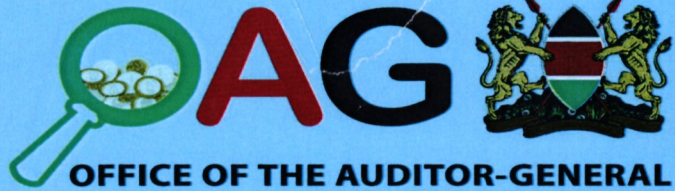


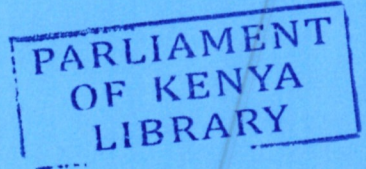
REPUBLIC OF KENYA



**OFFICE OF THE AUDITOR-GENERAL**

*Enhancing Accountability*

**REPORT**



**OF**

**THE AUDITOR-GENERAL**

**ON**

**PUBLIC PROCUREMENT REGULATORY  
AUTHORITY**

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








# PPRA

PUBLIC PROCUREMENT  
REGULATORY AUTHORITY



**ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2019**

|  |                              |
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| <br>THE NATIONAL ASSEMBLY<br>PAPERS LAID |                              |
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**Prepared in accordance with the Accrual Basis of Accounting Method under the  
International Public Sector Accounting Standards (IPSAS)**

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## **KEY ENTITY INFORMATION AND MANAGEMENT**

### **a) Background Information**

The Public Procurement Regulatory Authority (the Authority) is established under Section 8 (1) of the Public Procurement and Disposal Act, 2015. PPRA is domiciled in Kenya and has regional offices in Mombasa, Kisumu and Eldoret.

### **b) Principal Activities**

The Authority has a mandate to among other functions; monitor, assess and review the Public Procurement and Asset Disposal system to ensure they respect the National Values and other provisions including Article 227 of the Constitution of Kenya 2010.

The functions of the Authority as spelt out under section 9 of the PPADA, 2015, include:

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

**KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED**

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

## KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED

### c) Key Management

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

- The Public Procurement Regulatory Board
- Director General
- Management

### d) Fiduciary Management

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

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

### e) Fiduciary Oversight Arrangements

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

Key fiduciary arrangements covering the Authority include:

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

### f) Entity Headquarters

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

**KEY ENTITY INFORMATION AND MANAGEMENT CONTINUED**

**g) Entity Contacts**

Tel: +254 20 3244000  
Email: [info@ppra.go.ke](mailto:info@ppra.go.ke),  
Website: [www.ppra.go.ke](http://www.ppra.go.ke)

**h) Entity Bankers**

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

**i) Independent Auditors**

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

**j) Principal Legal Adviser**

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

## **THE BOARD OF DIRECTORS**

The Act has established two Boards; the Public Procurement Regulatory Board which is the Board of Directors of the Authority, and the Public Procurement Administrative Review Board, an independent quasi-judicial body that presides over public procurement disputes.

### **THE PUBLIC PROCUREMENT REGULATORY BOARD**

The Public Procurement Regulatory Board (PPRB) is the management Board of the Public Procurement Regulatory Authority. It is established under section 10(1) of the PPADA 2015. Its main responsibility being oversight of management, operations and activities of the Authority. The PPRB was constituted in September 2018.



#### **Mr Andrew M. Musangi: Board Chairperson**

Mr Musangi is an advocate of the High Court of Kenya with more than 25 years in legal practice. He is the managing partner at Mukite Musangi & Company Advocates and was previously an associate at Sheth & Wathigo Advocates.

He is a previous Chairman of the Law Society of Kenya, Rift Valley Branch and a past Director of the Kenya Rugby Union. From 2005-2012 Mr. Musangi served as a Council member of the Nakuru Business Association . He has also served as a Chairman, of the KRA Local Committee, South Rift Region

Currently Mr Musangi also serves as the Chairman of GenAfrica Asset Managers; and as a Director at Smart Applications and at Resolution Insurance.

He holds a Bachelor of Laws degree (LL.B) (Hons) from University of Hull (UK) and a Postgraduate Diploma in Law from Kenya School of Law

**PUBLIC PROCUREMENT REGULATORY BOARD CONTINUED**



**Commissioner Lydia W. Gachoya: Board Member**

Commissioner Lydia is a seasoned Human Resources specialist having worked in the private sector both locally and internationally up to Director level.

She has previously held the following positions: Head of HR, Unga Ltd; HR Team Leader, UN-The Netherlands; Regional HR Director, Colgate Palmolive and Commissioner, National Gender & Equality Commission.

She is the current Vice President, Regional Women Forum of International Conference of the Great Lakes Region. She also serves in the Board of St. Monica Childrens Orphanage in Machakos.

She holds; Bachelor of Education from the University of Nairobi and a Post Graduate Diploma in Institutional and Project Management.



**Dr Jared M. Siso: Board Member**

Dr Siso has vast experience having worked in the private sector and academia. He is a serving Lecturer in Anthropology and Gender & Development Studies at the University of Nairobi, and the Executive Director of the Wiper Democratic Movement.

He also undertaken many research consultancies for Kenyan and multinational corporations and has several publications under his name.

Dr Siso, holds a PhD from the University of Nairobi; a Postgraduate Diploma in Research Methodology from DBL-Copenhagen University, Denmark; an M.A (Anthropology) from the University of Nairobi and B.A (Anthropology) from University of Nairobi.

**PUBLIC PROCUREMENT REGULATORY BOARD CONTINUED**



**Mr Paul Nyamodi: Board Member**

Mr. Nyamodi is an Advocate of the High Court of Kenya with vast experience in legal practice. He has been practicing law for more than 22 years. He is the proprietor of V.A Nyamodi & Co Advocates and was previously an Associate at the same firm.

Mr Nyamodi is also a director at Jamii Bora Bank, at Brook House International Schools and Uhoreru Ltd. He has previously served as a director at the Kenya Rugby Union and as Chairman of the Privatization Appeals Tribunal

He holds a Bachelor of Laws (LLB) degree from the University of Central England and a Diploma in Legal Practice from the Kenya School of Law



**Hon Cecilia M. Sereka: Board Member**

Hon Cecilia has a wealth of experience having served in various leadership positions for more than 10 years. She has previously held positions of Member of County Assembly in Machakos County Assembly representing Kiwanie ward and councilor in Mavoko Municipal Council. She is a serving director of Mavoko Water and Sewerage Company.

She holds a Diploma in Community Development and Social work and a second diploma in Leadership and Development. She has also attended many short courses on leadership, management and legislation. She is currently pursuing a Bachelor of Leadership and Management at Scotts Christian University.



**Livingstone Bumbe: Board Member**

Mr Livingstone Bumbe is the alternate to the Cabinet Secretary/National Treasury on the Board. He is a Deputy Director, Debt Management at the National Treasury

He holds a Masters in Public Sector Management from the Africa University, Mutare, Zimbabwe and a Bachelor of Arts from the University of Nairobi.

**PUBLIC PROCUREMENT REGULATORY BOARD CONTINUED**



**Ms. Lilian Moraa Abishai: Board Member**

Ms. Lilian Abishai is a representative of the Attorney General at the Board. She is a Principal State Counsel at the Office of the Attorney General.

From 2008-2009, she was a coordinator at Kenyans for Peace with Truth and Justice. She has also been an Assistant Program Officer at the International Foundation for Election Systems.

Lilian has served as an alternate director at the Kenya Film Commission, and is a current alternate director at Kerio Valley Development Authority. She has a wealth of experience in negotiating high level financing, and contracts on behalf of the Government. She participated in the drafting of the Public Private Partnership legislation for Kenya.

Lilian holds a Bachelor of Laws degree from the University of Nairobi and a Diploma in Legal Studies from the Kenya School of Law.

## **THE PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD**

The PPARB is established under section 27 (1) of the Act. It is a central independent procurement appeals Review Board. The functions of the PPARB include: review, hear and determine disputes arising from procurement and asset disposal activities; and perform any other function conferred to it by the Act, Regulations or any other written law. The profiles of members of the PPARB are provided below.



### **Faith Waigwa: Chairperson**

Faith is an advocate of the High Court of Kenya and has been in practicing law for more than 12 years. She has served as: Council member of the Law Society of Kenya and was in charge of Continuous Professional Development (CPD); an arbiter in the Jubilee Party Disputes Tribunal; Deputy Secretary General of the East Africa Law Society and Vice President of the Law Society of Kenya.

She holds a Bachelor of Laws degree (LL.B) (Hons) from the University of Nairobi and a Postgraduate Diploma in Law from Kenya School of Law. She is currently a Post Graduate student at the University of Nairobi pursuing a Master of Laws degree (LL.M) in Environment and Natural Resources Law; with a specific interest in Regulation of Power and Energy.



### **Mr. Nelson K. Orgut: Member**

Nelson Orgut has vast experience in the tea industry spanning 42 years. He is an independent Director of Cianda Holdings Ltd and Ngorongo Tea Factory Ltd, Kiambu.

He has served both as an Executive and a Director of the James Finlay Ltd. He retired as the Operations Director. He was also the Chairman of the East African Tea Trade Association (EATTA) Committee in Mombasa.

**THE PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD CONT'D**



**Mr. Peter B. Ondieki, MBS: Member**

Peter Ondieki has a distinguished public service career spanning over 36 years in economic planning and management. He has served in senior management positions as:- Director of Programs, Relief and Rehabilitation Department-Office of the President; Secretary, Poverty Eradication Commission-Office of the President; Director, Monitoring and Evaluation Department-Ministry of Planning and National Development; and Inspector General, Inspectorate of State Corporations - Office of the President.



**Mr. Paul Ngotho: Member**

Paul Ngotho is the proprietor of Ngotho Property Consultants Ltd. He is an arbitrator, adjudicator, registered valuer & estate agent. He has previously worked at Stapleton Long, Chartered Surveyors, London where he held the position of Valuation Surveyor and Property Manager; and as the Property Manager at Arab Investments Ltd, London.

He holds a BA (Land Economics) and is a Fellow at the Chartered Institute of Arbitrators' (FCI Arb, UK) and Institute of Surveyors of Kenya (FISK). He is also a member

of the Royal Institute of Chartered Surveyors (MRICS, UK).



**Eng. Weche R. Okubo, OGW: Member**

Eng Weche Okubo was a career civil servant with 35 years experience in public service. He started working at the level of Asst. Engineer and retired as Chief Electrical and Mechanical Engineer (Building Services). Eng Okubo is a council member of the Institute of Engineers of Kenya (IEK). He is also a Board member of the Bible Society of Kenya.

He holds Bsc (Mechanical Engineering); Post Grad Dip (Environmental Engineering); FIEK; R.Cons.Eng; PE,CEng and MCIBSE.

**THE PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD CONT'D**



**Mrs. Josephine W. Mong'are: Member**

Mrs. Josephine W. Mong'are is an advocate of the High Court of Kenya with 25 years post admission qualifications. She is currently in private practice (M/s Wambua, Mbindyo & Makau Advocates). She has previously worked with the Anti Corruption Commission (Now EACC) and has also served in various Boards including: Nairobi Water and Sewerage Company, the National Council for Administration of Justice (NCAJ), Law Society of Kenya (LSK-CCLE). She is the current Chairperson of the Federation of Women Lawyers (FIDA- Kenya).

She holds; Masters of Law (LLM), Bachelor of Law (LLB) as well as a post graduate diploma in Legal Studies/Practice.



**Mrs Gilda A. Odera: Member**

Mrs Gilda Odera has 26 years work experience 11 years of which were in the Marketing Services sector and 15 years in the ICT sector. She is the founder and Managing Director of Skyweb Technologies Ltd and Skyweb -Evans Company Ltd. Gilda is a leading pioneer in the Business Process Outsourcing industry and is currently providing advisory services on the same.

She serves and has served on several boards in various capacities including Board Member NHIF where she is the Chairperson of the Executive Committee, Board Member of Federation of Kenya Employers, Council Member Kirinyaga University College, Vice Chair ICT Sector Board - KEPSA, Board Member TESPOK, Chairperson Kenya Business Process Outsourcing Association, Chairperson IT Enabled Services Advisory Group, Board Member Computer Society of Kenya, Council Member Marketing Society of Kenya, President Rotary Club of Milimani.

