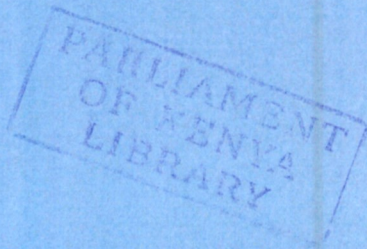
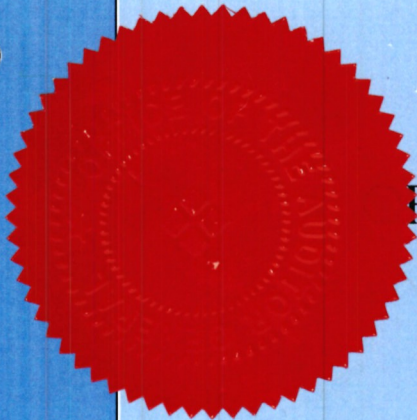


REPUBLIC OF KENYA


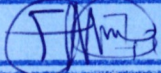


OFFICE OF THE AUDITOR-GENERAL



REPORT

OF

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 02 APR 2019 TUESDAY	
TABLED BY:	MAJORITY LEADER
CLERK-AT THE TABLE:	

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
THE MINISTRY OF DEVOLUTION AND ASAL-
STATE DEPARTMENT FOR DEVOLUTION**

**FOR THE YEAR ENDED
30 JUNE 2018**



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

- 8 FEB 2019

RECEIVED

**MINISTRY DEVOLUTION AND ASAL
STATE DEPARTMENT OF DEVOLUTION**

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2018**

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

I.	KEY ENTITY INFORMATION AND MANAGEMENT	ii
II.	FOREWORD BY THE CABINET SECRETARY	viii
III.	STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES.....	xxii
IV.	REPORT OF THE INDEPENDENT AUDITORS ON THE STATE DEPARTMENT OF DEVOLUTION AND ASAL FOR YEAR ENDED 30 JUNE 2018.....	xxiv
V.	STATEMENT OF RECEIPTS AND PAYMENTS	1
VI.	STATEMENT OF ASSETS AND LIABILITIES	2
VII.	STATEMENT OF CASH FLOWS.....	3
VIII.	SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED	4
IX.	SUMMARY STATEMENT OF APPROPRIATION: RECURRENT	5
X.	SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT	6
XI.	BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES	7
XII.	SIGNIFICANT ACCOUNTING POLICIES.....	8
XIII.	NOTES TO THE FINANCIAL STATEMENTS.....	13

I. KEY ENTITY INFORMATION AND MANAGEMENT

a) Background information

The Ministry of Devolution and ASAL was established in January 2018 following the restructuring of the Government. The Ministry is in charge of the Management of Devolution Affairs and Arid & Semi-Arid Lands (ASAL). The mandate of the Ministry is drawn from the Constitution of Kenya, the various Acts under which devolution and management of ASAL is implemented, the Executive Order No. 1/2018 of June 2018 and Government policy on Big Four Agenda.

The Ministry of Devolution and ASALs consists of two State Departments; State Department of Devolution and State Department for Arid and Semi-Arid Lands (ASAL). SDD has the following key institutions:

- National and County Government Coordinating Summit,
- Intergovernmental Relations Technical Committee.

Mandate

The mandate of the State Department for Devolution (SDD) is drawn from Articles 6,10 and Chapter 11 of the Constitution of Kenya, the Executive Order No. 1/2018 and the various Acts under which devolution is implemented including; Intergovernmental Relations Act, 2012; County Governments Act, 2012; Urban Areas and Cities Act 2011 and Public Finance Management Act 2012.

As per the Executive Order (Revised) 1/2018 of June 2018, the State Department for Devolution has been assigned the following functions;

- i. Devolution Policy,
- ii. Intergovernmental Relations
- iii. Capacity Building and Technical Assistance to County Governments,
- iv. Management, Monitoring and Evaluation of Devolution Affairs
- v. Special Programmes
- vi. Food relief Management and Humanitarian Emergency Response

Based on the above functions as outlined in the Executive Order 1/2018, the State Department for Devolution is expected to undertake the following specific responsibilities:

- i. Coordinate the development and implementation of Devolution laws, policies and guidelines for socio-economic development
- ii. Capacity building and technical assistance to counties;
- iii. Capacity building on devolved system of Government
- iv. Facilitation of intergovernmental relations between the National and County Governments ;
- v. Facilitation of public participation in policy and decision-making processes;
- vi. Monitoring and Evaluating performance of Devolution;
- vii. Facilitation of transfer of functions between the national and county governments
- viii. Management of food relief and emergency response

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

Vision

A centre of excellence in management of devolution for high quality of life for Kenyans

Mission

To provide policy direction and leadership for effective management of devolution, harmonious intergovernmental relations and effective humanitarian support services.

1.3 Strategic goals/ objectives

The sub-sector's strategic objectives are:

- To strengthen the capacity of county governments for effective and efficient performance of their functions;
- To strengthen intergovernmental relations;
- To enhance management of devolution affairs; and
- To strengthen management of humanitarian support services.

b) Key Management

The State Department for Devolutions day-to-day management is under the following key organs:

No.	Designation	Name
1.	Cabinet Secretary	Hon. Eugene Wamalwa, EGH
2.	Principal Secretary	Mr. Charles T. Sunkuli ,CBS
3.	Secretary Administration	Ms. Kula Hache
4.	Secretary Devolution	Mr. Simeon Ole Kirgotty,EBS
5.	Director HRM&D	Ms. Mary Kemunto
6.	Senior Chief Finance Officer	Mr. Kennedy Okeyo
7.	Director Policy & Research	Mr. James Mwanzia
8.	Director, Intergovernmental Relations	Mrs Angeline Hongo,MBS
9.	Director Capacity Building & TA	Mr Kennedy Nyambati
10.	Asst. Acct. General	CPA Lucy Kamau
11.	Ag D/ SCMU	Ms. Judith Nyadimo

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

c) Fiduciary Management

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

No.	Designation	Name	Date
1.	Accounting Officer	Mr. Charles T. Sunkuli ,CBS	July 2018 to date
2.	Accounting Officer	Nelson Marwa Sospeter, EBS	Feb 2018-June 2018
3.	Accounting Officer	Micah Pkopus Powon, EBS	April 2017-Feb 2018
4.	Secretary Devolution	Simeon Ole Kirgotty, EBS	Nov 2016 To Date
5.	Director Administration	Edward Mwangi Irungu, OGW	2015 To Date
6.	Secretary Administration	Kula Hache	Feb 2018 To Date
7.	Chief Finance Officer	Osano Nyangara	Sept 2018 To Date
8.	Chief Finance Officer	Kennedy Okeyo	Nov 2017-Sep 2018
9.	Ag.Chief Finance Officer	Jack Owuor	July 2017-Nov 2017
10.	Acct .Asst.General	Lucy Kamau	June 2018-To Date
11.	Principal Accountant	Paul Kimani	Sep 2017-May 2018

d) Fiduciary Oversight Arrangements

The State Department for Devolution was over sighted by Human Resources Management Advisory Committee, Training Committee and Budget Implementation Committee.

Budget Implementation Committee (BIC)

The State Departments has a Budget Implementation Committee. The committee is charged with the responsibility of implementation of the budget and its prudent management. The duties of the committee include:

- (i) To review and consider the cash flows plans.
- (ii) To review the utilization of the cash limits and consider any changes as may be required.
- (iii) To review the utilization of the donor funds voted for the Departments.
- (iv) To advice the Accounting Officers on the challenges related to the budget implementation.
- (v) To review and recommend the reallocation of expenditures.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

The members of the Budget Implementation Committee are:

No	Name	Designation
	Simeon Ole Kirgotty , EBS	Secretary Devolution
1.	Kennedy Okeyo	Chief finance officer
2.	Edward Irungu OGW	Director administration
3.	Mary Kemunto	D/HRM&D
4.	James Mwanzia	Chief Economist
5.	Paul Kimani	Principal Accountant
6.	Kennedy Nyambati	Ag. Director CB/TA

i. Ministerial Human Resources Advisory Committee

This committee is composed of the following members drawn from various departments




No	Name	Designation
1	Mr .Charles T Sunkuli, CBS	P.S Devolution – Chairman
2	Mr Edward Irungu	Secretary administration
3	Mr.Simeon Ole Kirgotty,EBS	Secretary, Devolution
4	Ms. Mary Kemunto	D/HRM&D – Secretary
5	Mr. James Mwanzia	Director Policy & Research
6	Mr Anne Mwangi	Senior Counsel

This is the committee charged with the responsibilities of human resource needs. Its duties include but not limited to:

- Review of promotions of officers in Job Group A-P
- Review of confirmations in appointment
- Review of disciplinary matters
- Review of re-designation of officers from one cadre to another and
- Confirmation of surcharge of officers found to have misused Government resources

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

THE SENIOR MANAGEMENT OF THE STATE DEPARTMENT FOR DEVOLUTION

 <p>Hon. Eugene wamalwa, EGH Cabinet Secretary Ministry of Devolution and ASALs</p>	<p>Hon. Eugene Ludovic Wamalwa, EGH He is the immediate former Cabinet Secretary for Water and Irrigation. He also served as the Minister for justice, National Cohesion and Constitutional Affairs from 2011 to 2013 during President Kibaki’s second term in office.</p>
 <p>Amb. Hussein Dado Chief administrative secretary</p>	<p>Amb. Hussein Dado is the Chief Administrative Secretary. He is the immediate former Governor for Tana River County. He has previously served as a District Commissioner across various parts of Kenya and was then appointed Kenya’s ambassador to Namibia</p>
 <p>Mr. Charles T. Sunkuli, CBS, Principal Secretary, State Department for Devolution,</p>	<p>Mr. Charles T. Sunkuli, CBS, is the current Principal Secretary, State Department for Devolution, Ministry of Devolution and ASAL. He has previously served as the Principal Secretary, Ministry of Environment and Forestry, a position he held from December, 2015 to February, 2018.</p> <p>Prior to his appointment as the Principal Secretary, Mr. Sunkuli worked with Ewuaso Ng’iro South River Development Authority (ENSDA) where he rose through the ranks to become the Managing Director from 2010-2016.</p> <p>He has a wealth of experience in Public Service spanning over 18 years. Mr. Sunkuli is an experienced management strategist with a solid background in Administration, Planning, Management and Leadership.</p>

