



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

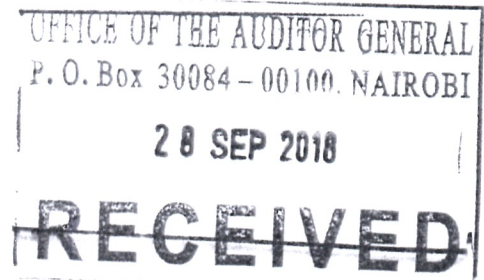
		REPORT
THE NATIONAL ASSEMBLY PAPERS LAJD		
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TABLED BY:	MAJORITY LEADER	THE AUDITOR-GENERAL
CURR-AT TABLE:		

PARLIAMENT
OF KENYA
LIBRARY

**THE FINANCIAL STATEMENTS OF
STANDARDS AND MARKET ACCESS PROGRAMME
(EU CREDIT NO. KE/FED/023-566)**

**FOR THE YEAR ENDED
30 JUNE 2018**

**MINISTRY OF AGRICULTURE, LIVESTOCK,
FISHERIES AND IRRIGATION**



PROJECT NAME: STANDARDS AND MARKET ACCESS PROGRAMME

IMPLEMENTING ENTITY: DEPARTMENT OF LIVESTOCK

PROJECT GRANT/CREDIT NUMBER: 2012/023-566

ANNUAL REPORT AND FINANCIAL STATEMENTS

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

ISSUED ON: SEPTEMBER 30, 2018 (UNAUDITED)

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

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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

Name: The project's official name is **Standards and Market Access Programme**.

Objective:

The key objective of the project is to enhance market access and competitiveness of Kenya's animal and plant based products through adoption of relevant international standards and improved regulation and enforcement in the country.

Address: The project headquarters offices are in Nairobi, Nairobi city county, Kenya.

The address of its registered office is:

Private Bag Kangemi 00625
 Vetlabs Kabete
 Off Waiyaki Way
 Nairobi Kenya.

Contacts: The following are the project contacts

Telephone: (254) 0202043282
 E-mail: smapdvs@gmail.com
 Website: www.kilimo.go.ke

1.2 Project Information

Project Start Date:	The project start date is 1 ST JULY 2014
Project End Date:	The project end date is 30 th June 2017
Project Coordinator:	The project Coordinator is Dr. William K. Maritim
Project Sponsor:	The project sponsor is EDF/European Union

1.3 Project Overview

Line Ministry/State Department of the project	The project is under the supervision of the State Department of Livestock-Ministry of Agriculture, Livestock and Fisheries
Project number	2012/023-566

*Standards and Market Access Programme (SMAP)
Reports and Financial Statements
For the financial year ended June 30, 2018*

Strategic goals of the project	<p>The strategic goals of the project are as follows:</p> <ol style="list-style-type: none"> I. To contribute to the domestic of international standards for animal and plant based products. II. To enhance the capacities of the key Kenyan institutions in the enforcements of standards for animal and plant-based products and in service delivery, III. To broaden the demand for SPS testing and standardization of quality in animal and plant based products.
Achievement of strategic goals	<p>The project management aims to achieve the goals through the following means and its expected results and main activities of are as follows:</p> <ol style="list-style-type: none"> i) Result 1: Enhanced set of standards and regulations for Kenyan plant and animal-based products. DVS will provide inputs on standards related to plant and animal-based products. In addition, DVS will document existing Kenya measures for animal and animal products. ii) Stronger institutional capacity for relevant testing and certification of Kenyan plant and animal-based products- DVS will improve surveillance and risk analysis capabilities, upgrade its laboratories, enhance technical capacity of the staff and further strengthen decentralization of service delivery.
Other important background information of the project	<p>The Standards and Market Access Programme (SMAP) is one of the programmes financed from 10th European Development Fund (EDF-10). The Financing Agreement was signed by the Government of Kenya on 6th August 2013. The total EDF contribution is € 12.1 million. Out of which DVS will receive about KES 333 million.</p> <p>SMAP focuses on the development of appropriate standards and technical regulations for plant and animal based products and for institutional capability in bio-security, risk profiling and surveillance in order to improve Sanitary and Phytosanitary Standards (SPS) compliance. The aim is to minimize risks and hazards associated with contaminants including microorganisms in order to enhance the basket of quality export products from Kenya.</p> <p>The Directorate of Veterinary Services is expected to manage 41 border inspection posts. Jomo Kenyatta International Airport and other 3 major terrestrial international border posts, where the volume of animal-related traffic justifies the investments in infrastructure/and are prioritized to be equipped with adequate incinerator, rapid test kits and reagents, and ICT equipment.</p>