She is currently a PhD student in Public Policy Management and Leadership and holds an MA in Leading Innovation and Change and a BA in Sociology.

## THE PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD CONT'D



### **Mr. Hussein Were: Member**

Hussein Were has over 26 years' experience in quantity surveying and project management. He also has 8 years experience in the field of governance and forensic investigation. Mr. Were is the Honorary Treasurer and member of Governing Council of the Architectural Association of Kenya; as well as Principal Partner and founder of Fanisi Consultants, a quantity surveying and project management firm.

He holds an MA (Building Management) and a BA (Building Economics) from the University of Nairobi.



### **Mrs Rosemary K. Gituma: Member**

Rosemary Gituma has over 20 years top management experience in accounting & financial management, administration, supply chain, strategy, governance and internal audit in both public and private sectors. Since 2000 she has been working with East Africa Portland Cement Company (EAPCC) LTD in various capacities as Internal Audit Manager, Finance Manager, Ag Head of Financial Management, Board Director-EAPCC Uganda and Trustee & Trust Secretary- EAPCC Staff Retirement Benefits Scheme.

Previously she worked with Numerical Machining Complex (Finance & Administration Manager), Nairobi Bottlers (Treasury & Operations Accountant), Care Kenya (Accountant Consultant) and Kenya Airways (Management Trainee/Budget Accountant). She has served as Council Member & Vice- Chair, ICPAK. She is a member of Institute of Directors (Kenya), ISACA and AWAK.

She is a Certified Public Accountant (CPAK) and holds an MBA (Accounting & Finance), B.Com Degree (Accounting Option), Advanced Management Program (AMP) diploma, Executive Education-Strategy, awarded Corporate Governance Certificate and she is a PhD Student.

**MANAGEMENT TEAM**



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



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



**Mrs Rose M. Nyamweya  
G M (Finance & Admin)  
PhD(ongoing), MBA, Bcom, CPA(K), CPS(K)**



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



**Henock Kirungu  
Manager, ARB Secretariat  
BA, B.Com, CIPS, PGD(Purchasing  
& Supplies), PGD (Computer Sci)**

**MANAGEMENT TEAM CONTINUED**



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



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



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



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



**Thomas O. Otieno**  
**Manager, CIE**  
**MSc (Proc& Logistics), BA,**  
**Dip (Purchasing & Supply mgt)**



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

## **STATEMENT OF THE BOARD CHAIRMAN**


The Authority is a key player in ensuring accountability and realization of value for money for public funds spent through the public procurement and asset disposal process. The Public Procurement Regulatory Board took reigns at the Authority in November 2018 after the institution having been without a Board for three years and at when there is need to take a bold step and chart a new way of transparency and accountability in public procurement.

The Authority operates in a dynamic environment that is always offering new opportunities and challenges. Strategic planning is therefore necessary to enable the Authority exploit the opportunities and mitigate the risks and challenges posed by these changes in its operating environment. The Authority has developed a 5 year strategic plan covering the period 2018/2019 to 2022/2023 which integrates the country's aspirations as spelt out in Medium Term Plan III and the "Big Four Agenda" of universal healthcare, food security, affordable housing and manufacturing.

The plan is driven by a core message whose effervescent theme is enforcement of standards through; compliance monitoring, prevention of corruption risk in public procurement, education of stakeholders, provision of accurate and timely information, and debarment of suppliers who breach the procurement law.

Stakeholder partnership and collaboration is important in assisting PPRA achieve its mandate. To increase compliance with PPADA, 2015 requires joint efforts from various stakeholders. The Authority recognizes that our success in effectively and efficiently delivering on its shoulders to regulate public procurement in Kenya will to a large extent depend on our ability to harness the synergies created by our engagement with our stakeholders. Consequently, we will pursue partnership and collaborations with key stakeholders including government agencies, private sector and development partners.

The Board and management will continue to put in place systems that will ensure the Authority delivers on its mandate and makes its contribution to the realization of the country's goals and aspirations.



**Andrew M. Musangi**  
Chairman

## **STATEMENT OF THE CHIEF EXECUTIVE OFFICER**

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

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

### **Legal framework**

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

As the regulator of the public procurement and asset disposal system, PPRA is committed to deliver on its mandate in collaboration with all stakeholders to ensure the country has the public procurement system envisaged under Article 227 of the Constitution of Kenya and that the system facilitates attainment of national goals and values.

### **Monitoring compliance**

Compliance monitoring reviews have continued to ensure value for money is achieved by a public procurement system that pay attention to economy and efficiency. A strategic outcome of compliance has allowed stakeholders to understand and monitor how public funds are spent through public procurement.

During the period in review, the Authority monitored compliance through procurement assessments, reviews, contract audits, complaints management, investigations and review of mandatory reports submitted by Procuring Entities.

The Authority's efforts in monitoring the implementation of public procurement laws and procedures have contributed largely in enhancing public confidence in the system as well as decrease violation of the procurement law by procuring entities.

### **Research**

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

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

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

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

### **Regional Partnerships**

In the spirit of the East Africa Community (EAC), PPRA works closely with other public procurement regulators within the East African region to harmonize public procurement standards and practises within the region and share experiences. One of the ways that the Authority collaboration with public procurement regulatory bodies of EAC member states is through the East African Public Procurement Forum (EAPPF). The objective of the forum is to serve as a platform that helps participants learn and benchmark with each other on their respective public procurement systems including policies and enforcement measures.

Kenya through PPRA successfully hosted the 11th EAPF in Novevember 2018 under the theme “**Strengthening Integrity and Accountability in Public Procurement**”.

### **Decentralization**

PPRA has embarked on devolution of its services by opening regional offices. This initiative will ensure citizens have reasonable access to its services in all parts of the Republic as envisaged under article 6(3) of the Constitution of Kenya 2010 and section 8(3) of the PPADA 2015. The Authority so far has three operational regional

offices in Mombasa, Kisumu and Eldoret. Office space has been identified for an additional two offices in Nakuru and Nyeri whose operations are expected to start in the first half of FY 2019/2020. This will bring the Authority's operational regional offices to five and ease access to PPRA services.

With support from the National Government, PPRA intends to establish a total of nine regional offices over the next three financial years.

**Future**

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

**Appreciation**

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



**Ms PAULINE O. OPIYO  
FOR: DIRECTOR GENERAL**

## **CORPORATE GOVERNANCE STATEMENT**

The Public Procurement Regulatory Board is committed to applying and maintaining the highest standards of corporate governance at the Authority as recognizes this to be a key contributor to the long-term success, long term value and sustainability of the Authority.

Good corporate governance enables effective and efficient decision making and gives a structural aid for the Directors to discharge their duty to promote the success of PPRA while taking into account the interest of stakeholders. Effective governance is achieved through a combination of strong policies, process and structures, underpinned by the right values and culture.

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

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

### **The Role of the Public Procurement Regulatory Board**

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

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

The specific functions of the Regulatory Board are:

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

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

The Board has delegated the responsibility of management of the Authority to the Director General, who is the Chief Executive Officer and the management team. The main areas where the decisions remain with the Board are the approval of budget and annual corporate plan, approval of policies and approval of financial statements. The Board is also responsible for setting the Authority's risk management policy

As is good corporate governance practice, the Board has delegated some of its responsibilities to committees of the Board. The composition and activities of the committees are detailed later in this report. The Board receives reports at its meetings from the Chairmen of each of the committees on their current activities.

#### **Board Independence, Separation of Roles and Responsibilities**

A clear division of responsibility exists between the Chairman who is non-executive, the non-executive Board members and the Director General. Each of the responsibilities are clearly set out in writing.

#### **Meetings Attended By Board Members**

The law provides that the Board shall hold at least one meeting in every quarter. The Board holds regular scheduled meetings in every year and special meetings as and when necessary. In case of non-attendance of a Board member, the information is communicated to the Chairman in advance.

The table below shows Board membership and attendance at scheduled Board meetings in the financial year.

| <b>S/No</b> | <b>Director</b>                    | <b>Meetings attended</b> | <b>Meetings held</b> | <b>% Attendance</b> |
|-------------|------------------------------------|--------------------------|----------------------|---------------------|
| 1           | Mr Andrew Mukite Musangi           | 3                        | 3                    | 100%                |
| 2           | Mr Paul Nyamodi                    | 3                        | 3                    | 100%                |
| 3           | Dr Jared Maaka Siso                | 3                        | 3                    | 100%                |
| 4           | Hon Cecilia Mbinya Sereka          | 3                        | 3                    | 100%                |
| 5           | Commissioner Lydia Wanjugu Gachoya | 2                        | 3                    | 67%                 |
| 6           | Ms Lilian Abishai                  | 1                        | 3                    | 33%                 |
| 7           | Mr Livingstone Bumbe               | 3                        | 3                    | 100%                |

The Board Secretary who is also the Director General, is responsible for implementing the decisions of the Board and the day to day operations of the Authority.

The Corporation Secretary provides administrative support to the operations of the Board and convenes Board meetings as directed by the Chairman of the Board. The Board Secretary provides advice on corporate governance principles and plans and also on the implementation of corporate governance programs such as Board evaluation. The Corporation Secretary is an advocate of the high court, qualified certified public secretary and a member of the Institute of Certified Public Secretaries (ICPSK) in good standing.

### **Board Committees and Responsibilities**

The Board discharges its functions through committees. All committees of the Board are chaired by a member of the Board. A number of members of the management team are incorporated in the Board Committees as invitees to add value to key Board decisions. This structure ensures that the Board pays attention to critical areas of the Authority's business and provides timely guidance on arising opportunities and mitigation of risks.

To enhance efficiency and effectiveness in discharge of its duties, the Board has formed three (3) board committees:

- a. Finance & Administration Committee
- b. Compliance, Communication & Strategy Committee
- c. Audit, Risk and Governance Committee

#### **a. Finance & Administration Committee**

Its role is to ensure a very effective supervisory role of the Authority in carrying out financial management and control, human resource management, administration and resource mobilization to support the delivery of the core mandate of the Authority.

The specific terms of reference of the Committee are as follows:

- a) To ensure prudent management of the Authority's financial resources
- b) To ensure compliance with statutory financial regulations and, that the Authority has adequate financial resources to fund its programs
- c) To provide a general overview to the Board on the achievement of the Authority's Procurement Plans.
- d) To monitor management's strategy toward ensuring efficiency and integrity of the Authority's procurement systems
- e) To assist the Board in ensuring that the Authority upholds Government policy on performance contracting and other statutory obligations.

- f) To ensure that the Authority has an optimum, well trained and motivated human resource to deliver its mandate.
- g) Review the corporate goals and objectives relevant to the performance of the management, including an annual review of their performance in light of these goals and objectives.
- h) Recommend a management succession plan for the Authority and monitor the implementation of succession strategies approved by the Board.
- i) To ensure efficient and effective operations of the Administrative Review Board Secretariat.
- j) To advise on appropriate human resource policies in view of the changing needs of the Authority.
- k) To advise on appropriate Information and Communication Technology strategies to support delivery of the mandate and in view of the changing needs of the Authority.
- l) To advise on the acquisition and maintenance of office facilities and assets.
- m) To monitor the management of the Pension Scheme on behalf of the Board with a view to ensuring that the obligations of the Authority are properly discharged.
- n) To review on a quarterly basis, the authority's financial, procurement, and human resource management reports; and make appropriate recommendations to the Board.
- o) To make recommendations to the Board on all matters relating to the welfare of the members of Public Procurement Administrative Review Board and the Public Procurement Regulatory Board.

During the period under review the committee held 5 meetings as shown below.

| <b>S/No</b> | <b>Director</b>                    | <b>Meetings attended</b> | <b>Meetings held</b> | <b>% Attendance</b> |
|-------------|------------------------------------|--------------------------|----------------------|---------------------|
| 1           | Commissioner Lydia Wanjugu Gachoya | 5                        | 5                    | 100%                |
| 2           | Mr Paul Nyamodi                    | 2                        | 5                    | 40%                 |
| 3           | Hon Cecilia Mbinya Sereka          | 5                        | 5                    | 100%                |
| 4           | Mr Livingstone Bumbe               | 4                        | 5                    | 80%                 |

**Compliance, Communication & Strategy Committee**

The purpose of the Compliance, Communication and Strategy Committee is to advise and make recommendations to the Board on how to ensure the proper and effective performance of the functions of the Authority. Its role is to ensure a very effective supervisory role of Authority in carrying out its core mandate and strategic functions.