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

e) State Department for Devolution's Headquarters

Ministry of Devolution and ASAL,
P. O. Box 30004 – 00100,
Teleposta towers
Kenyatta Avenue, Nairobi, Kenya

State Department for Devolution's Contacts

Telephone: 020 2252299 Fax: 2218475
Email: info@Devolution.go.ke

f) State Department for Devolution Bankers

Central Bank of Kenya
Haile Selassie Avenue
P. O. Box 60000
City Square 00200
Nairobi, Kenya

g) Independent Auditors

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

h) Principal Legal Adviser

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

II. FOREWORD BY THE CABINET SECRETARY



Hon Eugene Wamalwa, E.G.H
CABINET SECRETARY

The Ministry of Devolution and ASAL was established in January 2018 following the restructuring of the Government. It consists of two State Departments; Devolution and ASAL, both of which formed part of the defunct Ministry of Devolution and Planning from April 2013 to January, 2018. The Ministry is in charge of the Management of Devolution affairs and ASAL. The constitution mandates the National Government through the MODA to undertake Capacity Building for devolved structures.

In the discharge of its mandate, the State Department has carried out several activities. Key achievements include:

Strengthening of inter-Governmental relations between the two levels of Government and among counties, the state department strengthened inter-Governmental relations through; development of an Alternative Dispute Resolution (ADR) regulation which will go a long way in settling intergovernmental disputes outside the court rooms.

The state department also held the annual Devolution conference with the 2017/2018 financial year's conference being held in Kakamega in April, 2018. The conference provided a platform for Devolution stakeholders to share ideas on how best to implement the devolved system of Government. Two National and County Government co-coordinating summit meetings were held in the period under review.

The State Department developed a policy on the devolved system of Government with a view to strengthening implementation of Devolution initiatives at the two levels of Government. Optimal Review of the County Government Act (2012) and intergovernmental Relations Act (2012) commenced over the period under review to address legal challenges identified in Devolution sector.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

To strengthen capacity of National and County Governments the ministry is implementing a Kshs 20B program funded by the World Bank through Kenya Devolution Support Programme (KDSP) This is a PforR (Program for Results) where the Government finances pre agreed programs with set results and then after the achievement of results the World Bank gives reimbursement to the national Treasury.

Out of this total pool Kshs 16B goes to the counties as capacity and investment grants while Kshs 4B goes to the national Government agencies to enable them enhance capacity support to the counties. The overall goal of the program is to enhance capacity of County Governments for improved service delivery at the County level in five key results areas (KRAS)

- Public Finance Management,
- Human Resource Management,
- Planning and Monitoring & Evaluation,
- Civic Education & Public Participation,
- Investment and Environmental & Social Safeguards.

The Participating National Government Agencies are;

- The National Treasury and Planning: Responsible for supporting counties on the areas of PFM, and planning and M&E
- Ministry of Public Service and Youth Affairs: Supports counties on human resource management and performance management
- Ministry of Devolution and Asal: Responsible for program coordination and also supporting counties on civic education and public participation and environmental and social safeguards and project implementation.
- Kenya School of Government: for structured trainings
- Office of Auditor General.-Responsible for ensuring that County audits are released in time as per PFM Act.

In the period under review the Government allocated the ministry Kshs 835M for program coordination and also as enhanced funding for capacity building and kshs 6.148 Billion as transfers to county governments.

In terms of key achievements of the program, county staff were trained on self-assessments and development of capacity building plans. To actualize, the plans, all the 47 counties were funded to the tune of Ksh.2.1 Billion as capacity building grants.

Tremendous achievements have been realized at the County Governments from the level 1 KDSP grants already disbursed. Key benefits include; improvement in financial management, support to counties on the development of County Integrated Development Plans (CIDPs), support to roll out of human resource and

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

performance management systems, roll out of civic education curricula and public participation guidelines. Furthermore counties have been trained on environmental and social safeguards.

The ministry also carried out Annual Capacity and Performance Assessment (ACPA) where 13 counties qualified for Investment grants amounting to Ksh.1.95 Billion. The sub sector had planned to give grants to twenty (20) counties but only thirteen qualified based on the set out performance criteria which included prudent financial management. Disbursement of KDSP funds from the World Bank to the Government is done upon achievement of certain disbursement linked indicators (DLIs). Total of Kshs 6.3 billion has been disbursed to the Government from World Bank.

County Governments have evidently achieved respective DLIs and so far earned their portion of Ksh 4.05 Billion in total. This comprise of Ksh 2.1 billion for level 1 to finance County capacity building programs and Ksh 1.95 billion for level II to fund capital investments and in particular projects supporting the big four, all of which have been released to the respective County Revenue Fund accounts(released to the counties in june 2018).

A further Ksh 6.3 Billion capacity and performance grants has been proposed in financial year 2018/19 Division of Revenue Act (DORA) for capacity building and capital investments to the counties.

The subsector also supported Local Economic Development (LED) by supporting counties to develop funding proposals for support by the European Union (EU) under the Instruments for Devolution Advice and Support (IDEAS) project. A total of sixteen capital projects in fifteen counties were approved for funding with each County expected to receive Ksh.115 Million.

Identification, verification and audit of Assets and Liabilities of the Defunct Local Authorities were carried out in thirty one (31) counties against the planned target of forty Seven (47) Counties. The prolonged electioneering period of 2017 made it difficult to carry out the exercise in the remaining sixteen counties.

It is my responsibility to provide the required leadership in designing suitable plans and strategies that will contribute to high and sustainable socio- economic development and enhanced service delivery at the County level.

In that regard, I am pleased to submit the financial statements for the Year 2017/2018 for the State Department for Devolution as per Section 81 of the Public Finance and Management Act, 2012.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

A. BUDGET ALLOCATION AND PERFORMANCE AGAINST ACTUAL AMOUNTS

(a) Budget Allocation

In the financial year 2017/18 the State Department for Devolution had a gross budget of **Ksh 8,862 Million** which was made up of **Ksh 1,269 Million** for recurrent vote and **Kshs. 7,593 Million** for development vote.

The recurrent budget for the year was 63% utilised while the development budget was 59% utilised bringing the total utilisation to 60% the poor absorption was mainly as a result of the budget not being fully funded for the financial year under review

Key Performance Highlights

Below is an overview of the financial performance for the year ended 30th June 2018 as reported in the detailed financial statements together with the commentary and comparative analysis against the budget for the key items in the financial statements.

Table 1

Financial Performance	Printed Estimates	Actual	Variance	%
	Kshs	Kshs	Kshs	Utilisation Variance
Total Receipts	8,862,293,830	5,295,204,763	3,567,089,067	60%
Total Payments	8,862,293,830	5,295,048,509	3,567,245,321	60%
Surplus		156,254	156,254	-

Budget Utilisation

The State Department spent KShs. 5,295,048,509 against an approved budget of kshs 8,862,293,830 representing absorption of 60%. Utilisation of the budget was carried out through various activities (economic classifications) as shown in the table below:

Table 2

	Approved Budget Allocation Ksh.	Actual Payments Ksh.
Compensation of Employees	154,000,000	165,449,897
Use of goods and services	1,370,381,330	521,320,775
Transfer to other Government units	7,299,900,000	4,604,371,258
Acquisition of assets	24,212,500	-
Social Security Benefits	11,800,000	3,906,579
Total Payments	8,862,293,830	5,295,048,509

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

Table 3

Current Year Performance against Prior Year

Financial Performance	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Total Receipts	5,295,204,763	1,165,747,701	4,129,457,063	+454%
Total Payments	5,295,048,509	1,128,686,600	4,166,361,909	+469%
Surplus For the Year	156,254	37,061,102	(36,904,846)	-57%

Receipts

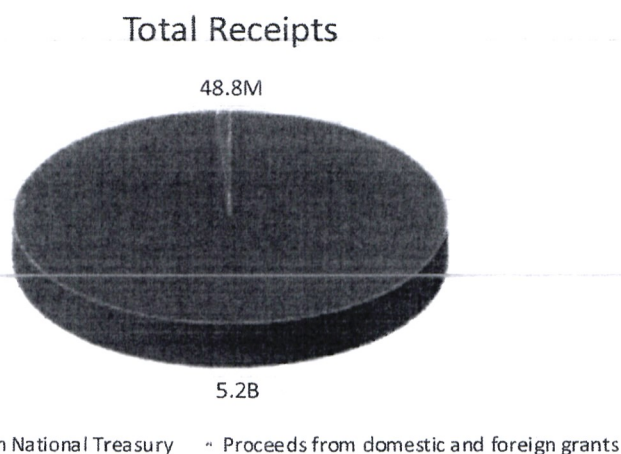
The state department's total receipts summed up to kshs 5,295,204,763 to comprising mainly of Exchequer releases, grants, and AIA .The total receipts increased by 454% due to the increased budgetary provision in the year for KDSP conditional grants to counties.

Table 4

Total Receipts Breakdown

	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Transfers from National Treasury	5,246,385,510	1,009,820,523	4,236,564,987	+519%
Proceeds from domestic and foreign grants	48,819,253	152,895,860	(104,076,607)	-69%
Other Revenues	-	3,031,310	(3,031,310)	-100%

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018



Actual receipts for FY 2017/18 chart

The diagram above depicts the share of major categories of receipts for the fiscal year ended 30th June 2018. The major source of funding for the State Department for Devolution is exchequer receipts that account for 99% of the total receipts.