*Standards and Market Access Programme (SMAP)
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Current situation that the project was formed to intervene	The project was formed to intervene in the following areas: i) To addresses the development of standards and products quality regulations for plant and animal based products ii) To addresses institutional capacity to provide appropriate certifications regarding standards and conformity iii) Also address the needs of Kenyan businesses in meeting the standards set for products in regional and international trade through grants to Business Membership Organizations
Project duration	The project started on 1st July 2014 and is expected to run until 31 th July 2017

1.4 Bankers

The following is the Project banker for the current year:

Equity Bank Limited
SupremeCentre Branch Westlands
P.O. Box 14959
Westlands 00800
Nairobi, Kenya

1.5 Auditors



The project is audited by the

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

Standards and Market Access Programme (SMAP)
Reports and Financial Statements
For the financial year ended June 30, 2018

1.6 Management team Roles and Responsibilities

The following officers are currently in the running of the project Activities During the financial ended 30th June 2018.

NAME	DESIGNATION/QUALIFICATION.
 Dr. Obadiah Njagi, PhD	BVM(UoN), MSc(UoN), PhD: Director of Veterinary Services State Department of Livestock; Ministry of Agriculture, Livestock and Fisheries.
 Dr William Kimutai Maritim,	BVM(UoN), MSc(UoN). Project Co-ordinator Veterinary Epidemiologist Assistant Director of Veterinary Services
Dr. Paul Marigi	Monitoring and Evaluation officer
Dr. Peter Kimondo	Extension Services officer
Ms. Rose Matua	Laboratory Services officer
Mr. Henry M. Momata	Project Accountant
Ms. Viola Kiprono	Secretary
Mrs. Leah Romanus	Assistant Secretary
Mr. Francis Muthiani	Driver

*Standards and Market Access Programme (SMAP)
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1.7 Funding summary

The Project is for duration of three years from 2014 to 2017 with an approved budget of 12.1 million Euros equivalent to KES1,439.9 Million Out of which DVS is to receive about KES 333 million as highlighted in the table below:

Below is the funding summary for the year ended 30th June 2018

Source of funds	Donor Commitment-		Amount received to date (30-06-2018)		Undrawn balance to date (30-06-2018)	
	<i>Donor currency- Euros</i>	<i>Kshs</i>	<i>Donor currency- Euros</i>	<i>Kshs</i>	<i>Donor currency</i>	<i>Kshs</i>
	<i>(A)</i>	<i>(A')</i>	<i>(B)</i>	<i>(B')</i>	<i>(A)-(B)</i>	<i>(A')-(B')</i>
GRANT SUMMARY						
European Union	2,597,315	387,000,000	2,336,340	348,114,694	260,975	38,885,306
(i) Loan	-	-	-	-	-	-
Counterpart funds						
Government of Kenya	-	46,025,459	-	45,643,862	-	381,597
Total Funding Summary	2,597,315	433,025,459	2,336,340	393,758,556	260,975	39,266,903

1.8 Summary of Overall Project Performance:

- The Budget performance against actual amounts for current year and for cumulative to-date is per the table provided for the same,
- Physical progress based on outputs, outcomes and impacts since project commencement is as per the project overview,
- On value-for-money achievements various activities have been carried on as stipulated in our budgetary allocation,
- Main implementation challenge was the prolonged procurement timeframe set out and the recommended way forward would be shortening the same.

1.9 Summary of Project Compliance:

- There were no significant cases of non-compliance with applicable laws and regulations, and essential external financing agreements/covenants,
- There were no consequences suffered on account of non-compliance or likely to be suffered
- There were no adverse effects of actual or potential consequences of non-compliance.

2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The *Principal Secretary* State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The *Principal Secretary* State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The *Principal Secretary* for the State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year/period ended June 30, 2018, and of the Project's financial position as at that date. The *Principal Secretary* State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

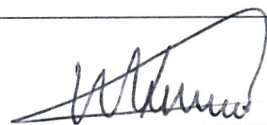
The *Principal Secretary* State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year/period under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the *Principal Secretary* State Department of Livestock-Ministry of Agriculture, Livestock & Fisheries and the *Project Coordinator* for **DVS/SMAP project** on _____ 2018 and signed by them.