The Terms of Reference of the Committee are as follows:

- a) Advise the Board on compliance monitoring, public procurement policy matters, and any amendments to the Act and the Regulations to be proposed by the Authority.
- b) Advise on strategies to be used by the Authority to ensure compliance with the procurement law.
- c) Review and recommend to the Board best practice for benchmarking.
- d) Advise the Board on the extent and mode of collaborations with other watchdog agencies
- e) Guide the Board on the Authority's technical support and capacity building strategy.
- f) Review policies, guidelines, codes of ethics, standards and manuals to be used in the implementation of the procurement law
- g) Recommend to the Board corporate branding and reputation management strategies that will increase the profile of the Authority as the country's voice on procurement
- h) Advise the Board on communication strategies to be undertaken by the Authority for dissemination of information to facilitate the implementation of procurement standards.
- i) Advise the Board on strategies to be adopted by the Authority to manage key stakeholders.
- j) Provide oversight over the implementation of the Strategic Plan.
- k) To draw the annual calendar and work plan for the Committee

During the period under review the committee held 3 meetings as shown below.

| <b>S/No</b> | <b>Director</b>           | <b>Meetings attended</b> | <b>Meetings held</b> | <b>% Attendance</b> |
|-------------|---------------------------|--------------------------|----------------------|---------------------|
| 1           | Mr Paul Nyamodi           | 3                        | 3                    | 100%                |
| 2           | Dr Jared Maaka Siso       | 3                        | 3                    | 100%                |
| 3           | Hon Cecilia Mbinya Sereka | 3                        | 3                    | 100%                |
| 4           | Ms Lilian Abishai         | 1                        | 3                    | 33%                 |

#### **Audit, Risk and Governance Committee**

The purpose of the Audit Committee is to support the Authority to enhance oversight over governance, internal controls and risk management in service delivery.

The specific role of the Audit, risk and governance committee of the Board includes:

- a) Evaluate adequacy of management procedures with regard to issues relating to risk management, internal controls and governance.

- b) Review and approving the audit charter and the internal audit annual work plans.
- c) Review the internal and external audit findings and recommendations and proposing corrective and preventive action where necessary.
- d) Review the systems established to ensure sound financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics.
- e) Initiate special audit/ investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the Director-General.

During the period under review the committee held 6 meetings as shown below.

| <b>S/No</b> | <b>Director</b>                    | <b>Meetings attended</b> | <b>Meetings held</b> | <b>% Attendance</b> |
|-------------|------------------------------------|--------------------------|----------------------|---------------------|
| 1           | Dr Jared Maaka Siso                | 5                        | 6                    | 83%                 |
| 2           | Commissioner Lydia Wanjugu Gachoya | 6                        | 6                    | 100%                |
| 3           | Ms Lilian Abishai                  | 2                        | 6                    | 33%                 |
| 4           | Mr Livingstone Bumbe               | 6                        | 6                    | 100%                |

### **Board Remuneration**

The non-executive Board members are paid taxable sitting allowance as approved by the Minister responsible for finance following guidelines from the State Corporations Advisory Committee. The Chairman is paid honoraria at a rate approved by the Government. Transport expenses are reimbursed on travel for Board business at the prevailing Automobile Association of Kenya (AA) rates. The members are also entitled to outpatient and inpatient medical cover, and a personal accident cover.

### **Board Development**

Training and development programs were organized to equip the Board with the necessary skills for effective discharge of their duties and enhancing their understanding of the Authority's mandate. The trainings and capacity building programmes were on the following areas:

1. Mwongozo Code of Governance - The State Corporations offered by State Corporations Advisory Committee.
2. Directors training on Corporate Governance offered by the Centre for Corporate Governance
3. Finance for non-finance managers offered by Dolphin Training

**Conflict of Interest, Code of Conduct and Ethics**

The Board has developed a Code of Conduct, Ethics and Performance Manual to guide the Board members and staff of the Authority on ethical conduct.

The code requires that all Board members and employees disclose any interest that conflicts or may possibly conflict with the interests of the Authority. If a conflict of interest is declared, it is a requirement that the Board member affected is excluded from any discussion or decision over the matter in question.

**Sustainability**

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

**Risk Management and Internal Control**

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

1. Compliance monitoring risk
2. Inadequate funding
3. Reputational risk
4. Litigation risks
5. Occupational, safety, health and environmental risks

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

**Legal Challenges**

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

### Top Ten Contracts

The top ten procurement contracts awarded during the year are:

| S/NO | FIRM NAME                                  | CONTRACT DESCRIPTION  | AMOUNT     |
|------|--|---|------------|
| 1    | The Jubilee Insurance Company of Kenya Ltd | Provision of medical insurance cover for board members and staff  | 29,258,798 |
| 2    | Kenya National Bureau of Statistics        | Contract for conducting of national surveys to collect prices of standard goods and services                    | 20,691,480 |
| 3    | Brand Strategy & Design (E.A) Ltd          | Consultancy services for brand roll out   | 18,200,000 |
| 4    | National Bank of Kenya                     | Lease of office space   | 16,728,523 |
| 5    | Spa Infosuv East Africa Ltd                | Consultancy services to conduct Country Procurement Assessment  | 16,285,000 |
| 6    | Concepts Hub                               | Provision of event management & logistical support services for the 11th EAPF                                   | 10,200,000 |
| 7    | Wilcom System ltd                          | Development, implementation and commissioning of an online Administrative Review Case Management System (ARCMS) | 5,290,000  |
| 8    | Promto Cleaning Services Ltd               | Provision of cleaning, sanitary and fumigation services   | 4,999,200  |
| 9    | Portman Travel                             | Provision of air ticketing services   | 3,948,586  |
| 10   | Techsource Point Ltd                       | Supply and installation of local area network   | 3,514,896  |

### Stakeholder Relationships

The Board endeavours to actively engage with stakeholders by providing regular and timely information. The Board is guided by a Corporate Communication Strategy which encompasses internal and external communication and customer service. The Authority communicates with stakeholders through press releases, stakeholder forums and annual reports.

The Board regularly monitors customer service as embodied in the service charter.

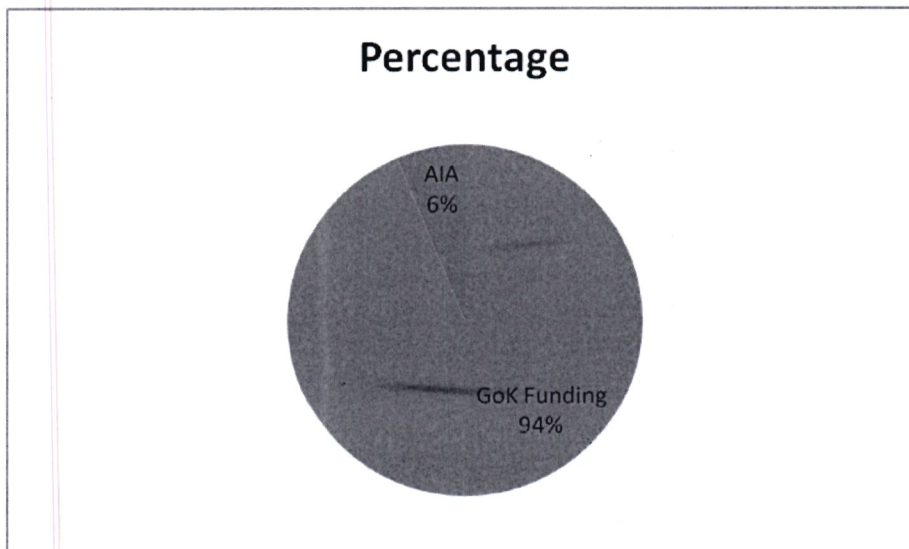
## MANAGEMENT DISCUSSION AND ANALYSIS

The Authority worked closely with all stakeholders to ensure smooth implementation of the Public Procurement and Asset Disposal Act 2015 and address challenges encountered in the first year of implementation. Initiatives taken to ensure this include collaboration with National Treasury in capacity building of procurement professionals in the public sector, review and alignment of standard tender documents and reporting templates to the new public procurement and asset disposal legal dispensation.

### 1. FINANCIAL PERFORMANCE

The Authority relies heavily on Government of Kenya funding which made up 94% of its FY 2018/2019 revenues with Appropriation-In-Aid being 6%.

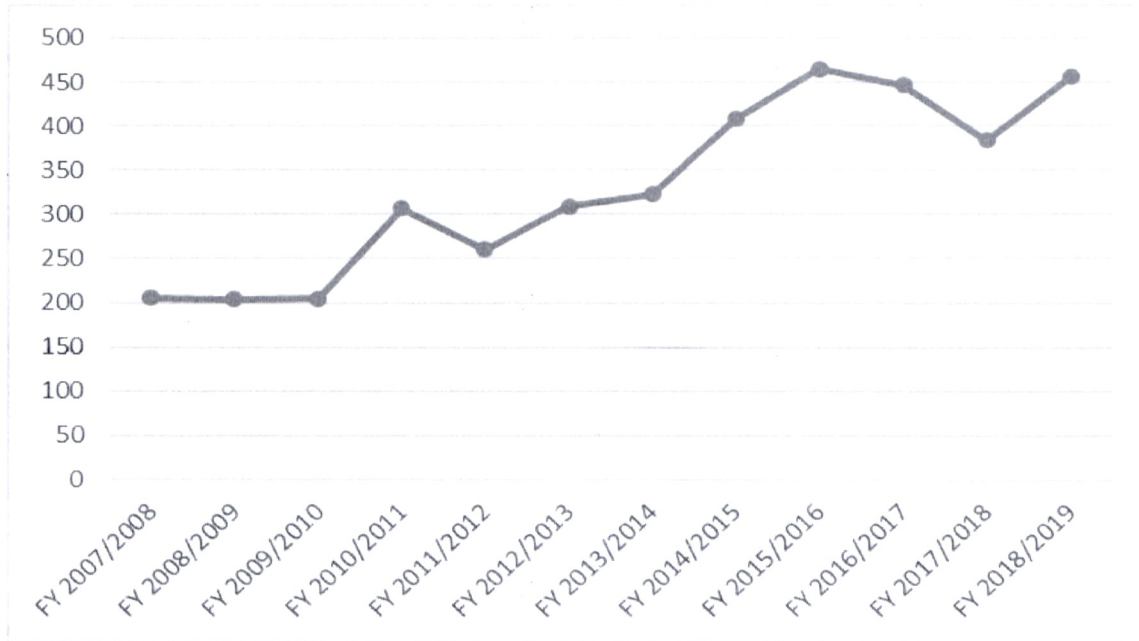
**Figure 1: PPRA Sources of Funding**



The Authority's funding improved from between FY 2009/2010 and 2014/2015. However, between FY 2014/2015 and FY 2018/2019 the funding level has remained the same despite the significant expansion of the Authority's mandate following the enactment of the PPADA 2015. The Authority's funding since its inception in FY 2007/2008 is as depicted in the chart below.

## MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

**Figure 2: PPRA Funding levels over the Last 12 years**



## 2. OPERATIONAL PERFORMANCE

### 2.1 Compliance Monitoring

The Authority envisions an effective, efficient and well-functioning public procurement and asset disposal system in Kenya. To contribute to this, we assess the level of compliance with the Public Procurement Law as well as recommend corrective measures where cases of non-compliance are detected. The Authority monitors the level of compliance by conducting procurement assessments, procurement reviews, contract audits, inspections and review of mandatory reports submitted by procuring entities (PEs) and tender invitation notices.

Section 9 (1) (a) of the PPADA, mandates the Authority to monitor, assess and review the public procurement and asset disposal system to ensure respect for the national values and other provisions of the Constitution, including Article 227 and make recommendations for improvements.

