

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper Laid on the
Table of the House
by the Leader of
the Majority Party
on Tuesday
24th July 2018*

REPORT

OF

PARLIAMENT
OF KENYA
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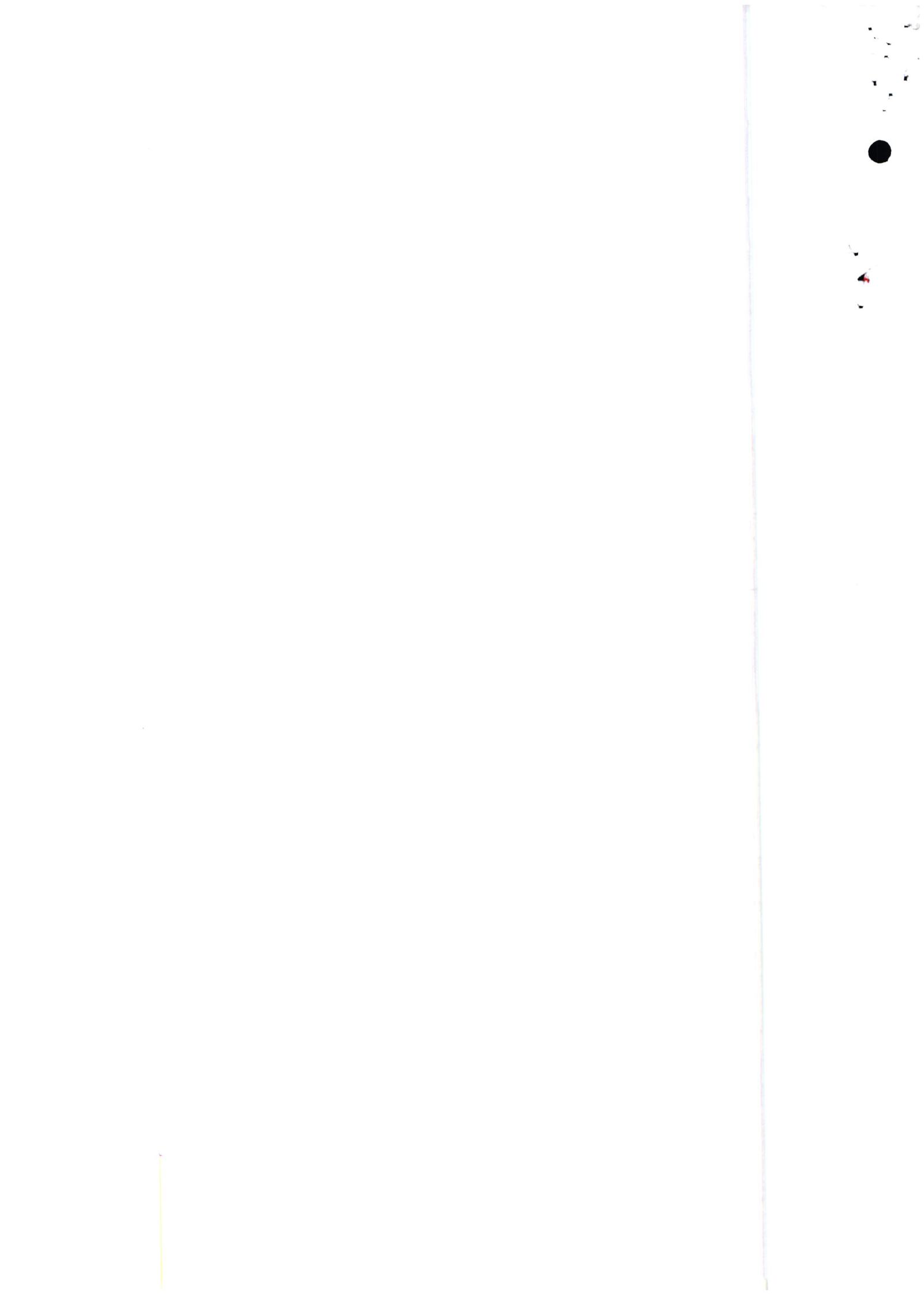
THE AUDITOR-GENERAL

ON

(Afternoon)

**THE FINANCIAL STATEMENTS OF
PUBLIC COMPLAINTS COMMITTEE**

**FOR THE YEAR
ENDED 30 JUNE 2017**





**PUBLIC COMPLAINTS COMMITTEE
(PCC)**

**REPORT AND FINANCIAL STATEMENTS
AS AT JUNE 30, 2017**

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background information

The PUBLIC COMPLAINTS COMMITTEE (PCC), herein referred to as the Committee, is established under Sections 31 to 36 of the Environmental Management and Co-ordination Act (Cap 387 of the Laws of Kenya) (Previously cited as Act No. 8 of 1999). It was formerly known as the Public Complaints Committee but was renamed when the law was amended in 2015 (EMCA (Amendment) 2015). The first Committee was formally constituted and launched by the then Minister in August 2001. The Committee started full operations in January 2003. Its mandate is to investigate allegations or complaints regarding the condition of the environment in Kenya, or on its own motion, suspected cases of environmental degradation. PCC is domiciled in Kenya and its offices are in Bellevue area in Nairobi. It is an important institution in the assessment of the condition of the environment in Kenya. It plays an important role in the facilitation of alternative dispute resolution mechanisms relating to environmental matters. PCC makes recommendations to the Cabinet Secretary and thus contributes significantly to the formulation and development of environmental policy.

(b) Principal Activities

The Principal activity of PCC is to investigate the degradation of the environment. Its mission and vision are as follows;

Vision: To be the leading environmental ombudsman in Africa

Mission: To facilitate access to environmental justice to the public by providing a forum for expeditious and affordable environmental conflict resolution and to contribute to environmental policy development.

The Principal activity of the Public Complaints Committee is to conduct in-depth investigation of any allegations against any person in relation to the condition of the environment in Kenya or on its own motion; any suspected case of environmental degradation. Further, parliament through Section 32 of EMCA mandates PCC to: prepare and submit to the Cabinet Secretary periodic reports of its activities which report shall form part of the annual report on the state of the environment; undertake Public Interest Litigation (PIL) on behalf of the citizens in environmental matters and to perform such other functions and exercise such powers as may be assigned to it by the Cabinet Secretary.