Principal Secretary
Mr. Harry Kimtai



Project Coordinator
Dr.-William K. Maritim



Project Accountant
Henry Momata
ICPAK Member No.20497

Date: 26/9/2018

Date: 26/9/2018

Date: 26/9/2018

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON STANDARDS AND MARKET ACCESS PROGRAMME (EU CREDIT NO. KE/FED/023-566) FOR THE YEAR ENDED 30 JUNE 2018 – MINISTRY OF AGRICULTURE, LIVESTOCK, FISHERIES AND IRRIGATION

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Standards and Market Access Programme set out on pages 1 to 18, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015 and Annex II, Section 4.3. of the Financing Agreement No. KE/FED/023-566 signed on 6 August 2013 between the European Union and the Republic of Kenya.

I do not express an opinion on the accompanying financial statements. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. Receipts

The statement of receipts and payments and as disclosed under Note 8.3(a) and 8.3(b) to the financial statements reflects receipts of Kshs.45,643,862 and Kshs.348,114,694 relating to transfer from Government entities and proceeds from domestic and foreign grants respectively. However, no documentary evidence was provided to support the amounts. Consequently, the validity of the amounts recorded and presented cannot be ascertained.

2. Purchase of Goods and Services

In addition, the statement of receipts and payments reflects payments totalling Kshs.411,259,325 which were not adequately supported as explained below:

Report of the Auditor-General on the Financial Statements of Standards and Market Access Programme (EU Credit No. KE/FED/023-566) for the year ended 30 June 2018 – Ministry of Agriculture, Livestock, Fisheries and Irrigation

- 2.1 Note 8.5 to the financial statements reflects an amount of Kshs.95,244,770 relating to purchase of goods and services. The amount figure includes expenditure of Kshs.54,845,077 and Kshs.1,057,550 relating to utilities, supplies & services and printing, advertising & information supplies & services, respectively for which no documents and records were produced for audit verification.
- 2.2 In addition, the amount of Kshs.95,244,770 includes an expenditure of Kshs.605,194 relating to routine maintenance- vehicles and other transport equipment. The expenditure of Kshs.605,194 further includes an amount of Kshs.334,228 that was not supported with any documentary evidence.
- 2.3 The amount of Kshs.95,244,770 also includes expenditure of Kshs.2,150,000 relating to training. However, out of the training expenditure, payments totalling Kshs.1,497,835.00 were not supported with any documentary evidence.
- 2.4 The expenditure of Kshs.95,244,770 also includes an amount of Kshs.14,448,209 relating to domestic travel and subsistence for which an expenditure of Kshs.7,348,489 was not supported with any documentary evidence. In addition, an expenditure of Kshs.74,240 was recorded twice in the books of account. Further, an amount of Kshs.1,269,616 relating to foreign travel was also not supported with any documentary evidence.

Under the circumstances, it has not been possible to confirm the validity, completeness and accuracy the total payments of Kshs.95,244,770 for the purchase of goods and services.

3. Acquisition of Non-Financial Assets

The statement of receipts and payments and as disclosed under Note 8.6 to the financial statements reflects payments totalling Kshs.314,863,005 in respect of acquisition of non-financial assets. However, out of the total amount, expenditure of Kshs.33,251,689 was not supported with any documentary evidence. In view of the foregoing, it has not been possible to confirm the propriety of the expenditure of 33,251,689.

In addition, payment Voucher No. 2209 for Kshs.12,233,074.87 paid to a company on 15/3/2018 was recorded as Kshs.12,246,241. The resultant variance of Kshs.13,166.13 has not been explained or reconciled.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the

significance of the matters described in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Disclaimer section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

Responsibilities of Management and Those Charged with Governance

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

In preparing the financial statements, management is responsible for assessing the Programme's ability to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations, or have no realistic alternative but to do so.

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

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

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

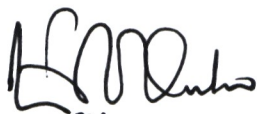
Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report and the conclusions under the reports on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion and conclusions on these financial statements.