## **MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

### **2.1.1 Review of Mandatory Reports**

Procuring entities are required under the PPADA to submit mandatory reports on a quarterly basis to the Authority. The PE's are required to report on the following areas: all contract awarded, terminations of procurement proceedings; direct procurements above Kes. 500,000; disposal of assets to employees and contracts awarded under the preference and reservation schemes. During FY 2018/2019, the Authority reviewed all the quarterly mandatory reports submitted by the PE's to assess their compliance with the provisions of the Public Procurement Law and other directives and issued corrective measures as appropriate.

### **2.1.2 Procurement Assessments**

The Authority conducts procurement assessments pursuant to section 49 of the Act to evaluate the extent to which procuring entities comply with the procedures and processes outlined in the Public Procurement Law. In essence, a procurement assessment entails reviewing and evaluating the procurement systems of procuring entities with a view of determining their strengths and weaknesses. The Authority thereafter uses the findings to make recommendations for improvement of the systems through signing of action plans with the assessed entities.

During the year under review the Authority conducted procurement assessments in all the forty-six (46) procuring entities. The aggregate average compliance score for the assessed procuring entities was 54.5% which is considered average compliant

### **2.1.3 Follow-up on Implementation of the Signed Action Plans**

The Authority upon completion of procurement assessments and reviews, signs action plans with the management of the procuring entities as a commitment to implement the proposed corrective actions. During the financial year under review, the Authority conducted follow-ups in 46 PE's on the assessments that were conducted by the Authority in the FY 2016/2017. The follow-ups were intended to ascertain the implementation status of the recommendations made during the previous assessments. The follow ups showed the PE's were at different levels in implementation of the proposed corrective actions plans with the average implementation rate being 61%.

### **2.1.4 Contract Audits**

A contract audit entails a detailed examination of sampled contracts towards finding out their level of compliance with the provisions of the Public Procurement Law. During FY 2018/2019, the Authority conducted contract audits in twelve (12)

### **MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

procuring entities. The contract audits revealed low compliance levels for most of the PEs audited. The average compliance rating was 45.1% which is considered non-compliance meaning there is a 54.9% risk of the PE's audited not realizing value for money from implementation of the audited contracts.

The main areas of non-compliance include:

- (a) Majority of procuring entities did reserve the prescribed minimum of at least 30% of their planned annual procurement budgets for the youth, women and persons with disabilities.
- (b) Disposal committees as well as plans were not in place and no disposal activities were undertaken by the procuring entities in spite of existence of items due for disposal.
- (c) Failure to request for tender security and in some cases the amount requested was not a definite value.
- (d) Failure to set forth objective evaluation criteria in the tender documents, leading to subjective evaluation of tenders.
- (e) Lack of transparency in dealing with unsuccessful bidders, who are either not notified in time or not given reasons for being unsuccessful as well as not informed of the winning bidder.
- (f) Failure to request for performance security from winning bidders.
- (g) Poor contract management in terms of failing to either set terms of contracts or if otherwise were vague.
- (h) Poor management of procurement and contract records.

The Authority gave recommendations to the subject procuring entities through signed action plans and debriefing meetings to ensure corrective measures are taken to address the weaknesses. Consequently, the Authority will undertake follow ups to review the implementation status of the recommendations.

### **2.2 Complaints Management, Investigations, Enforcement and Debarment**

The Authority is committed to a positive complaint management environment and employs an accountable, transparent, timely and fair resolution of complaints lodged. The Authority recognizes that effective complaints management is essential to improving customer service.

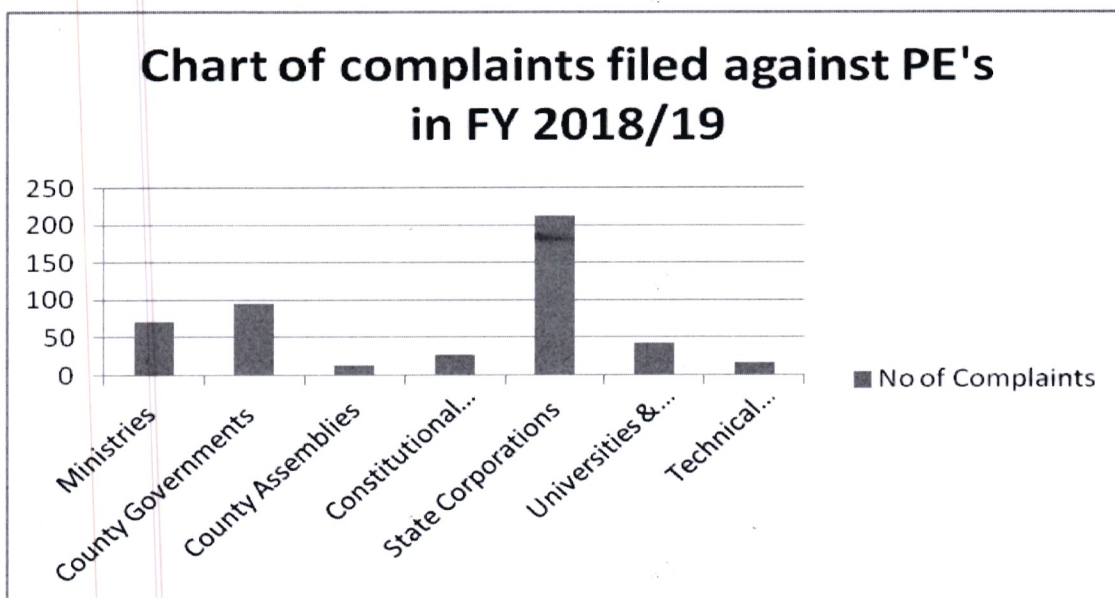
Section 9, 35 and 41 of the Act mandates the Authority to act on complaints received on public procurement and asset disposal proceedings; to undertake investigations on the complaints and to debar a person from participating in public procurement and asset disposal proceedings. The Authority developed and operationalized a complaints management and investigation manual, to act as a standard framework for complaints management and procedural conduct of investigations.

**MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

**2.2.1 Complaints Management**

The Authority receives complaints from procuring entities, suppliers and the general public on matters affecting the public procurement and asset disposal system. During the financial year under review, the Authority received 477 complaints against various procuring entities. A summary of the complaints received by the Authority are presented in the table below.

| Category of Procuring Entities   | No of Complaints | %           |
|----------------------------------|------------------|-------------|
| Ministries                       | 71               | 15%         |
| County Governments               | 95               | 20%         |
| County Assemblies                | 13               | 3%          |
| Constitutional Commissions       | 27               | 6%          |
| State Corporations               | 213              | 45%         |
| Universities & Colleges          | 42               | 9%          |
| Technical Institutions & Schools | 16               | 3%          |
| <b>Total</b>                     | <b>477</b>       | <b>100%</b> |

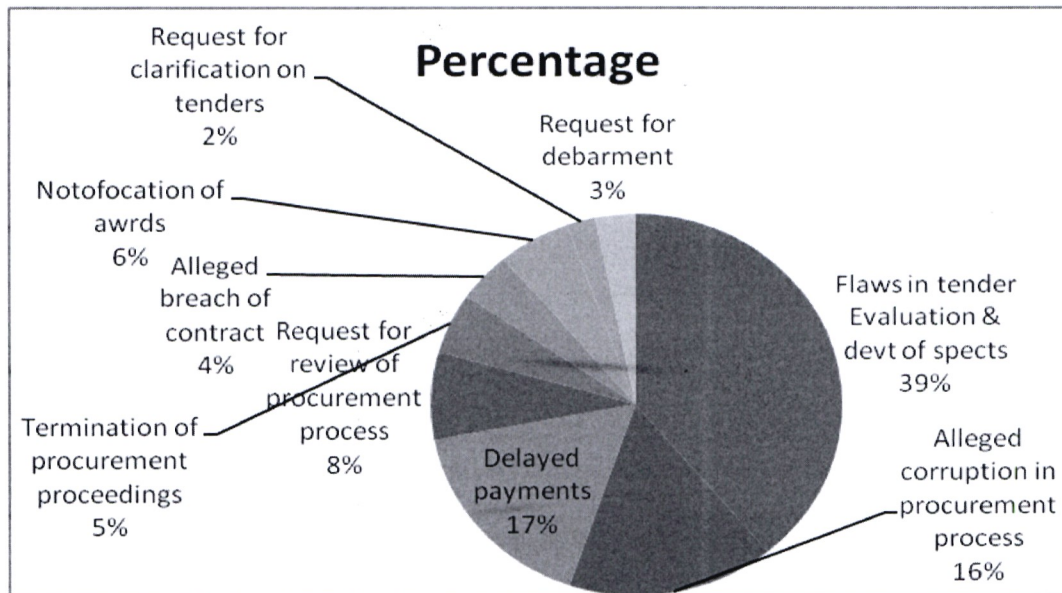


## MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

### Nature of complaints

On the nature of complaints lodged at the Authority, it was noted that a majority were on flaws in tender evaluation and development of specifications, delay in payments by PE's then allegations of corruption during procurement proceedings amongst others.

The distribution of the complaints lodged at the Authority by nature is presented in the figure below.



### 2.2.2 Procurement Investigations

Pursuant to sections 9 and 35 of the Act, the Authority may institute investigations where necessary to address complaints lodged. During the year under review, the Authority conducted thirteen (13) procurement investigations. Out of this six (6) were instituted by the Director General, PPRA while seven (7) were referrals by the Ethics and Anti Corruption Commission. In addition the Authority worked closely with the Directorate of Criminal Investigations on investigation of several cases of corruption in public procurement.

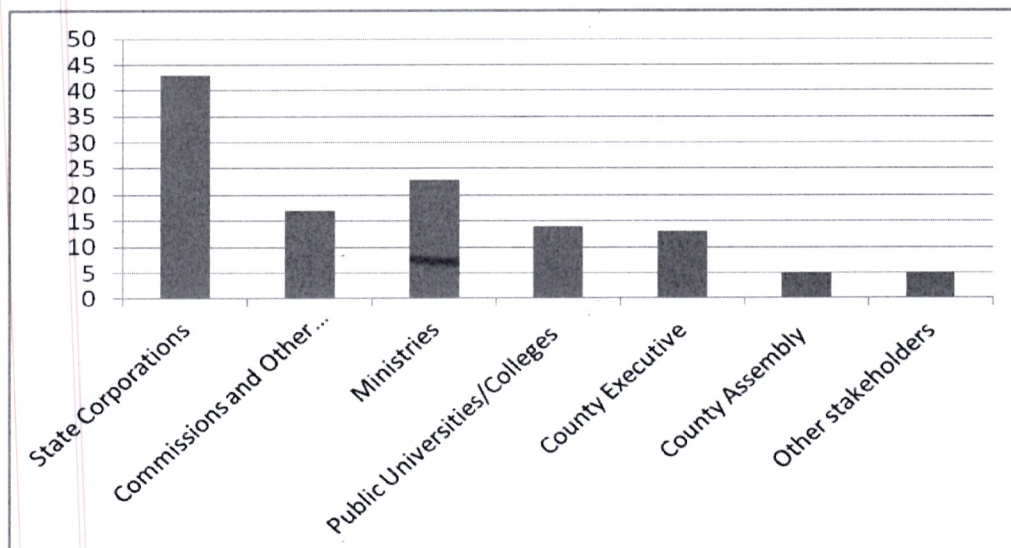
## MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

### 2.3 Research, Reporting and Advisory Services

On a continuous basis, procuring entities and other entities request for clarifications or guidance on the application of the Public Procurement Law. The Authority responds to the requests through issuance of advice or technical support based on their needs. Section 9 of the PPADA, 2015 mandates the Authority to provide advisory services and technical support upon request; monitor and evaluate the overall performance of the public procurement and asset disposal system; as well as conduct research on the system.

#### 2.3.1 Provision of Advisory Services and Technical Support

Pursuant to section 9 of the Act, the Authority is mandated to advise and provide technical support to the procuring entities and other stakeholders upon request. During the year under review, the Authority received 120 written requests for advice as shown below.



