

REPUBLIC OF KENYA



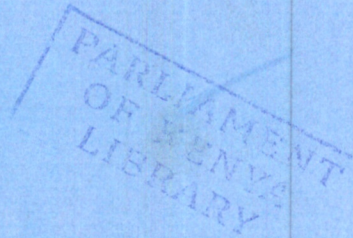
OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 23 JUL 2019	DAY: TUESDAY
TABLED BY: MAJORITY WHIP	
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**REPORT**

**OF**



**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
EQUALISATION FUND**

**FOR THE YEAR  
ENDED 30 JUNE 2018**

**THE NATIONAL TREASURY**

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

2.9 SEP 2018

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## **THE NATIONAL TREASURY**

### **Financial Statements for Equalisation Fund For the Financial Year ended 30<sup>th</sup> June 2018**

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

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## **1. EQUALISATION FUND INFORMATION AND MANAGEMENT**

### **a) Background Information**

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

The National Treasury was established via the Executive Order No. 2 of May 2013. The basis for establishment of the National Treasury is found in Article 225 (i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act 2012.

- **Vision**

An institution of excellence in economic and public financial management.

- **Mission**

To promote economic transformation for shared growth through formulation, implementation and monitoring of prudent economic and financial policies at national and county levels of government.

- **Core Values**

The National Treasury is committed to providing quality services to all and is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency, Teamwork and Staff as key asset and Equity, Fairness and Inclusion.

### **b) Operation and reporting under the Equalisation Fund**

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



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

Article 204 (1) requires that one half per cent (0.5%) of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalisation Fund. As at 30<sup>th</sup> June 2018 the total accumulated entitlement to the Fund for the financial years 2011/2012 to 2016/2017 are estimated at Kshs 21,974,319,967 as shown in the table below:

<b>Financial Year</b>	<b>Equalisation Fund Entitlement (0.5% of most recent audited and approved revenues)</b>	<b>Kshs</b>
2011/2012		2,340,759,850.00
2012/2013		2,646,500,000.00
2013/2014		2,646,500,000.00
2014/2015		3,884,500,000.00
2015/2016		3,884,500,000.00
2016/2017		6,571,560,117.02
<b>Total</b>		<b>21,974,319,967.02</b>

- **Financial reporting requirements**

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

This report covers the operations of the Equalisation Fund for the financial year ended 30<sup>th</sup> June 2018.

**c) Key Management**

- **The Equalisation Fund Advisory Board**

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

- (a) The Principal Secretary for the time being responsible for matters relating to finance who is also the Chairperson;
- (b) The Principal Secretary for the time being responsible for matters relating to devolution and planning or his or her representative;



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

- **The Administrator of the Fund**

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

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

**d) The National Treasury Headquarters**

P.O. Box 30007- 00100,  
Treasury Building,  
Harambee, Avenue  
Nairobi Kenya

**e) The National Treasury Contacts**

Telephone: (254)020-2252299  
Email: [info@treasury.go.ke](mailto:info@treasury.go.ke)  
Website: [www.treasury.go.ke](http://www.treasury.go.ke)

**f) The National Treasury Bankers**

Central Bank of Kenya  
Haile Selassie Avenue  
P.O. Box 60000



City Square 00200  
Nairobi, Kenya

**g) Independent Auditors**

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

**h) Principal Legal Adviser**

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

## 2. STATEMENT OF THE MANAGEMENT'S RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the accounting officer for a National Government entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed by the Public Sector Accounting Standards Board of Kenya from time to time.

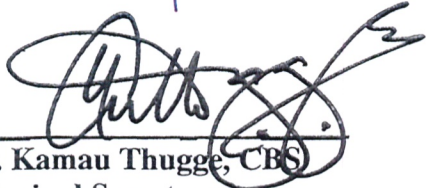
The Accounting Officer in charge of The National Treasury is responsible for the preparation and presentation of the Equalisation Fund financial statements, which give a true and fair view of the state of affairs of Fund for and as at the end of the financial year (period) ended on June 30, 2018. This 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 status of the Fund by the National Treasury; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the revenue report, and ensuring that they are free from material misstatements, whether due to error or fraud.

The Accounting Officer in charge of The National Treasury accepts responsibility for the Equalisation Fund, which has been prepared on the Cash Basis Method 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 financial statements of the Equalisation Fund gives a true and fair view of the performance of the Fund during the financial year ended June 30, 2018. The Principal Secretary in charge of The National Treasury further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of this report as well as the adequacy of the systems of internal financial control.