In addition, my responsibility is to express a conclusion as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229 (6) of the Constitution and submit the audit report in compliance with Article 229 (7) of the Constitution.

Further, my responsibility is to consider internal control in order to give assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution.

I am independent of the Standards and Market Access Programme in accordance with ISSAI 30 on Code of Ethics. I have fulfilled ethical responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

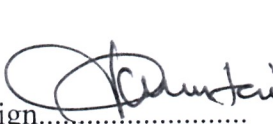
Nairobi

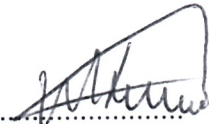
20 December 2018

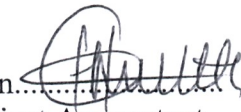
4. STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30TH JUNE 2018

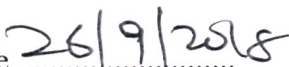
	Note	2017/18		2016/17		Cumulative to-date
		Receipts and payments controlled by the entity	Payments made by third parties	Receipts and payment controlled by the entity	Payments made by third parties	
		KShs	KShs	KShs	KShs	KShs
RECEIPTS						
Transfer from Government entities	8.3 a	45,643,862	-	31,051,370	-	76,695,232
Proceeds from domestic and foreign grants	8.3 b	348,114,694	-	107,742,397	-	455,857,091
TOTAL RECEIPTS		393,758,556	-	138,793,767	-	532,552,323
PAYMENTS						
Compensation of employees	8.4	1,151,550	-	844,800	-	1,996,350
Purchase of goods and services	8.5	95,244,770	-	102,395,130	-	197,639,900
Acquisition of non-financial assets	8.6	314,863,005	-	67,666,107	-	382,529,112
TOTAL PAYMENTS		411,259,325	-	170,906,037	-	582,165,362
SURPLUS/DEFICIT		17,500769	-	32,112,270	-	49,613,039

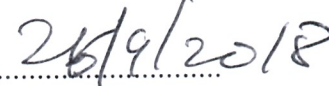
The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

Sign.....
 Principal Secretary
 Mr. Harry Kimtai

Sign.....
 Project Cordinator
 Dr. William K. Maritim

Sign.....
 Project Accountant
 Henry Momata
 ICPAK Member-No.20497

Date.....

Date.....

Date.....


*Standards and Market Access Programme (SMAP)
Reports and Financial Statements
For the financial year ended June 30, 2018*


5. STATEMENT OF FINANCIAL ASSETS AND LIABILITIES AS AT 30TH JUNE 2018

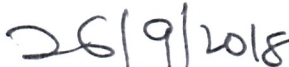
	Note	2017/18 KShs	2016/17 KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.7.b	6,550,383	24,051,152
Total Cash and Cash Equivalents	8.7.a	6,550,383	24,051,152
TOTAL FINANCIAL ASSETS		6,550,383	24,051,152
REPRESENTED BY			
Fund balance b/fwd	8.8	24,051,152	56,163,422
Surplus/Deficit for the year		(17,500,769)	(32,112,270)
NET FINANCIAL POSITION		6,550,383	24,051,152

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


Sign.....
Principal Secretary
Mr. Harry Kimtai

Sign.....
Project Coordinator
Dr. William K. Maritim

Sign.....
Project Accountant
Henry Momata
ICPAK Member No. 20497

Date.....

Date.....

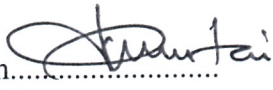
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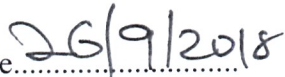
*Standards and Market Access Programme (SMAP)
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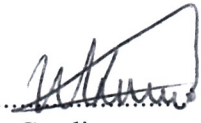
6. STATEMENT OF CASHFLOW FOR THE PERIOD 30TH JUNE 2018