(c) Key Management

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

- Committee Members
- Secretariat

(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.	Head of Administration	Fredrick Olendo
2.	Head of Finance	Duncan Kombo
3.	Head of Technical Services	Simon Gatuhi

(e) Fiduciary Oversight Arrangements

- i) Audit Sub-Committee of PCC
- ii) PCC Committee
- iii) Ministry of Environment and Natural Resources
- iv) Parliamentary Investment Committee

(f) Entity Headquarters

Public Complaints Committee Headquarters
P. O. Box 36256 - 00200
Bellevue Area, Popo Road off Mombasa Road
DRSRS Building
Nairobi, KENYA

(g) Entity Contacts

Telephone (254) 0202405782
Email: PCC.environment@gamil.com
Website: www.pccenvironment.or.ke
Hotline: 0722510510

(h) Entity Bankers

Kenya Commercial Bank
KCB Capital Hill Branch
P. O. Box 69695 – 00400
Nairobi, KENYA

(i) Independent Auditors



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

(j) Principal Legal Adviser


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

II. THE COMMITTEE MEMBERS

	<p>DATE OF BIRTH: 11TH OCTOBER 1968</p> <p><u>Education Background</u></p> <ul style="list-style-type: none"> • BA HRM (Kenyatta University) • Master in Peace Management and Conflict Resolution (Kenyatta University) <p><u>Work Experience</u></p> <p>17 year experience</p>
	<p>DATE OF BIRTH: 13TH DECEMBER 1970</p> <p><u>Education Background</u></p> <ul style="list-style-type: none"> • LLB (Hons) (Nairobi) • Dip Law (KSL) <p><u>Work Experience</u></p> <p>Advocate of High Court of Kenya of 21 years' experience representing the Law Society of Kenya Certified Public Secretary and commissioner for Oaths Is a practicing advocate at Mulekyo & Co. Advocates Has interest in Litigation, Environmental Law, Public Interest Litigation, Commercial Law and Community Organization</p>
	<p><u>Education Background</u></p> <ul style="list-style-type: none"> • Bcom Finance General (University of Nairobi) • Masters in Public Policy (State University of New York at Stony Brook) <p><u>Work Experience</u></p> <p>13 years' experience</p>
	<p>DATE OF BIRTH: 22ND MAY 1971</p> <p><u>Education Background</u></p> <ul style="list-style-type: none"> • LLB (University of Nairobi) • Master of Arts in International Studies (University of Nairobi) • Master of Law (LLM) (University of Cambridge) • Dip Law (KSL) <p><u>Work Experience</u></p> <ul style="list-style-type: none"> • Advocate of the High Court of Kenya (1996) • Commissioner of Oaths (2000) • Notary Public (2005) <p>Director of Legal Affairs, Deputy Solicitor General at the office of the Attorney General and Department of Justice. Responsible for good governance</p>

	<p><u>Education Background</u></p> <ul style="list-style-type: none"> • BSC- Biology 1986 :UEA-Baraton • MSC-Ecology 1989 :Aberdeen University (Scotland) • 1994-Environmental Assessment and Management (CEMP) Aberdeen <p><u>Work Experience</u></p> <ul style="list-style-type: none"> • Senior Researcher at KWS in charge of Ecological Monitoring • Task Manager at UNEP for the Global Biodiversity Assessment • Biodiversity Policy Officer at WWF in Treaties and Agreements Division • Team Leader at ITDG (Practical Action) in the Rural Livelihoods Programme (Reducing Vulnerability) • CEO at Clout • Climate Change Advisor at AWF • Technical Advisor at the Ministry of Environment and Natural Resources <p><u>Boards</u></p> <ul style="list-style-type: none"> • Member of NEPAD Climate Change Fund in South Africa • Member of NEMA Board up to 2010 <p>Now member of PCC</p>
	<p>DATE OF BIRTH: 1972</p> <p><u>Education Background</u></p> <ul style="list-style-type: none"> • BSC- Mathematics and Computer Science/JKUAT • Mphil/Phd IN Environmental Studies(Environmental Information Systems) <p><u>Work Experience</u></p> <ul style="list-style-type: none"> • Environmental Lecturer, University of Eldoret • EIA Expert/Consultant • County Executive Member, Lands, Environment and Natural Resources, Nandi County • Chairman, County Ministers Council in charge of Environment and Natural Resources • Head of Department, Chemical Technology, Eldoret National Polytechnic

Ex-officio

	<p><u>Date of Birth: 6th November, 1975</u></p> <p><u>Qualification: Bachelor of Commerce (Accounting)</u></p> <p><u>Experience: 12 years Financial Management</u></p>
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III. MANAGEMENT TEAM

 <p>Mr. Fredrick Olendo <u>Bachelor of Commerce (Accounting), UoN</u> <u>MBA (on-going) UoN</u></p>	Head of Administration
 <p>Mr. Duncan Kombo Accountant CPA II A Levels Over 26 years' experience in government finance</p>	Head of Finance
 <p>Mr. Simon Gatuhi MSC. Environmental Science BSC. Natural Resource Management Environmental Inspector and EIA/EA Lead Expert</p>	Head of Technical Service

IV. CHAIRMAN'S STATEMENT

This Report of the Public Complaints Committee (hereinafter referred to as the Committee and or PCC) covers activities and achievements of the 5th Committee and challenges encountered.

On its core mandate of investigating complaints on environmental degradation, the Committee investigated about 60 complaints in various parts of the country and rendered solutions by way of recommendations on the environmental issues unique to each region. The Committee has assisted the members of the public in various parts of the Country to identify and implement amicable and cost effective solutions to a great number of environmental complaints.

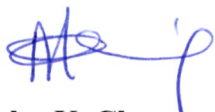
The Committee has also succeeded in sensitizing a large section of the public on the importance and benefits of best environmental practices. This has been done through public hearings and distribution of published material.

Still as part of carrying out its mandate, the Committee participated in international programmes that enhance environmental management and conservation such as the World Environment Days (WEDs), World Days to Combat Desertification (WDCDs), World Wetlands Day and the Nairobi International Trade Fairs, among others.

Having recognized the importance of team work in environmental conservation and management, the Committee also ensured the enhancement of linkages with the parent Ministry, the EMCA institutions, lead agencies, counties, other stakeholders and communities.

However, the achievements above stated have not been without some challenges as will appear in this report. It is the hope of the Committee that those challenges will be addressed to make the Committee even more effective in the discharge of its mandate, taking cognisance of the inalienable rights of a clean and healthy environment for each person in the Republic of Kenya as enshrined in the Constitution.

On the whole, the future of the Committee is bright and wishes to thank the Committee Members, staff, and other stakeholders for their continued effort towards the achievement of the Committee's mandate.



Dr. John K. Chumo
For; Chairman

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

The Committee's core function is to investigate environmental complaints against any person or the Authority. It may also on its own motion investigate suspected cases of environmental degradation. Additionally, the committee is tasked to undertake public interest litigation on behalf of the citizens in environmental matters. For the Committee to be an effective environmental ombudsman in support of a clean and healthy environment as a right for all, the Committee provides a simple avenue for access to environmental justice by all persons regardless of age, gender, race or any form of discrimination. The Committee encourages written complaints. However oral complaints can also be received and complainants may submit their complaints through third parties. The Committee does not investigate complaints that are not of environmental concern.