The Accounting Officer confirms that the Fund has complied fully with applicable Government Regulations. Further the Accounting Officer confirms that this report has been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

### Approval of the Financial Statements

The financial statements of the Equalisation Fund were approved and signed by the Accounting Officer on September 28, 2018.



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



**Bernard Ndungu, MBS**  
Equalisation Fund Administrator  
The National Treasury



# REPUBLIC OF KENYA

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P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON EQUALISATION FUND FOR THE YEAR ENDED 30 JUNE 2018 - NATIONAL TREASURY

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#### REPORT ON THE FINANCIAL STATEMENTS

#### Opinion

I have audited the accompanying financial statements of Equalisation Fund set out on pages 1 to 8, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Equalisation Fund as at 30 June 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

#### Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of 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.

#### Emphasis of matters

#### Use of Budget as a Control Tool - Budget Performance

The statement of Comparison of Budget and Actual performance indicate that the management did not provide any receipts to be transferred from the National Treasury, but anticipated to utilize an amount of Kshs.11,977,764,288 which was Kshs.520,078.232 over an above the audited opening balance held at the Fund account at the Central Bank of Kenya of Kshs.11,457,686,056. Consequently, during the year under review, no amount was appropriated for the Fund despite the fact that an amount of Kshs.6,571,560,117 ought to have been transferred to the Fund based on the 2016/2017 audited financial statements. Out of the budgeted transfers to implementing MDAs of Kshs.11,977,764,288 an amount of

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*Report of the Auditor-General on the Financial Statements of Equalisation Fund for the Year Ended 30 June 2018*

Kshs.6,937,847,293.00 or 57.9% performance. The management has not given plausible explanation for failure to budget for any receipts to the fund despite this being a constitutional requirement. It is not also explained why the management budget planned for a budget deficit during the year and continued to deplete the resources without replenishing the same as provided.

Failure to budget for transfer and subsequent failure to transfer any amount implies a deliberate intent to deny service delivery to the intended beneficiaries.

### **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **Compliance with the Constitution and the Public Finance Management Act 2012**

Based Article 204(1) requires that one half per cent (0.5%) of all the revenue collected by the National Government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly be paid into the Equalisation Fund, the total accumulated entitlement to the Fund for the financial years 2011/2012 to 2016/2018 are estimated at Kshs.20,08billion as at 30 June 2018. A review of the financial statement however revealed that only an amount of Kshs.12,400,000,000 or 56.4% has been appropriated and transferred to the Equalisation Fund Account. The National Treasury has therefore failed to remit and transfer propotionate amount due to the Fund. Further, out of available funds amounting Kshs.12,400,000,000 that has been transfered to the Fund Account, only Kshs.7,880,161,237 or 63.5% has been disbursed for projects implementation through the MDAs in the Counties. The disbursed amount represent a meagre overall performance of 36% against the estimated amount since the inception of the Fund. This is despite the fact that the Fund was to be run for 20 years after the effective date as provided under Article 204(6) of the Constitution, after which it cesases or be evaluated for extension as provided under Article 204(7) of the Constitution. The Fund Administration has cited delayed formulation of policies and project identification coupled by the legislative handled since inception. At that rate, the country may not have achieved equality or bridged the gap between the rich and the poor region as envisaged by the 20 years period as provided under Article 204(6) of the Constitution.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### **Conclusion**

As required by Section 7(1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 (Cash 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 continue as a going concern/sustain services, disclosing, as applicable, matters related to going concern/sustainability of services and using the applicable basis of accounting unless the National Government 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**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

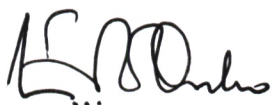
Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- 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 ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the National Treasury to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the National Treasury 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**

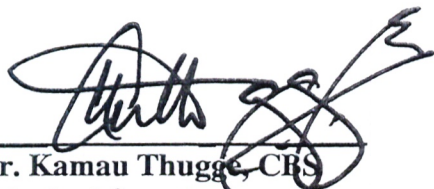
**Nairobi**


**6 February 2019**

**4. STATEMENT OF RECEIPTS AND PAYMENTS**

	Notes	2017/2018 Kshs	2016/2017 Kshs
<b>Receipts</b>			
Receipts from National Treasury	<b>1</b>	-	6,000,000,000.00
<b>Total Receipts</b>		-	<b>6,000,000,000.00</b>
<b>Payments and transfers</b>			
Transfer to Implementing MDAs	<b>2</b>	6,937,847,293.00	942,313,944.00
<b>Total Payments and Transfer</b>		<b>6,937,847,293.00</b>	<b>942,313,944.00</b>
<b>Surplus/Deficit</b>		<b>(6,937,847,293.00)</b>	<b>5,057,686,056.00</b>