Payments

The State Department's payments mainly comprise of Transfers to County Governments for KDSP conditional grants, Intergovernmental Relations Technical Committee (IGRTC) and Council of Governors (COG)

Table 5
Total Payments breakdown

	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Compensation of Employees	165, 449,897	169,997,428	(4,547,531)	-3%
Use of goods and services	521,320,775	415,522,852	105,797,923	+25%
Transfer to other government units	4,604,371, 258	541,135,010	4,063,236,248	+850%
Acquisition of assets	-	203,910	(203,910)	-100%
Other grants and transfers	-	1,827,200	(1,827,200)	-100%
Social Security Benefits	3,906,579	-	3,906,579	+100%
Total	5,295,048,509	1,128,686,600	4,166,361,909	469%

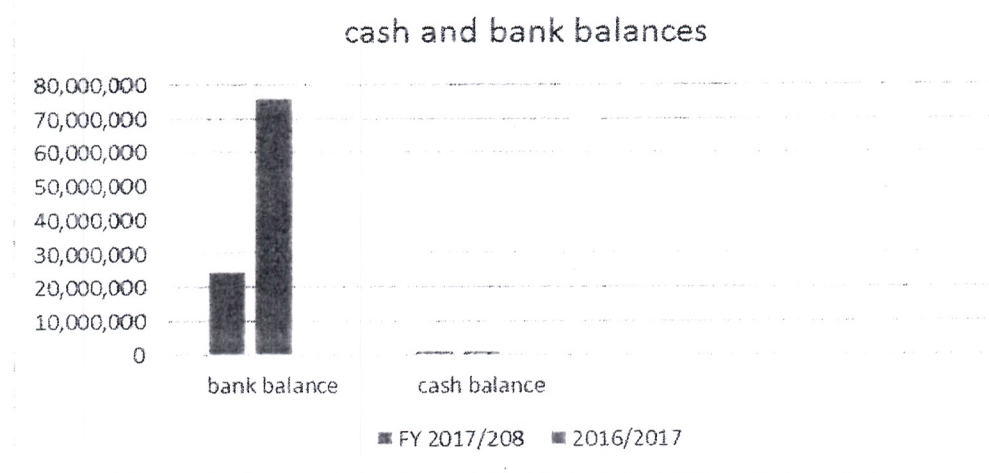
MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

Table 6

Financial Assets Summary

Financial Assets	Year to 30th	Year to 30th	Change	%
	June 2018	June 2017		Change
	Kshs	Kshs	Kshs	
Bank Balances	24,546,987	75,987,651	(51,000,366)	-68%
Cash balances	847,771	807,771	40,000	+4%
Accounts Receivable- outstanding imprests and clearance accounts	1,785,224	1,870,224	(85,000)	-5%
Total Financial Assets	27,179,982	78,665,646	(51,045,366)	-65%

Accounts receivable decreased by 5% this financial year compared to the previous year as a result of the state department's improvement in follow up and accounting for outstanding receivables from the previous period. In the current period the state department has only Ksh. 1,785,224 as pending accounts receivable.



Cash flows and Cash Position

The cash and bank balances held by the State Department for Devolution as at 30th June 2018 was KShs 24,546,987 compared to KShs 75,987,651 held as at 30th June 2017. The breakdown of the cash and bank balances is as summarized in the table below.

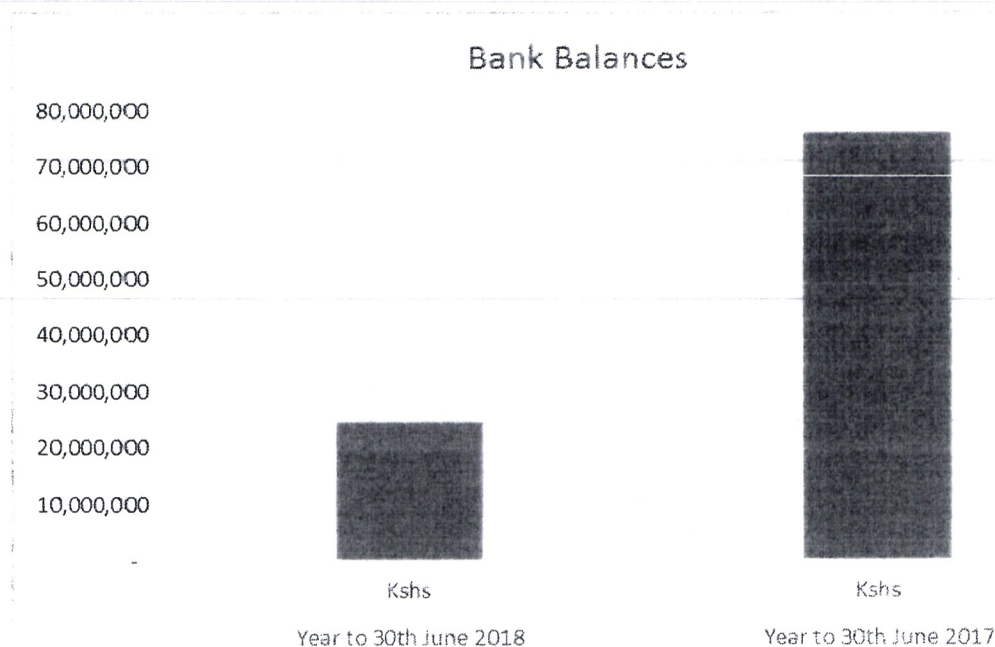
**MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018**

Table 7

Cash and Bank Balances

Financial Assets	Year to 30th June 2018	Year to 30th June 2017	Change	%
	Kshs	Kshs	Kshs	Change
Bank Balances	24,546,987	75,987,651	(51,440,664)	68%
Total	24,546,987	75,987,651	(51,440,664)	68%

The decrease in the cash held in the bank for the two years was as a result of payment of retention money of contractors after completion of projects. There was also improvement in utilisation of funds availed to the ministry from the exchequer.



MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

Table 8

Cash Flow Activities

	Year to 30th June 2018	Year to 30th June 2017	Change	Change
	Kshs	Kshs	Kshs	%
Net cash flow from operating activities	(50,960,368)	(186,591,978)	135,631,611	73%
Net cash flows from Investing Activities	-	(203,910)	203,910	-100%
Net Increase in Cash & Cash Equivalents	(50,960,368)	(186,591,978)	135,631,611	-73%
Cash and cash equivalent at Beginning of the year	76,355,125	263,151,012	(186,795,888)	-71%
Cash and cash equivalent at End of the year	25,394,757	76,355,124	(50,960,368)	67%

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

B. KEY ACHIEVEMENTS OF THE STATE DEPARTMENT FOR DEVOLUTION IN THE FY 2017/2018

In implementing its stated functions and together with partnership with the County Governments, the State Department accomplished the following during FY 2017/18:

(a) Disbursement of investment and capacity building grants to County Governments

In FY 2017/18, the Department facilitated the disbursement of kshs 1.95B to the 13 counties that had qualified for level 2 grants. In addition the department also disbursed kshs 2.1B to the County Governments for capacity building at the County level. The funds were meant to facilitate capacity enhancement to the County Governments and also to facilitate service delivery through implementation of development projects at the County level.



Governors receiving investment grants.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

(b) Conducting of civic education across all the 47 counties

The ministry conducted civic education and citizens awareness programs in 12 counties on Devolution. The program also focused on informing the citizens on the governance structures at the County level, the role of the various Government organs and the oversight role of citizens in enhancing governance and accountability at the County level.



Wananchi being taken through the civic education program on Devolution at Iten on October 14th 2017

(c) Support to counties on development of investment proposals for IDEAS program

During the period under review, the Department also supported Local Economic Development (LED) by supporting counties to develop funding proposals for support by the European Union (EU) under the Instruments for Devolution Advice and Support (IDEAS) project. A total of sixteen capital projects in fifteen counties were approved for funding with each County expected to receive Ksh.115 Million.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018



Signing of IDEAS financing agreement by the Makeni County Government

(d) Development of ADR Guidelines

To strengthen inter-governmental relations between the two levels of Government and among counties, the department strengthened intergovernmental relations through; development of an Alternative Dispute Resolution (ADR) regulation which will go a long way in settling intergovernmental disputes outside the court rooms.

EMERGING ISSUES

The sub-sector's emerging issues include:

- The Integration of County Governments into Regional Economic Blocs without clear policy/ legal framework;
- Uncoordinated civic education and capacity building for County Governments by different players;
- Disputes between county governments over common boundaries and shared resources;
- Lack of harmony in fees and charged and double taxation by county Governments
- Improvement of intergovernmental relations challenges between the national government and the county
- Conflicts over shared resources among counties and between counties and national government.
- Political differences and vested interests which is affecting service delivery at the county level;

C. CHALLENGES FACED DURING PROGRAMMES AND PROJECTS IMPLEMENTATION

- Inadequate funding to the state department;
- Inadequate counterpart funding for donor funded projects;
- Uncertainty associated with election periods; the long electioneering period affected service delivery at the counties as most of the governors and the County Executive Committee Members were occupied with campaigns
- Insecurity, which makes some parts of the country inaccessible.
- Delay in release of funds which hampers the execution of programs and activities.