During the reporting period, the Committee received and investigated 125 complaints in different categories as broken down hereunder:

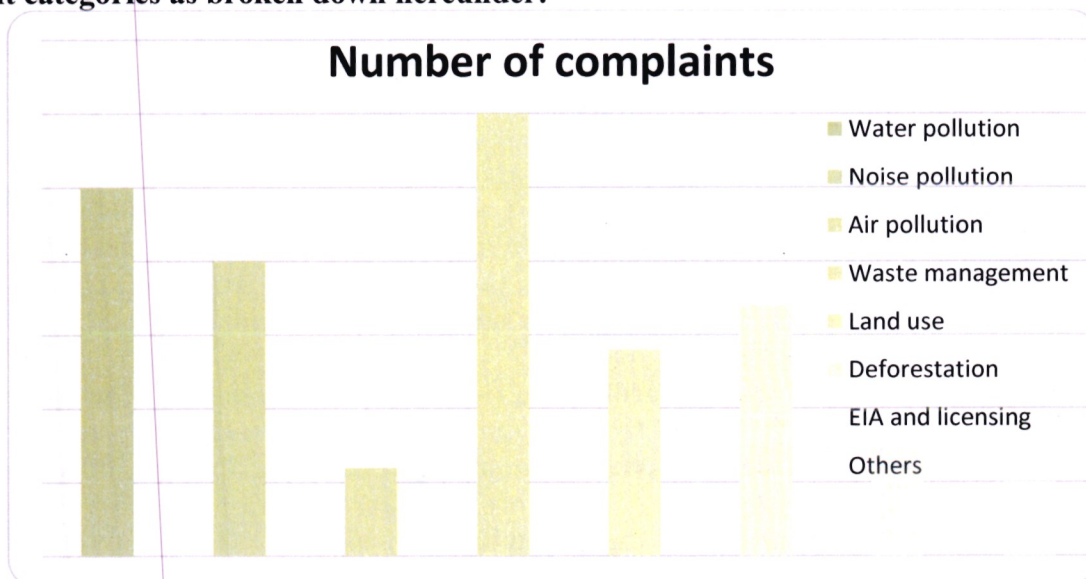


Figure 1: Categories of complaints investigated during the reporting period

Generally, the number of complaints countrywide relating to environmental degradation (in descending order) is:

- Poor waste management (26%)
- Poor land-use practices. (11%)
- Deforestation (13%)
- Water pollution (20%)
- Air pollution (5%)
- Noise pollution (16%)
- EIA and Licensing (6%)
- Others 3%

The high incidence of complaints received by PCC from Nairobi and Mombasa counties can be attributed to rapid development, urbanization and industrialization and consequential high population density. It may be observed that Nairobi County, with an estimated population of about 5 million people records a distinctly higher number of complaints than any other region in the country. In Mombasa County, poor effluent disposal, poor management of solid waste

and encroachment by the construction of permanent structures on the beach or very close to the beach was quite significant.

PCC conducted awareness campaigns in the 10 counties during the reporting period by distributing brochures and carrying out impromptu public *barazas* whilst carrying out investigations. PCC also created awareness of its role and mandate through its work and operations in these counties. During site visits, PCC also involves relevant stakeholders including the Ministry of Interior, NEMA, KFS, KWS and the County Government to create awareness.

In the course of its investigations, PCC has witnessed a lot of un-reported environmental degradation in the counties. This could be attributed to the rigours of following up complaints from areas outside Nairobi and lack of awareness of the process involved in filing complaints with the PCC. However, PCC will explore more avenues of reaching all the communities across the counties.

In the investigatory process, PCC has encountered several common environmental degradation issues in nearly every part of the country. These include:

(i) Poor effluent management

In all urban areas there is poor effluent disposal due to the absence of infrastructure such as modern and efficient sewerage systems and integrated water provisions. In some areas near water bodies such as the coastal region, the regions around lakes and other settlements near rivers, there is urgent need of integrated water sector management systems.

The problem is exacerbated by lack of coordination between the main actors. The water and sewerage infrastructure is said to be owned by the County Government while the water services are provided by water and sewerage companies under the Water Act. Responsibility for the repair and expansion of the infrastructure is therefore unclear, thus leading to breakdown of infrastructure, non-maintenance or lack of expansion in deserving areas. This generally results in essential services not being provided and people resorting to haphazard and unplanned methods of resolving these problems including discharge of raw effluent into storm drains or the water bodies.

Examples

- Only 48% of Nairobi is connected to the central sewerage system. The other 52% depend on septic tanks and disposal into the environment.
- In Mombasa, as a matter of fact, sewerage infrastructure coverage is limited, in disrepair, dysfunctional or lacking space for expansion and the necessary treatment plants.
- The sewerage system in several estates of Eastlands in Nairobi cannot cope with the human population in the area

This crisis is however reflected in all our towns across the country.

(ii) Poor solid waste management

In all urban centres there is poor solid waste management. Most counties operate unlicensed dumpsites which are unfenced, unmanned and the waste is scattered haphazardly. Medical, hazardous and municipal waste is dumped together. The dumpsites are readily accessible to both human beings

and livestock for foraging and thus posing a grave public health hazard. Poor disposal of plastic paper has decimated marine life and endangered flora and fauna, caused blockage to storm drains and sewerage systems and are generally an eyesore. Polythene bags are generally the biggest non-biodegradable pollutants in these counties.

Examples

- **A worrying trend observed in Elgeyo Marakwet was that of unscrupulous waste handlers disposing of solid waste in Kaptagat forest**
- **There is uncontrolled and excessive littering on the major highways in Kenya**
- **Coloured glass bottles from the liquor industry remain uncollected for recycling in many dumpsites across the country**
- **Nairobi and Mombasa leads in in poor solid waste management is compared to other towns.**

(iii) Destruction of forests and illegal logging

There is massive and wanton destruction of forests in Kenya including in the 5 water towers. The destruction is as a result of illegal logging, charcoal burning, unplanned human settlements and farming, construction of dams, roads and other projects and poaching of forest products such as sandalwood. The Mau water tower, arguably the most important forest complex in the country, has been in the news for the last 4 years for being the most affected forest and because of the resultant effect on rivers and other water bodies.

One cross-cutting complaint in the forest sector is that area residents cannot differentiate between licensed harvesting of mature plantations and illegal logging. There is a need to sensitize the public on the procedure followed by KFS in managing the gazetted forests, especially in regards to plantation management. The PELIS programme of growing plantation in poorly managed and therefore has been a source of forest destructions.

(iv) Unregulated mining, quarrying and sand harvesting

These are widespread in the counties and most are not licensed. They are a major source of noise and air pollution, land degradation and destruction of riverine ecosystems. Gaping quarry sites pose grave danger to both humans and livestock. It is also to be noted that rarely if ever do operators in the mining, quarrying and sand harvesting activities rehabilitate the sites after exhaustion. The said operators are neither organized nor regulated, thereby attracting criminal elements which pose security risks.

There is consensus amongst the stakeholders that the county government should spearhead the regulation of these activities instead of concentrating on cess collection. The regulatory framework should incorporate a fund for the restoration of the degraded sites.

(v.) Unplanned land use and land use changes

Despite the expansion in urban settlements, there are no coordinated urban development mechanisms such as Master Plans for major towns resulting in;

- a) Unmerited land user change without regard to the land use, the concerns of the neighbourhood and the need for greenery and essential supporting infrastructure / public utilities**
- b) Crowded boroughs (neighbourhoods)**
- c) Conflicts between land owners because of the mixture of commercial, residential, industrial, high rise buildings and single storied buildings in the same neighbourhoods**

- d) Mushrooming of small hotels, hostels, kiosks, clinics, and recreational facilities in supposedly exclusive residential areas thus exposing residents to insecurity**
- e) Excessive land fragmentation leading to low productivity or usage of such land due to its small size. We have even noted people carrying out quarrying and sand harvesting activities in their small plots**
- f) Encroachment on road reserves, land reserved for public utilities such as; water, sewer systems, schools, hospitals, play grounds, railway lines, oil pipelines, as well as high security areas including airports and military installations, leading to conflicts between Government institutions and private individuals and occasionally, in-fighting between Government institutions. This encroachment has led to difficulties in expansion and protection of these utilities occasionally with disastrous consequences**
- g) Overstretching of water and sewerage services and other public utilities in places such as Karen and Kajiado have high concentration of water boreholes which deplete the water table thus affecting bio-diversity**
- h) Proliferation of illegal and informal settlements**
- i) Destruction of tree cover because of maximum use of the land for development purposes and as a result green zones in all urban areas are disappearing very fast. For example, Kileleshwa, Milimani, Hurlingham, Westlands, Eastlands and now part of Lavington have lost all their tree cover**
- j) The user of some of the most arable land especially in Kiambu and Thika have been changed into residential and commercial use to accommodate the rapidly expanding population which may contribute to food insecurity.**

VI. CORPORATE GOVERNANCE STATEMENT

The Public Complaints Committee on Environment (PCC) was established under Sections 31 to 36 of the Environmental Management and Co-ordination Act (No 8 of 1999) with the mandate of investigating allegations or complaints regarding the condition of the environment in Kenya, or on its own motion, suspected cases of environmental degradation. PCC prepares reports of its findings and recommendations thereon and submits the same to the Cabinet Secretary responsible for Environmental matters.

