

REPUBLIC OF KENYA



Enhancing Accountability



THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 15 FEB 2024	DAY: Thursday
TABLED BY: Hon. Owen Baya (Deputy Majority Leader)	
CLERK AT THE TABLE: Shibuko	

PARLIAMENT
OF KENYA
LIBRARY

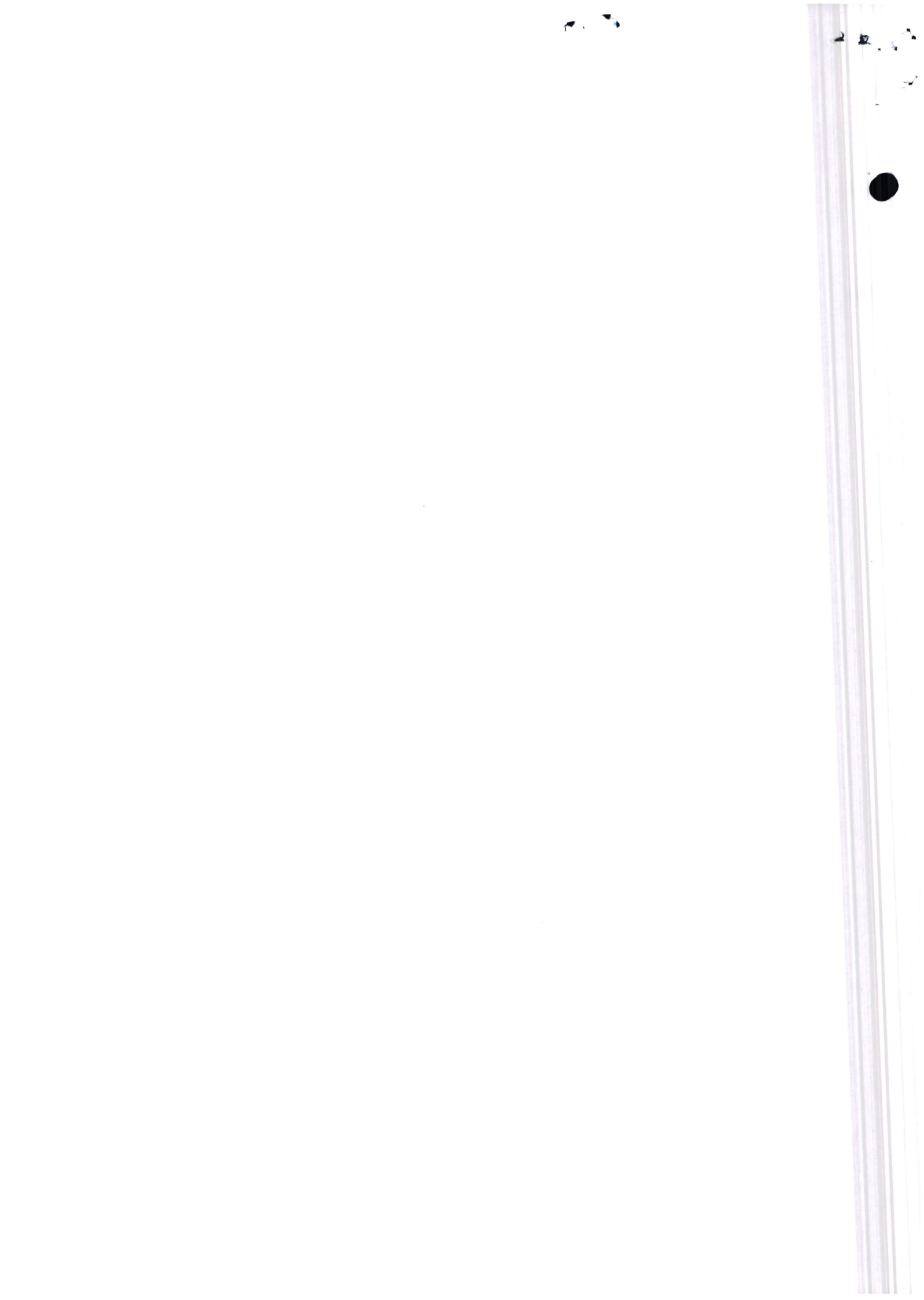
**REPORT
OF**

THE AUDITOR-GENERAL

ON

EQUALISATION FUND

**FOR THE YEAR ENDED
30 JUNE, 2023**





THE NATIONAL TREASURY

EQUALISATION FUND

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED
30TH JUNE 2023

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



Equalisation Fund

Annual Report and Financial Statements for the year ended 30th June, 2023.