D. RECOMMENDED WAY FORWARD

In view of the challenges and emerging issues, the State Department recommends the following measures to enhance delivery of quality service to the public and for effective implementation of the flagship projects and other Vision 2030 programs;

- a) There is need to create policy/legal framework to guide the operations of Regional Economic Blocs (REBs)
- b) Develop an inter-agency committee to coordinate civic education and public participation programmes
- c) ADR mechanism should be implemented to resolve intergovernmental conflicts before resorting to judicial intervention
- d) Adequate resources should be provided to strengthen capacities of county governments to discharge their functions
- e) There is need to create linkages and build collaboration with stakeholders to create synergy.
- f) There is need for timely release of resources for effective and efficient implementation of projects and programs.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

- g) Monitoring and evaluation of programmes should be strengthened through adequate provision of resources
- h) Expansion of sub Sector Ceiling: It is recommended that the National Treasury considers expanding the sub sector ceiling to correspond with the increased mandates and to ensure provision of efficient and seamless service delivery that meets the expectation of Kenyans

Hon. Eugene Wamalwa, EGH
CABINET SECRETARY

III. STATEMENT OF ENTITY MANAGEMENT RESPONSIBILITIES

Section 81 (1) of the Public Finance Management Act, 2013 requires that, at the end of each financial year, the accounting officer for a National Government Entity shall prepare financial statements in respect of that entity. Section 81 (3) requires the financial statements so prepared to be in a form that complies with relevant accounting standards as prescribed the Public Sector Accounting Standards Board of Kenya from time to time.

The Accounting Officer in charge of the State Department for Devolution is 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 ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

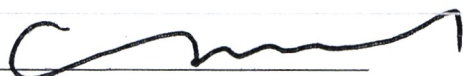
The Accounting Officer in charge of the State Department for Devolution accepts responsibility for the entity's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards (IPSAS). The Accounting Officer is of the opinion that the State Department's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Accounting Officer charge of the State Department for Devolution further confirms the completeness of the accounting records maintained for the State Department, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

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

Approval of the financial statements

The State Department's financial statements were approved and signed by the Accounting Officer on 28th September, 2018.



Principal Secretary

Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller

Name: CPA Lucy W. Kamau

ICPAK Member Number : 8513

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT FOR DEVOLUTION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements for State Department for Devolution set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I 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, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the State Department of Devolution as at 30 June 2018, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Unexplained Adjustments

The financial statements submitted on 29 September 2018 was amended and a revised set of financial statements provided. However, adjustments explaining the movements in the two (2) accounts as indicated below have not been provided.

Account Name	Initial Balance Kshs.	Final Balance Kshs.	Difference Kshs.
Proceeds from Sale of Assets	0	407,200	407,200
Bank Balances	24,546,987	34,050,501	9,503,514

Report of the Auditor-General on the Financial Statements of the Ministry of Devolution and ASAL - State Department for Devolution for the year ended 30 June 2018

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be ascertained.

2. Cash and Cash Equivalents

The statement of financial assets reflects cash and cash equivalents balance in bank of Kshs.34,050,501 as at 30 June 2018. The balance includes the bank balances held under Instruments for Devolution Advice and Support (IDEAS) Project as at 30 June 2016 amounting to Kshs.9,503,514 which was processed as a single adjustment to the cash and cash equivalents. However, it is clearly evident that the transactions through this particular bank account for the year ended 30 June 2018 have not been accounted for in the financial statements thereby making them incomplete. This casts doubt on the accuracy of the financial statements for the year ended 30 June 2018 as the receipts giving rise to the balance in the IDEAS Project bank account have been captured in the accounting records.

Under the circumstances, the accuracy of the financial statements for the year ended 30 June 2018 could not be confirmed.

3. Accounts Receivable

The statement of assets and liabilities reflect an account receivable of Kshs.663,520 out of which an amount of Kshs.544,820 is in respect of District Suspense amounts dating back to financial year 2015/2016 which has not been cleared to date. Further, the accounts receivables balance of Kshs.663,520 as at 30 June 2018 includes an amount of Kshs.118,700 relating to outstanding imprest as detailed on note 12 to the financial statements. However, this amount has been outstanding since the financial year 2015/2016 and the officer holding the imprest is no longer in the service of State Department for Devolution, therefore recoverability is uncertain.

Consequently, the validity and recoverability of the accounts receivable balance of Kshs.663,520 could not be confirmed.

4. Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2018 reflects prior year adjustments of Kshs.37,987,738 in respect of current year and Kshs.180,997,512 in respect of the previous year. However, the reason for the prior year adjustments and the documentation in support of the adjustments have not been provided for audit scrutiny. Further, the treatment does not satisfy the requirements of IPSAS on "Accounting Policies changes in Accounting Estimates and Errors" which require restatement of the figures in the year the error first occurred except when it is impracticable and the fact must be disclosed.

Under the circumstances, the accuracy and validity of the adjustments as presented and that of the financial statements for the year ended 30 June 2018 cannot be ascertained.

5. Pending Bills

The financial statements at note 16(1), note 16(2) and note 16(3) reflect pending bills for suppliers, staff and due to National Government entities amounting to Kshs.78,805,453, Kshs.728,271 and Kshs.26,981,088 respectively. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged. Had the bills been paid and expenditure charged to the accounts for the year 2017/2018, the statement of receipts and payments for the year would have reflected a deficit of Kshs.105,951,359 instead of the net surplus of Kshs.563,453. Further, the pending bills have not been supported as required.

In addition, the pending bills as at 30 June 2017 stood at Kshs.3,296,627,373 while the balance as at 30 June 2018 was Kshs.105,951,359. The movement of Kshs.3,190,676,014 has not been explained neither has it been supported by any payments.

Included in the pending bills is an amount of Kshs.19,208,963 in respect of assets procured during the year under Kenya Devolution Support Programme. However, the identity and details of the assets procured were not provided as there was no fixed assets register in place. The list of assets acquired during the year has not been disclosed in the financial statements as required by the Public Sector Accounting Standard Board.

In view of the foregoing, the accuracy, validity, completeness and propriety of the pending bills of Kshs.105,951,359 as at 30 June 2018 could not be ascertained.

6. Deposits

The State Department received a total of Kshs.419,600,821 from the State Department of Planning for settlement of retention money owed to various contractors. The money was transferred together with the deposit register that had an equivalent balance of Kshs.419,600,821. However, details on the retention register showed that retentions totaling Kshs.128,233,923 that were to be paid out of the Kshs.419,600,821 were yet to be paid even though only Kshs.24,430,731 was remaining in the bank account resulting in unexplained shortfall of Kshs.103,803,192. Further, the list provided to support the payments includes payment of Kshs.179,004 to the Ministry Local Government which was nonexistent as at the time of transfer of the funds and the list had unexplained cash banking offset amounting to Kshs.4,850,363.

Under the circumstances, the accuracy, validity, completeness and propriety of the deposits balance of Kshs.24,023,531 as at 30 June 2018 could not be confirmed.

7. Compensation to Employees

The compensation to employees payment of Kshs.165,449,897 was above the approved fund budget of Kshs.154,000,000. No documentation has been made available to support the approval of the over expenditure of Kshs.11,449,897. Further, compensation of employees figure of Kshs.164,262,589 differs with the salaries journal for the year that adds up to Kshs.166,375,026. The difference of Kshs.1,112,437 has not been supported by any documents or reconciliation.

In consequence, the accuracy, validity and completeness of the compensation to employees expenditure of Kshs.165,449,897 could not be ascertained.

8. Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects receipts from domestic and foreign grants of Kshs.48,819,253 as at 30 June 2018. The balance relates to amounts disbursed by World Bank directly to Makueni County Government in respect to IDEAS Project. Information availed for audit indicated that the said amount was received by the County Government on 16 July 2018 which was outside the accounting period under review. Further, the IDEAS Project receipts total to Kshs.66,307,652 due to Kshs.17,488,399 in respect of project administration that was as received in the financial year 2016/2017, recorded as Kshs.19,897,500 but was not utilized that financial year. The difference of Kshs.2,409,101 between amounts received by the State Department of Devolution on behalf of the project and amount transferred to the project has not been explained or reconciled.

Consequently, the accuracy of the proceeds from domestic and foreign grant figure of Kshs.48,818,253 for the year ended 30 June 2018 could not be ascertained.

9. Transfer to Other Government Entities

The statement of receipts and payments reflect a total of Kshs.4,604,371,258 as transfers to Other Government Entities. However, the following balances do not agree with the amounts the respective government agencies.

Name of Agency	Amount per Financial Statements Kshs.	Amount per Agency Financial Statements Kshs.	Difference Kshs.
Council of Governors	107,000,000	132,000,000	25,000,000
IDEAS Project	48,819,253	66,307,652	17,488,399

The above differences have not been supported or adjusted in the financial statements. Further, in 2nd level disbursement in respect of Kenya Devolution Support Project totaling Kshs.1,950,000,000 was made on 4 July 2018 which was for days after the year end

hence not a receipt or payment during the year thereby overstating the exchequer receipts and the figure for transfers to other government entities for the year ended 30 June 2018.

Consequently, the accuracy of the transfers to other government entities balance of Kshs.4,604,371,253 for the year ended 30 June 2018 could not be confirmed.

10. Hospitality

The hospitality supplies and services amounting to Kshs.25,538,372 as per note 6 to the financial statements includes committee and task force allowances paid to staff amounting to Kshs.6,940,000. However, the committee allowances were paid to staff who were undertaking their normal duties and especially those within their lines of operations and no justification was provided why staff are paid allowances for undertaking their routine duties.

Under the circumstances, the legality and propriety of the hospitality expenditure of Kshs.25,538,372 could not be ascertained.

11. Other Operating Expenses- Unsupported Expenditure

Other operating expenses of Kshs.405,269,854 as reported on note 6 to the financial statements includes an amount of Kshs.25,000,000 transferred to Council of Governors allegedly to cater for devolution conference preparation costs. However, the accountability documents or expenditure returns from the Council of Governors were not made available for audit examination. Further, other operating balance of Kshs.405,269,854 as disclosed on note 6 to financial statements includes an amount of Kshs.14,497,552 posted as an adjustment in the ledger but no supporting documents were provided for audit review.