- PCC is composed of seven members appointed by the Cabinet Secretary for Environment Natural Resources. The members include a Chairperson who is qualified to be appointed as a judge of the Environment and Land Court of Kenya and composes members nominated by the office of the Attorney-General, the Council of Governors, the Law Society of Kenya and the business community. There are two other members who are appointed by the Cabinet Secretary for their role in environmental management.

The Constitution of Kenya, 2010 outlines that every person has the right to a clean and healthy environment, a provision that creates the right to have the environment protected for intergenerational benefits. The State has the core responsibility of ensuring sustainable utilization, management and conservation of the environment and natural resources.

PCC strives to maintain the following core values;

- Professional integrity
- Team work
- Transparency and accountability
- Equity
- Commitment to excellence and timely responsiveness;
- Continuous learning
- Effective and efficient service delivery
- Application of best environmental practices
- Continuous staff development

These values are grounded on professional integrity, personal orientation, team work, equity, transparency, accountability, commitment to excellence, learning, applying best environmental practices, public service, and sustainable environmental management activities.

PCC operates under the Ministry of Environment and Natural Resources (MENR). The Ministry has elaborated its vision and mission clearly in the context of its mandate which is to protect, conserve and manage the environmental and natural resources through exploitation for socio-economic development aimed at eradication of poverty, improved living standards and ensuring that a clean environment is sustained now and in the future in line with the country's aspirations as found in Vision 2030 and constitution, 2010.

PCC has a significant role to play in all the pillars in Vision 2030 in view of the nature of its role and involvement in national development. The economic pillar aims to achieve an economic growth rate of 10 per cent per annum by 2012, the social pillar seeks to build a just, cohesive and equitable social development in a clean and secure environment whereas the political pillar aims to realize issue-based, people centered, result-oriented and a transparent and accountable democratic system that respects the rule of law, and protects the rights and freedoms of every individual in Kenyan society. The role of PCC in matters of environment permeates into all the pillars because of the significant nature of the environment and its

importance and special place in national development. PCC provides the necessary back up services to all the stakeholders involved in the pursuance of the Medium Term Plan (MTP) aspirations.

In the execution of its mandate, PCC is committed to collaboration with various lead agencies, the private sector and civil society to enhance efficiency of the PCC and to achieve strategic objectives set out in its Strategic Plan. Since its inception in 2003, the Committee has received over 1,000 environmental complaints from all parts of the country. In its investigations, the committee has managed, in some cases to reverse the ill-effects of environmental degradation. For example, in the area of air pollution, the Committee has managed to investigate and intervene where factories have been accused of causing air pollution due to their emissions. As a result, such factories have put in place emission control measures which have significantly improved the level of air quality in those areas.

The Committee has worked in partnership with other environmental organizations, government departments, and stakeholders, especially the National Environment Management Authority (NEMA) in the preparation of the State of Environment reports, as well as participating in national and international environmental events and conferences. As an environmental ombudsman, the Committee intends to intensify its operations nationwide and to enhance the public's sense of environmental justice.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

The Public Complaints Committee (PCC) is established under section 31 of the Environmental Management and Coordination Act (EMCA) 1999, as an independent and impartial entity charged with the in-depth investigations of complaints against any person or the Authority (NEMA) on issues of environmental pollution and degradation or destruction. Under Section 32 (a) of the Act, PCC is required to submit its reports to the Cabinet Secretary.

The functions of the Committee are provided for in Section 32 of the EMCA. These are:

- Investigation of allegations/complaints against any person or against the Authority in relation to the condition of the environment
- On its own motion, to investigate any suspected case of environmental degradation
- Preparation and submission of periodic reports of its activities to the Cabinet Secretary, PCC reports form part of the annual report on the State of Environment in Kenya and inform national and international policy
- Undertake public interest litigation on behalf of the citizens in environmental matters; and
- perform such other functions and exercise such powers as may be assigned to it by the Cabinet Secretary

The Committee is in effect the environmental ombudsman. Its justification is clearly founded on the fact that in the past, too many environmental degradation cases had gone unattended because there was no institutional arrangement to deal with them. It also ensures public participation in environmental issues and also that their concerns are addressed free, easily and speedily.

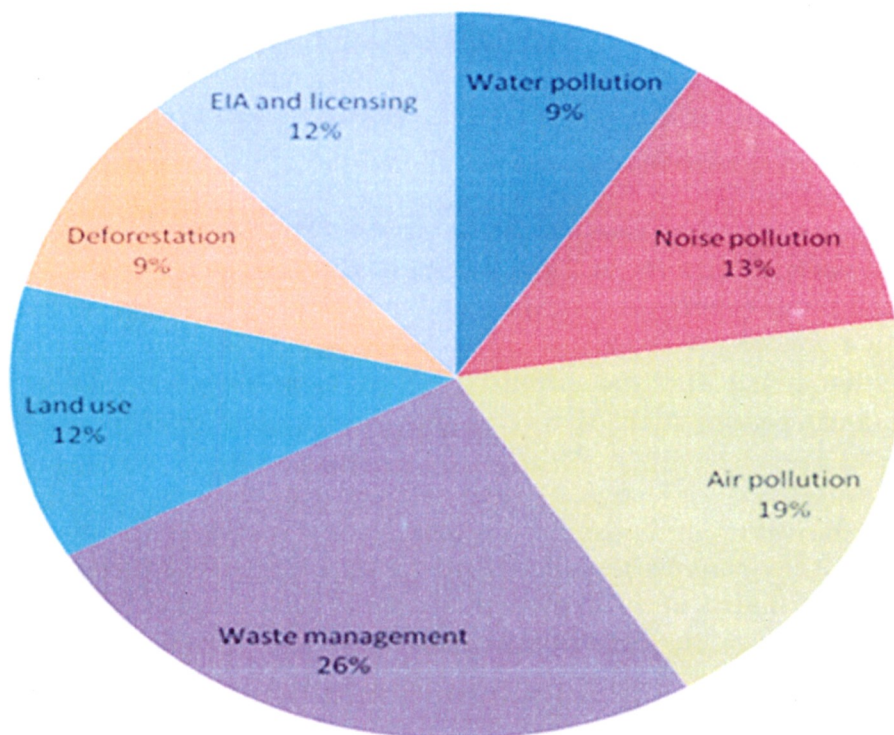
The Committee has made tremendous achievements in the fulfilment of its statutory mandate. Some of these are described herein:

i) Investigations

Since its inception in 2003, the Committee has received over 1,000 complaints. Out of these complaints, PCC has concluded the investigation of 900 and the rest are in different stages of investigation. In the years since the PCC has been in operation, it has scored some key successes. These include the increased awareness of the public regarding the presence, functions and powers of the PCC in several regions of the country. This has been made possible through collaboration with the EMCA institutions (NEMA, NET and NETFUND) as well as with the Ministry of Environment and Mineral Resources (MEMR) and other stakeholders. Through this awareness creation, the PCC has enabled many Kenyans to be involved in the management of the environment by providing an inexpensive arena for the identification and articulation of environmental complaints and a collaborative approach to solving the environmental issues it has investigated.