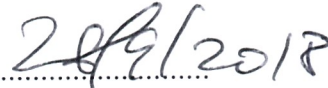
	2017/18	2016/17
Note	KShs	KShs
Receipts for operating activities		
Transfer from Government entities	8.3a 45,643,862	31,051,370
Proceeds from domestic and foreign grants	8.3b 348,114,694	107,742,397
Payments for operating activities		
Compensation of employees	8.4 (1,151,550)	(844,800)
Purchase of goods and services	8.5 (95,244,770)	(102,395,130)
Net cash flow from operating activities	297,362,236	35,553,837
CASHFLOW FROM INVESTING ACTIVITIES		
Acquisition of Assets	8.6 (314,863,005)	(67,666,107)
Net cash flows from Investing Activities	(314,863,005)	(67,666,107)
NET INCREASE IN CASH AND CASH EQUIVALENT	(17,500,769)	(32,112,270)
Cash and cash equivalent at BEGINNING of the year	8.8 24,051,152	56,163,422
Cash and cash equivalent at END of the year	6,550,383	24,051,152

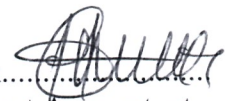
The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on _____ 2018 and signed by:

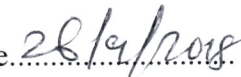
Sign.....
Principal Secretary
Mr. Harry Kimtai

Date.....

Sign.....
Project Cordinator
Dr. William K. Maritim

Date.....

Sign.....
Project Accountant
Henry Momata
ICPAK Member No. 20497

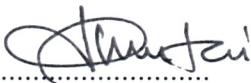
Date.....

*Standards and Market Access Programme (SMAP)
Reports and Financial Statements
For the financial year ended June 30, 2018*

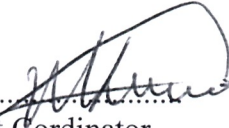
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Receipts/Payments Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	a	b	c=a+b	d	e=c-d	f=d/c %
Receipts						
Transfer from Government entities	85,000,000	38,974,541	46,025,459	45,643,862	2,370,066	99%
Proceeds from domestic and foreign grants	387,000,000	-	387,000,000	348,114,694	21,384,537	94%
Total Receipts	472,000,000	38,974,541	433,025,459	393,758,556	23,754,603	
Payments						
Compensation of employees	1,151,550	-	1,151,550	1,151,550	0	100%
Purchase of goods and services	470,848,450	38,974,541	431,873,909	410,107,775	21,766,134	95%
Total Payments	472,000,000	38,974,541	433,025,459	411,259,325	21,766,134	

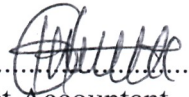
Note: The significant budget utilisation/performance differences in the last column are explained in **Annex 1** to these financial statements.

Sign.....
Principal Secretary
Mr. Harry Kimtai

Date.....26/9/2018.....

Sign.....
Project Coordinator
Dr. William K. Maritim

Date.....26/9/2018.....

Sign.....
Project Accountant
Henry Momata
ICPAK Member No. 20497

Date.....26/9/18.....

8. NOTES TO THE FINANCIAL STATEMENTS

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

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

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

The financial statements comply with and conform to the form of presentation prescribed by the PSASB.

The accounting policies adopted have been consistently applied to all the years presented.

8.1.2. Reporting entity

The financial statements are for the Project xxx under National Government of Kenya. The financial statements encompass the reporting entity as specified in the relevant legislation PFM Act 2012 .

8.1.3. Reporting currency

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

8.2. Significant Accounting Policies

a) Recognition of receipts

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

• Transfers from the Exchequer

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

• External Assistance

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

Significant Accounting Policies (Continued)

Recognition of receipts (continued)

Donations and grants

Grants and donations shall be recognized in the books of accounts when cash is received. Cash is considered as received when a payment advice is received by the recipient entity or by the beneficiary. In case of grant/donation in kind, such grants are recorded upon receipt of the grant item and upon determination of the value. The date of the transaction is the value date indicated on the payment advice.

Proceeds from borrowing

Borrowing includes Treasury bill, treasury bonds, corporate bonds, sovereign bonds and external loans acquired by the Project or any other debt the Project may take on will be treated on cash basis and recognized as a receipt during the year they were received.

Undrawn external assistance

These are loans and grants at reporting date as specified in a binding agreement and relate to funding for the Project currently under development where conditions have been satisfied or their ongoing satisfaction is highly likely and the project is anticipated to continue to completion. An analysis of the Project's undrawn external assistance is shown in the funding summary

Other receipts

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

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

- **Compensation of employees**

Salaries and Wages, Allowances, Statutory Contribution for employees are recognized in the period when the compensation is paid.