In addition, Foreign Travel and Subsistence as per note 6 to the financial statements is reported as Kshs.365,706 while the vouchers supporting this expenditure which were presented for audit verification amounted to Kshs.533,533. The difference of Kshs.167,847 has not been reconciled or explained.

Consequently, the propriety and accuracy of other operating expenses balance of Kshs.405,269,854 for the year ended 30 June 2018 could not be confirmed.

12. Disbursement to Council of Governors Secretariat (COG) and Intergovernmental Relations Technical Committee (IGRTC)

Note 7 to the financial statements reflects an amount of Kshs.4,604,371,258 in respect of transfers to other government entities which includes disbursements to Council of Governors (COG) Secretariat and Intergovernmental Relations Technical Committee (IGRTC) Secretariat. The total disbursements to the two organizations for the year under

review amounted to Kshs.482,552,000 with CoG secretariat getting Kshs.132,000,000 and IGRTC getting Kshs.350,552,000. However, as per section 17 of the Intergovernmental Relations Act, 2012, the IGRTC may employ officers and staff as are necessary to discharge the functions of Technical Committee, the Council and the Summit under the Act. It is therefore apparent there is duplication of roles and unwarranted use of public funds used in two entities that undertake the same function. There is no legal framework supporting the creation of Council of Governors Secretariat and hence no basis for disbursing the funds to the Secretariat.

In consequence, the legality and propriety of the Kshs.132,000,000 to the CoG could not be confirmed.

13. Instruments for Devolution Advice and Support (IDEAS) Project

The State Department of devolution is the implementing agency of Instruments for Devolution Advice and Support (IDEAS) project whose operating result have not been included in these financial statements and which had the following issue as at 30 June 2018.

13.1 Statement of Receipts and Payments

The statement of receipts and payments for the year ended 30 June, 2018 reflect a total of Kshs.66,307,652 out of which Kshs.48,819,253 are direct payments made by third parties on behalf of the project. However, the documentation that has been provided to support how the payment was made by European Union confirmed the money was received by the County Government in July 2018.

In the consequence, the accuracy of the receipt of Kshs.48,819,253 by the beneficiary could not be confirmed.

13.2 Other Grants and Transfers and Payments

Other grants and transfers and payments as reflected on the statement of receipts and payments amounting to Kshs.48,819,253 fully relate to payments made by third parties directly to the beneficiary county. However, no accountable documentation was provided to support that the amounts were utilized at the county for the intended purpose.

Further, the agreement between the County Government and the State Department of Devolution under Article 15.7 require that the expenditure by the receiving County Government be verified by an Auditor appointed by the Ministry. However, the expenditure of Kshs.48,819,253 had not been verified by the Auditor-General who is mandated by the Constitution to audit all public funds or any other auditor duly appointed by the Auditor General.

Consequently, the expensing of the amount of Kshs.48,819,253 is inappropriate as the amount is not yet accounted for as at 30 June 2018.

13.3 The Proceeds from Domestic and Foreign Grants

The statement of receipts and payments reflects an amount of Kshs.48,819,253 as proceeds from domestic and foreign grants payment made by third parties. However, no supporting documentation to demonstrate that this payment was actually made to the State Department of Devolution by the third party neither was there an acknowledgement by the recipient that the amount above was received. Information available for audit indicated that the amount was disbursed by the donor on 17 July 2018 and therefore should not have been a receipt during the year.

Consequently, the accuracy and completeness of proceeds from domestic and foreign grants totaling Kshs.66,307,652 for the financial year ended 30 June, 2018 could not be ascertained.

13.4 Unauthorized Expenditure

The statement of receipts and payments reflects an amount of Kshs.6,636,184 under purchase of goods and services. The figure includes an amount of Kshs.3,466,584 in respect of printing, advertising and information supplies and services which included a figure of Kshs.1,475,000 for purchase of polo t-shirts and caps that were not included in the approved project work plan and Kshs.1,991,584 in respect of banners, brochures and banded note books which had an approved budget of Kshs.1,000,000 resulting in an over expenditure of Kshs.991,584.

No documentation was provided for audit examination to support the approval/authorization of the expenditure amounting to Kshs.2,466,584.

Under the circumstances, the accuracy, validity and propriety of the expenditure of Kshs.6,636,184 on printing, advertising and information supplies for the year ended 30 June 2018 could not be ascertained.

14. Progress on follow-up of Auditor's Recommendations for the Year Ended 30 June 2017 Financial Statements

Note 17 of the financial statements indicates that four (4) out of the seven (7) issues raised in the previous year audit report have been fully resolved, one (1) is partly resolved and two are yet to be resolved. However, no documentation has been provided for audit review to support their resolution and as such they remain outstanding as detailed below:

14.1 Opening Balances

The financial statements for the year ended 30 June 2017 include restated comparative figures for the financial year 2015/2016. However, no documents have been provided for audit verification in support of the restated comparative figures. The accuracy and validity of the comparative figures as reported cannot, therefore, be confirmed.

14.2 Other Revenue

The statement of receipts and payments and as disclosed at Note 3 and Annex 3 to the financial statements, reflects other revenues amounting to Kshs.3,031,318. These other revenues are described under Note 3 as receipts found in the State Department's bank statement as having been credited to the bank account. However, the management has not provided any supporting documents to prove that the receipts were due to the State Department for services rendered. Consequently, the validity, ownership and accuracy of other revenues cannot be confirmed.

14.3 Grants and Transfers to other Government Entities

The financial statements reflect payments totalling Kshs.541,135,010 as grants and transfers to other government entities. However, the amounts recorded in the financial statements of the receiving government entities differs from the ones reported in the State Department's financial statements as detailed below:

Entity	Amount as Per the Entity's Financial Statements Kshs.	Amount Reported in the State Dept. Financial Statements Kshs.	Variance Kshs.
Council of Governors	153,202,024	160,145,650	6,943,026
KDSP Component	101,159,883	80,939,360	20,170,523

The variances above have not been explained or reconciled.

14.4 Use of Goods and Services

The use of goods and services payments totalling Kshs.415,522,851 as reflected in the statement of receipts and payments and disclosed in Note 5 to the financial statements includes an amount of Kshs.260,256,399 in respect of other operating expenses. However, examination of the ledger revealed that the following amounts were charged to operating expenses instead of the correct items of the expenditure:

Amount - Kshs	Nature of Expense
3,219,000	Communication, supplies and services
580,000	Salaries to staff
15,697,081	Domestic travel & subsistence, staff meal allowances
5,113,500	Accommodation and Conference
722,036	Motor Vehicle Repairs & Maintenance
925,900	Routine Maintenance – Other assets

No explanations have been provided for the above anomalies.

In addition, an unexplained journal entry of Kshs.19, 897,500 was similarly posted to the operating expenses account and no explanation to justify this journal has been provided.

14.5 Cash and Cash Equivalents

(i). The statement of assets and liabilities as at 30 June 2017 reflects an amount of Kshs.76,795,422 as cash and cash equivalents comprising of the bank balances of Kshs.75,987,651 and cash balances of Kshs.807,771. However, even though the balances were supported by bank statements, board of survey report and bank confirmation certificates as at 30 June 2017, the bank reconciliation statements for the rest of the year have not been presented for audit review. The completeness of transactions arising from the bank accounts and the cash system for the whole year cannot not be confirmed under the circumstances.

(ii). Although the bank confirmation certificate as at 30 June 2017 reflects an amount of Kshs.1,163,889 in respect of Kenya Devolution Support Programme, the same has not been taken into account inspite of the programme expenditure forming part of the other operating expenses. Further, an adjustment of Kshs.440,298 under the deposits account has not been explained.

In the circumstances, the completeness and accuracy of the cash and cash equivalents balance of Kshs.76,795,422 as at 30 June 2017 cannot be confirmed.

14.6 Prior Year Adjustments

The statement of assets and liabilities as at 30 June 2017 reflects prior year adjustments of Kshs.180,997,512 in respect of the current year and Kshs.792,501 in respect of the

previous year. However, the reasons for the prior year adjustments and the documentation in support of the adjustments have not been provided. In addition, the treatment does not satisfy the requirement of IPSAS 3 on, "Accounting Policies, Changes in Accounting Estimates and Errors" which, require restatement of the affected figures in the year the error first occurred except when it is impracticable and this fact must be disclosed. Under the circumstances, the accuracy and validity of the adjustments as presented cannot be ascertained.

14.7 Pending Bills

The State Department of Devolution reported at Annex 2 to the financial statements pending bills amounting to Kshs.3,296,627,373 as at 30 June 2017, comprising of Kshs.3,286,465,791 brought forward from the previous year and Kshs.10,161,582 for the financial year 2016/2017. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provisions of the subsequent year to which they have to be charged. Had the bills been paid and expenditure charged to the accounts for 2016/2017, the statement of receipts and payments for the year would have reflected a deficit of Kshs.3,259,566,371 instead of the surplus of Kshs.37,061,102 now shown.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the State Department of Devolution 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 qualified opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC MONEY

Conclusion

As required by Article 229(6) of the Constitution, based on the procedures performed, except for the matter described in the Basis for Qualified Opinion section of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 4000. The standard requires that I comply with

ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this compliance review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

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

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

My responsibility is to express a conclusion based on the review. The review was conducted in accordance with ISSAI 1315. The standard requires that I plan and perform the review so as to obtain limited assurance as to whether effective processes and systems of internal control, risk management and governance was maintained in all material respects.

The matters reported are limited to the deficiencies identified during the audit that I have concluded are material to be reported. I have not performed an audit, and, accordingly, express my conclusion in the form of limited assurance, which is consistent with the more limited work I have performed under this review.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern/ sustain services, disclosing, as applicable, matters

related to sustainability of services and using the applicable basis of accounting unless the management either intends to liquidate the Secretariat or to cease operations, or have no realistic alternative but to do so.