In its investigations, the PCC has addressed complaints raised against factories, farmers, construction sites, churches, bars and restaurants, hotels, night clubs, hospitals, schools and colleges, local authorities, local and foreign developers, and transport companies. It has investigated the impacts of these parties on water quality, air quality, peace and tranquillity, forest resources, waste management, quarrying and other land use policies. As a result of its investigations, PCC has noticed the following impacts:

Categories of complaints received and investigated by PCC



a) Air pollution caused by:

- Uncontrolled burning of garbage
- Emission of noxious gases by factories, industries and motor vehicles
- Emission of dust through constructions and quarrying activities

b) Noise pollution caused by:

- Huge earth moving equipment during construction and quarrying activities
- Loud music played in bars, nightclubs and discos
- Loud forms of worship in residential areas

c) Water pollution caused by:

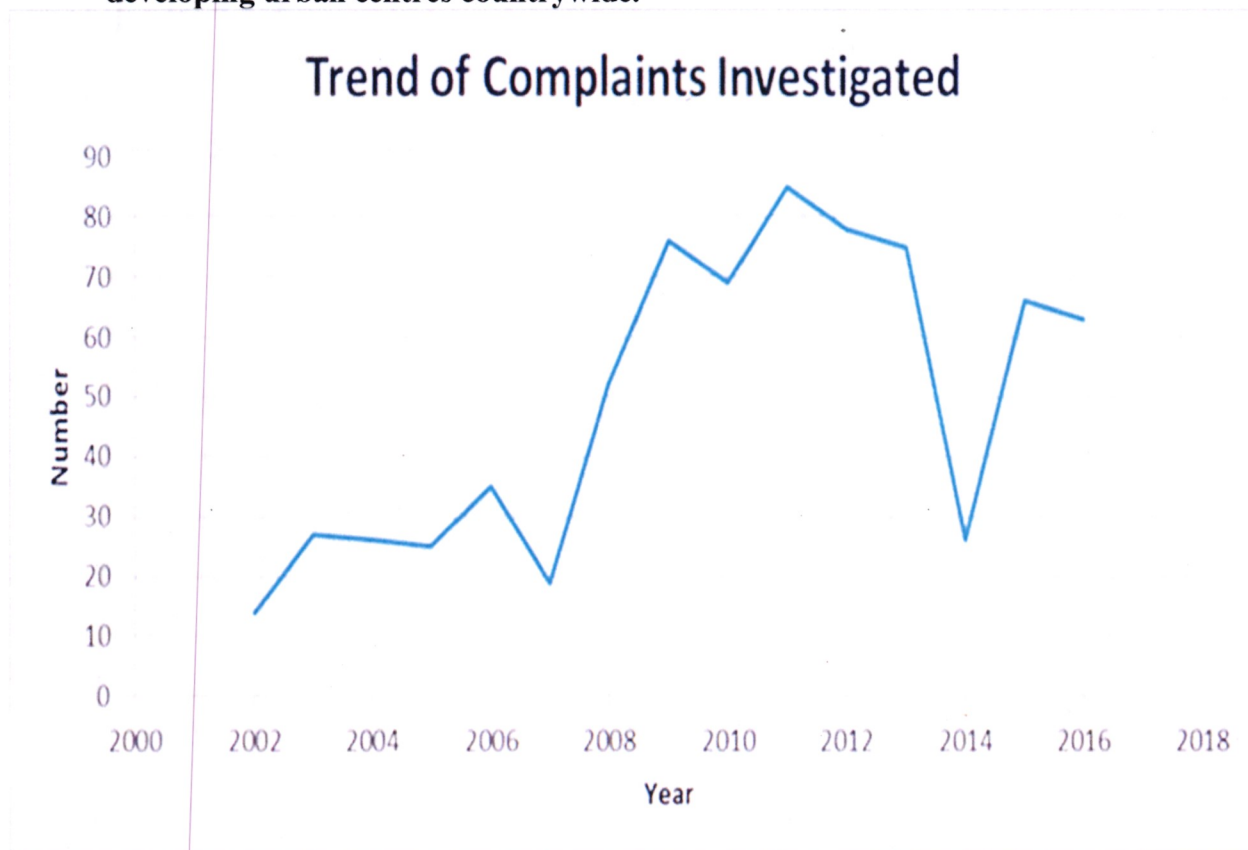
- Discharge of untreated sewage into water masses
- Discharges of industrial waste into water sources
- Dumping of garbage into water sources
- Construction on wetlands and riparian zones
- Oil spillage into water masses
- Washing of motor vehicles by lakes, rivers and the Ocean

d) Non- compliance with EMCA

- Construction without appropriate Environmental Impact Assessment (EIA) licenses
- Constructions without change of user
- Lack of environmental audits

e) Other environmental degradation cases

- Wanton destruction of forests especially indigenous forests
- Sand harvesting leading to soil erosion and lowering of the water table
- Quarrying and mining activities
- Obstruction of rivers for irrigation for agricultural and associated activities without licenses
- General lack of proper garbage handling facilities and sewerage systems in the rapidly developing urban centres countrywide.



ii) Participation in National and International events

As an environmental-oriented institution, PCC has participated in national and international events addressing environmental issues. These have included observation of annual environmental dates such as the World Environment Day on 5th June and the World Day to Combat Desertification on 17th June. The PCC was also represented in the UNEP's Governing Council. Further, PCC attends other national meetings on the environment when invited.

iii) Formulation of a five-year strategic plan

In line with the Government policy and so as to give strategic direction, the Committee has prepared a five year strategic plan (see attached). The Plan, when launched, will be instrumental in shaping the future direction of the work of the Committee.

Despite the achievements realized by PCC, the Committee still faces a number of challenges, such as inadequate budgetary allocation and institutional capacity constraints. To address these challenges, the PCC strives to get an upward review of its budget to enable it to handle more complaints to avoid any backlogs. In addition the staffs' and members' capacity will be enhanced to effectively deal with the complaints.

The Committee would wish to have its own establishment. This would ensure that the Committee not only has adequate personnel; but also that they are technically competent to handle PCC's complex mandate, especially with regard to Public Interest Litigation. PCC needs facilities like its own offices among others. In addition, without necessarily having to amend the Act, it may be in order for the Cabinet Secretary to exercise its powers under Section (32) and assign PCC powers to follow up on the implementation of its recommendations.