#### Major areas of Requests for Advice

The most common areas where different entities sought clarifications on included:

- Termination of procurement proceedings
- Evaluation of Tenders
- Authority to use direct procurement method
- Amendment/variation of contracts
- Procurement of consultancy services
- Application of the Executive Order No. 2 on publication of contract awards

## **MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

### **2.3.2 Technical Support and Training**

The Authority is mandated to provide technical support to stakeholders upon request pursuant to Section 9 (1) (g) of the Act. During the period under review, the Authority received and responded to twenty (20) requests for technical support.

A majority of the requests were on the following areas:

- a) Training or sensitization on procurement and asset disposal Act 2015 and execution of Executive Order No. 2 of June, 2018 on goods, works and services by public entities.
- b) Request of technical support on procurement of insurance cover.
- c) Request for facilitator during the annual training workshop on the preparation of financial statements for financial year 2018/2019.
- d) Training or sensitization for the preference and reservation group on procurement and Asset disposal system with the reference to the Access to Government Procurement Opportunities (AGPO).
- e) Request for facilitator on Performance based contracting course in the roads sector.
- f) Request for facilitator on open contracting projects

### **2.3.3 Development of the Market Price Guide**

Section 54 (3) of the Act mandates the Authority to issue a quarterly market price index as reference guide to assist accounting officers make informed price decisions. During the financial year, the Authority developed and issued four (4) quarterly market price indices/reference guides for common items.

### **2.3.4 Development of the Public Procurement Performance Monitoring Framework**

The Authority is required to provide accurate information and data on the performance/functioning of the public procurement and asset disposal system in Kenya. As such, specific public procurement and asset disposal system performance indicators should be clearly identified and defined for continuous monitoring, evaluation and reporting. During the year under review, the Authority commenced the development of a dynamic and comprehensive public procurement performance monitoring policy and framework for tracking of public procurement and asset disposal indicators through out the public procurement cycle.

## **MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

### **2.3.5 Preparation of the Half-Year Preference and Reservation Report for the July – December, 2018 Period**

The Authority, pursuant to Section 157 (14) of the Act is required to report to Parliament every six months on the performance of the preference and reservation scheme targeting youth, women and persons living with disabilities (PWDs). During the quarter under review, the Authority received performance reports from procuring entities on the contracts awarded to the youth, women and PWDs for compilation and submission to Parliament.

During the year under review the Authority prepared and submitted to Parliament two (2) reports covering the periods; January – June 2018 and July - December 2018.

### **2.3.6 The Annual East African Procurement Forum (EAPF)**

The East African Procurement Forum (EAPF) is an annual forum organized by the respective public procurement regulatory bodies drawn from the East Africa Community Member states. The participants are drawn from public Sector, private Sector, professional organizations, civil society and academic institutions. The objective of the forum is to serve as a framework that helps participants learn and benchmark with each other on their respective public procurement systems including policies and enforcement measures.

The 11th EAPF was convened during the period under review at Radisson Blu Hotel Upper Hill, in Nairobi between 28th and 30th November 2018. The theme of the forum was “Strengthening Integrity and Accountability in Public Procurement”.

### **2.4 Institutional Capacity**

The Authority appreciates that a strong institutional capacity is necessary for effective and efficient execution of its mandate and service delivery to all stakeholders. To ensure this the Authority continued to invest in improvement and upgrading of ICT systems as it leverages on technology for service delivery and training its human capital to equip them with requisite skills and competencies for improved productivity.

Further the Authority finalized development of its 5 year strategic plan for the period 2018/2019 to 2022/2023.

## MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

### 3. CHALLENGES

The Authority is currently faced with three major challenges

- i. Staffing levels:** The expanded mandate calls for an increase in the number of personnel involved in its implementation. To address the staffing challenge, the Authority needs funding for the additional employees and a Regulatory Board to approve the new jobs necessitated by new mandates and increase of staff complement for understaffed functions.
- ii. Funding:** The Authority relies heavily on Government funding as it offers its services to the public and procuring entities free of charge. Current budgetary support from the Government is not adequate to meet the Authority's resource requirements.
- iii. Office Space:** The Authority is constrained in terms of office space. The leased office space (two floors) at National Bank Building is not adequate to accommodate the current staff complement of the Authority and the Public Procurement Administrative Review Board. The congestion occasioned by inadequate office space negatively impacts on the working environment, records management, productivity and safety of staff.

### 4. RISK MANAGEMENT

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

In the year under review, the Authority continued to implement the various mitigation strategies to ensure that the risk levels are minimized. The Authority's Risk Policy, Procedures and Registers were reviewed and aligned to the current strategic themes and objectives. The Board, Management and Staff were also trained on risk management practices. The Authority's risk framework was updated and the mitigation strategies are continually being implemented.

## MANAGEMENT DISCUSSION AND ANALYSIS CONT'D

### Key risks facing the Authority

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

- i. Compliance monitoring risk:** While undertaking its mandate of monitoring the public procurement system and reporting on its overall functioning, the Authority has been challenged in so far as establishing the compliance levels is concerned. The mitigation measures for compliance audit risk being explored include acquisition of supervisory rights to Procure to Pay (P2P) module of IFMIS; strengthening the capacity of technical functions; collaborations with other law enforcement agencies; benchmarking with other regulators; and the development and operationalization of an ICT based monitoring & evaluation system.
- ii. Inadequate funding:** Over the years, the Authority's budgetary allocation has always fallen far short of its resource requirements to enable it effectively discharge its mandate. As a result the Authority has had to curtail on planned activities to work within available resources. This has hindered it from operating at its optimum potential. The mitigation measures include; prudent financial management; diversification of revenue sources/streams; and lobbying for additional government funding.
- iii. Reputational risks:** The Authority is exposed to potential negative publicity; whether true or false. This may have a negative impact on its services or lead to costly litigations. The mitigation strategies include having a clear understanding of the Authority's mandate amongst the internal & external stakeholders; review of the service charter and sharing it with all the stakeholders; implementation of customer feedback; Communicating and enforcing the Authority's Code of Conduct and Ethics; and developing and implementing the anti- corruption and whistle blowing policy.
- iv. Litigation risks:** The Authority is exposed to litigation arising from execution of its mandate. The mitigation strategies include strengthening of the Authority's legal capacity; acquisition of relevant insurance covers; promotion of alternative dispute resolution channels; and having a robust case management system for the Public Procurement Administrative Review Board.

**MANAGEMENT DISCUSSION AND ANALYSIS CONT'D**

- v. Occupational, Safety, Health and environmental risks:** The Authority has been expanding and thus the number of staff has increased leading to office space constraint as the available space is not adequate to comfortably accommodate current staff numbers. The mitigation strategies include acquisition of additional office space, strengthening the security capacity; staff training on safety and security matters; and implementing the corporate safety and security policy.

### **CORPORATE SOCIAL INVESTMENT STATEMENT**

The Authority is committed to operate in an economically, socially and environmentally sustainable manner, while recognizing the interests of its stakeholders, including the Government, customers, employees, business partners, local communities, the environment and society at large.

PPRA shall continue to engage in a sustained effort to create a social environment that upholds the opportunity for it to achieve its mandate effectively. In so doing, it will build a strong symbiotic bond between the community, stakeholders and customers.

During the year under review, the Authority participated in three (3) corporate social responsibility activities.

#### **Beyond Zero half marathon**

The “Beyond zero half marathon” took place on 10<sup>th</sup> March 2019 and aimed to raise funds for improving access to quality health care for expectant mothers, children and marginalized communities. PPRA contributed to the realization of this goal by making a donation to the “Beyond Zero Marathon Trust” and facilitated ten (10) of its staff to participate in the half marathon.



PPRA team that participated in Beyond Zero marathon

## CORPORATE SOCIAL INVESTMENT STATEMENT CONT'D

### Kenya Private Sector Alliance (KEPSA) supplier diversity summit

PPRA partnered with KEPSA during the first supplier diversity summit that took place on 29<sup>th</sup> May 2019. The summit's aim was to lobby for and activate greater supplier diversification so that more women, youth and PWD-owned enterprises are better prepared to bid for private, Government and development tenders. A Call-to-Action was made to encourage institutions present to commit to enhancing supplier diversity.

PPRA plays a major role in promoting inclusivity in supplier diversity.



PPRA Director General Mr Maurice Juma (2nd from left) was one of the panelists at the KEPSA diversity summit

### Tree planting project

In line with the Presidential directive dated 4<sup>th</sup> June 2018 on “inclusion of tree planting in Corporate Social Responsibilities activities” and towards the national requirement on attainment of 10% tree cover by 2022, PPRA partnered with Kenya Forest Service (KFS) and established an ideal “forest regeneration project” dubbed “Adopting a forest”. This project will see PPRA establish and maintain its own area of natural forest for five years.

**CORPORATE SOCIAL INVESTMENT STATEMENT CONT'D**

During the financial year, PPRA planted natural trees on one hectare of forest land identified for regeneration at Kimondi Forest, Nandi County on 20<sup>th</sup> June 2019.



Mrs Jane Njoroge, General Manager - Technical during the tree planting exercise at Kimondi Forest, Nandi County.

## **REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2019 which show the state of the Authority's affairs.

### **Principal activities**

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

### **Results**

The results of the Authority for the year ended June 30, 2019 and accompanying notes are set out on pages 47 to 75.

### **Directors**

The members of the Board of Directors who served during the year are shown on pages 7 to 10.

### **Dividends/Surplus remission**

In accordance with Section 219 (2) of the Public Financial Management Act regulations, regulatory entities shall remit into Consolidated Fund, ninety per centum of its surplus funds reported in the audited financial statements after the end of each financial year. The Authority did not make any surplus during the year under review and hence no remittance to the Consolidated Fund.

### **Auditors**

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

By Order of the Board



**Lucy J. Barno**  
Corporation Secretary  
Nairobi

Date: 16/11/2020

## STATEMENT OF DIRECTORS' RESPONSIBILITY

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

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of its state of affairs for and as at the end of the financial year (period) ended on June 30, 2019. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and Public Procurement and Asset Disposal Act 2015. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of its transactions during the financial year ended June 30, 2019, and of the financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the financial statements as well as the adequacy of the systems of internal financial control.

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

### Approval of the financial statements

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

  
Director

  
Director

# REPUBLIC OF KENYA

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NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON PUBLIC PROCUREMENT REGULATORY AUTHORITY FOR THE YEAR ENDED 30 JUNE, 2019**

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### **REPORT ON THE FINANCIAL STATEMENTS**

#### **Opinion**

I have audited the accompanying financial statements of Public Procurement Regulatory Authority set out on pages 47 to 74, which comprise the statement of financial position as at 30 June, 2019, and the statement of financial performance, statement of changes in net assets, statement of cash flows and the statement of comparison of budget and actual amounts for the year ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Procurement Regulatory Authority as at 30 June, 2019 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

#### **Basis for Opinion**

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Public Procurement Regulatory Authority Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### **Key Audit Matters**

Key audit matters are those that, in my professional judgement, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to communicate in my report.

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

### **Conclusion**

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

### **Basis for Conclusion**

#### **1. Compensation of Employees**

The statement of financial performance reflects total expenditure on employees' costs amounting to Kshs.228,440,418 compared to total revenue of Kshs.356,146,946. The expenditure on compensation of employees (salaries, benefits and allowances) during the year therefore constituted about 64% of the total revenue. This is contrary to the provisions of Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations, 2015, which by implication limits the Authority's expenditure on compensation of employees (including benefits and allowances) to not more than 35 percent (35%) of its annual revenue.

The Authority is therefore, in breach of the law.

#### **2. Failure to Commission ERP System**

The Management invested in an Enterprise Resource Planning (ERP) system in 2015 which is yet to be commissioned. Consequently, the envisioned objectives of automating the financial and operations processes have not been realized as transactions continue to be recorded manually. No explanation has been provided for the delay. Consequently, value for money has not been realized from the procurement of the ERP system.

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

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

### **Conclusion**

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

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and The Board of Directors**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (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, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Authority's ability to continue to sustain service, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Authority or to cease operations.

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

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

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Authority 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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **Auditor-General's Responsibilities for the Audit**

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

reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 applicable basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue 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 Authority to cease to continue to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Authority 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.



