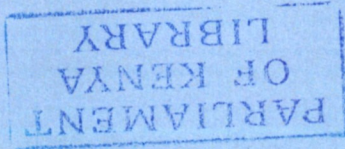


REPUBLIC OF KENYA



*Paper laid by the
Leader of Majority
on 06/06/2018
Chunli:*

OFFICE OF THE AUDITOR-GENERAL



REPORT

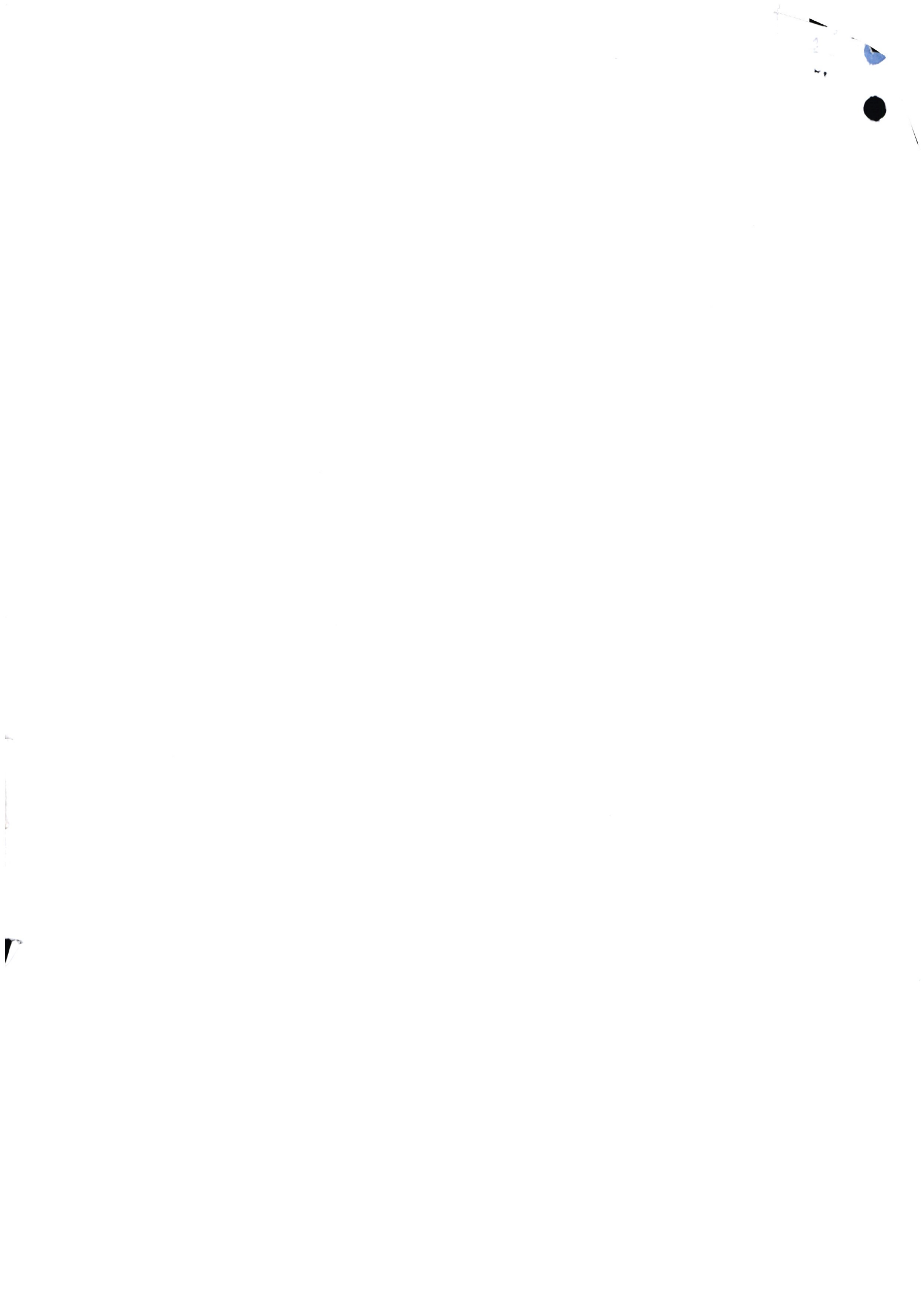
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PUBLIC PROCUREMENT REGULATORY
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**

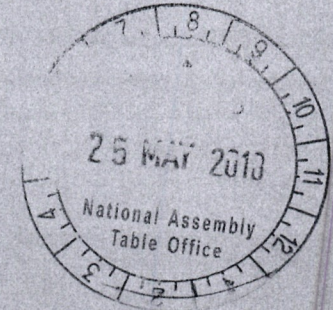


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PUBLIC PROCUREMENT REGULATORY
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2017**

PUBLIC PROCUREMENT REGULATORY AUTHORITY

Telephone No. +254 (020)3244000,
2213106,2213107

Fax: +254 (020) 2213105, 3244399, 3244277

e-mail: info@ppoa.go.ke ; complaints@ppoa.go.ke

website : www.ppoa.go.ke

When replying please quote:



National Bank Building, 11th Floor

Harambee Avenue

P.O. Box 58535-00200

NAIROBI

KENYA



ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2017

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

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KEY ENTITY INFORMATION AND MANAGEMENT

a) Background Information

The Public Procurement Regulatory Authority (PPRA) is established under Section 8 (1) of the Public Procurement and Asset Disposal Act, 2015 (hereafter referred to as the Act). The Authority has a mandate to among other functions; monitor, assess and review the Public Procurement and Asset Disposal system to ensure they respect the National Values and other provisions including Article 227 of the Constitution of Kenya 2010.

b) Principal Activities

The principal activities/mandate of the Authority as spelt out under Section 9 of the Public Procurement and Asset Disposal Act 2015 is to;-

- (a) Monitor, assess and review the public procurement and asset disposal system to ensure that they respect the national values and other provisions of the Constitution, including Article 227 and make recommendations for improvements;
- (b) Monitor the public procurement system and report on the overall functioning of it and present to the Cabinet Secretary and the county executive member for finance in each county, such other reports and recommendations for improvements;
- (c) Enforce any standards developed under the Act;
- (d) Monitor classified procurement information, including that of specific items of security organs and making recommendations to the Cabinet Secretary;
- (e) Monitor the implementation of the preference and reservation schemes by procuring entities;
- (f) Prepare, issue and publish standard public procurement and asset disposal documents and formats to be used by public entities and other stakeholders;
- (g) Provide advice and technical support upon request;
- (h) Investigate and act on complaints received on procurement and asset disposal proceedings from procuring entities, tenderers, contractors or the general public that are not subject of administrative review;
- (i) Research on the public procurement and asset disposal system and any developments arising from the same;
- (j) Advise the Cabinet Secretary on the setting of standards including international public procurement and asset disposal standards;

KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED

- (k) Develop and manage the State portal on procurement and asset disposal and ensure that it is available and easily accessible;
- (l) Monitor and evaluate the preference and reservations provided for under the Act and provide quarterly reports;
- (m) Create a central repository or database that includes-
 - i. Complaints made on procuring entities;
 - ii. Record of those prohibited from participating in tenders or those debarred;
 - iii. Market prices of goods, services and works;
 - iv. Benchmarked prices;
 - v. State organs and public entities that are non-compliant with procurement laws;
 - vi. Statistics related to public procurement and asset disposal;
 - vii. Price comparisons for goods, services and works; and
 - viii. Any information related to procurement that may be necessary for the public
- (n) Inform as applicable, the Cabinet Secretary, Parliament, the relevant County Executive member for finance, the relevant County Assembly or Auditor-General on issues on non-compliance with procurement laws once the relevant State organ or public entity ignores the written directives of the Authority, including material breaches of the measures established under the Act;
- (o) Generally report to Parliament and the relevant county assembly;
- (p) Develop a code of ethics to guide procuring entities and winning bidders when undertaking public procurement and disposal with State organs and public entities;
- (q) In undertaking its functions, co-operate with state and non-state actors with a view to obtaining recommendations on how public procurement and disposal can be improved;
- (r) Ensure the procurement entities implement the preference and reservations and provide data to the Authority disaggregated to indicate the number of disadvantaged groups that have benefitted;
- (s) Perform such other functions and duties as are provided for under the Act and any other relevant law.

KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED

c) Key Management

The Authority's day-to-day management is under the following key organs:

- The Public Procurement Regulatory Board
- Director General
- Management

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General	M.J.O Juma, MBS
2.	General Manager, Technical Services	Jane W. Njoroge (Mrs)
3.	General Manager, Finance & Admin	Rose M. Nyamweya (Mrs)
4.	Corporation Secretary and Head of Legal & Corporate Affairs	Lucy J. Barno
5.	Manager, Finance	Chris Sakwa
6.	Head of Procurement	Maximus K. Siwa

e) Fiduciary Oversight Arrangements

The operations of the Authority are guided by the Public Procurement and Asset Disposal Act 2015, Public Finance Management Act 2012, relevant Acts of Parliament and Regulations and the Mwongozo code of governance.

Key fiduciary arrangements covering the Authority include:

- The Public Procurement Regulatory Board activities
- Audit and finance committee activities
- Parliamentary committee activities

KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED

f) Entity Headquarters

P.O. Box 58535-00200
National Bank Building, 11th Floor
Harambee Avenue
Nairobi, Kenya

g) Entity Contacts

Tel: +254 20 3244000
Email: info@ppra.go.ke,
Website: www.ppra.go.ke

h) Entity Bankers

National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862-00200
Nairobi, Kenya

i) Independent Auditors

Auditor General
Office of Auditor General
Anniversary Towers, University way
P.O. Box 30084 - 00100
Nairobi, Kenya

j) Principal Legal Adviser

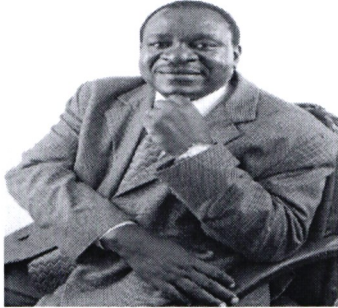
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112 - 00100
Nairobi, Kenya

THE BOARDS OF DIRECTORS

The Public Procurement Regulatory Board is the management Board of the Public Procurement Regulatory Authority. It is established under section 10(1) of the Act, its main responsibility being oversight of management, operations and activities of the Authority.

The term of its predecessor (the Public Procurement Oversight Advisory Board) ended on 25th September 2015 and no Board has since been appointed.

MANAGEMENT TEAM



M. J.O. Juma, MBS
Director General
MSc (Proc & Logistics) –UK, MBA,
B.Com, CIPS
MCIPS



Mrs Jane W. Njoroge
G M (Technical Services)
MBA, B.Com, CIPS
MCIPS, MKISM



Mrs Rose M. Nyamweya
G M (Finance & Admin)
PhD, MBA, B com
CPA (K), CPS (K)



Lucy J. Barno
Corporation Secretary, Head of Legal
& Corporate Affairs
LLM (Candidate), LLB, Dip (Law),
CPS (K), Advocate of the High Court



Peter K Ndung'u
Manager, MERRAS
MA (Econ), BA (Econ), CIPS
Dip (Purchasing & Supplies)-UK



Henock Kirungu
Manager, ARB Secretariat
MBA, B.Com, CIPS, PGD
Suppliesnal), PGD (Computer Sci)

MANAGEMENT TEAM CONTINUED



James K. Kihara
Manager, HR & Admin
MBA, BA, MCIPS



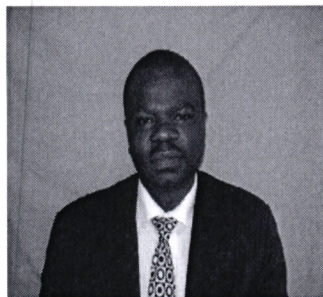
Julius G. Mungai
Manager, Internal Audit
MBA, MA, BA, CPA (K), CPS (K), CISA



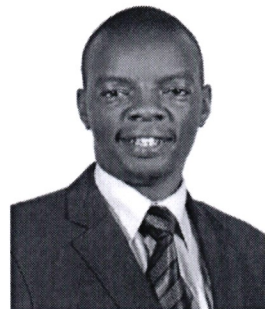
Thomas O. Otieno
Manager, CIE
MSc (Proc & Logistics), BA,
CIPS



Pauline O Opiyo
Manager, Compliance
MSc (Proc & Logistics), BA,
CIPS GDip (Purchasing & Supply mgt)



Jerome Ochieng
Manager, ICT
M. Eng, B.Sc, Dip (IMIS)
(On secondment as Ag. Director, IFMIS)



Chris Sakwa
Manager, Finance
MBA, BBM, CPA (K)

REPORT OF THE CHIEF EXECUTIVE OFFICER

The public procurement and asset disposal system in Kenya has over the years been undergoing continuous transformation through the Government's efforts to ensure it is in tandem with emerging issues in procurement, technological changes and best practice with the overall objective of quality service delivery, prudent management and curtailing wastage of public resources.