The notes on pages 5 to 8 form an integral part of these financial statements. This statement has been reviewed and approved on September 28, 2018 by the following:

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

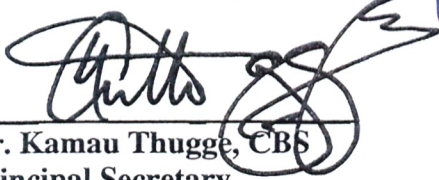
  
 Bernard Ndungu, MBS  
 Equalisation Fund Administrator  
 The National Treasury




5. STATEMENT OF ASSETS AND LIABILITIES AS AT 30<sup>TH</sup> JUNE 2018

	Note	2017/2018 Kshs	2016/2017 Kshs
<b>Financial Assets</b>			
<b>Cash And Cash Equivalents</b>			
Fund Account		4,397,589,863.00	11,335,437,156.00
Equalisation Fund Secretariat Account		122,248,900.00	122,248,900.00
<b>Total Cash And Cash Equivalent</b>	<b>3</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>
<b>Accounts Receivables</b>			
		-	-
<b>Total Financial Assets</b>	<b>3</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>
<b>Financial Liabilities</b>			
		-	-
<b>Net Financial Assets</b>	<b>3</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>
<b>Represented By</b>			
<b>Fund Balance B/Fwd</b>		<b>11,457,686,056.00</b>	<b>6,400,000,000.00</b>
Fund Balances Surplus for the year		(6,937,847,293.00)	5,057,686,056.00
<b>Net Financial Position</b>	<b>3</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>

The notes on pages 5 to 8 form an integral part of these financial statements. This statement has been reviewed and approved on September 28, 2018 by the following:

  
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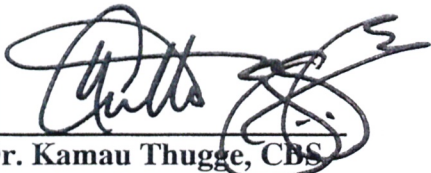
  
 Bernard Ndungu, MBS  
 Equalisation Fund Administrator  
 The National Treasury




**6. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2018**

		2017/2018 Kshs	2016/2017 Kshs
<b>Cash Flow from Operating Activities</b>			
<b>Receipts for Operating Income</b>			
Receipts from The National Treasury	<b>1</b>	-	6,000,000,000.00
<b>Payments</b>			
Transfers to implementing MDAs	<b>2</b>	6,937,847,293.00	942,313,944.00
<b>Net Cash Flow from Operating Activities</b>		<b>(6,937,847,293.00)</b>	<b>5,057,686,056.00</b>
<b>Cash flow from Investing Activities</b>			
		-	-
<b>Cash flow from Borrowing Activities</b>			
		-	-
<b>Net increase in Cash and Cash Equivalents</b>		<b>(6,937,847,293.00)</b>	<b>5,057,686,056.00</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>11,457,686,056.00</b>	<b>6,400,000,000.00</b>
<b>Cash and Cash Equivalent at the end of the Year</b>	<b>3</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>

The notes on pages 5 to 8 form an integral part of these financial statements. This statement has been reviewed and approved on September 28, 2018 by the following:

  
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 The National Treasury

  
 Bernard Ndungu, MBS  
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 The National Treasury



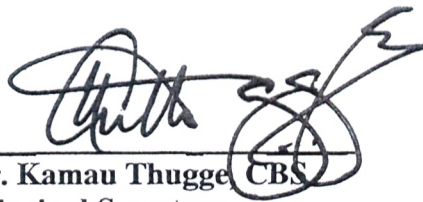
## 7. COMPARISON OF BUDGET VS ACTUAL PERFORMANCE


The following statement summarizes the outturn against budget.

	Original Estimates Kshs	Adjustments Kshs	Revised Estimates Kshs	Total Actual 30 <sup>th</sup> June 2018 Kshs	Difference Kshs	% Deviation
<b>Opening Balance</b>	11,457,686,056.00	-	11,457,686,056.00	11,457,686,056.00	-	100%
<b>Receipts</b>						
Transfer from the National Treasury	-	-	-	-	-	-
<b>Total</b>	<b>11,457,686,056.00</b>	<b>-</b>	<b>11,457,686,056.00</b>	<b>11,457,686,056.00</b>	<b>-</b>	<b>100%</b>
<b>Transfers</b>						
Transfers to implementing MDAs	11,977,764,288.00	-	11,977,764,288.00	6,937,847,293.00	5,039,916,995.00	92.4%
<b>Total</b>	<b>11,977,764,288.00</b>	<b>-</b>	<b>11,977,764,288.00</b>	<b>6,937,847,293.00</b>	<b>5,039,916,995.00</b>	<b>92.4%</b>

### Commentary:

As indicated above, an amount of Kshs 6,937,847,293.00 was released during the year. The low level of disbursement was due to the delay in enactment of equalization fund appropriation act 2018.