In conclusion, the idea of an environmental ombudsman was noble, welcome and timely; it offers an inexpensive avenue for people in Kenya to access environmental justice and participate in the sustainable management, conservation and governance of Kenya's natural resources. The response from the public has been encouraging. The achievements so far made in the short span of its existence are predictive of the greater role that PCC can play in the management of environmental issues. All indicators are that complaints on environmental issues are on a steady rise. The Committee attributes this to the increasing environmental consciousness among the Kenyan people. Inevitably therefore, the country will have to invest more resources in the Committee to facilitate its increasing role.

VIII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

On Thursday, 10th November 2016, the PCC investigations team travelled to Kapsabet for awareness creation exercise. The team spearheaded the exercise, alongside the County Government of Nandi, NEMA and the University of East Africa– Baraton. It involved a clean-up of the Baraton Centre and highlights on sound environmental management.

The exercise entailed a procession from the university to the Baraton centre where a clean-up exercise had been organized. This was carried out with the assistance of the area residents and university students and staff. The garbage was loaded to trucks from the County Government of Nandi department of environment for disposal.



This exercise was followed by the main event where several speeches were made from the community leaders, local administration, university staff and officers from the County Government of Nandi. The highlight of this event was through a speech made by Ms. Isabella Masinde, a Member of the PCC on good environmental management and conservation. She urged the residents to ensure that the environment was safe-guarded from degradation at all times and urged the students to be role models even when they left the institution of higher learning.



The event created awareness to area residents on the need to maintain a clean and healthy environment. It is noteworthy to note that the students at the university came from different areas and thus the message of good practices in environmental protection that was the main theme of the event would spread to a bigger area, including outside the country. The speakers at the event underscored the importance of the environment as it formed the base on which natural resources was anchored. They reiterated that environmental conservation was crucial for the current and future generations.

IX. REPORT OF THE DIRECTORS

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

Principal activities

The Principal activity of PCC is to investigate the degradation of the environment. Its mission and vision are as follows;

Vision: To be the leading environmental ombudsman in Africa

Mission: To facilitate access to environmental justice to the public by providing a forum for expeditious and affordable environmental conflict resolution and to contribute to environmental policy development.

The Principal activity of the Public Complaints Committee is to conduct in-depth investigation of any allegations against any person in relation to the condition of the environment in Kenya or on its own motion; any suspected case of environmental degradation. Further, parliament through Section 32 of EMCA mandates PCC to: prepare and submit to the Cabinet Secretary periodic reports of its activities which report shall form part of the annual report on the state of the environment; undertake public interest litigation on behalf of the citizens in environmental matters and to perform such other functions and exercise such powers as may be assigned to it by the Cabinet Secretary.

Results

The results of the Committee for the financial year are as follows;

- a) Preparation of recommendations of concluded cases for submission to the CS: PCC volumes XX, XXI, XXII, XXIII, XXIV and XXV
- b) A total number of 126 complaints were investigated and concluded as shown in the table below;

Table 1: Complaints Investigated per Counties

No.	County	Number of complaints
1.	Nairobi	32
2.	Taita Taveta	5
3.	Kiambu	7
4.	Kajiado	7
5.	Baringo	2
6.	Elgeyo Marakwet	6
7.	Nakuru	6
8.	Kwale	7
9.	Mombasa	14
10.	Kilifi	6
11.	Murang'a	6
12.	Kisumu	4
13.	Kisii	4
14.	Nyeri	3
15.	Narok	5

16.	Machakos	5
17.	Siaya	3
18.	Meru	12
19.	Bomet	1
20.	Embu	5
21.	Makueni	3
22.	West Pokot	1
23.	Kitui	3
24.	Vihiga	2
25.	Kakamega	1
26.	Tana River	2
27.	Homa Bay	1
28.	Migori	2
29.	Total	126

- c) Enhancement of publicity for PCC through increased public awareness and production of publicity materials such as brochures. This resulted into more visibility of PCC as indicated by the increased number of responses to PCC recommendations.
- d) PCC was able to secure a slightly improved budgetary allocation which enhanced its capacity to investigate more complaints.

Directors

The Committee was appointed for a period of 3 years on 30th April 2014 by a Gazette Notice No. 3023 contained in Vol. CXVI—No. 59 where Ms. Felicity Biriri, Mr. Anthony Mulekyo and Ms. Angelei Ikal were appointed. Mr. John K. Tuta was appointed to the Committee on 1st December 2014 and subsequently on 22nd July, 2016 vide Gazette Notice No. 5554 in Vol.CXVIII-No.81 when Dr. John Chumo and Isabella Masinde were appointed.

Auditors

The Auditor General is responsible for the statutory audit of the entity in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 carry out the audit of the entity for the year/period ended June 30, 2017 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

By Order of the Committee



Dr. John K. Chumo
Committee Secretary
Nairobi

Date:.....

X. STATEMENT OF DIRECTOR'S RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 36 of the Environmental Management and Coordination Act Cap 387 require the entity to prepare financial statements in respect of that the entity, which give a true and fair view of the state of affairs of the entity at the end of the financial year/period and the operating results of the entity for that year/period. The Directors are also required to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

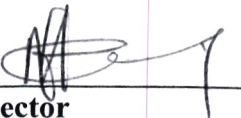
The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Environmental Management and Coordination Act Cap 387. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2017, and of entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of entity's 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 entity will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

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



Director

Director

Director

REPUBLIC OF KENYA

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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 COMPLAINTS COMMITTEE FOR THE YEAR ENDED 30 JUNE, 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Public Complaints Committee set out on pages 23 to 56, which comprise the statement of financial position as at 30 June 2017, and the statement of receipts and payments, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Public Complaints Committee 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 Environment Management Act, 1999.

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

Basis for Opinion

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

Key Audit Matter

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

Report of the Auditor-General on the Financial Statements of Public Complaints Commission (PCC) for the Year ended 30 June 2017

Other Matter

1. Committee Membership and Chairmanship

The Public Complaints Committee has not been fully constituted to enable delivery of critical mandate to the people of Kenya in maintaining and preserving the environment for the present and future generation. Further, during the financial year 2016/2017 the Committee operated without a chairman who resigned. The chairman plays a key role in the committee by directing its activities. His absence will hinder the committee from achieving its objectives.

2. Weak Internal Controls

Management has not put in place the prerequisite staff to assure proper operations of internal controls in cash management and segregation of other duties. This situation puts the committee at risk of loss in case of failure of the management controls.

Responsibilities of Management and those Charged with Governance for the Financial Statements

The 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 Committee's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the corporation or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Committee'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.