In this regard, a well functioning public procurement system requires supportive legislative framework, strong institutional capacity: and efficient and effective procurement processes that will ensure that all public procurement activities uphold the principles of transparency, accountability, integrity, openness, fairness, competition and value for money.

Legal framework

The enactment of the Public Procurement and Asset Disposal Act 2015 marked a major step in furtherance of reforms in the public procurement sector. The new legal framework seeks to close gaps and address challenges identified in implementation of the Public Procurement and Disposal Act 2005 and its attendant Regulations; strengthen key institutions in the public procurement sector; and to embrace innovation and the use of technology to enhance efficiency, transparency and value for money in public procurement and asset disposal.

PPRA whose role has been enhanced from that of an Oversight Authority to a Regulator and its mandate considerably expanded. The Authority is committed to discharge its regulatory role in collaborations with all stakeholders to ensure the country has the public procurement system envisaged under Article 227 of the Constitution of Kenya and that the system facilitates attainment of national goals and values.

Monitoring compliance

Compliance monitoring reviews have continued to ensure value for money is achieved by a public procurement system that pay attention to economy and efficiency. A strategic outcome of compliance has allowed stakeholders to understand and monitor how public funds are spent through public procurement. During the period in review, the Authority monitored compliance through procurement assessments, reviews, contract audits, complaints management, investigations and review of mandatory reports submitted by Procuring Entities.

The Authority's efforts in monitoring the implementation of public procurement laws and procedures have contributed largely in enhancing public confidence in

the system as well as decrease violation of the procurement law by procuring entities.

Research

PPRA undertakes research on topical issues in public procurement. Findings of the studies inform policy decisions in public procurement and give proposals on how to improve the performance and functioning of the public procurement system.

Based on its own findings during monitoring of the performance of the public procurement and asset disposal system and stakeholder feedback, challenges were noted in implementation of the preference and reservation scheme. The scheme is a noble programme that will greatly contribute to the socio-economic development of the country through economic empowerment of small and micro enterprises owned by youth, women and persons with disability. Empowering this target group has a multiplier effect of improving livelihoods, creating jobs and contributing to economic development of the nation.

It is in view of the many benefits that full implementation of this programme will bear and the current low uptake that the Authority commissioned a study to understand reasons for the low uptake. The study is being undertaken by the Kenya Institute of Public Policy and Research Analysis.

The Authority has also finalized the terms of reference for an assessment of the Country Procurement System. The study aims at assessing the Procurement and Asset Disposal System in Kenya using the Joint Venture Procurement Methodology Version 4. The results of the assessment will be used to support the preparation of studies and strategies needed to deepen the reforms aimed at upgrading the Kenyan public procurement system, institutions, procedures and capacities.

Regional Partnerships

In the spirit of the East Africa Community (EAC), PPRA works closely with other public procurement regulators within the East African region to harmonize public procurement standards and practises within the region and share experiences. One of the ways that the Authority collaborates with public procurement regulatory bodies of EAC member states is through the East African Public Procurement Forum (EAPPF).

The EAPPF is an annual forum organized by the respective public procurement regulatory bodies drawn from the East Africa Community member states. The participants are drawn from public sector, private sector, professional organizations, civil society and training institutions. The objective of the forum is

to serve as a forum that helps participants learn and benchmark with each other on their respective public procurement systems including policies and enforcement measures.

During the year under review, the 8th EAPPF was held in Arusha, Tanzania on 2nd to 4th September 2015. The theme of the 8th EAPPF was ***'Harmonizing public procurement frameworks in the context of EAC Monetary Union.'***

Decentralization

PPRA has embarked on devolution of its services by opening regional offices. This initiative will ensure citizens have reasonable access to its services in all parts of the Republic as envisaged under article 6(3) of the Constitution of Kenya 2010 and section 8(3) of the PPADA 2015. The Authority has so far opened regional offices in Mombasa and Kisumu. The two offices started offering services to the public and other stakeholders in February 2017.

With support from the National Government, PPRA intends to establish four more regional offices in financial year 2017/2018 and an additional two in financial year 2018/2019.

Future

With support from stakeholders and full implementation of the new legal dispensation, the Authority's envisions a robust public procurement system that will both serve the needs and expectations of Kenyans and contribute towards realization of Vision 2030.

Appreciation

The aforementioned would not have been realised without the support of staff, government and stakeholders. I therefore take this opportunity to express my heartfelt appreciation to the Government of Kenya, procuring entities, suppliers and contractors and the public at large for their support in enabling the Authority carry out its mandate. Many thanks to PPRA staff for their support and dedication despite the notable challenge of acute staff shortage during the year.


M.J.O JUMA, MBS
DIRECTOR GENERAL

CORPORATE GOVERNANCE STATEMENT

The Management of the Public Procurement Regulatory Authority is committed to maintaining the highest standards of corporate governance. This statement describes PPRA's governance principles and practices.

The operations of the Authority is guided by the Public Procurement and Asset Disposal Act and other relevant Acts of Parliament and Regulations. The Authority has also adopted and continues to be guided by the Mwongozo code of governance in its operations.

Section 10(1) of the Act establishes the Public Procurement Regulatory which is the Authority's Board of Management. Its main responsibility is oversight of management, operations and activities of the Authority.

The Role of the Public Procurement Regulatory Board

The Regulatory Board of PPRA is responsible for the long-term sustainability and success of the Authority. Its role is essentially three fold:

- i. To provide strategic leadership,
- ii. To oversee management and
- iii. To ensure that the Authority provides its stakeholders with a balanced and understandable assessment of its current position and prospects.

The specific functions of the Advisory Board are:

- i. To ensure proper and efficient performance of the functions of the Authority;
- ii. To approve and ratify the policies of the Authority;
- iii. To oversee the management, control and administration of the assets of the Authority in a manner and for purposes that promote the object and purpose of the Authority;
- iv. To receive any gifts, grants, donations or endowments made to the Authority;
- v. To determine the provisions to be made for capital and recurrent expenditure and for the reserves of the Authority;
- vi. To open bank accounts for the funds of the Authority in accordance with the Public Finance Management Act 2012;
- vii. Subject to the approval of the Cabinet Secretary, invest any of the Authority's funds not immediately required for the purposes of this Act, as it may determine; and
- viii. Co-operate with other organizations undertaking functions similar to its own, whether within or outside Kenya as it may consider appropriate and in furtherance of the functions of the Authority;

The Regulatory Board's leadership responsibilities involve working together with management to set Corporate values and to develop strategy; including which risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve providing constructive challenge to the management team in relation to operational aspects of the Authority's business, including approval of budgets and probing whether risk management and internal controls are sound. It has the responsibility of ensuring that timely and understandable information is provided to stakeholders.