Table of Contents

Page

1. Acronyms, Abbreviations and Glossary of Terms.....	ii
2. Key Entity Information and Management.....	iii
3. The Equalisation Fund Advisory Board	viii
4. Key Management Team.....	xii
5. Chairman's Statement	xiii
6. Report of the Chief Executive Officer	xv
7. Statement of Performance against Predetermined Objectives for FY 2022/23.....	xvii
8. Corporate Governance Statement.....	xix
9. Environmental and Sustainability Reporting.....	xxxix
10. Report of the Directors.....	xlii
11. Statement of Directors Responsibilities	xliii
12. Report of the Independent Auditor for the Financial Statement of Equalisation Fund	xliv
13. Statement of Financial Performance for the Year Ended 30 th June 2023	1
15 Statement of Financial Position as at 30 th June 2023	2
16 Statement of Changes in Net Assets for the Year Ended 30 th June 2023.....	3
17. Statement of Cash Flows for the Year Ended 30 th June 2023	4
18. Statement of Comparison of Budget & Actual Amounts for the Year Ended 30 th June 2023	6
19. Notes to the Financial Statements.....	8
20. Appendices	23

Equalisation Fund
Annual Report and Financial Statements For the year ended 30th June 2023.

1. Acronyms, Abbreviations and Glossary of Terms

A: Acronyms and Abbreviations

CEO	Chief Executive Officer
CRA	Commission on Revenue Allocation
EFAB	Equalisation Fund Advisory Board
EF	Equalisation Fund
NT	National Treasury
OCOB	Office of the Controller of Budget
OAG	Office of the Auditor General
PFM	Public Finance Management
PPE	Property Plant & Equipment
ICPAK	Institute of Certified Public Accountants of Kenya

B: Glossary of Terms

Fiduciary Management- Members of Management directly entrusted with the responsibility of financial resources of the organisation.

2. Key Entity Information and Management

(a) Background information

The Equalisation Fund was established under Chapter 12 Article 204 (1) of the Constitution of Kenya. Up to November 2019 the Equalisation Fund was administered *directly* through the defunct Equalisation Fund Guidelines published in the Gazette Notice No 1711 dated 13th March, 2015.

However, on 5th November, 2019 the High Court made a ruling on Petition no. 292 of 2016. The ruling declared the Equalisation Fund guidelines as unconstitutional, null and void. This in effect disbanded the EFAB and stopped any further expenditure from Equalisation Fund.

The National Treasury was directed to develop a statutory instrument for the administration of the Equalisation Fund within six months and it is on this basis, a multi-agency committee was put in place to develop new Equalisation Fund statutory instrument.

The committee developed the Public Finance Management (Equalisation Fund Administration) Regulations 2021 which was published through Kenya gazette supplement No 69, Legal Notice No 54 of 29th April, 2021 and subsequently approved by the Parliament. The publication and approval of the Regulations paved way for the operationalization of the Equalisation Fund.

The Public Finance Management (Equalisation Fund Administration) Regulations, 2021, provides for the establishment of an unincorporated board, the Equalisation Fund Advisory Board (EFAB) to: provide guidance on the administration and management of the Fund; provide for the withdrawals from the Fund; provide for completion of ongoing projects under the first policy; provide for implementation of new projects under all subsequent policies; and provide for the procedures in relation to winding up of the Fund.

The main source of funds for the Equalisation Fund is stipulated by Article 204 (1) of the Constitution of Kenya, i.e. is, one half per cent (0.5%) of all the revenue collected by the National Government each year, calculated on the basis of the most recent audited revenue received, as approved by the National Assembly. It is worth noting that, another source of funds for the EF going forward is the unutilized cumulative amount of revenue from the previous financial year's entitlement and allocation.