- **Use of goods and services**

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

Significant Accounting Policies (Continued)

b) Recognition of payments (continued)

- **Interest on borrowing**

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

- **Repayment of borrowing (principal amount)**

The repayment of principal amount of borrowing is recognized as payment in the period in which the repayment is made. The stock of debt is disclosed as an annexure to the consolidated financial statements.

- **Acquisition of fixed assets**

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

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

c) In-kind donations

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

d) Cash and cash equivalents

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

Restriction on cash

Restricted cash represents amounts that are limited/restricted from being used to settle a liability for at least twelve months after the reporting period. This cash is limited for direct use as required by stipulation. Amounts maintained in deposit bank accounts are restricted for use in refunding third part deposits

SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Accounts receivable

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

f) Pending bills

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

g) Budget

The budget is developed on a comparable accounting basis (cash basis), the same accounts classification basis (except for accounts receivable - outstanding imprest and clearance accounts and accounts payable - deposits, which are accounted for on an accrual basis), and for the same period as the financial statements. The Project’s budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. The Development Projects are budgeted for under the MDAs but receive budgeted funds as transfers and account for them separately. These transfers are recognised as inter-entity transfers and are eliminated upon consolidation.

A high-level assessment of the Project’s actual performance against the comparable budget for the financial year/period under review has been included in an annex to these financial statements.

h) Third party payments

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year/period are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of receipts and payments.

j) Comparative figures

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

k) Subsequent events

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

l) Errors

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3 a) RECEIPTS FROM GOVERNMENT OF KENYA

These represent counterpart funding and other receipts from government as follows:

	2017/18	2016/17	Cumulative
	KShs	KShs	to-date
<i>Counterpart funding through Ministry xxx</i>			
Counterpart funds Quarter 1	9,570,497	17,500,000	27,070,497
Counterpart funds Quarter 2	15,995,350	-	15,995,350
Counterpart funds Quarter 3	14,772,103	13,551,370	28,323,473
Counterpart funds Quarter 4	5,305,912	-	5,305,912
	<u>45,643,862</u>	<u>31,051,370</u>	<u>76,695,232</u>

*Standards and Market Access Programme (SMAP)
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For the financial year ended June 30, 2018*

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.3. b) PROCEEDS FROM DOMESTIC AND FOREIGN GRANTS

During the 12 months to 30 June 2018 we received grants from donors as detailed in the table below:

Name of Donor	Date received	Amount received in donor currency	Grants received in cash	Grants received as direct payment *	Grants received in kind	Total amount in	
						KShs	KShs
						FY 2017/18	FY 2016/17
						KShs	KShs
Grants Received from Bilateral Donors (Foreign Governments)							
European Union	2018	-	-	348,114,694	-	348,114,694	107,742,397
Total				348,114,694	-	348,114,694	139,017,103

*. The direct payment grants represent payments for goods and services done directly by the donor on behalf of the project. Projects should ensure that the adequate documents and support document is requested from the donors to support this grant.

*Standards and Market Access Programme (SMAP)
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.4. COMPENSATION OF EMPLOYEES

	FY 2017/18			FY 2016/17	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
-	KShs	KShs	KShs	KShs	KShs
Basic salaries of permanent employees	648,000	-	648,000	648,000	1,762,130
Personal allowances paid as part of salary	192,000	-	192,000	192,000	534,000
Compulsory national social security schemes	4,800	-	9,600	4,800	26,400
Compulsory national health insurance schemes	-	-	23,400	-	53,870
Total	<u>844,800</u>	<u>≡</u>	<u>1,151,550</u>	<u>844,800</u>	<u>2,376,400</u>

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.5. PURCHASE OF GOODS AND SERVICES

	FY 2016/17			FY 2015/16	Cumulative to- date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Utilities, supplies and services	-	-	54,845,077	56,845,077	111,690,154
Communication, supplies and services	-	-	367,793	368,153	735,946
Domestic travel and subsistence	-	-	14,448,209	15,182,450	29,630,659
Foreign travel and subsistence	-	-	1,269,616	2,269,616	3,539,232
Printing, advertising and – information supplies & services	-	-	1,057,550	1,557,550	4,597,951
Rentals of produced assets	-	-	-	-	0
Training payments	-	-	2,150,000	2,158,908	4,308,908
Hospitality supplies and services	-	-	1,187,223	1,187,223	2,374,446
Insurance costs	-	-	-	-	0
Specialized materials and services	-	-	19,314,108	20,314,108	39,628,216
Other operating payments	-	-	-	-	0
Routine maintenance – vehicles and other transport equipment	-	-	605,194	529,194	1,134,388
Routine maintenance- – other assets	-	-	-	-	197,639,900
Exchange rate losses/gains (net)	-	-	-	-	111,690,154
Total		=	95,244,770	102,395,130	735,946