The Authority did not have in place a Regulatory Board during the financial year ended 30th June 2017. The Authority always consulted the National Treasury (parent ministry) and sought its guidance on matters requiring Board indulgence.

Sustainability

The Authority continues to be fully supported through Exchequer grants. Management confirms that with the support from the Government, the Authority will continue in business for the foreseeable future. For this reason, the Authority continues to adopt the going concern basis when preparing financial statements.

Risk Management and Internal Control

The Board put in place a comprehensive risk management framework which identifies and manages risk. The Authority continues to be guided by this risk management framework in its daily operations. The following were identified as the five key risks facing the organization:-

- a) Compliance monitoring risk
- b) Inadequate funding
- c) Reputational risk
- d) Litigation risks
- e) Occupational, safety, health and environmental risks

The Audit, Risk and Governance Committee of the Board regularly reviews the effectiveness of the internal control system. The Manager, Internal Audit functionally reports to the Audit Committee and serves as its Secretary.

Legal Challenges

The Authority faced no legal challenges related to its operations during the period under review.

PPRA Internal Procurement Policy

The Board approved the PPRA Procurement Policy and Procedures manual in September 2015. The policy aims to entrench best practice in the Authority's internal procurement system, improve efficiency, ensure compliance to the procurement law, enhance internal quality service delivery and make the Authority's procurement function a centre of excellence which other institutions can emulate.

The manual was developed through a participatory process and staff are required to understand the policies and procedures. Decisions made by staff shall be in the interest of PPRA.

Top Ten Contracts

The Authority's procurement budget for the year under review was Ksh 60,203,300.

The top ten procurement contracts awarded during the year are:

	FIRM	Goods/Service Description	Amount (KES)
1	Spa Infosuv	Consultancy for Country Procurement Assessment Service	16,285,000
2	Britam Insurance Co	Provision of Medical Cover	11,576,934
3	Techsource Point	Supply of Virtualized server infrastructure & Data Backup Solution	8,236,000
4	Hill & Knowlton Strategies	Provision of Public Relations Consultancy Services	6,670,000
5	Uniglobe Northline Travel	Provision of Air Travel Ticketing Services	4,000,000
6	Jubilee Insurance Co	Provision of General Insurance	2,166,789
7	Soft Technologies	Provision of Cloud e-board	1,832,800
8	Super Broom	Provision of Cleaning Services	1,722,673
9	ICEA Insurance Co	Provision of Motor Vehicle Insurance	1,613,761
10	UAP Insurance Co	Provision of Group Life Cover	1,354,959

MANAGEMENT DISCUSSION AND ANALYSIS

Financial year 2016/2017 was both exciting and challenging as it marked the beginning of a new journey for the Authority. A journey of transforming from the old entity and discovering the new self. The changes were brought about by enactment of the Public Procurement and Asset Disposal Act which created Public Procurement Regulatory Authority, a regulatory body to replace its predecessor Public Procurement Oversight Authority which was an oversight body.

Wading into uncharted waters, PPRA had to quickly find its footing and hit the ground running in discharge of its new role and mandate. Overall the Authority recorded good performance in laying foundation for the new institution and in discharge of its mandate.

a) Operational and Financial Performance

Major achievements realized during the period under review are:

- 6 procuring entities reviewed.
- 7 Procurement Contract Audits
- 106 procuring entities assessed.
- 6 Inspections / follow-ups conducted in 6 procuring entities
- Operational PPRA Regional Offices in Kisumu and Mombasa
- Developed and validated code of Ethics for suppliers
- Conducted 1 research on Preference & Reservation Scheme
- Contracted Consultant to review the Public Procurement system
- Prepared and submitted statutory reports to Parliament and CS, National Treasury.
- Prepared Market Price Indices
- Published Braille version of PPAD Act 2015
- Automation of Finance, Human Resource & Administration
- Re-organization of PPRA functions to align the Authority to regulatory role and mandate
- Building internal capacity of Authority through staff training
- Initiated rebranding exercise and successfully concluded the first phase which involved brand audit, defining the new brand and developing rebranding strategies.
- PPRA offered secretariat services and budgetary support to the Public Procurement Administrative Review Board.

b) Challenges

The Authority is currently faced with three major challenges

- i. Lack of a Regulatory Board:** The Authority does not have a Regulatory Board in place. The term of its predecessor (the Public Procurement Oversight Advisory Board) ended on 25th September 2015 and no Board has since been appointed. This has impeded making of decisions on policy and strategic issues that require Board approval.
- ii. Staffing levels:** The expanded mandate calls for an increase in the number of personnel involved in its implementation. To address the staffing challenge the Authority needs funding for the additional employees and a Regulatory Board to approve the new jobs necessitated by new mandates and increase of staff complement for understaffed functions.
- iii. Funding:** The Authority relies heavily on Government funding as it offers its services to the public and procuring entities free of charge. Current budgetary support from the Government is not adequate to meet the Authority's resource requirements.

c) Risk Management

Risk management is an integral part of the Authority's Strategic management. Risk is the potentiality that expected and unexpected events may have an adverse impact on the achievement of the Authority's objectives. Risk management aims at identifying, measuring and mitigating various risks that are intrinsic as well as extrinsic.

Key risks facing the Authority

The key risks facing the Authority and the mitigation measures being implemented include;

- (a) Compliance monitoring risk:** While undertaking its mandate of monitoring the public procurement system and reporting on its overall functioning, the Authority has been challenged in so far as establishing the compliance levels is concerned. The mitigation measures for compliance audit risk being explored include acquisition of supervisory rights to Procure to Pay (P2P) module of IFMIS; strengthening the capacity of technical functions; collaborations with other law enforcement agencies; benchmarking with other regulators; and the development and operationalization of an ICT based monitoring & evaluation system.