According to *Article 204(5) of the Constitution Kenya, Section 18 (6) of the Public Finance Management Act, 2012 and Regulation 30(5) of the PFM (Equalisation Fund Administration) Regulations 2021*, EF unutilized or unspent balances do not lapse at the end of the financial year but are retained in the EF accounts for the purposes for which the Fund was established.

The Equalisation Fund is domiciled in Kenya and is one of the entities under the National Treasury and Planning. It is located at the National Bank Building on the 8th Floor, Harambee Avenue, Nairobi.

(b) Principal Activities

The principal mandate of the Equalisation Fund is stipulated under Article 204 (2) of the Constitution of Kenya to provide funding to support the provision of basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

(c) Vision

Not yet developed.

(d) Mission

Support identified marginalized areas to bring the quality of basic services to the level generally enjoyed by rest of the Nation.

(e) Core Values

To achieve its mission and vision, the Fund is committed to the following: -

- 1) Equity
- 2) Inclusiveness
- 3) Professionalism
- 4) Transparency and Integrity
- 5) Accountability

(f) Core Objectives

- 1) Equitable provision of basic services
- 2) Engage in participatory development that will promote the attainment of equity through communities' participation in local level planning processes.

(g) Key Management

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

▪ **Equalisation Fund Advisory Board**

The Fund is governed by an Advisory Board charged with the responsibility of providing policy and strategic direction. The Board as outlined in Section 4 (1) of the EF Regulations 2021 comprises of a maximum of ten (10) members.

▪ **The Administrator of the Fund**

Pursuit to Section 18(1) and Section 24(5) of the Public Finance Management Act 2012, the Administrator of the Fund was appointed by the Cabinet Secretary, National Treasury and Planning.

▪ **Equalisation Fund Secretariat**

The Board is supported in the discharge of its functions by a Secretariat constituted by the Chief Executive Officer (CEO) as provided under Section 22 of the Equalisation Fund Administration Regulations, 2021. To effectively discharge its functions, the Secretariat is organized into:

- Two (2) Divisions: (Technical Services Division and Finance and Administration Division)
- Two (2) Units: Supply Chain Management and Internal Audit units that are independent of the two Divisions

(h) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2023 and who had direct fiduciary responsibility were:

No.	Designation/Role	Name
1)	Chief Executive Officer/Fund Administrator	Mr. Guyo Boru
2)	Ag. Head, Finance and Administration	Mr. Bernard Wandera
3)	Ag. Head, Technical Services	Diana Lukalo, PhD
4)	Ag. Head, Treasury Management	Mr. Benson Gichohi
5)	Ag. Head Supply Chain Management	Mr. Calleb Adongo
6)	Ag. Head Human Resource and Administration	Mr. Joanes Oyiembo

(i) Fiduciary Oversight Arrangements

Besides the Parliamentary Oversight, The Equalisation Fund (EF) management has constituted four (4) different Board committees as per the EF Board Charter and pursuant to PFM (EF Administration) Regulations 2021 Regulation 9 which provides for the establishment of committees for the better performance of the Board functions and the exercise of its powers. Diversity of experience, skills, educational qualifications and other factors form the basis in constituting these committees.

The Fiduciary oversight arrangements at EFAB are outlined below: -

i. Audit and Risk Committee

The Audit and Risk Committee assists in fulfilling the following key oversight responsibilities among others: internal control and risk management; external audit oversight; disclosure matters and financial reporting and internal audit function.

ii. Technical Committee

The Technical Committee considers management's proposals; provide oversight to management and recommend to the Board on matters relating to EF's strategic direction and technical services.

iii. Finance Committee

The Finance Committee considers all matters of financial strategy and policy, financial forecasts, annual budgets and reviewing expenditures/ procurements for each quarter of the financial year.

iv. Human Resource Committee

The Human Resource Committee Reviews and recommends different Human Resources Policies and handling all other human resource matters as prescribed in the EF Human Resource Instruments.