**Nancy Gathungu**  
**AUDITOR-GENERAL**

**Nairobi**

**10 February, 2021**

**STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

|   |             | <b>2019</b>                | <b>2018</b>               |
|---|-------------|----------------------------|---------------------------|
|   | <b>Note</b> | <b>Ksh</b>                 | <b>Ksh</b>                |
| <b>Revenue from non-exchange transactions</b>   |             |                            |                           |
| Unconditional Government Grants                 | 5           | 327,236,025                | 360,000,000               |
|   |             |                            |                           |
| <b>Revenue from exchange transactions</b>       |             |                            |                           |
| Rendering of services                           | 6           | 17,218,023                 | 18,393,851                |
| Finance Income                                  | 7           | 10,523,000                 | 4,987,800                 |
| Other Income                                    | 8           | 1,169,898                  | 68,134                    |
| <b>Total Revenue from exchange transactions</b> |             | <b><u>28,910,921</u></b>   | <b><u>23,449,785</u></b>  |
| <b>Total Revenue</b>                            |             | <b><u>356,146,946</u></b>  | <b><u>383,449,785</u></b> |
|   |             |                            |                           |
| <b>EXPENSES</b>                                 |             |                            |                           |
| Employee Costs                                  | 9           | 228,440,418                | 166,504,649               |
| Board Expenses                                  | 10          | 50,314,503                 | 40,094,051                |
| General Expenses                                | 11          | 122,665,687                | 119,455,466               |
| Repairs and Maintenance                         | 12          | 1,540,729                  | 5,389,624                 |
| Contracted Services                             | 13          | 22,033,906                 | 24,054,401                |
| Finance Costs                                   | 14          | 310,960                    | 239,416                   |
| Depreciation and Amortization                   | 15          | 20,572,629                 | 20,789,935                |
| <b>Total Expenses</b>                           |             | <b><u>445,878,832</u></b>  | <b><u>376,527,542</u></b> |
| <b>Surplus / (Deficit) for the year</b>         |             | <b><u>(89,731,886)</u></b> | <b><u>6,922,243</u></b>   |

The notes set out on pages 53 to 75 form an integral part of the financial statements.

**STATEMENT OF FINANCIAL POSITION  
AS AT 30<sup>TH</sup> JUNE 2019**

|   |             | <b>2019</b>               | <b>2018</b>               |
|---|-------------|---------------------------|---------------------------|
|   | <b>Note</b> | <b>Ksh</b>                | <b>Ksh</b>                |
| <b>ASSETS</b>                                     |             |                           |                           |
| <b>Current Assets</b>                             |             |                           |                           |
| Cash and cash equivalents                         | 16          | 661,307,278               | 631,892,646               |
| Receivables from exchange transactions            | 17          | 16,509,737                | 10,730,793                |
| Receivables from non-exchange transactions        | 18          | 6,886,905                 | 5,918,214                 |
| <b>Total Current Assets</b>                       |             | <b><u>684,703,920</u></b> | <b><u>648,541,653</u></b> |
| <b>Non- current Assets</b>                        |             |                           |                           |
| Property, Plant and Equipment                     | 19          | 15,614,550                | 24,183,802                |
| Intangible Assets                                 | 20          | 4,554,044                 | 6,188,974                 |
| Work In Progress                                  | 21          | 6,705,432                 | 6,705,432                 |
| <b>Total Non-Current Assets</b>                   |             | <b><u>26,874,026</u></b>  | <b><u>37,078,208</u></b>  |
| <b>Total Assets</b>                               |             | <b><u>711,577,946</u></b> | <b><u>685,619,861</u></b> |
| <b>LIABILITIES</b>                                |             |                           |                           |
| <b>Current Liabilities</b>                        |             |                           |                           |
| Trade & Other Payables from exchange transactions | 22          | 31,406,564                | 38,739,185                |
| Provisions  | 23          | 20,569,367                | 858,400                   |
| Deferred income                                   | 24          | <u>220,000,000</u>        | <u>120,000,000</u>        |
| <b>Total current liabilities</b>                  |             | <b><u>271,975,931</u></b> | <b><u>159,597,585</u></b> |
| <b>Net Assets</b>                                 |             |                           |                           |
| Accumulated Fund                                  | 25          | <u>439,602,015</u>        | <u>526,022,276</u>        |
| <b>Total Net Assets and Liabilities</b>           |             | <b><u>711,577,946</u></b> | <b><u>685,619,861</u></b> |

The financial statements and accompanying notes on page 47 to 75 were signed on behalf of the Authority by:

**Ms Pauline O. Opiyo**  
**For: Director General**

Date: ...16/11/2020.....

**Mr Andrew M. Musangi**  
**Chairman PPRB**

Date: ...16/11/2020.....

**STATEMENT OF CHANGES IN NET ASSETS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

|                              | <b>Accumulated<br/>Fund</b> | <b>Reserves</b> | <b>Total</b>              |
|------------------------------|-----------------------------|-----------------|---------------------------|
|                              | <b>Ksh</b>                  | <b>Ksh</b>      | <b>Ksh</b>                |
| <b>Balance at 01.07.2017</b> | <b>519,100,033</b>          | <b>0</b>        | <b>519,100,033</b>        |
| Surplus for the year         | 6,922,243                   | 0               | <b>6,922,243</b>          |
| <b>Balance at 30.06.2018</b> | <b>526,022,276</b>          | <b>0</b>        | <b>526,022,276</b>        |
| Adjustment of provisions     | 3,311,625                   | <b>0</b>        | <b>3,311,625</b>          |
| Surplus for the year         | (89,731,886)                | 0               | <b>(89,731,886)</b>       |
| <b>Balance at 30.06.2019</b> | <b><u>439,602,015</u></b>   | <b>0</b>        | <b><u>439,602,015</u></b> |

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30<sup>TH</sup> JUNE 2019**

|  |              | <b>2019</b>               | <b>2018</b>                |
|--|--------------|---------------------------|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>        | <b>Notes</b> | <b>Ksh</b>                | <b>Ksh</b>                 |
| <b>Net Cash flows from Operating Activities</b>    | 26           | <b><u>36,471,454</u></b>  | <b><u>103,790,733</u></b>  |
|  |              |                           |                            |
| <b>CASH FLOWS FROM INVESTING ACTIVITES</b>         |              |                           |                            |
| Acquisition of tangible assets                     |              | (7,056,823)               | (9,254,486)                |
| Acquisition of intangible assets                   |              | 0                         | (7,691,330)                |
| <b>Net cash flow from Investing Activities</b>     |              | <b><u>(7,056,823)</u></b> | <b><u>(16,945,816)</u></b> |
| <b>Net changes in Cash and Cash Equivalents</b>    |              | <b><u>29,414,631</u></b>  | <b><u>86,844,917</u></b>   |
| <b>Cash &amp; Cash Equivalents opening balance</b> |              | <b><u>631,892,647</u></b> | <b><u>545,047,730</u></b>  |
| <b>Cash &amp; Cash Equivalents closing balance</b> |              | <b><u>661,307,278</u></b> | <b><u>631,892,647</u></b>  |

### STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| Revenue                                   | Note | Original Budget    | Adjustments          | Final Budget       | Actual on comparable basis | Utilization | Foot note |
|---|------|--------------------|----------------------|--------------------|----------------------------|-------------|-----------|
|   |      | Ksh                | Ksh                  | Ksh                | Ksh                        |             |           |
| Government Grants                         | 5    | 703,654,800        | (363,654,800)        | 340,000,000        | 327,236,025                | 96%         | a         |
| Rendering of services                     | 6    | 18,000,000         | 0                    | 18,000,000         | 17,218,023                 | 96%         |           |
| Finance Income                            | 7    | 7,000,000          | 0                    | 7,000,000          | 10,523,000                 | 150%        | b         |
| Other income                              | 8    | 0                  | 0                    | 0                  | 1,169,898                  |             | c         |
| Balances carried forward from previous FY |      | 0                  | 160,774,400          | 160,774,400        | 160,774,400                | 100%        |           |
| <b>Total Revenue</b>                      |      | <b>728,654,800</b> | <b>(202,880,400)</b> | <b>525,774,400</b> | <b>516,921,346</b>         | <b>98%</b>  |           |
| <b>Expenses</b>                           |      |                    |                      |                    |                            |             |           |
| Employee Costs                            | 9    | 218,331,800        | 12,597,400           | 205,734,400        | 228,440,418                | 111%        | d         |
| Board Allowances & Exp                    | 10   | 80,915,000         | 27,087,000           | 53,828,000         | 50,314,503                 | 93%         |           |
| General Expenses                          | 11   | 304,508,000        | 95,196,000           | 209,312,000        | 122,665,687                | 59%         | e         |
| Repairs and Maintenance                   | 12   | 12,800,000         | 2,300,000            | 10,500,000         | 1,540,729                  | 15%         | f         |
| Contracted Services                       | 13   | 65,300,000         | 38,700,000           | 26,600,000         | 22,033,906                 | 83%         | g         |
| Finance Costs                             | 14   | 300,000            | 0                    | 300,000            | 310,960                    | 104%        |           |
| Depreciation and Amortization             | 15   | 0                  | 0                    | 0                  | 20,572,629                 |             |           |
| Purchase of Tangible Assets               | 19   | 4,000,000          | 0                    | 4,000,000          | 7,056,823                  | 176%        | h         |
| Purchase of Intangible Assets             | 20   | 42,500,000         | (27,000,000)         | 15,500,000         | 0                          | 0%          | i         |
| <b>Total Expenses</b>                     |      | <b>728,654,800</b> | <b>148,880,400</b>   | <b>525,774,400</b> | <b>452,935,655</b>         | <b>86%</b>  |           |

#### Notes explaining variance

- a. Government Grants: The underperformance was occasioned by budget cuts effected during review of the budget through supplementary budget I.
- b. Finance income: Favourable performance in finance income attributed to better returns than had been projected.
- c. Other income: The other income is donations from corporate who came in to support the budget for hosting of the EAPF.
- d. Employee costs: The unfavourable performance variance is attributed to a provision made for leave liability of Ksh 19,710,967. This was not anticipated and had therefore not been budgeted for.
- e. General expenses: The Authority saved more than Ksh 12 million on planned expenditure for the EAPF due to change of venue and some development partners taking some of the items and paying for them directly. In addition implementation of a number of activities either started late or was deferred so the related expenditure was not actualized.

- f. Repairs & maintenance: Attributed to a number of service level agreements that were not actualized.
- g. Contracted services: Consultancies planned for implementation during the year including brand roll out and conducting a survey of the Country Procurement System commenced in the 4<sup>th</sup> quarter and so their payments spilled over to FY 2019/2020 when they are expected to conclude the assignments and present fee notes for payment.
- h. Finance costs: The cost of bank transactions was pushed up by implementation of excise tax on bank charges and commissions.
- i. Tangible assets: There was need to procure requisite ICT equipment to facilitate implementation of executive order No 2 of 2018 through roll out of the Public Procurement Information Portal (PPIP).
- j. Intangible assets: Some of the software planned for acquisition during the financial year were not realized.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

The Public Procurement Regulatory Authority (the Authority) is established under Section 8 (1) of the Public Procurement and Disposal Act, 2015. PPRA is domiciled in Kenya and has regional offices in Mombasa, Kisumu and Eldoret. The Authority is mandated with monitoring, assessing and reviewing the public procurement and asset disposal system to ensure that they respect the national values and other provisions of the constitution.

### **2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

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

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

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Revenue recognition**

##### **i) Revenue from non-exchange transactions**

##### **Fees, taxes and fines**

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

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

### **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

#### **Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

#### **ii) Revenue from exchange transactions**

##### ***Rendering of services***

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

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

##### ***Sale of goods***

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

##### ***Interest income***

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

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

### **b) Budget information**

The original budget for FY 2017-2018 was approved by the management of the Authority. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities.

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

as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

### **c) Taxes**

#### ***Current income tax***

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

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

### **d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

### **e) Leases**

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

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

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

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

### **f) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred. The useful life of the intangible assets is assessed as either finite or indefinite.