- (b) **Inadequate funding:** Over the years, the Authority's budgetary allocation has always fallen far short of its resource requirements to enable it effectively discharge its mandate. As a result the Authority has had to curtail on planned activities to work within available resources. This has hindered it from operating at its optimum potential. The mitigation measures include; prudent financial management; diversification of revenue sources/streams; and lobbying for additional government funding.
- (c) **Reputational risks:** The Authority is exposed to potential negative publicity; whether true or false. This may have a negative impact on its services or lead to costly litigations. The mitigation strategies include having a clear understanding of the Authority's mandate amongst the internal & external stakeholders; review of the service charter and sharing it with all the stakeholders; implementation of customer feedback; Communicating and enforcing the Authority's Code of Conduct and Ethics; and developing and implementing the anti- corruption and whistle blowing policy.
- (d) **Litigation risks:** The Authority is exposed to litigation arising from execution of its mandate. The mitigation strategies include strengthening of the Authority's legal capacity; acquisition of relevant insurance covers; promotion of alternative dispute resolution channels; and having a robust case management system for the Public Procurement Administrative Review Board.
- (e) **Occupational, Safety, Health and environmental risks:** The Authority has been expanding and thus the number of staff has increased leading to office space constraint as the available space is not adequate to comfortably accommodate current staff numbers. The mitigation strategies include acquisition of additional office space, strengthening the security capacity; staff training on safety and security matters; and implementing the corporate safety and security policy.

Future Outlook

The Government's commitment to reforms in public procurement and public financial management supported by the new legal dispensation promises a vibrant public procurement and asset disposal system that will meet the needs and expectations of the Government and citizens, support the country's growth and development and reduce wastage of public resources. The future of public procurement and Asset Disposal in Kenya is bright.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

PPRA did not carry out any Corporate Social Responsibility activities during the year under review.

The Authority is developing a Corporate Social Investment (CSI) policy to guide its CSI activities going into the future. Implementation of this policy will commence once it is approved by the Regulatory Board.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the entity's affairs.

Principal activities

The principal activities of the Authority are outlined on page 3 of this report.

Results

The results of the Authority for the year ended June 30, 2017 are set out on pages 24 to 52.

Directors

The members of the Public Procurement Administrative Review Board who served during the year are shown on page 7. During the year under review, the Authority did not have a Regulatory Board. The term of its predecessor (the Public Procurement Oversight Advisory Board) ended on 25th September 2015 and no Board has since been appointed.

Auditors

The Auditor General is responsible for the statutory audit of the *Authority* in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.



Lucy J. Barno
Corporation Secretary
Nairobi

Date:.....

STATEMENT OF DIRECTORS' RESPONSIBILITY

Section 81 of the Public Finance Management Act, 2012 and Section 25 of the Public Procurement and Asset Disposal Act, 2015 require the Directors to prepare financial statements in respect of PPRA, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results for that year/period. The Directors are also required to ensure that PPRA keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of its state of affairs 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 Authority; (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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority'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 Public Procurement and Asset Disposal Act 2015. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2017, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

STATEMENT OF DIRECTORS' RESPONSIBILITY CONTINUED

Approval of the financial statements

The Authority's financial statements were approved by the Board on _____ 2017 and signed on its behalf by:

Director

Director

Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-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 PUBLIC PROCUREMENT REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Public Procurement Regulatory Authority set out on pages 24 to 52, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows 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 the Public Audit Act, 2015. I have obtained 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 Public Procurement Regulatory Authority as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Procurement and Asset Disposal Act, 2015 of the Laws of Kenya.

In addition, as required by Article 229(6) of the Constitution, 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 Public Procurement Regulatory Authority 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 judgement, are of most significance in the audit of the financial statements. I have determined that there are no Key Audit Matters to communicate in my report.

Report of the Auditor-General on the Financial Statements of Public Procurement Regulatory Authority 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 (Accrual Basis) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Authority 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 provision of Section 47 of the Public Audit Act, 2015.

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

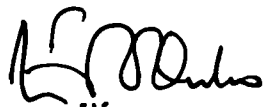
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority'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 Authority'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 Authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in 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 Authority to cease to continue 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 of the Authority's or business activities 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

19 April 2018

Report of the Auditor-General on the Financial Statements of Public Procurement Regulatory Authority for the year ended 30 June 2017

**STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30TH JUNE 2017**

		2017	2016
	Note	Ksh	Ksh
Revenue from non-exchange transactions			
Unconditional Government Grants	2	420,000,000	414,200,000
Revenue from exchange transactions			
Rendering of services	3	15,333,444	8,926,448
Finance Income	4	9,606,986	41,408,084
Other Income	5	1,596,312	836,301
Total Revenue from exchange transactions		<u>26,536,742</u>	<u>51,170,833</u>
		-	-
Total Revenue		<u>446,536,742</u>	<u>465,370,833</u>
EXPENSES			
Employee Costs	6	201,660,329	170,049,631
Board Allowances & Expenses	7	43,859,069	31,157,324
General Expenses	8	47,438,863	49,763,926
Repairs and Maintenance	9	3,257,363	1,176,489
Contracted Services	10	42,034,880	8,760,927
Finance Costs	11	2,285,398	5,198,096
Depreciation and Amortization	12	20,242,487	21,421,460
Total Expenses		<u>360,778,389</u>	<u>287,527,853</u>
Surplus / (Deficit) for the year		<u>85,758,353</u>	<u>177,842,980</u>

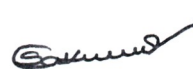
REPORT OF THE AUDITOR-GENERAL

STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2017

		2017	2016
	Note	Ksh	Ksh
ASSETS			
Current Assets			
Cash and cash equivalents	13	545,047,730	453,435,590
Receivables from exchange transactions	14	25,262,273	12,236,304
Receivables from non-exchange transactions	15	3,163,899	880,005
Total Current Assets		573,473,902	466,551,899
Non-current Assets			
Property, Plant and Equipment	16	31,618,125	38,877,468
Intangible Assets	17	2,563,770	1,812,552
Work In Progress	18	11,332,092	2,653,462
Total Non-Current Assets		45,513,987	43,343,482
Total Assets		618,987,889	509,895,381
LIABILITIES			
Current Liabilities			
Trade & Other Payables from exchange transactions	19	39,122,256	15,880,901
Provisions	20	765,600	672,800
		39,887,856	16,553,701
Net Assets			
Revaluation Reserve	21	0	1,231,673
Revenue Reserve	22	579,100,033	492,110,007
Total Net Assets and Liabilities		618,987,889	509,895,381

The financial statements and accompanying notes on page 24 to 52 were signed on behalf of the Authority by:


M.J.O Juma, MBS
Director General


C. Sakwa
Manager, Finance

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

	Revenue Reserve	Revaluation Reserve	Total
	Ksh	Ksh	Ksh
Balance as at 30/06/2016	311,025,483	4,473,217	315,498,700
Transfer to revenue reserve	3,241,544	(3,241,544)	0
Surplus for the year	177,842,980	0	177,842,980
Balance as at 30/06/2016	<u>492,110,007</u>	<u>1,231,673</u>	<u>493,341,680</u>
Transfer to revenue reserve	1,231,673	(1,231,673)	0
Surplus for the year	85,758,353	0	85,758,353
Balance as at 30/06/2017	<u>579,100,033</u>	<u>0</u>	<u>579,100,033</u>

STATEMENT OF CASH FLOWS

		2017	2016
		Ksh	Ksh
CASH FLOWS FROM OPERATING ACTIVITIES	Notes		
Net Cash flows from Operating Activities	23	<u>105,346,502</u>	<u>208,811,113</u>
CASH FLOWS FROM INVESTING ACTIVITES			
Acquisition of tangible assets		(11,415,035)	(39,803,781)
Acquisition of intangible assets		<u>(2,319,327)</u>	(1,325,000)
Net cash flow from Investing Activities		<u>(13,734,362)</u>	<u>(41,128,781)</u>
Net changes in Cash and Cash Equivalents		<u>91,612,140</u>	<u>167,682,332</u>
Cash & Cash Equivalents opening balance		<u>453,435,590</u>	<u>285,753,258</u>
Cash & Cash Equivalents closing balance		<u>545,047,730</u>	<u>453,435,590</u>

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Revenue	Note	Budget	Actual on	Performance
		Ksh	Comparable	difference
			basis (Ksh)	Ksh
Government Grants	2	420,000,000	420,000,000	0
Rendering of services	3	7,000,000	15,333,444	8,333,444
Finance Income	4	20,500,000	9,606,986	10,893,014)
Other income	5	0	1,596,312	1,596,312
Revenue reserves		200,539,486	200,539,486	0
Total Revenue		648,039,486	647,076,228	(963,258)
Expenses				
Employee Costs	6	207,050,000	201,660,329	5,389,671
Board Allowances & Exp	7	64,168,286	43,859,069	20,309,217
General Expenses	8	118,321,200	47,438,863	70,882,337
Repairs and Maintenance	9	5,700,000	3,257,363	2,442,637
Contracted Services	10	76,500,000	42,034,880	34,465,120
Finance Costs	11	2,500,000	2,285,398	214,602
Depreciation and Amortization	12	23,000,000	20,242,487	2,757,513
Staff Loans Scheme		76,500,000	0	76,500,000
Purchase of Tangible Assets	16	68,500,000	11,415,035	57,084,965
Purchase of Intangible Assets	17	5,800,000	2,319,327	3,480,673
Total Expenses		648,039,486	374,512,751	273,526,735
Difference for the year		0	272,563,477	

Notes explaining variance

- a. More cases were filed than anticipated leading to higher revenue.
- b. Shortfall attributed to National Treasury circular on investment in commercial banks.
- c. Factored in employee costs was Ksh 76.5 million for roll out of the staff loan scheme. The scheme was not rolled out during the financial year.
- d. Some of the Review Board's planned activities like benchmarking and training were put on hold due to the high number of cases the Board had to handle. PPRA also anticipated appointment of a Regulatory Board and made budget provision to fund its activities. A Regulatory Board was not appointed during the financial year.
- e. Unutilized amount is for a number of activities which had either been put on hold as they needed Board approval or ongoing activities whose expenditure had not been actualized.
- f. A number of consultancies planned for implementation during the year were not actualized for various reasons.
- g. Establishment of two Regional Offices was initiated but was still at initial stages by end of the financial year

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Public Procurement Regulatory Authority is established by and derives its authority and accountability from The Public Procurement and Asset Disposal Act, 2015. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is xxx

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity. The accounting policies have been consistently applied to all the years presented.

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
IPSAS 33: First time adoption of Accrual Basis IPSAS	PPRA adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the entity.
IPSAS 34: Separate Financial Statements	PPRA does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.
IPSAS 35: Consolidated Financial Statements	The Authority does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.

Standard	Impact
IPSAS 36: Investments in Associates and Joint Ventures	PPRA does not have investments in associates or joint ventures.
IPSAS 37: Joint Arrangements	The entity does not have an interest in a joint arrangement and therefore the standard does not apply.
IPSAS 38: Disclosure of Interests in Other Entities	The entity does not have an interest in other entities and therefore the standard does not apply.

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 39: Employee Benefits	Applicable: 1st January 2018 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.
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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

iii. Early adoption of standards

The Authority did not early – adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

i) Revenue from non-exchange transactions

Fees, taxes and fines

The Authority recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

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.

ii) Revenue from exchange transactions

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the entity.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

b) Budget information

The original budget for FY 2016-2017 was approved by the management of the Authority on 31st August 2016. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

c) Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

d) 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.

e) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

e) Leases continued

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating 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.

f) 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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

g) Depreciation

The Assets are depreciated as and when they are available for use by the Authority. Depreciation charge is calculated on a straight line basis for the various categories of assets as follows:

Motor vehicles	25.0%
Equipment and computers	33.3%
Furniture and fittings	12.5%
Office partitions	12.5%
Intangible assets	33.3%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

h) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or a entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

h) Financial instruments continued

financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

i) Inventories

Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

i) Inventories continued

Costs incurred in bringing each product to its present location and conditions are accounted for, as follows:

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

j) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

Contingent liabilities

The Entity does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Contingent assets

The Entity does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

k) Nature and purpose of reserves

The Entity creates and maintains reserves in terms of specific requirements.

l) 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.

m) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. Defined contribution plans are post employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

n) Foreign currency transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

o) Borrowing costs

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment. Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

p) 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.

q) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s) Comparative figures

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. 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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 24.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

u) 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, 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

6. Unconditional Government Grants

Unconditional Government grants represent Exchequer receipts from the National Treasury during the financial year.

	2017	2016
	Ksh	Ksh
Exchequer funding	420,000,000	414,200,000

7. Rendering Services

Appeals fee: Relates to fees paid by parties seeking administrative review of public procurement disputes.

	2017	2016
	Ksh	Ksh
Appeals fee	15,333,444	8,926,448

8. Finance Income

This relates to interest earned from short term deposits during the financial year.