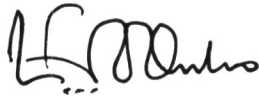
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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 Committee's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Committee's ability to continue 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 Corporation 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 entities 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

29 June 2018

XII. STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2016-2017	2015-2016
		Kshs	Kshs
Revenue from non-exchange transactions			
Licenses and permits		0	0
Transfers from other governments—grants and subsidies	1	68,819,761	55,148,044
Revenue from Exchange transactions			
Rendering of services		0	0
Total revenue		68,819,761	55,148,044
Expenses			
Employee costs	2	7,596,437	5,599,972
Remuneration of directors			0
Depreciation and amortization expense	3	1,024,205	1,346,017
Repairs and maintenance	4	573,355	574,980
General expenses	5	59,881,143	51,082,940
Total expenses		69,075,139	58,603,909
Other gains/(losses)			
Gain on sale of assets		0	0
Surplus before tax		(255,378)	(3,455,865)
Taxation		0	0
Surplus/(deficit)for the period		(255,378)	(3,455,865)
Attributable to:			
Surplus/(deficit)attributable to minority interest		0	0
Surplus attributable to owners of the controlling entity		(255,378)	(3,455,865)

The notes set out on pages 16 to 21 form an integral part of these Financial Statements

**XII. STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

		2016-2017	2015-2016
		Kshs	Kshs
Assets			
Current assets			
Cash and cash equivalents	6	1,075,455	306,619
Receivables from exchange transactions		0	0
Receivables from non-exchange transactions	7	393,510	393,510
Total		1,468,965	700,129
Non-current assets			
Property, plant and equipment	8	3,669,496	4,693,701
Total assets		5,138,461	5,393,830
Liabilities		0	0
Current liabilities			
Trade and other payables from exchange transactions		0	0
Non-current liabilities		0	0
Non-current employee benefit obligation		0	0
		0	0
Total liabilities		0	0
Net assets		5,138,461	5,393,830
Reserves		5,138,461	5,393,830
Total net assets and liabilities		5,138,461	5,393,830

The Financial Statements set out on pages xxx to xxx were signed on behalf of the Board of Directors by:

Head of Finance
Duncan M. Kombo

Sign 

Date.....

Chairman of the Board
Dr. John K. Chumo

Sign 

Date.....

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

	Attributable to the owners of the controlling entity					Total
	Self insurance reserve	Reserves Capital replacement development reserve/Capital Reserve	Revaluation Reserve	Accumulated surplus	Minority interest	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Balance as at 1 July 2015	0	0	0	8,849,695	0	8,849,695
Surplus/(deficit) for the period	0	0	0	(3,455,865)	0	(3,455,865)
Balance as at 30 JUNE 2016	0	0	0	5,393,839	0	5,393,839
Balance as at 1 July 2016	0	0	0	0	0	0
Deficit for the period	0	0	0	(255,378)	0	(255,378)
Balance as at 30 JUNE 2017	0	0	0	5,138,461	0	5,138,461

(This balance is composed of accumulated surplus for the period indicated))

**XIV. STATEMENT OF CASHFLOWS
AS AT 30 JUNE 2017**

	2016-2017	2015-2016
	Kshs	Kshs
Cash flows from operating activities		
Receipts		
Government grants and subsidies	68,819,761	55,148,044
Total Receipts	68,819,761	55,148,044
Payments		
Compensation of employees	(7,596,437)	(5,599,972)
Goods and services	(60,454,498)	(51,657,920)
Total Payments	(68,050,934)	(57,257,892)
Net cash flows from operating activities	768,827	(2,109,848)
Increase in investments	0	0
Net cash flows used in investing activities		
Cash flows from financing activities		
Proceeds from borrowings	0	0
Net cash flows used in financing activities	768,827	(2,109,848)
Net increase/(decrease)in cash and cash equivalents	0	0
Cashandcashequivalentsat1JULY	306,619	2,416,466
Cashandcashequivalentsat30 JUNE	1,075,445	306,619

(IPSAS 2 allows an entity to present the cash flow statement using the direct or indirect method but encourages the direct method. PSASB also recommends the use of direct method of cash flow preparation)

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

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017	2016-2017	2016-2017	2016-2017	2016-2017
	Kshs	Kshs	Kshs	Kshs	Kshs
Revenue					
Property taxes	0	0	0	0	0
Government grants and subsidies	68,819,761	0	68,819,761	68,819,761	0
Total in come	68,819,761	0	68,819,761	68,819,761	0
Expenses					
Compensation of employees	7,500,000	0	7,500,000	7,596,436	(96,436)
Goods and services	61,319,761	0	61,319,761	61,478,703	(158,942)
Total expenditure	68,819,761	0	68,819,761	69,075,139	0
Deficit for the period	0	0	0	(255,378)	(255,378)

Budget notes

1. Difference between Actual and budgeted amounts was less than 1%
2. The change in the budget was occasioned by unexpected events

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Public Complaints Committee entity is established by and derives its authority and accountability from xxx Act. 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 entity'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	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period.</p> <p><i>The entity 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.</i></p>
IPSAS 34: Separate Financial Statements	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.</p> <p><i>The entity does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply/ the entity is a parent company</i></p>

Standard	Impact
	<p><i>and has prepared consolidated financial statements and therefore the standard does not apply/ the entity is a parent company and has prepared separate financial statements and the following is the impact of application of the new standard:</i></p> <p><i>Xxxx</i> <i>Xxx</i> <i>(Apply the highlighted part as appropriate)</i></p>
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an entity controls one or more entities. It requires an entity that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other entity - Its exposure or rights to variable benefits from involvement with the other entity - Its ability to control the nature, timing and amount of benefits from the other entity. <p>Once control is assessed the controlling entity is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p><i>The entity does not have any subsidiaries , joint ventures or investments and therefore the standard does not apply/ the entity has prepared consolidated financial statements and the following is the impact of application of the new standard IPSAS 35:</i></p> <p><i>Xxxx</i> <i>Xxx</i> <i>(Apply the highlighted part as appropriate)</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p><i>The entity does not have investments in associates or joint ventures/ the entity hold investments in associates and joint ventures and the following is the impact of application of the new standard IPSAS 36:</i></p> <p><i>Xxxx</i> <i>Xxx</i></p>

Standard	Impact
	<i>(Apply the highlighted part as appropriate)</i>
IPSAS 37: Joint Arrangements	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.</p> <p><i>The entity does not have an interest in a joint arrangement and therefore the standard does not apply/ the entity has an interest in arrangements and the following is the impact of application of the new standard IPSAS 37:</i></p> <p><i>Xxxx</i> <i>Xxx</i> <i>(Apply the highlighted part as appropriate)</i></p>
IPSAS 38: Disclosure of Interests in Other Entities	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an entity to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p><i>The entity does not have an interests in other entities and therefore the standard does not apply/ the entity has an interest in other entities that are consolidated in these financial statements and the following is the impact of application of the new standard IPSAS 38:</i></p> <p><i>Xxxx</i> <i>Xxx</i> <i>(Apply the highlighted part as appropriate)</i></p>

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

Standard	Effective date and impact:
IPSAS 40: Public Sector Combinations	Applicable: 1 st 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 entity 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 entity 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 entity 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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

b) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on xxxx. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the entity upon receiving the respective approvals in order to conclude the final budget. Accordingly, the entity recorded additional appropriations of xxxxx on the 2016-2017 budget following the governing body's approval.

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

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

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

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.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deferred tax (continued)

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

d) Investment property

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property.

Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

f) 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.

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 straight-line basis over the lease term.

g) 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.

i) Research and development costs

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

i) Research and development costs (Continued)

Expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

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 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)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) Financial instruments (Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

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. *Entity to state the reserves maintained and appropriate policies adopted.*

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

m) Employee benefits (Continued)

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 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. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

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

State all judgements, estimates and assumptions made: e.g

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur

IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed

- **Availability of funding to replace the asset**
- **Changes in the market in relation to the asset**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 xxx.

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.

(include provisions applicable for your organisation e.g provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

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.