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance review is planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. The nature, timing and extent of the compliance work is limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

Further, in planning and performing the audit of the financial statements and review of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in

accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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

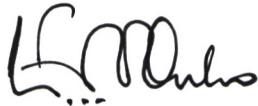
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Secretariat 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


05 March 2019


MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

V. STATEMENT OF RECEIPTS AND PAYMENTS

	Note	2017/2018 Kshs.	2016-2017 Kshs.
RECEIPTS			
Proceeds from Domestic and Foreign Grants	1	48,819,253	152,895,860
Exchequer releases	2	5,246,385,510	1,009,820,523
Proceeds from sale of Assets	3	407,200	
Other Receipts	4	-	3,031,318
TOTAL RECEIPTS		5,295,611,963	1,165,747,701
PAYMENTS			
Compensation of Employees	5	165,449,897	169,997,428
Use of goods and services	6	521,320,776	415,522,852
Transfers to Other Government Units	7	4,604,371,258	541,135,010
Other grants and transfers	8	-	1,827,400
Social Security Benefits	9	3,906,579	-
Acquisition of Assets	10	-	203,910
TOTAL PAYMENTS		5,295,048,510	1,128,686,600
SURPLUS/DEFICIT		563,453	37,061,101

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28th September, 2018 and signed by:


Principal Secretary
Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller
Name: CPA Lucy W. Kamau
ICPAK Member Number: 8513


MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

VI. STATEMENT OF ASSETS AND LIABILITIES

	Note	2017-2018 Kshs	2016-2017 Kshs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	11A	34,050,501	75,987,651
Cash Balances	11B	847,771	807,771
Total Cash and cash equivalent		<u>34,898,272</u>	<u>76,795,422</u>
Accounts receivables – Outstanding Imprests and clearing accounts	12	663,520	1,870,224
TOTAL FINANCIAL ASSETS		35,561,792	78,665,646
FINANCIAL LIABILITIES			
Accounts Payables	13	33,527,046	39,206,617
NET FINANCIAL ASSETS		2,034,746	39,459,030
REPRESENTED BY			
Fund balance b/fwd	14	39,459,029	183,395,439
Prior year adjustment	15	(37,987,738)	(180,997,512)
Surplus/Deficit for the year		563,453	37,061,102
NET FINANCIAL POSITION		2,034,744	39,459,029

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28th September, 2018 and signed by:


Principal Secretary
Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller
Name: CPA Lucy W. Kamau
ICPAK Member Number: 8513


MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

VII. STATEMENT OF CASH FLOWS

		2017-2018	2016-2017
		Kshs	Kshs
Receipts for operating income			
Proceeds from Domestic and Foreign Grants	1	48,819,253	152,895,860
Exchequer Releases	2	5,246,385,510	1,009,820,523
Other Revenues	4	-	3,031,318
		5,295,204,763	1,165,747,701
Payments for operating expenses			
Compensation of Employees	5	165,449,897	169,997,428
Use of goods and services	6	521,320,776	415,522,851
Transfers to Other Government Units	7	4,604,371,258	541,135,010
Other grants and transfers	8	-	1,827,400
Social Security Benefits	9	3,906,579	-
		5,295,048,510	1,128,482,689
Adjusted for:			
Changes in receivables		1,206,704	1,264,875
Changes in payables		(5,679,570)	(43,684,056)
Adjustments during the year	14	(37,987,738)	(180,997,512)
Net cash flow from operating activities		(42,304,351)	(186,151,680)
CASHFLOW FROM INVESTING ACTIVITIES			
Proceeds from Sale of Assets	3	407,200	
Acquisition of Assets	10	-	(203,910)
Net cash flows from Investing Activities		407,200	(203,910)
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at BEGINNING of the year		76,795,422	263,151,012
Cash and cash equivalent at END of the year		34,898,271	76,795,422

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 28th September, 2018 and signed by:


Principal Secretary
Name: Charles Talengo Sunkuli, CBS


Principal Accounts Controller
Name: CPA Lucy W. Kamau
ICPAK Member Number: 8513

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

VIII. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT AND DEVELOPMENT COMBINED

Receipts/Expense Item							
RECEIPTS							
Proceeds from Domestic and Foreign Grants	500,000,000	520,000,000	520,000,000	48,819,253	471,180,747		9%
Exchequer releases	1,823,550,000	6,518,336,630	8,341,886,630	5,246,385,510	3,095,501,120		63%
Proceeds from the sale of assets	-	407,200	407,200	407,200	-		100%
TOTAL RECEIPTS	2,323,550,000	6,538,743,830	8,862,293,830	5,295,204,763	3,566,681,867		60%
PAYMENTS							
Compensation of Employees	72,500,000	81,500,000	154,000,000	165,449,897	2,075,016		107%
Use of goods and services	1,083,575,000	286,806,330	1,370,381,330	521,320,775	731,647,744		38%
Transfers to Other Government Units	1,160,150,000	6,139,750,000	7,299,900,000	4,604,371,258	2,741,832,995		63%
Other grants and transfers	1,000,000	1,000,000	2,000,000	-	2,000,000		0%
Social Security Benefits	5,900,000	5,900,000	11,800,000	3,906,579	7,893,421		33%
Acquisition of Assets	425,000	23,787,500	24,212,500	-	24,212,500		0%
Other Payments							
TOTAL PAYMENTS	2,323,550,000	6,538,743,830	8,862,293,830	5,295,048,509	3,567,245,321		60%
Surplus/ Deficit	-	-	-	563,454	(563,454)		

The entity financial statements were approved on 28th September, 2018 and signed by:



Principal Secretary
 Name: Charles Talengo Sunkuli, CBS




Principal Accounts Controller
 Name: CPA Lucy W. Kamau
 ICPAK Member Number: 8513

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

IX. SUMMARY STATEMENT OF APPROPRIATION: RECURRENT

Receipt/Expense Item	Original Budget	Adjustment	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Unit Utilization
RECEIPTS						
Exchequer releases	553,900,000	714,986,630	1,268,886,630	810,468,902	458,417,728	64%
Proceeds from Sale of Assets		407,200	407,200	407,200		
TOTAL RECEIPTS	553,900,000	715,393,830	1,269,293,830	810,876,102	458,417,728	64%
PAYMENTS						
Compensation of Employees	72,500,000	81,500,000	154,000,000	165,449,897	(11,449,897)	99%
Use of goods and services	121,075,000	304,306,330	425,381,330	178,790,152	246,591,178	43%
Transfers to Other Government Units	353,000,000	298,900,000	651,900,000	457,552,000	194,348,000	71%
Other grants and transfers	1,000,000	1,000,000	2,000,000	-	2,000,000	0%
Social Security Benefits	5,900,000	5,900,000	11,800,000	3,906,579	7,893,421	33%
Acquisition of Assets	425,000	23,787,500	24,212,500	-	24,212,500	0%
TOTAL PAYMENTS	553,900,000	715,393,830	1,269,293,830	805,698,628	463,595,202	63%
Surplus/Deficit				5,177,474		

The entity financial statements were approved on 28th September, 2018 and signed by:


Principal Secretary
Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller
Name: CPA Lucy W. Kamau
ICPAK Member Number: 8513

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

X. SUMMARY STATEMENT OF APPROPRIATION: DEVELOPMENT

Receipt/Expense Item	Original Budget	Adjustment	Final Budget	Actual Comparison Basis	Budget Utilization	% of Utilization
	A	B	C	D	E	F/G
RECEIPTS						
Proceeds from Domestic and Foreign Grants	500,000,000	20,000,000	520,000,000	48,819,253	471180,747,	9%
Exchequer releases	1,269,650,000	5,803,350,000	7,073,000,000	4,435,916,605	2,637,083,395	63%
Other Receipts						
TOTAL RECEIPTS	1,769,855,000	5,823,350,000	7,593,000,000	4,484,735,858	3,108,264,142	59%
PAYMENTS						
Compensation of Employees						
Use of goods and services	962,500,000	(17,500,000)	945,000,000	342,530,623	602,469,377	36%
Transfers to Other Government Units	807,150,000	5,840,850,000	6,648,000,000	4,146,819,258	2,501,180,742	62%
TOTAL PAYMENTS	1,769,650,000	5,823,350,000	7,593,000,000	4,489,349,881	3,103,650,119	59%
Surplus/Deficit				(4,614,023)	4,614,023	

The entity financial statements were approved on 28th September, 2018 and signed by



Principal Secretary
 Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller
 Name: CPA Lucy W. Kamau
 ICPAK Member Number: 8513

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION

Reports and Financial Statements

For the year ended June 30, 2018

XI. BUDGET EXECUTION BY PROGRAMMES AND SUB-PROGRAMMES

Programme/Sub-programme	Original Budget 2017/2018 Kshs	Budget Adjustments 2017/2018 Kshs	Final Budget 2017/2018 Kshs	Actual expenditure on comparable basis Date 2017/2018 Kshs	Budget utilization difference Kshs
Devolution Services	3,242,262,634	4,745,500,011	7,987,762,645	6,083,267,233.75	1,904,495,411.25
Management of Devolution Affairs	158,378,684	(83,071,610)	75,307,074	71,985,474	3,321,600
Inter-Governmental Relations	832,130,000	5,500,750	837,630,750	479,929,076.50	357,701,673
Capacity building	2,351,753,950	4,723,070,871	7,074,824,821	5,531,352,683.25	1,543,472,132.75
General Administration, Planning and Support services	1,304,837,366	(430,306,181)	874,531,185	247,631,892.65	626,899,292.35
Human Resources and support services	225,301,699	31,890,552	257,192,251	183,277,005.90	73,915,245.10
Finance Management Services	1,054,508,667	(458,640,983)	595,867,684	63,823,584	532,044,100
Information communication and Technology	25,027,000	(3,555,750)	21,471,250	531,302.75	20,939,947.25
Grand Total	4,647,100,000	4,215,193,830	8,862,293,830	6,330,899,126	2,531,394,703.60

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Statement of Compliance and Basis of Preparation

The financial statements have been prepared in accordance with Cash-basis International Public Sector Accounting Standards (IPSAS) as prescribed by the Public Sector Accounting Standards Board (PSASB) and set out in the accounting policy note below. This cash basis of accounting has been supplemented with accounting for; a) receivables that include imprests and salary advances and b) payables that include deposits and retentions.