	2017	2016
		Ksh
Gross Interest Income	9,606,986	41,408,084
Total	9,606,986	41,408,084

9. Other Income

This includes income from the sources listed below:

	2017	2016
	Ksh	Ksh
Disposal Income	1,596,312	835,301
Other Income	0	1,000
Total	1,596,312	836,301

Disposal income includes Ksh 4,020 from disposal of waste paper and gain on disposal of motor vehicle Ksh 1,592,292.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

10. Employee Costs

This comprises of the wage bill, subsistence allowance paid to employees going out for field assignments and other employee related costs. The Authority's activities are mainly field based. A breakdown of the employee costs is as shown below:

	2017	2016
	Ksh	Ksh
Salaries and wages	92,900,999	80,070,165
Contributions to pensions	17,450,821	15,029,726
Housing benefits & allowances	44,383,769	39,573,953
Medical & Personal Accident	13,745,790	6,306,009
Club membership	411,920	294,500
Car Park	5,902,080	4,844,160
Staff recruitment and induction	123,334	97,336
Staff welfare	1,052,838	1,934,882
Training	4,298,650	4,947,809
Travel, accommodation & subsistence	21,390,128	16,951,091
Total	<u>201,660,329</u>	<u>170,049,631</u>

11. Board Expenses

This comprises of all costs related to the Boards.

	2017	2016
	Ksh	Ksh
Administrative Review Board expenses	10,986,749	5,329,913
Administrative Review Board Emoluments	31,536,000	19,378,880
Car park expenses	1,336,320	2,394,240
Advisory Board expenses	0	1,181,942
Advisory Board Emoluments	0	2,872,349
Total	<u>43,859,069</u>	<u>31,157,324</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. General Expenses

Below are the general expenses of the Authority.

	2017	2016
Description	Ksh	Ksh
Advertising	2,785,400	4,774,762
Branding PPOA	165,460	379,600
Car Park expenses	445,440	445,440
Catering	1,726,382	1,185,061
Conference and delegations	2,189,550	7,861,915
Consumables	162,276	158,000
Corporate Social Responsibility	0	2,377,500
Fuel and Oil	1,078,076	1,090,730
Insurance Costs	3,206,891	2,674,758
ISO	255,200	456,600
Legal expenses	1,012,851	154,412
Newspapers/Journals	436,554	196,028
Office Expenses	2,115,759	1,757,113
Printing & stationery	2,183,930	598,945
Rental	18,665,592	15,499,920
Software upgrades and licences	334,948	133,000
Telecommunication	5,000,535	4,594,775
Trade shows and exhibitions	408,948	938,742
Travel Costs	5,265,071	4,486,625
Total	<u>47,438,863</u>	<u>49,763,926</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Repairs and Maintenance

The Authority spent Ksh 3,257,363 on maintenance of vehicles, equipment, computers and general maintenance. A breakdown of the expenditure is shown below:

	2017	2016
	Ksh	Ksh
Vehicles	812,655	369,018
Equipment	2,004,990	762,588
Property	439,718	44,883
Total	3,257,363	1,176,489

14. Contracted Services

These are services outsourced by the Authority.

	2017	2016
	Ksh	Ksh
Audit fees	858,400	672,800
Cleaning Services Fees	1,527,344	1,808,176
Security Costs	2,389,396	2,010,151
Consultancy Fees	37,259,740	4,269,800
Total	42,034,880	8,760,927

15. Finance Costs

	2017	2016
	Ksh	Ksh
Withholding Tax on Interest Income	2,035,456	4,953,664
Bank charges	249,942	244,432
Total	2,285,398	5,198,096

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Depreciation and Amortization

	2017	2016
	Ksh	Ksh
Property and equipment	18,674,378	20,630,806
Intangible assets	1,568,109	790,654
Total	<u>20,242,487</u>	<u>21,421,460</u>

17. Cash and cash equivalents

	2017	2016
	Ksh	Ksh
Bank	545,047,730	53,434,434
Cash on hand and in transit	0	1,156
Short-term deposits	<u>0</u>	400,000,000
Total	<u>545,047,730</u>	<u>453,435,590</u>

18. Receivables from exchange transactions

	2017	2016
	Ksh	Ksh
Prepaid Car Park	9,771,840	0
Contracted Services	4,034,470	0
Prepaid Insurance	8,999,763	7,463,487
Accrued Interest Income	0	353,972
Guarding & Receptionist Services	0	9,048
Air Ticketing Services	0	39,411
Prepaid fuel	0	183,883
Employee Costs	2,092,200	3,822,503
Rent Deposit - Mombasa Office	<u>364,000</u>	<u>364,000</u>
Total	<u>25,262,273</u>	<u>12,236,304</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. Receivables from non-exchange transactions

	2017	2016
	Ksh	Ksh
Imprest advance	2,237,228	497,500
Salary advance	926,671	382,505
Total	<u>3,163,899</u>	<u>880,005</u>

20. Property, Plant & Equipment

The Authority maintains an asset register. The assets are depreciated on a straight line basis for the various categories of assets as follows:

Motor vehicles	25.0%
Equipment and computers	33.3%
Furniture and fittings	12.5%
Office partitions	12.5%

	Motor Vehicles	Equipment & Computers	Furniture & Fittings	Office Partitions	Total
	Ksh	Ksh	Ksh	Ksh	Ksh
Cost					
As at 1st July 2015	32,061,347	43,233,930	11,565,908	43,687,525	130,548,710
Additions	35,979,966	695,380	1,657,469	1,470,966	39,803,781
As at 30th June 2016	68,041,313	43,929,310	13,223,377	45,158,491	170,352,491
Additions	0	8,994,458	2,420,577	0	11,415,035
As at 30th June 2017	<u>68,041,313</u>	<u>52,923,768</u>	<u>15,643,954</u>	<u>45,158,491</u>	<u>181,767,526</u>
Depreciation & Impairment					
As at 1st July 2015	25,260,566	36,394,761	7,687,019	39,842,972	109,185,318
Depreciation	11,498,416	2,730,211	1,500,466	4,901,713	20,630,806
Impairment	1,658,899	0	0	0	1,658,899
As at 30th June 2016	38,417,881	39,124,972	9,187,485	44,744,685	131,475,023
Depreciation	11,229,019	5,810,591	1,565,800	68,968	18,674,378
As at 30th June 2017	<u>49,646,900</u>	<u>44,935,563</u>	<u>10,753,285</u>	<u>44,813,653</u>	<u>150,149,401</u>
Net book values					
As at 30th June 2017	<u>18,394,413</u>	<u>7,988,205</u>	<u>4,890,669</u>	<u>344,838</u>	<u>31,618,125</u>
As at 30th June 2016	<u>29,623,432</u>	<u>4,804,338</u>	<u>4,035,892</u>	<u>413,806</u>	<u>38,877,468</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

21. Intangible assets

Intangible assets comprises ICT Systems and software used by the Authority in its operations. The Assets are depreciated as and when they are available for use by the Authority at the rate of 33.3%.