### **g) Depreciation**

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

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

### **h) Financial instruments**

#### **(i) Financial assets**

##### **Initial recognition and measurement**

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

##### **Loans and receivables**

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

##### **Held-to-maturity**

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

### ***Impairment of financial assets***

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

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

### ***h (ii) Financial liabilities***

#### ***Initial recognition and measurement***

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

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

#### ***Loans and borrowing***

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

### **i) Inventories**

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

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

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

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

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

### **j) Provisions**

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

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

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

### ***Contingent liabilities***

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

### ***Contingent assets***

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

### **k) Nature and purpose of reserves**

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

### **l) Changes in accounting policies and estimates**

The Entity recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

### **m) Employee benefits**

#### **Retirement benefit plans**

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

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions**

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

**o) Borrowing costs**

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

**p) Related parties**

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**q) Service concession arrangements**

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

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

### **r) Cash and cash equivalents**

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

### **s) Comparative figures**

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

## **4. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

### **Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

## **NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

### **Useful lives and residual values**

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

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

### **Provisions**

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

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

### **u) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 5. Unconditional Government Grants

Operational grants Government of Kenya funding of PPRA operations through Exchequer during the financial year.

|                                | <b>2019</b>               | <b>2018</b>               |
|--------------------------------|---------------------------|---------------------------|
|                                | <b>Ksh</b>                | <b>Ksh</b>                |
| Operational Grant              | 327,236,025               | 360,000,000               |
| <b>Total Government Grants</b> | <b><u>327,236,025</u></b> | <b><u>360,000,000</u></b> |

### 6. Rendering Services

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

|                     | <b>2019</b>       | <b>2018</b>       |
|---------------------|-------------------|-------------------|
|                     | <b>Ksh</b>        | <b>Ksh</b>        |
| Income from appeals | <u>17,218,023</u> | <u>18,393,851</u> |

### 7. Finance Income

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

|                 | <b>2019</b>              | <b>2018</b>             |
|-----------------|--------------------------|-------------------------|
|                 | <b>Ksh</b>               | <b>Ksh</b>              |
| Interest Income | 10,523,000               | 4,987,800               |
| <b>Total</b>    | <b><u>10,523,000</u></b> | <b><u>4,987,800</u></b> |

### 8. Other Income

This includes income from the sources listed below:

|                      | <b>2019</b>             | <b>2018</b>          |
|----------------------|-------------------------|----------------------|
|                      | <b>Ksh</b>              | <b>Ksh</b>           |
| Disposal Income      | 369,898                 | 0                    |
| Insurance recoveries | 0                       | 68,134               |
| Donations            | 800,000                 | 0                    |
| <b>Total</b>         | <b><u>1,169,898</u></b> | <b><u>68,134</u></b> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 9. Employee Costs

This comprises of the staff personnel emoluments and employer pension contribution. A breakdown of the employee costs is as shown below:

|                                  | <b>2019</b>               | <b>2018</b>               |
|----------------------------------|---------------------------|---------------------------|
|                                  | <b>Ksh</b>                | <b>Ksh</b>                |
| Salaries and wages               | 116,968,804               | 100,403,749               |
| Pension & Gratuity contributions | 37,601,866                | 19,328,600                |
| Housing benefits & allowances    | 54,158,781                | 46,772,300                |
| Leave expense                    | 19,710,967                | 0                         |
| <b>Total</b>                     | <b><u>228,440,418</u></b> | <b><u>166,504,649</u></b> |

Note: Car park, insurance, recruitment, club membership, staff welfare, training and travel and accommodation costs moved to category General expenses.

### 10. Board Expenses

This comprises of costs related to the Public Procurement Regulatory Board and the Public Procurement Administrative Review Board.

|  | <b>2019</b>              | <b>2018</b>              |
|--|--------------------------|--------------------------|
|  | <b>Ksh</b>               | <b>Ksh</b>               |
| Administrative Review Board other expenses | 9,374,836                | 6,921,897                |
| Administrative Review Board Emoluments     | 32,156,493               | 33,172,154               |
| Regulatory Board other expenses            | 3,763,174                | 0                        |
| Regulatory Board Emoluments                | 5,020,000                | 0                        |
| <b>Total</b>                               | <b><u>50,314,503</u></b> | <b><u>40,094,051</u></b> |

Note: Car park, catering and insurance costs moved to category General expenses.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 11. General Expenses

Below are the general expenses of the Authority.

| Description                     | 2019<br>Ksh        | 2018<br>Ksh        |
|---------------------------------|--------------------|--------------------|
| Advertising                     | 4,218,084          | 1,402,220          |
| Branding PPRA                   | 2,024,520          | 1,820,428          |
| Car Park expenses               | 8,964,480          | 9,827,984          |
| Catering                        | 2,162,200          | 2,140,481          |
| Club membership                 | 225,500            | 239,000            |
| Conference and delegations      | 14,512,467         | 3,406,740          |
| Consumables                     | 131,942            | 285,192            |
| Corporate Social Investment     | 1,219,257          | 299,778            |
| Fuel and Oil                    | 1,456,045          | 1,396,080          |
| Insurance Costs                 | 19,187,265         | 19,107,909         |
| ISO expenses                    | 2,409,172          | 1,257,890          |
| Knowledge management            | 433,000            | 0                  |
| Legal expenses                  | 66,375             | 715,611            |
| Newspapers/Journals             | 270,000            | 308,569            |
| Office Expenses                 | 1,186,405          | 1,299,146          |
| Printing & stationery           | 4,242,652          | 6,403,120          |
| Rent & utilities                | 18,598,463         | 17,804,348         |
| Software upgrades and licences  | 926,900            | 483,700            |
| Staff recruitment and induction | 71,405             | 207,500            |
| Staff welfare                   | 1,364,302          | 964,383            |
| Telecommunication               | 3,357,478          | 3,554,656          |
| Trade shows and exhibitions     | 1,257,137          | 1,196,000          |
| Training                        | 6,382,568          | 7,996,740          |
| Travel & accommodation          | 27,998,070         | 37,337,991         |
| <b>Total</b>                    | <b>122,665,687</b> | <b>119,455,466</b> |

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**12. Repairs and Maintenance**

The Authority spent Ksh 1,540,729 on maintenance of vehicles, equipment, computers and general maintenance. A breakdown of the expenditure is shown below:

|              | <b>2019</b>      | <b>2018</b>      |
|--------------|------------------|------------------|
|              | <b>Ksh</b>       | <b>Ksh</b>       |
| Vehicles     | 935,009          | 992,282          |
| Equipment    | 315,000          | 3,831,854        |
| Property     | 290,720          | 565,488          |
| <b>Total</b> | <b>1,540,729</b> | <b>5,389,624</b> |

**13. Contracted Services**

These are services outsourced by the Authority.

|                        | <b>2019</b>       | <b>2018</b>       |
|------------------------|-------------------|-------------------|
|                        | <b>Ksh</b>        | <b>Ksh</b>        |
| Audit fees             | 858,400           | 858,400           |
| Cleaning Services Fees | 2,011,850         | 1,734,917         |
| Security Costs         | 0                 | 1,710,774         |
| Consultancy Fees       | 19,163,656        | 19,750,310        |
| <b>Total</b>           | <b>22,033,906</b> | <b>24,054,401</b> |

**14. Finance Costs**

|              | <b>2019</b>    | <b>2018</b>    |
|--------------|----------------|----------------|
|              | <b>Ksh</b>     | <b>Ksh</b>     |
| Bank charges | 310,960        | 239,416        |
| <b>Total</b> | <b>310,960</b> | <b>239,416</b> |

**15. Depreciation and Amortization**

|                        | <b>2019</b>       | <b>2018</b>       |
|------------------------|-------------------|-------------------|
|                        | <b>Ksh</b>        | <b>Ksh</b>        |
| Property and equipment | 18,937,699        | 16,723,809        |
| Intangible assets      | 1,634,930         | 4,066,126         |
| <b>Total</b>           | <b>20,572,629</b> | <b>20,789,935</b> |

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**16. Cash and cash equivalents**

|                             | <b>2019</b>               | <b>2018</b>               |
|-----------------------------|---------------------------|---------------------------|
|                             | <b>Ksh</b>                | <b>Ksh</b>                |
| Bank                        | 464,188,778               | 533,545,046               |
| Cash on hand and in transit | 0                         | 0                         |
| Short-term deposits         | 197,118,500               | 98,347,600                |
| <b>Total</b>                | <b><u>661,307,278</u></b> | <b><u>631,892,646</u></b> |

**17. Receivables from exchange transactions**

|                               | <b>2019</b>              | <b>2018</b>              |
|-------------------------------|--------------------------|--------------------------|
|                               | <b>Ksh</b>               | <b>Ksh</b>               |
| Prepayments                   | 16,045,381               | 10,366,793               |
| Other receivables             | 100,356                  | 0                        |
| Rent Deposit - Mombasa Office | 364,000                  | 364,000                  |
| <b>Total</b>                  | <b><u>16,509,737</u></b> | <b><u>10,730,793</u></b> |

**18. Receivables from non-exchange transactions**

|                 | <b>2019</b>             | <b>2018</b>             |
|-----------------|-------------------------|-------------------------|
|                 | <b>Ksh</b>              | <b>Ksh</b>              |
| Imprest advance | 5,767,824               | 4,793,230               |
| Salary advance  | 1,119,081               | 1,124,984               |
| <b>Total</b>    | <b><u>6,886,905</u></b> | <b><u>5,918,214</u></b> |

**19. Property, Plant & Equipment**

|                                      | Motor Vehicles    |             | Equipment & Computers |           | Furniture & Fittings |             | Office Partitions |   | Total              |          |
|--------------------------------------|-------------------|-------------|-----------------------|-----------|----------------------|-------------|-------------------|---|--------------------|----------|
|                                      | Ksh               |             | Ksh                   |           | Ksh                  |             | Ksh               |   | Ksh                |          |
| <b>Cost</b>                          |                   |             |                       |           |                      |             |                   |   |                    |          |
| <b>At 1st July 2017</b>              | <b>68,041,313</b> |             | <b>52,923,768</b>     |           | <b>15,643,954</b>    |             | <b>45,158,490</b> |   | <b>181,767,525</b> |          |
| Additions                            | 0                 | 8,991,986   | 0                     | 0         | 297,500              | 0           | 0                 | 0 | 9,289,486          | 0        |
| Disposals                            | 0                 | 0           | 0                     | 0         | 0                    | 0           | 0                 | 0 | 0                  | 0        |
| Adjustments                          | 0                 | (35,000)    | 0                     | 0         | 0                    | 0           | 0                 | 0 | (35,000)           | 0        |
| <b>At 30th June 2018</b>             | <b>68,041,313</b> |             | <b>61,880,754</b>     |           | <b>15,941,454</b>    |             | <b>45,158,490</b> |   | <b>191,022,011</b> |          |
| Additions                            | 0                 | 5,918,272   | 0                     | 0         | 1,138,551            | 0           | 0                 | 0 | <b>7,056,823</b>   | 0        |
| Disposals                            | 0                 | 0           | 0                     | 0         | 0                    | 0           | 0                 | 0 | 0                  | 0        |
| Adjustments                          | 0                 | (2,348,323) | 0                     | 0         | (106,000)            | 0           | 0                 | 0 | (2,454,323)        | 0        |
| <b>At 30th June 2019</b>             | <b>68,041,313</b> |             | <b>65,450,703</b>     |           | <b>16,974,005</b>    |             | <b>45,158,490</b> |   | <b>195,624,511</b> |          |
| <b>Depreciation &amp; Impairment</b> |                   |             |                       |           |                      |             |                   |   |                    |          |
| <b>At 1st July 2017</b>              | <b>49,646,900</b> |             | <b>44,935,563</b>     |           | <b>10,753,285</b>    |             | <b>44,813,653</b> |   | <b>150,149,401</b> |          |
| Depreciation                         | 8,994,992         | 6,656,002   | 6,656,002             | 1,003,847 | 1,003,847            | 68,968      | 0                 | 0 | 16,723,809         | (35,000) |
| Adjustments                          | 0                 | (35,000)    | 0                     | 0         | 0                    | 0           | 0                 | 0 | 0                  | 0        |
| <b>At 30th June 2018</b>             | <b>58,641,892</b> |             | <b>51,556,565</b>     |           | <b>11,757,132</b>    |             | <b>44,882,621</b> |   | <b>166,838,210</b> |          |
| Depreciation                         | 13,468,209        | 4,179,177   | 4,179,177             | 669,733   | 669,733              | 620,580     | 18,937,699        |   |                    |          |
| Adjustments **                       | (4,400,510)       | 21,037      | 21,037                | 3,282     | 3,282                | (1,389,757) | (5,765,948)       |   |                    |          |
| <b>At 30th June 2019</b>             | <b>67,709,591</b> |             | <b>55,756,779</b>     |           | <b>12,430,147</b>    |             | <b>44,113,444</b> |   | <b>180,009,961</b> |          |
| <b>Net book values</b>               |                   |             |                       |           |                      |             |                   |   |                    |          |
| <b>At 30th June 2019</b>             | <b>331,722</b>    |             | <b>9,693,924</b>      |           | <b>4,543,858</b>     |             | <b>1,045,046</b>  |   | <b>15,614,550</b>  |          |
| <b>At 30th June 2018</b>             | <b>9,399,421</b>  |             | <b>10,324,189</b>     |           | <b>4,184,322</b>     |             | <b>275,869</b>    |   | <b>24,183,801</b>  |          |