Notwithstanding the above, Regulations 8(i) of the PFM (Equalisation Fund Administration) Regulations 2021 provides for EFAB to review and propose the annual estimates of expenditure of the Fund for approval by the Cabinet Secretary. Thus, transfers to defray the expenses in respect of the administration of the Fund are approved by the Advisory Board at the start of the respective financial year.

Section 4(1) of the EF Appropriation Act of 2018 provides for multi-year implementation, which stipulates that the Appropriation Act of 2018 does not lapse until all projects identified in each county are fully implemented. Further, the EFAB has developed EF Appropriation Act of 2023 which was enacted by Parliament to facilitate implementation of Second Marginalisation Policy. The Fund is also in receipt of office of Controller of Budget guidelines and procedures on exchequer issue from the Equalisation Fund.

(j) Entity Headquarters

P.O. Box 30007 – 00100
National Bank Building, 8th Floor,
Harambee Avenue
Nairobi, Kenya

(k) Entity Contacts

Telephone: (254) 20 **2252299**
E-mail: Equalisationfund@treasury.go.ke

(l) Entity Bankers

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

National Bank of Kenya
Harambee Avenue
P.O Box 72866
City Square 00200
Nairobi, Kenya




(m) Independent Auditors




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

(n) Principal Legal Adviser




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

3. The Equalisation Fund Advisory Board

Directors	Details
 <p data-bbox="172 875 584 965">Amb (Eng.) Mahboub Mohamed BSc (Civ. Eng.), MSc (Civ. Eng.), R. Eng., MIEK</p>	<p data-bbox="628 456 1439 517">Amb (Eng) Mahboub Mohamed was appointed the Chairman of the Equalisation Fund Advisory Board on 1st November 2021.</p> <p data-bbox="628 551 1439 835">Amb (Eng) Mahboub is a career civil servant with experience spanning four decades. He has a vast working experience in public service including: Permanent Secretary, Ministry of State for Special Programmes, Office of the President, Permanent Secretary, Ministry of Water and Irrigation, Executive Secretary, Inter-Governmental Authority on Development (IGAD), Chairman, Kenya Power and Lighting Company, Executive Director Saharan Research Group in Nairobi and Chairman, Jomo Kenyatta University of Agriculture and Technology (JKUAT) Council.</p> <p data-bbox="628 869 1439 1088">Amb (Eng) Mahboub holds Master of Science and Bachelors of Science degrees in Civil Engineering from Texas A&I University in USA. He is a registered Engineer with the Kenya Engineers' Registration Board, a member of the Institute of Engineers of Kenya and an associate member of the American Society of Civil Engineers. Amb Mahboub is a recipient of the CBS, OGW and Hero of Independence (Hol) (Djibouti).</p>
 <p data-bbox="177 1503 400 1529">Mr Joseph Mbatha</p>	<p data-bbox="628 1122 1439 1216">Mr. Joseph Mbatha was appointed on 10th March 2022, as an alternate Director, representing the Principal secretary -National Treasury and Planning.</p> <p data-bbox="628 1249 1439 1534">Mr. Mbatha has a vast working experience having worked in public service for over 20 years. He is currently serving as a Senior Deputy Director, Intergovernmental Fiscal Relations Department (IGFRD) at the National Treasury. He has held other senior positions including town clerk and county/municipal treasurer at the defunct Ministry of Local Government and various county governments. He holds a Master of Business-Finance degree and a Bachelors' of Commerce degree from the University of Nairobi. He is a member of Kenya Institute of Management and Public Relations Society of Kenya.</p>
 <p data-bbox="181 1968 443 1995">Ms Tamima Ahmed Ali</p>	<p data-bbox="628 1570 1439 1630">Ms Tamima Ahmed Ali was appointed an Equalisation Fund board member on 25th February 2022.</p> <p data-bbox="628 1664 1439 1977">Ms. Tamima is currently the Deputy CEO at Frontier Counties Development Council. She has previously been the Head of Intergovernmental and donor relations and Chief of Staff to the Governor, Mandera County. Ms. Tamima has vast experience in devolved governance, policy formulation, gender policy, peace-building, cohesion and integration, refugee and displaced population, and community participation. Ms. Tamima has a decade of experience in humanitarian work both in Kenya and USA. She also has experience working with community groups, non-profit organisations, national and county governments.</p> <p data-bbox="628 2011 1439 2101">Ms. Tamima has a Masters of Social Work and Public Administration degree from Arizona State University, USA, a post graduate certificate in Global Mental Health: Refugee Trauma and Recovery from</p>