	Ksh
Cost	
At 1st July 2015	33,155,513
Additions	1,325,000
As at 30th June 2016	34,480,513
Additions	2,319,327
As at 30th June 2017	<u>36,799,840</u>
Amortization and Impairment	
At 1st July 2015	31,877,307
Amortization	790,654
As at 30th June 2016	32,667,961
Amortization	1,568,109
As at 30th June 2017	<u>34,236,070</u>
Net book values	
As at 30th June 2017	<u>2,563,770</u>
As at 30th June 2016	<u>1,812,552</u>

22. Work In Progress

Implementation of the Human Resource Information System and Microsoft Navision 2015 was ongoing. The contractors had been paid 20% and 90% of the contract sum as at 30.06.2017. The intangible assets will be recognized once the projects are completed, commissioned and handed over to the Authority.

Details	2017	2016
	Ksh	Ksh
Navision upgrade to 2015	5,760,432	1,728,130
Fleet Management System	945,000	0
HRMIS - Netcom Information System	4,626,660	925,332
Balance as at 30th June 2016	11,332,092	2,653,462

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23. Trade & Other Payables from exchange transactions

	2017	2016
	Ksh	Ksh
Trade Payables	38,940,224	15,596,105
Other Payables	<u>182,032</u>	<u>284,796</u>
Total	<u>37,817,589</u>	<u>15,880,901</u>

24. Provisions

Provision made to cater for audit of FY 2016/17 books of accounts payable in FY 2017/18 after the actual is concluded.

	2017	2016
	Ksh	Ksh
Audit fees	765,600	672,800
Total	<u>765,600</u>	<u>672,800</u>

25. Revaluation Reserve

The revaluation reserve relates to values assigned to motor vehicles on revaluation. The movement of the revaluation reserve is as shown below:

	2017	2016
	Ksh	Ksh
Balance as at 1st July	1,231,673	4,473,217
Transfer to revenue reserve	(1,231,673)	(3,241,544)
Balance as at 30th June	0	1,231,673

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Accumulated Fund

The movement in revenue reserves for the year ended 30th June 2017 is shown below:

	2017	2016
	Ksh	Ksh
Balance as at 1st July	492,110,007	311,025,483
Transfer from Revaluation Reserve	1,231,673	3,241,544
Reversal of Provision	0	0
Surplus for the year	85,758,353	177,842,980
Balance as at 30th June	579,100,033	492,110,007

27. Cash generated from operations

A computation of the net cash flows generated from operating activities during the year under review of Ksh is as below:

	2017	2016
	Ksh	Ksh
Surplus / Deficit for the year	85,758,353	177,842,980
Adjusted for:		
Depreciation	18,674,378	20,630,806
Amortization of intangible assets	1,568,109	790,654
Revaluation Reserve conversion on disposal	0	1,658,899
Cash flows from operating activities before working capital changes	106,000,840	200,923,339
Working capital changes		
Increase/(Decrease) in Trade and other payables	23,241,355	(3,544,125)
Decrease/(Increase) in receivables and prepayments	(15,309,863)	14,085,361
Decrease/(Increase) in Work In Progress	(8,678,630)	(2,653,462)
Increase/(Decrease) in provisions	92,800	0
Net Cash flows from Operating Activities	105,346,502	208,811,113

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

28. Financial Risk Management

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks. The overall risk management programme focuses on unpredictability of changes in the business

29. Contingent Assets

The Authority had no contingent assets as at 30th June 2017.

30. Contingent Liabilities

Litigation Matters: As at 30th June 2017, there were some cases before the courts in which the Authority is a party that had not been concluded. The outcome of the cases and the likely costs of the suits (damages/other court awards) that the Authority may have to bear cannot be estimated with certainty. This disclosure has been provided in conformity with IPSAS 19.

31. Subsequent Events

There were no subsequent events after year end that affect the Authority and that would affect the decisions made by a third party.

32. Operating Lease Rentals

The Authority has two rental lease agreements under which it will pay Ksh 54,091,104 over the next 4 years. The details are as below:

Lease with National Bank of Kenya:

Period	2017	2016
Not later than 1 year	16,208,448	16,208,448
Later than 1 year and not later than 5 years	16,208,448	32,416,896
Later than 5 years	0	0
Total	32,416,896	48,625,344

Lease with Mombasa Trade Centre:

Period	2017	2016
Not later than 1 year	1,520,064	1,310,400
Later than 1 year and not later than 5 years	3,648,154	5,168,218
Later than 5 years	0	0
Total	5,168,218	6,478,618

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33. Currency

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

34. Progress on Follow Up of Auditor Recommendations

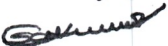
There were no audit queries arising from audit of FY 2015/2016 financial statements.

Ref No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
FY 2015/16 audit report	None	N/A	N/A	N/A	N/A

APPENDIX 1: INTER-ENTITY TRANSFERS

ENTITY NAME: PUBLIC PROCUREMENT REGULATORY AUTHORITY				
Breakdown of Transfers from The National Treasury				
FY 2016/17				
a	Recurrent Grants			
		Bank Statement Date	Amount Kshs	FY to which amount relates
	Quarter 1 Exchequer	24.08.2016	90,000,000	FY 2016/17
	Quarter 2 Exchequer	14.11.2016	90,000,000	FY 2016/17
	Quarter 3 Exchequer	30.03.2017	90,000,000	FY 2016/17
	Quarter 4 Exchequer	24.05.2017	90,000,000	FY 2016/17
	Total		360,000,000	
b	Development Grants			
		Bank Statement Date	Amount Kshs	FY to which amount relates
	Quarter 1 Exchequer	22.11.2016	30,000,000	FY 2016/17
	Quarter 3 Exchequer	23.03.2017	15,000,000	FY 2016/17
	Quarter 3 Exchequer	26.04.2017	15,000,000	FY 2016/17
	Total		60,000,000	
c	Direct Payments -Refund of salary for staff on secondment to IFMIS			
		Bank Statement Date	Amount Kshs	FY to which amount relates
	Refund	12.07.2016	2,636,303.00	FY 2015/16
	Refund	29.11.2016	2,372,400.00	•FY 2015/16 Ksh 1,186,199.60 •FY 2016/17 Ksh 1,186,200.40
	Refund	30.03.2017	1,959,652.60	FY 2016/17
	Total		6,968,355.60	

The above amounts have been communicated to and reconciled with The National Treasury (Parent Ministry)


C. Sakwa
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