The financial statements comply with and conform to the form of presentation prescribed by the PSASB. The accounting policies adopted have been consistently applied to all the years presented.

2. Reporting Entity

The financial statements are for the State Department of Devolution. The financial statements encompass the reporting entity as specified under section 81 of the PFM Act 2012 and also comprise of the following development projects implemented by the entity:

- (i)* Kenya Devolution Support Programme
- (ii)* UNDP Support to Devolution
- (iii)* Kenya Symbiocity Programme
- (iv)* Instrument for Devolution Advice and Support(IDEAS)

3. Reporting Currency

The financial statements are presented in Kenya Shillings (KShs), which is the functional and reporting currency of the Government and all values are rounded to the nearest Kenya Shilling.

4. Significant Accounting Policies

The accounting policies set out in this section have been consistently applied by the Entity for all the years presented.

a) Recognition of Receipts

The Entity recognises all receipts from the various sources when the event occurs and the related cash has actually been received by the Entity.

- **Tax Receipts**

Tax receipts are recognized in the books of accounts when cash is received. Cash is considered as received when notification of tax remittance is received. (Check if this policy is applicable to entity)

SIGNIFICANT ACCOUNTING POLICIES

- **Transfers from the Exchequer**

Transfers from the exchequer are recognized in the books of accounts when cash is received. Cash is considered as received when payment instruction is issued to the bank and notified to the receiving entity.

- **External Assistance**

External assistance is received through grants and loans from multilateral and bilateral development partners.

Grants and loans shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary.

In case of grant/loan in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice. A similar recognition criteria is applied for loans received in the form of a direct payment.

During the year ended 30th June 2018, there were no instances of non-compliance with terms and conditions which have resulted in cancellation of external assistance loans.

- **Other receipts**

These include Appropriation-in-Aid and relates to receipts such as proceeds from disposal of assets and sale of tender documents. These are recognised in the financial statements the time associated cash is received.

b) Recognition of payments

The Entity recognises all payments when the event occurs and the related cash has actually been paid out by the Entity.

- **Compensation of Employees**

Salaries and wages, allowances, statutory contribution for employees are recognized in the period when the compensation is paid.

- **Use of Goods and Services**

Goods and services are recognized as payments in the period when the goods/services are paid for. Such expenses, if not paid during the period where goods/services are consumed, shall be disclosed as pending bills.

- **Interest on Borrowing**

Borrowing costs that include interest are recognized as payment in the period in which they are paid for.

SIGNIFICANT ACCOUNTING POLICIES

- **Repayment of Borrowing (Principal Amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made.

- **Acquisition of Fixed Assets**

The payment on acquisition of property plant and equipment items is not capitalized. The cost of acquisition and proceeds from disposal of these items are treated as payments and receipts items respectively. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration and the fair value of the asset can be reliably established, a contra transaction is recorded as receipt and as a payment.

A fixed asset register is maintained by each public entity and a summary provided for purposes of consolidation. This summary is disclosed as an annexure to the financial statements.

5. In-kind contributions

In-kind contributions are donations that are made to the Entity in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value received for in-kind contributions can be reliably determined, the Entity includes such value in the statement of receipts and payments both as receipts and as payments in equal and opposite amounts; otherwise, the contribution is not recorded.

6. Third Party Payments

Included in the receipts and payments, are payments made on its behalf to third parties in form of loans and grants. These payments do not constitute cash receipts and payments and are disclosed in the payment to third parties in the statement of receipts and payments as proceeds from foreign borrowings.

7. 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.

Restriction on Cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation.

Amounts maintained in deposit bank accounts are restricted for use in refunding third party deposits. As at 30th June 2018, this amounted to Kshs 24,430,731 compared to Kshs 38,766,319 in prior period as indicated on note 10. There were no other restrictions on cash during the year.

SIGNIFICANT ACCOUNTING POLICIES

8. Accounts Receivable

For the purposes of these financial statements, imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year are treated as receivables. This is in recognition of the government practice where the imprest payments are recognized as payments when fully accounted for by the imprest or AIE holders. This is an enhancement to the cash accounting policy. Other accounts receivables are disclosed in the financial statements.

9. Accounts Payable

For the purposes of these financial statements, deposits and retentions held on behalf of third parties have been recognized on an accrual basis (as accounts payables). This is in recognition of the government practice of retaining a portion of contracted services and works pending fulfilment of obligations by the contractor and to hold deposits on behalf of third parties. This is an enhancement to the cash accounting policy adopted by National Government Ministries and Agencies. Other liabilities including pending bills are disclosed in the financial statements.

10. Pending Bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. As pending bills do not involve the payment of cash in the reporting period, they recorded as 'memorandum' or 'off-balance' items to provide a sense of the overall net cash position of the Entity at the end of the year. When the pending bills are finally settled, such payments are included in the Statement of Receipts and Payments in the year in which the payments are made.

11. Budget

The budget is developed on a comparable accounting basis (cash basis except for imprest and deposits, which are accounted for on an accrual basis), the same accounts classification basis, and for the same period as the financial statements. The original budget was approved by Parliament on June 2017 for the period 1st July 2017 to 30th June 2018 as required by Law and there were two supplementary adjustments to the original budget during the year.

A comparison of the actual performance against the comparable budget for the financial year under review has been included in the financial statements.

Government Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers.

12. Comparative Figures

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

SIGNIFICANT ACCOUNTING POLICIES

13. 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 30th June 2018.

14. Errors

Material prior period errors shall be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by: i. restating the comparative amounts for prior period(s) presented in which the error occurred; or ii. If the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets/equity for the earliest prior period presented.

During the year, errors that have been corrected are disclosed under note 26 explaining the nature and amounts.

15. Related Party Transactions

Related party relationships are a normal feature of commerce. Specific information with regards to related party transactions is included in the disclosure notes.

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

XIII. NOTES TO THE FINANCIAL STATEMENTS

1. PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

Name of Donor	Date received	Indicate whether it was a direct payment	Amount in foreign currency	20 17- 2018	2016 -2017
				Kshs	Kshs
Grants Received from Bilateral Donors (Foreign Governments)					
IDEAS(EU)			-	48,819,253	19,897,500
COG(SIDA)			-	-	52,009,000
KDSP					80,989,360
TOTAL				48,819,253	152,895,860

2. EXCHEQUER RELEASES

Description	20 17- 2018	2016 -2017
	Kshs	Kshs
Total Exchequer Releases for quarter 1	213,836,965	109,900,000
Total Exchequer Releases for quarter 2	291,688,737	319,209,883
Total Exchequer Releases for quarter 3	319,940,000	217,300,000
Total Exchequer Releases for quarter 4	4,420,919,808	363,410,640
Total	5,246,385,510	1,009,820,523

The budgeted exchequer were Ksh 8,341,886,630 against the received exchequer of Ksh 5,246,385,510 thus a deficit of Ksh 3,095,501,120.

3. PROCEEDS FROM SALE OF ASSETS

Description	2017 -2018	2016 -2017
	Kshs	Kshs
Disposal and Sales of Non-Produced Assets	407,200	
Total	407,200	

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

4. OTHER REVENUES

Description	2017-2018	2016-2017
	Kshs	Kshs
Other Miscellaneous Revenues	-	3,031,318
Total	-	3,031,318

5. COMPENSATION OF EMPLOYEES

	2017-2018	2016-2017
	Kshs	Kshs
Basic salaries of permanent employees	96,460,141	95,405,929
Personal allowances paid as part of salary	68,989,756	74,591,499
Total	165,449,897	169,997,428

6. USE OF GOODS AND SERVICES

	2017-2018	2016-2017
	Kshs	Kshs
Utilities, supplies and services	-	285,600
Communication, supplies and services	1,616,147	8,631,626
Domestic travel and subsistence	14,467,846	17,916,573
Foreign travel and subsistence	365,706	2,652,105
Printing, advertising and information supplies & services	499,730	1,699,332
Rentals of produced assets	60,447,266	72,500,000
Training expenses	1,817,031	7,305,460
Hospitality supplies and services	25,538,372	24,976,863
Insurance costs	-	-
Specialized materials and services	612,542	796,400
Office and general supplies and services	1,949,614	5,775,718
Fuel oil and lubricants	4,677,815	6,346,316
Other operating expenses	405,269,854	260,256,399
Routine maintenance – vehicles and other transport equipment	3,494,100	4,514,177
Routine maintenance – other assets	564,753	1,866,283
Total	521,320,775	415,522,851

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. TRANSFERS TO OTHER GOVERNMENT ENTITIES

Description	2017-2018 Kshs	2016-2017 Kshs
Current grants to government agencies and other levels of government	457,552,000	408,136,650
Capital Grants to government agencies and other levels of government	4,098,000,005	52,009,000
Other Capital grants and Transfers	48,819,253	80,989,360
TOTAL	4,604,371,258	541,135,010

The above transfers were made to the following self-reporting entities in the year:

Description	Recurrent Kshs	Development Kshs	Total Kshs	2017-2018 Kshs
Transfers to SAGAs and SCs				
Council of Governors	107,000,000	-	107,000,000	107,000,000
IGRTC	350,552,000	-	350,552,000	350,552,000
Transfers to County Governments				
Transfers to Counties under KDSP (see annex 6)	4,098,000,000	-	4,098,000,000	4,098,000,000
Transfers to Makueni County under IDEAS	48,819,253		48,819,253	48,819,253
TOTAL	4,604,371,258	-	4,604,371,258	4,604,371,258