1. Transfers from other governments

Description	2016-2017	2015-2016
	KShs	KShs
Unconditional grants		
Operational grant	68,819,761	55,148,044
Conditional grants		
National housing grant	0	0
Total government grants and subsidies	68,819,761	55,148,044

(Ensure that the amount recorded above as having been received from the Ministry fully reconciles to the amount recorded by the sending entity Ministry. An acknowledgement note/receipt should be raised in favour of the sending Ministry. The details of the reconciliation have been included under appendix xxx)

2. Employee costs

	2016-2017	2015-2016
	KShs	KShs
Salaries and wages	2,876,500	2,439,272
Employee related costs-contributions to pensions and medical aids		
Sitting allowance	2,889,800	2,709,200
PAYE	1,830,136	451,500
Employee costs	7,596,436	5,599,972

3. Depreciation and amortization expense

Description	2016-2017	2015-2016
	KShs	KShs
Property, plant and equipment	1,024,205	1,346,017
Total depreciation and amortization	1,024,205	1,346,017

4. Repairs and maintenance

Description	2016-2017	2015-2016
	KShs	KShs
Vehicles	573,355	574,980
Total repairs and maintenance	573,355	574,980

5. General expenses

Description	2016-2017	2015-2016
	KShs	KShs
Conferences and delegations	10,769,850	7,210,565
Fuel and oil	275,600	295,500
Insurance	199,379	381,050
Hospitality	10,943,593	15,734,377
Internet/Computer/stationery	515,550	565,156
Total general expenses	59,881,143	51,059,659

6. Cash and cash equivalents

Description	2016-2017	2015-2016
	KShs	KShs
Current account	1,075,455	298,768
Cash on-hand and transit	0	7,851
Total cash and cash equivalents	1,075,455	306,619

(The amount should agree with the closing and opening balances as included in the statement of cash flows)

6(b). Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2016-2017 KShs	2015-2016 KShs
a) Current account			
Kenya Commercial bank	1103172972	1,075,455	298,768
Sub- total		0	0
		0	0
b) On - call deposits			
Sub- total			
c) Fixed deposits account			
Sub- total			
d) Staff car loan/ mortgage			
Sub- total			
e) Others(specify)			
cash in hand		0	7,851
Sub- total		0	0
Grand total		1,075,455	306,619

7. Receivables from non-exchange contracts

Description	2016-2017 KShs	2015-2016 KShs
Current receivables		
Other debtors(non-exchange transactions)	393,510	393,510
Total current receivables	393,510	393,510

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. Property, plant and equipment 2005/2016

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers	Other	Plant and equipment	Capital Work in progress	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Cost								
At 1 July 2015	0	7,830,843	2,797,109	2,441,744				13,069,696
At 30 th June 2016	0	7,830,843	2,797,109	2,441,744				13,069,696
At 30 th June 2017	0	0	0	0	0	0	0	0
Depreciation and impairment								
At 1 July 2016	0	3,661,119	1,262,864	2,105,995	0	0	0	7,029,978
Charge for the year	0	1,942,431	191,781	11,805	0	0	0	1,346,017
As at 1 st July	0	4,703,550	1,454,645	2,217,800	0	0	0	8,375,995
At 30 th June 2017								
Net book values	0	0	0	0	0	0	0	0
At 30 th June 2016	0	3,127,292	1,342,464	223,945	0	0	0	4,693,702

Property, plant and equipment 2016/2017

	Land and Buildings	Motor vehicles	Furniture and fittings	Computers	Other	Plant and equipment	Capital Work in progress	Total
	Shs	Shs	Shs	Shs	Shs	Shs	Shs	Shs
Cost								
At 1 July 2015	0	7,830,843	2,797,109	2,441,744				13,069,696
At 30 th June 2016								
At 30 th June 2017	0	0	0	0	0	0	0	0
Depreciation and impairment								
At 1 July 2016	0	4,703,550	1,454,645	2,217,800	0	0	0	8,375,995

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Charge for the year 2017	0	781,823	167,808	74,574	0	0	0	0	1,024,205
As at 1 st July	0	5,485,373	1,622,453	2,292,374	0	0	0	0	9,400,200
At 30th June 2017									
Net book values	0	0	0	0	0	0	0	0	0
At 30 th June 2017	0	2,345,470	1,174,656	149,370	0	0	0	0	3,669,496
At 30 th June 2016	0	3,127,292	1,342,464	223,945	0	0	0	0	4,693,702

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Cash generated from operations

	2016-2017	2015-2016
Surplus for the year before tax	KShs	KShs
Adjusted for:	(255,378)	(3,455,865)
Depreciation	1,024,205	1,346,017
Working Capital adjustments		
Increase in inventory	0	0
Net cash flow from operating activities	768,827	(2,109,848)

(The total of this statement should tie to the cash flow section on net cash flows from/ used in operations)

10. Financial Risk Management

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

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

(i) Credit risk

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

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

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

	Total amount Kshs	Fully performing Kshs	Past due Kshs	Impaired Kshs
At 30 June 2017				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	393,510	0	393,510	0
Bank balances	1,075,455	1,075,455	0	0
Total	1,468,965	1,075,455	393,510	0
At 30 June 2016				
Receivables from exchange transactions	0	0	0	0
Receivables from non-exchange transactions	393,510	0	393,510	0
Bank balances	306,619	306,619	0	0
393,510	700,129	306,619	393,510	0

(NB: The totals column should tie to the individual elements of credit risk disclosed in the entity's statement of financial position)

(i) Credit risk (Continued)

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from xxxx

The board of directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

(ii) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the entity's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The entity manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the company under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Financial Risk Management (Continued)

(iii) Market risk

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The entity has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

The carrying amount of the entity's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

The entity manages foreign exchange risk from future commercial transactions and recognised assets and liabilities by projecting for expected sales proceeds and matching the same with expected payments.

b) Interest rate risk

Interest rate risk is the risk that the entity's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

Management of interest rate risk

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

Sensitivity analysis

The entity analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined

rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis has been performed on the same basis as the prior year.

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement of comprehensive income if current floating interest rates increase/decrease by one percentage point as a decrease/increase of KShs xxx (2016: KShs xxx). A rate increase/decrease of 5% would result in a decrease/increase in profit before tax of KShs xxx (2012 – KShs xxx)

Financial Risk Management (Continued)

Capital Risk Management

The objective of the entity's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

	2016-2017		2015-2016
	Kshs		Kshs
Revaluation reserve	0	0	0
Retained earnings	5,138,452	0	5,393,839
Capital reserve	0	0	0
	0	0	0
Total funds	5,138,452	0	5,393,839
	0	0	0
	0	0	0
Total borrowings	0	0	0
Less: cash and bank balances	1,075,455	0	306,619
Net debt/(excess cash and cash equivalents)	1,075,455	0	306,619
Gearing	4,062,997	0	5,087,220

11. Related Party Balances

a) Nature of related party relationships

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

The entity is related to

- i) The National Government;
- ii) The Parent Ministry;
- iii) Key management;
- iv) Board of directors;

b) Related party transactions

	2017 Kshs	2016 Kshs
Transfers from related parties	68,819,761	55,148,044

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

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

Guidance Notes:

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the “Issue/Observation” and “management comments”, required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of “Resolved” or “Not Resolved” by the date of submitting this report to National Treasury.

Chairman

Date..........

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