  
 Dr. Kamau Thugge CBS  
 Principal Secretary,  
 The National Treasury

  
 Bernard Ndungu, MBS  
 Equalisation Fund Administrator  
 The National Treasury



## **8. SIGNIFICANT ACCOUNTING POLICIES**

### **a) Basis of preparation**

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

### **b) Reporting entity**

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

### **c) Receipts**

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

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

### **d) Payments and transfers**

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

### **e) Cash and cash equivalents**

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

### **f) Presentation Currency**

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

## 9. NOTES TO ACCOUNTS

### 1. Receipts from National Treasury

There were no receipts into the Equalisation Fund for the period ended 30<sup>th</sup> June 2018 compared to Kshs 6.0 Billion for the previous period.

### 2. Transfers from the Fund

As per the Equalization Fund regulations, the activities of the Fund are implemented through the National Government Ministries, Departments and Agencies (MDAs). The Transfers to MDAs during the financial year amounted to Kshs. 6,937,847,293.00 as tabulated below:

Implementing Agencies	Total Actual 2018 Kshs
State Department for Irrigation	518,460,199.00
State Department for Water	1,522,787,626.00
Ministry of Health	920,403,745.00
State Department for Infrastructure	3,688,595,723.00
State Department for Energy	287,600,000.00
<b>Transfer to Implementing MDAs</b>	<b>6,937,847,293.00</b>