We have confirmed these amounts with the recipient entities and attached these confirmations as an Appendix to this financial statements (see annex 6B)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. OTHER GRANTS AND OTHER PAYMENTS

Explanation	2017 -2018	2017 -2018
	Kshs	Kshs
Membership dues and subscriptions to international organizations	-	1,827,400
Total	-	1,827,4000

9. SOCIAL SECURITY BENEFITS

Explanation	2017 -2018	2017 -2018
	Kshs	Kshs
Government pension and retirement benefits	3,906,579	-
Total	3,906,579	-

10. ACQUISITION OF ASSETS

Non Financial Assets	2017 -2018	2016 -2017
	Kshs	Kshs
Purchase of Specialized Plant, Equipment and Machinery	-	203,910
Total		203,910

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. A: Bank Accounts

2017-2018					
KShs					
Recurrent 1000209828	KShs	Recurrent	-	83,119	19,921,301
Development 1000209763	KShs	Development	-	33,136	16,859,734
Deposit 1000212616	KShs	Deposit	-	24,430,731	39,206,617
Project Bank Account, 30861002,	KShs	IDEAS		9,503,515	
Total				34,050,501	75,987,651

11.B: CASH IN HAND

2017-2018			2016-2017		
KShs			KShs		
Cash in Hand – Held in domestic currency	847,771		807,771		
Cash in Hand – Held in foreign currency	-		-		
Total	847,771		807,771		

Cash in hand should also be analysed as follows:

2017-2018		2016-2017	
KShs		KShs	
Headquarter, State Department for Devolution, Cash office	847,771	807,771	
Total	847,771	807,771	

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
 Reports and Financial Statements
 For the year ended June 30, 2018

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. A. ACCOUNTS RECEIVABLE - OUTSTANDING IMPRESTS

<i>Description</i>	2017-2018 Kshs	2016-2017 Kshs
Government Imprests	118,700	203,200
Salary advances	-	-
District suspense	544,820	1,667,024
Clearance accounts	-	-
Total	663,520	1,870,224

12 B. GOVERNMENT IMPRESTS

<i>Names</i>	<i>Date Taken</i>	<i>Amount</i>	<i>Amount surrendered</i>	<i>Balance</i>
<i>Stephen Owino Odhiambo</i>	<i>2015/2016</i>	<i>118,700</i>	<i>-</i>	<i>118,700</i>

13. ACCOUNTS PAYABLE

<i>Description</i>	2017-2018 Kshs	2016-2017 Kshs
IDEAS-PROJECT	9,503,515	
Deposits	24,023,531	39,206,617
Total	33,527,046	39,206,617

14. FUND BALANCE BROUGHT FORWARD

<i>Description</i>	2017-2018 Kshs	2016-2017 Kshs
Bank accounts	75,987,651	262,414,654
Cash in hand	807,771	736,358
Accounts Receivables-outstanding imprest	1,870,224	3,135,099
Accounts Payables-deposits	39,206,617	(82,890,672)
Total	39,459,029	183,395,439

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

15. PRIOR YEAR ADJUSTMENTS

Prior year Adjustments	2017 -2018	2017 -2016
	Kshs	Kshs
Adjustments on receivables- outstanding imprest/district sus.	1,206,704	(1,119,366)
Surrender to treasury balance on MTAP		(8,841,037)
Transfer to exchequer/treasury	36,781,034	(170,891,600)
	-	(145,509)
	(37,987,738)	(180,997,512)

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

16. RELATED PARTY DISCLOSURES

Related party disclosure is encouraged under non-mandatory section of the Cash Basis IPSAS.

The following comprise of related parties to the State Department of Devolution

- Key management personnel that include the Cabinet Secretaries and Accounting Officers
- Other Ministries Departments and Agencies and Development Projects;
- County Governments; and
- State Corporations and Semi-Autonomous Government Agencies.

Related party transactions:

	2017- 2018	2016- 2017
	Kshs	Kshs
Key Management Compensation	20,550,752	-
<u>Transfers to related parties</u>		
Transfers to IGRTC and COG	457,552,000	460,145,650
Transfers to County Governments	4,146,819,258	-
Total Transfers to related parties	4,604,371,258	460,145,650
<u>Transfers from related parties</u>		
Transfers from the Exchequer	5,246,385,510	1,009,820,523
Transfers from other MDAs	-	-
Total Transfers from related parties	5,246,385,510	1,009,820,523

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

16. OTHER IMPORTANT DISCLOSURES

16.1: PENDING ACCOUNTS PAYABLE (See Annex 1)

Description		
Supply of goods	34,506,203	300,000
Supply of services	44,299,250	9,861,582
	78,805,453	10,161,582

16.2: PENDING STAFF PAYABLES (See Annex 2)

Description		
Unionisable employees	728,271	-
Others (Deductions)	-	-
	728,271	-

16.3: OTHER PENDING PAYABLES (See Annex 3)

Description		
Amounts due to National Government entities	26,981,088	-
Amounts due to Entity entities		
Total	26,981,088	-

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

17. 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 raised/Basis of opinion	Managment comments	Focal point person to resolve the issue	Time frame to resolve the issue
1	Opening Balances	Documents provided	HAU	Resolved
2	Other Revenue	Follow up to ensure receipts are stopped and channeled to the correct ministries bank accounts	HAU	One Financial Year
3	Grants and transfers to other Government entities	The variances have been explained and reconciled	HAU	Resolved
4	Use of goods and services	KDSP currently budgeted under only one item No explanation on the amounts charged to operating expenses	CFO/HAU	One financial year

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

5	Cash and cash equivalents	(i) Bank reconciliation statements for the year not presented for audit review (ii) Balance for KDSP PPA not taken to account and adjustment for Deposits not explained	Bank reconciliation statements presented and verified Separate financial statements for KDSP PPA prepared and audited. Deposit adjustment explained	HAU HAU	Resolved Resolved
6	Prior year adjustments	Reasons for prior year adjustments and documentation not provided	Explanations for the adjustments provided and documentation provided and verified	HAU	Resolved
7	Pending bills	Failure to settle pending bills for previous years and for 2016/2017 during the financial year	Process of clearing historical pending bills in progress	PS/IGRTC/National Treasury Pending bills for 2016/2017	Unresolved. Resolved



Principal Secretary
Name: Charles Talengo Sunkuli, CBS



Principal Accounts Controller
Name: CPA Lucy W. Kamau
ICPAK Member Number: 8513

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

ANNEX 1 - ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of Goods or Services	Original Amount	Date Contracted	Amount Paid To Date 2018	Outstanding Balance To Date 2018	Outstanding Balance To Date 2019	Comments
	A	B	C	d=a-c		
Supply of goods						
See attached list					37,006,203	
Sub-Total					37,006,203	
Supply of services						
See attached list					162,307,937	
Sub-Total					162,307,937	
Grand Total					199,314,140	

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

ANNEX 2 - ANALYSIS OF PENDING STAFF PAYABLES

Name of Staff	Job Group	Original Amount	Date Payable Contracted To	Amount Paid To Date	Outstanding Balance 2018	Outstanding Balance 2017	Comments
		a	b	c	d=a-c		
Unionisable Employees					728,271		
See attached							
Sub-Total					728,271		

ANNEX 3 - ANALYSIS OF OTHER PENDING PAYABLES

Name	Brief Transaction Description	Original Amount	Date Payable Contracted To	Amount Paid To Date	Outstanding Balance 2018	Outstanding Balance 2017	Comments
		a	b	c	d=a-c		
Amounts due to National Govt Entities							
1. See attached List					124,067,260		
2.							
3.							
Sub-Total					124,067,260		

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

ANNEX 4 – LIST OF PROJECTS IMPLEMENTED BY THE STATE DEPARTMENT OF DEVOLUTION

Ref	Project Name	Principal activity of the project	Accounting Officer	Project consolidated in these financial statements (yes/no)
1	Kenya Devolution Support Programme	Devolution Support	Charles Sunkuli CBS	YES
2	Instrument Devolution Support Programme for Advise	Devolution Support	Charles Sunkuli CBS	NO

NOTE:

The KDSP financial reporting arrangement according to Project Appraisal Documents (PAD) page 90 paragraph 16 states that the programme related transactions will be disclosed in the Institutional Financial Statements and should be aligned to existing GOK arrangement. More information on the programme is attached as an annex.

ANNEX 5 – LIST OF SCs, SAGAs AND PUBLIC FUNDS UNDER THE STATE DEPARTMENT OF DEVOLUTION

Ref	SC, SAGA or Public Fund's name	Principal activity of entity	Accounting Officer	Amount transferred during the year	Inter- entity reconciliations done (yes/no)
1	Intergovernmental Relation Technical Committee	Intergovernmental Relations	Charles Sunkuli CBS	350,552,000	YES
2	Council of Governors		Charles Sunkuli CBS	107,000,000	YES

MINISTRY OF DEVOLUTION AND ASAL - STATE DEPARTMENT OF DEVOLUTION
Reports and Financial Statements
For the year ended June 30, 2018

ANNEX 7- REPORTS GENERATED FROM IFMIS

The following financial Reports Generated from IFMIS should be generated and attached as appendices to these financial statements.

- i. GOK IFMIS Comparison Trial Balance
- ii. FO30 (Bank reconciliations) for all bank accounts
- iii. GOK IFMIS Receipts and Payments Statement
- iv. GOK IFMIS Statement of Financial Position
- v. GOK IFMIS Statement of Cash Flows
- vi. GOK IFMIS Notes to the Financial Statements
- vii. GOK IFMIS Statement of Budget Execution
- viii. GOK IFMIS Statement of Deposits
- ix. GOK IFMIS Budget Execution by Programme and Economic Classification
- x. GOK IFMIS Budget Execution by Heads and Programmes
- xi. GOK IFMIS Budget Execution by Programmes and Sub-programmes