\*\*

a. Motor vehicle - Adjustment is to correct overstatement of prior years provision for depreciation on motor vehicles in prior years by Ksh 4,400,510.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

- b. Partitions - Adjustment is to correct overstatement of prior years' provision for depreciation on office partitions in prior years by Ksh 1,389,757.
- c. Equipment & computers - Adjustment of overstatement of prior year cost of equipment by Ksh 2,348,323 and understatement of prior year depreciation charge by Ksh 21,037.
- d. Furniture & fittings - Adjustment of overstatement of cost of furniture by Ksh 106,000 and understatement of prior year depreciation charge by Ksh 3,282.

### 20. Intangible assets

Intangible assets comprises ICT Systems and software used by the Authority in its operations.

|                                    | <b>2019</b>       | <b>2018</b>       |
|------------------------------------|-------------------|-------------------|
| <b>Cost</b>                        | <b>Ksh</b>        | <b>Ksh</b>        |
| <b>At beginning of the year</b>    | <b>44,491,170</b> | <b>36,799,840</b> |
| Additions                          | 0                 | 7,691,330         |
| <b>At end of the year</b>          | <b>44,491,170</b> | <b>44,491,170</b> |
| <b>Amortization and Impairment</b> |                   |                   |
| <b>At beginning of the year</b>    | <b>38,302,196</b> | <b>34,236,070</b> |
| Amortization                       | 1,634,930         | 4,066,126         |
| Transfers/adjustments              | 0                 | 0                 |
| <b>At end of the year</b>          | <b>39,937,126</b> | <b>38,302,196</b> |
| <b>Net book value</b>              | <b>4,554,044</b>  | <b>6,188,974</b>  |

### 21. Work In Progress

Relates to implementation of Navision upgrade to 2015 and Fleet Management System.

| <b>Details</b>           | <b>2019</b>      | <b>2018</b>      |
|--------------------------|------------------|------------------|
|                          | <b>Ksh</b>       | <b>Ksh</b>       |
| Navision upgrade to 2015 | 5,760,432        | 5,760,432        |
| Fleet Management System  | 945,000          | 945,000          |
| <b>Balance</b>           | <b>6,705,432</b> | <b>6,705,432</b> |

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**22. Trade & Other Payables from exchange transactions**

|                | <b>2019</b>       | <b>2018</b>       |
|----------------|-------------------|-------------------|
|                | <b>Ksh</b>        | <b>Ksh</b>        |
| Trade Payables | 14,427,766        | 38,249,478        |
| Other Payables | 16,978,798        | 489,707           |
| <b>Total</b>   | <b>31,406,564</b> | <b>38,739,185</b> |

**23. Provisions**

Provision made to cater for audit of FY 2018/19 books of accounts and outstanding staff leave days as at 30th June 2019.

|                          | <b>2019</b>       | <b>2018</b>    |
|--------------------------|-------------------|----------------|
|                          | <b>Ksh</b>        | <b>Ksh</b>     |
| Provision for audit fees | 858,400           | 858,400        |
| Provision for leave      | 19,710,967        | 0              |
| <b>Total</b>             | <b>20,569,367</b> | <b>858,400</b> |

**24. Deferred Income**

Is income received for a specific purpose i.e establishment of regional offices which had not been utilized at the end of the financial year.

|                                  | <b>2019</b>        | <b>2018</b>       |
|----------------------------------|--------------------|-------------------|
|                                  | <b>Ksh</b>         | <b>Ksh</b>        |
| National Government              | 100,000,000        | 60,000,000        |
| International Funders            | 0                  | 0                 |
| Public contributions & donations | 0                  | 0                 |
| <b>Total Deferred income</b>     | <b>100,000,000</b> | <b>60,000,000</b> |

The deferred income movement is as follows:

|                                | <b>2019</b>        | <b>2018</b>        |
|--------------------------------|--------------------|--------------------|
|                                | <b>Ksh</b>         | <b>Ksh</b>         |
| Balance brought forward        | 120,000,000        | 60,000,000         |
| Additions                      | 100,000,000        | 60,000,000         |
| Transfers to capital fund      | 0                  | 0                  |
| Transfers to income statement  | 0                  | 0                  |
| Other transfers                | 0                  | 0                  |
| <b>Balance carried forward</b> | <b>220,000,000</b> | <b>120,000,000</b> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 25. Accumulated Fund

The movement in revenue reserves for the year ended 30<sup>th</sup> June 2019 is shown below:

|                                | <b>2019</b>        | <b>2018</b>        |
|--------------------------------|--------------------|--------------------|
|                                | <b>Ksh</b>         | <b>Ksh</b>         |
| Balance as at 1st July         | 526,022,276        | 519,100,033        |
| Adjustment of Provision        | 3,311,625          | 0                  |
| Surplus for the year           | (89,731,886)       | 6,922,243          |
| <b>Balance as at 30th June</b> | <b>439,602,015</b> | <b>526,022,276</b> |

### 26. Cash generated from operations

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

|  | <b>2019</b>         | <b>2018</b>        |
|--|---------------------|--------------------|
|  | <b>Ksh</b>          | <b>Ksh</b>         |
| Surplus / Deficit for the year   | (89,731,886)        | 6,922,243          |
| <b>Adjusted for:</b>   |                     |                    |
| Depreciation and amortization  | 20,572,629          | 20,789,935         |
| <b>Cash flows from operating activities before working capital changes</b> | <b>(69,159,257)</b> | <b>27,712,178</b>  |
| <b>Working capital changes</b>   |                     |                    |
| Increase/(Decrease) in trade & other payables                              | (7,332,621)         | (818,604)          |
| Increase/(Decrease) in Provisions  | 19,710,967          | 92,800             |
| Increase/(Decrease) in Deffered income                                     | 100,000,000         | 60,000,000         |
| Decrease/(Increase) in receivables from exchange transactions              | (5,778,944)         | 12,177,699         |
| Decrease/(Increase) in receivables from non-exchange transactions          | (968,691)           |                    |
| Decrease/(Increase) in Work In Progress                                    | 0                   | 4,626,660          |
| <b>Net Cash flows from Operating Activities</b>                            | <b>36,471,454</b>   | <b>103,790,733</b> |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

### 27. Operating Lease Rentals

The Authority has two rental lease agreements under which it will pay Ksh 1,826,096 over the next 1 year. The details are as below:

#### Lease with National Bank of Kenya:

| Period                                       | 2019     | 2018              |
|--|----------|-------------------|
| Not later than 1 year                        | 0        | 16,208,448        |
| Later than 1 year and not later than 5 years | 0        | 0                 |
| Later than 5 years                           | 0        | 0                 |
| <b>Total</b>                                 | <b>0</b> | <b>16,208,448</b> |

#### Lease with Mombasa Trade Centre:

| Period                                       | 2019             | 2018             |
|--|------------------|------------------|
| Not later than 1 year                        | 1,824,077        | 1,824,077        |
| Later than 1 year and not later than 5 years | 0                | 1,824,077        |
| Later than 5 years                           | 0                | 0                |
| <b>Total</b>                                 | <b>1,826,096</b> | <b>3,650,172</b> |

### 28. Financial Risk Management

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

### 29. Contingent Assets

The Authority had no contingent assets as at 30<sup>th</sup> June 2019.

### 30. Contingent Liabilities

**Litigation Matters:** As at 30<sup>th</sup> June 2019, there were some cases before the courts in which the Authority is a party that had not been concluded. The outcome of the cases and the likely costs of the suits (damages/other court awards) that the Authority may have to bear cannot be estimated with certainty. This disclosure has been provided in conformity with IPSAS 19.

### 31. Subsequent Events

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

### 32. Currency

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

**APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The matters raised by the Office of Auditor General in the audit report for FY 2018/2019 have been substantially addressed. A meeting will be scheduled with the Office of Auditor General for a brief on the actions taken to address the matters.

| <b>Ref No. on the external audit Report</b> | <b>Issue / Observations from Auditor</b>                   | <b>Management comments</b>     | <b>Focal Point person to resolve the issue (Name and designation)</b> | <b>Status: (Resolved / Not Resolved)</b> | <b>Timeframe: (Put a date when you expect the issue to be resolved)</b> |
|---|--|--------------------------------|---|--|---|
| FY 2017/18 audit report                     | Unexplained variances between trial balance and the ledger | The matter has been addressed. |   |  |   |
|   | Regulatory Board parking costs                             | The matter has been addressed. |   |  |   |
|   | Fuel expenditure   | The matter has been addressed. |   |  |   |
|   | Trade & other payables                                     | The matter has been addressed. |   |  |   |



**Ms Pauline O. Opiyo**  
**For: Director General**

Date: 16/11/2020



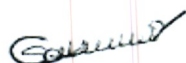
**Mr Andrew M. Musangi**  
**Chairman PPRB**

Date: 16/11/2020

**APPENDIX II: INTER-ENTITY TRANSFERS**

| <b>ENTITY NAME: PUBLIC PROCUREMENT REGULATORY AUTHORITY</b> |                            |                    |                                   |  |
|---|----------------------------|--------------------|-----------------------------------|--|
| <b>Breakdown of Transfers from The National Treasury</b>    |                            |                    |                                   |  |
| <b>FY 2018/2019</b>   |                            |                    |                                   |  |
| <b>a Recurrent Grants</b>                                   |                            |                    |                                   |  |
| <b>Details</b>  | <b>Bank Statement Date</b> | <b>Amount Ksh</b>  | <b>FY to which amount relates</b> |  |
| Quarter 1 Exchequer   | 17-Aug-18                  | 85,000,000         | FY 2018/2019                      |  |
| Quarter 2 Exchequer   | 02-Nov-18                  | 78,100,000         | FY 2018/2019                      |  |
| Quarter 3 Exchequer   | 05-Feb-19                  | 83,307,350         | FY 2018/2019                      |  |
| Quarter 4 Exchequer   | 14-Jun-19                  | 80,828,675         | FY 2018/2019                      |  |
| <b>Total</b>  |                            | <b>327,236,025</b> |                                   |  |
| <b>b Development Grants</b>                                 |                            |                    |                                   |  |
| <b>Details</b>  | <b>Bank Statement Date</b> | <b>Amount Ksh</b>  | <b>FY to which amount relates</b> |  |
| Quarter 1 Exchequer   | 06-Nov-18                  | 25,000,000         | FY 2018/2019                      |  |
| Quarter 1 Exchequer   | 20-Nov-18                  | 25,000,000         | FY 2018/2019                      |  |
| Quarter 3 Exchequer   | 20-Feb-19                  | 25,000,000         | FY 2018/2019                      |  |
| Quarter 3 Exchequer   | 27-Feb-19                  | 25,000,000         | FY 2018/2019                      |  |
| <b>Total</b>  |                            | <b>100,000,000</b> |                                   |  |
| <b>Grand Total</b>  |                            | <b>427,236,025</b> |                                   |  |

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



**C. Sakwa**  
Manager, Finance