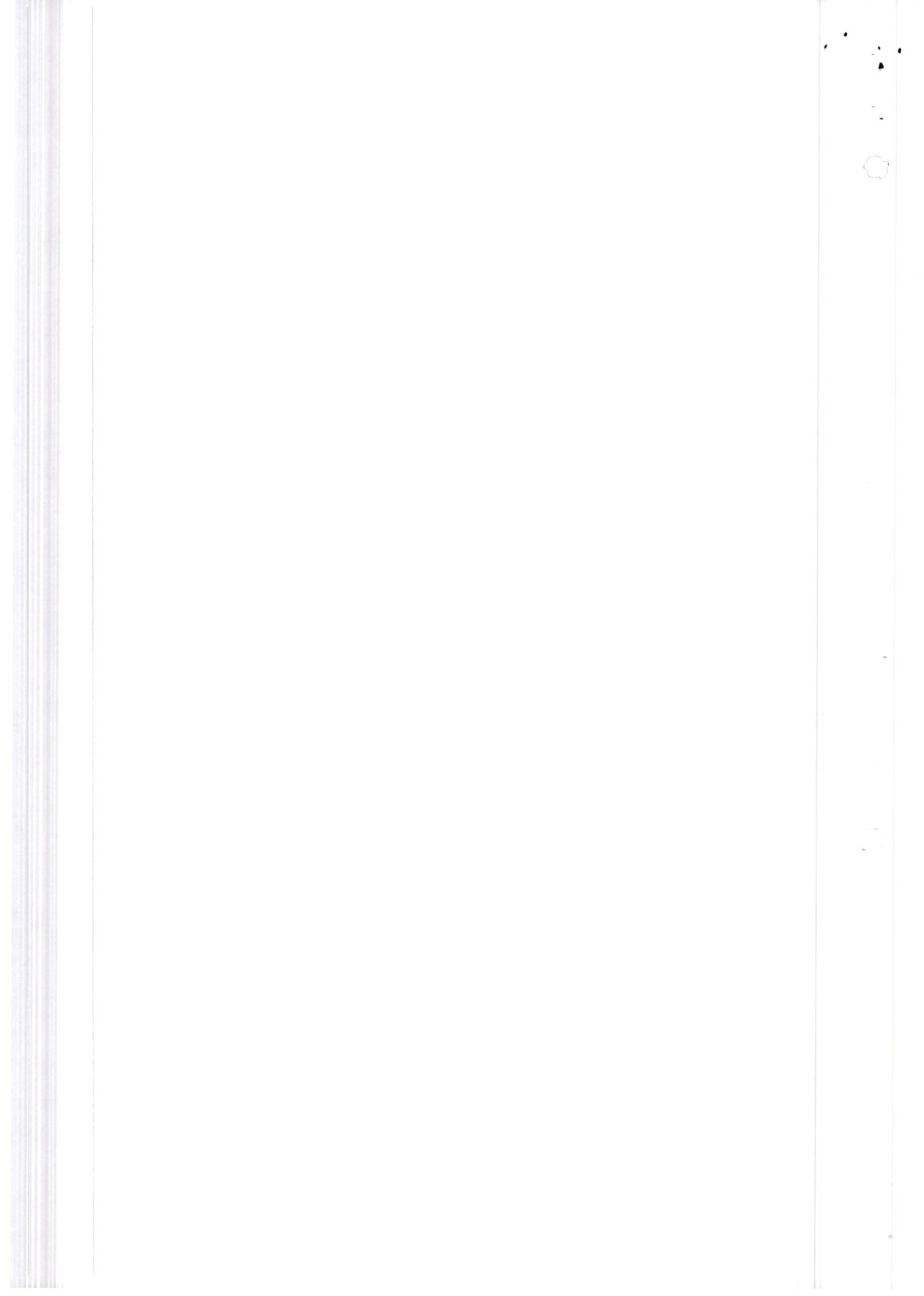
### 3 Closing Balance

The closing balance as at 30<sup>th</sup> June 2018 amounted to Kshs 4.5 Billion while the closing balance as at 30<sup>th</sup> June 2017 amounted to Kshs 11.4 Billion as reflected in the bank account of the Fund shown below:

Description	2017/2018 Kshs	2016/2017 Kshs
Fund Bank balance (CBK account number 1000183225)	4,397,589,863.00	11,335,437,156.00
Equalisation Fund Secretariat balance (CBK account number 1000342056)	122,248,900.00	122,248,900.00
<b>Total</b>	<b>4,519,838,763.00</b>	<b>11,457,686,056.00</b>

**10. BUDGET ALLOCATION PER COUNTY**

COUNTIES	Water	Health Facilities	Roads	Electricity	Education	TOTAL BUDGET
Garissa County	263,163,894.00	35,000,000.00	317,520,000.00	70,000,000.00	-	685,683,894.00
Isiolo County	94,000,000.00	136,000,000.00	450,300,000.00	16,600,000.00	-	696,900,000.00
Kilifi County	393,518,519.00	120,259,871.00	181,721,610.00	6,000,000.00	62,000,000.00	763,500,000.00
Kwale County	295,000,000.00	10,825,000.00	317,475,000.00	77,000,000.00	95,000,000.00	795,300,000.00
Lamu County	340,404,300.00	142,990,000.00	178,805,300.00	60,000,000.00	-	722,199,600.00
Mandera County	470,000,000.00	170,600,000.00	300,000,000.00	27,000,000.00	-	967,600,000.00
Marsabit county	494,274,000.00	226,998,000.00	148,928,000.00	16,000,000.00	-	886,200,000.00
Narok County	226,750,000.00	311,845,855.00	270,904,145.00	-	-	809,500,000.00
Samburu County	754,117,863.00	-	111,800,000.00	-	-	865,917,863.00
Taita Taveta County	165,500,000.00	171,700,000.00	414,500,000.00	-	-	751,700,000.00
Tana River County	655,000,000.00	-	129,000,000.60	15,000,000.00	60,000,000.00	859,000,000.60
Turkana county	605,133,332.00	125,000,000.00	320,066,668.00	-	-	1,050,200,000.00
Wajir county	500,800,000.00	349,000,000.00	80,000,000.00	-	-	929,800,000.00
West Pokot County	184,525,000.00	164,000,000.00	417,575,000.00	-	-	766,100,000.00
<b>Sub-Total</b>	<b>5,442,186,908.00</b>	<b>1,964,218,726.00</b>	<b>3,638,595,723.60</b>	<b>287,600,000.00</b>	<b>217,000,000.00</b>	<b>11,549,601,357.60</b>
Secretariat Administrative Costs	-	-	-	-	-	428,162,930.40
<b>Total</b>	<b>5,442,186,908.00</b>	<b>1,964,218,726.00</b>	<b>3,638,595,723.60</b>	<b>287,600,000.00</b>	<b>217,000,000.00</b>	<b>11,977,764,288.00</b>



## 11. PROGRESS ON FOLLOW UP OF AUDITOR'S RECOMMENDATIONS

There were no noted and outstanding audit matters issues during the previous audits as indicated on the table below.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue ( <i>Name and designation</i> )	Status: ( <i>Resolved / Not Resolved</i> )	Timeframe: ( <i>Put a date when you expect the issue to be resolved</i> )
Unqualified opinion	N/A	N/A	N/A	N/A	N/A



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 Principal Secretary,  
 The National Treasury



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