWHERE**

<b>Description</b>	<b>2016-2017</b>	<b>2015-2016</b>
	<b>KES</b>	<b>KES</b>
Miscellaneous Revenue	101,651,876	154,591,272
<b>Total Revenue</b>	<b>101,651,876</b>	<b>154,591,272</b>
<b>Balance brought forward</b>	-	-
Transfers to the Exchequer account	(101,651,876)	(154,591,272)
<b>Balance carried forward</b>	-	-

i. There has been tremendous growth in the Betting industry especially Sport during the period under review compared to 2015 2016 period.

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES**  
**REVENUE STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**2. BALANCES CARRIED FORWARD**

<b>a) Balance carried forward subsequently transferred</b>	
Amount	<i>Date transferred</i>
1. -	N/A
2. -	N/A
-	
<b>b) Balance carried forward yet to be transferred</b>	
1. -	N/A
2. -	N/A
-	
-	

There were no balances carried forward as at 30<sup>th</sup> June 2017

*Explain the breakdown of all revenue collected but not transferred to the exchequer account. If transferred subsequent to the year-end, please indicate the date of transfer. The grand total should tie to the balance carried forward in the statement of receipts and transfers.*

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES**

**REVENUE STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**

**APPENDIX 1: A REPORT OF WAIVERS AND VARIATIONS OF TAXES, FEES OR CHARGES GRANTED BY THE RECEIVER OF REVENUE DURING THE YEAR.**

<b>Name of person / organisation benefitting from waiver/ variation</b>	<b>Year in which waiver/ variation relates</b>	<b>Amount of variation/ waiver</b>	<b>Reasons for waiver/ variation</b>	<b>The law in terms of which the variation was granted</b>
N/A				

*(This relates to a receiver of revenue that has granted a giver/ remitter of revenue waiver or discount on the revenue to be submitted. Where no waiver has been given, state so under this statement)*

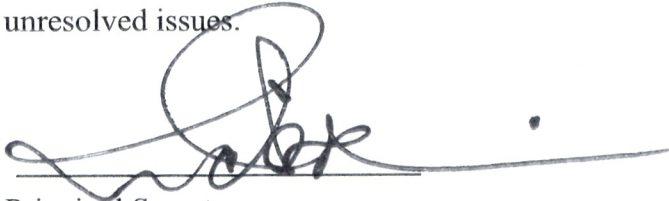
**(PFM ACT section 82 sub section 4, 5)**

**RECEIVER OF REVENUE ENTITY – STATE DEPARTMENT FOR CORRECTIONAL SERVICES**  
**REVENUE STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

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**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The State Department for Correctional Services got an unqualified audit opinion therefore there were no unresolved issues.



Principal Secretary  
Name: **Amb. Richard T. Ekai, CBS**



Principal Accounts Controller  
Name: **Joseph K. Mwangi**  
ICPAK Member Number: 5841