8.6. ACQUISITION OF NON-FINANCIAL ASSETS

	FY 2017/18			FY 2016/17	Cumulative to-date
	Payments made by the Entity in Cash	Payments made by third parties	Total Payments		
	KShs	KShs	KShs	KShs	KShs
Purchase of specialised plant, equipment and machinery	314,863,005	-	314,863,005	67,666,107	382,529,112
Total	314,863,005	=	314,863,005	67,666,107	382,529,112

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

8.7. a) CASH AND CASH EQUIVALENTS CARRIED FORWARD

	2017/18	2016/17
	KShs	KShs
Bank accounts (Note 8.13A)	6,550,383	24,051,422
Total	<u>6,550,383</u>	<u>24,051,422</u>

8.7 b) BANK ACCOUNT
Project Bank Accounts

	2017/18	2016/17
	KShs	KShs
<u>Local Currency Accounts</u>		
Equity Bank of Kenya (A/c No.0261677568)	6,550,383	24,051,152
Total local currency balances	<u>6,550,383</u>	<u>24,051,152</u>
Total bank account balances	<u>6,550,383</u>	<u>24,051,152</u>

8.8. FUND BALANCE BROUGHT FORWARD

	2017/18	2016/17
	KShs	KShs
Bank accounts	24,051,152	56,163,422
Total	<u>24,051,152</u>	<u>56,422,422</u>

8.9 PENDING ACCOUNTS PAYABLE (See Annex 2A)

	2017/18	2016/17
	KShs	KShs
Supply of goods		0
		0

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9. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
1	Unexplained difference of Ksh. 14,621,578.00 under foreign grants	The amount was the balance b/f from the prior year	Mr. Momata, Accountant	Resolved	-
2	Lack of documentary evidence to support an amount of Ksh. 81,575,059.00 paid directly by the financier.	The documents were under the custody of ministry headquarters.	Mr. Momata, Accountant	Resolved	-
3	Non inclusion of opening balance amounting to Ksh. 14,621,578.00.	This was an error which was later resolved.	Mr. Momata, Accountant	Resolved	-

Guidance Notes:

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

Sign.....
Principal Secretary
Mr. Harry Kintai

Date.....

Sign.....
Project Coordinator
Dr. William K. Maritim

Date.....

Standards and Market Access Programme (SMAP)
Reports and Financial Statements
For the financial year ended June 30, 2018

ANNEX 1 - VARIANCE EXPLANATIONS - COMPARATIVE BUDGET AND ACTUAL AMOUNTS

	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization	Comments on Variance
	a	b	c=a-b	d=b/a %	
Receipts					
GOK	46,025,459	45,643,862	2,370,066	99%	
Grant from EU	387,000,000	348,114,694	21,384,537	90%	Lack of supplies
Total Receipts	433,025,459	393,758,556	23,754,603	-	-
Payments					
Compensation of employees	1,151,550	1,151,550	0	100%	-
Purchase of goods and services	117,010,904	95,244,770	21,766,134	81%	Lack of supplies
Acquisition of non-financial assets	314,863,005	314,863,005	0	100%	
Total payments	433,025,459	411,259,325	21,766,134	-	-

ANNEX 3-SUMMARY OF FIXED ASSET REGISTER

Asset class	Opening Cost (KShs) 2016/17 (a)	* Purchases/Additions in the Year (KShs) 2017/18 (b)	** Disposals in the Year (KShs) 2017/18 (c)	Closing Cost (KShs) 2018 (d)= (a)+ (b)-(c)
Laboratory Equipment	67,666,107	314,863,005	-	382,529,112
Total	67,666,107			382,529,112

Notes

* Purchases/Additions in the year reconciled to the amount in Statement of Receipts and Payments

** The disposal amount to be disclosed in this register is the cost that the asset was acquired at and not the price at which it has been sold.