	<p>Harvard Medical school and Bachelors of Science degree in Business Management from University of Phoenix, Arizona, USA.</p>
 <p>Mrs Jane Bokayo Sora</p>	<p>Ms Jane Bokayo Sora was appointed an Equalisation Fund board member on 1st November 2021.</p> <p>She has a vast working experience having worked in community development for over 15 years. She has served in different Non-Government Organizations with focus on governance, conflict prevention, peace building, cohesion and women/youth empowerment. She is an expert in result based programme management, design, implementation, monitoring and reporting. In her capacity, Ms. Bokayo has coordinated and collaborated with different partners to link and harmonize approaches and promote innovations and lessons in achievement of common results. Her interest covers a wide spectrum of community development.</p> <p>Ms. Bokayo holds a Master of Arts in Development Studies degree from St Pauls University and Bachelors of Arts in Sociology degree from the Moi University.</p>
 <p>Mr Victor Odanga</p>	<p>Mr. Victor Odanga was appointed an Equalisation Fund board member on 25th February 2022.</p> <p>Mr Odanga, is a public policy specialist with over 10 years of practical experience in public policy related matters including Public Finance Management (PFM) and Devolution. Currently, Mr. Odanga is the CEO of Expertise Global Consulting Limited (EGCL), a PFM consulting firm. He has experience working in institutions such as the Constitution Implementation Committee (CIC) and the Council of Governors (CoG) which are highly political environments that require precise and expert communication, negotiation, consensus building, analytical and problem-solving skills.</p> <p>Mr. Odanga holds a Masters' degree in Public Policy and Management from the Strathmore University, Bachelor of Commerce degree from the University of Nairobi and is currently pursuing a post graduate diploma in Tax Administration from the Kenya School of Revenue Administration</p>
 <p>Ms. Flavia Lemoosa Ralia</p>	<p>Ms. Flavia Lemoosa Ralia was appointed an Equalisation Fund board member on 1st November 2021.</p> <p>Ms. Lemoosa is currently working with the County Government of Samburu. She has a wealth of experience in the banking industry having worked with the Consolidated Bank of Kenya Limited for a period of five years. She has also worked with Kenya Electricity Transmission Company Limited (KETRACO) for a period of one year. Ms. Lemoosa is actively involved in community development and social work in her home County of Samburu, Baragoi- South Horr, having being engaged in World Food Programme.</p>

*Equalisation Fund
Annual Report and Financial Statements For the year ended 30th June 2023.*

	<p>Ms. Lemoosa holds a Bachelors of Commerce Accounting and Finance degree from Kenyatta University. She is in the process of attaining CPA certification.</p>
	<p>Mr Abdirizack Golicha was appointed an Equalisation Fund board member on 1st November 2021.</p> <p>Mr. Golicha has over 10 years' experience in finance, accounting and administration. Mr. Golicha is currently employed as a finance and administration officer at Merti Integrated Development Programme (MID-P) which is based in Isiolo and works in various sectors including education, climate change, livelihood, governance etc. During the period 2012-2017, he worked at Red Sea Central Ltd, Juba South Sudan as Finance and Administration Officer.</p> <p>He holds a Bachelor of Commerce (Accounting Option) degree and is a CPA Finalist.</p>
<p>Mr Abdirizack Golicha</p>	
	<p>Mr Abdullahi A. Khalif was appointed an Equalisation Fund board member on 25th February 2022.</p> <p>Mr. Khalif has extensive experience in working for several construction firms and NGOs and has overseen successful implementation of government projects in liaison with several government agencies and development partners. Most of the projects he had oversighted have greatly benefited marginalized communities.</p> <p>Mr. Khalif holds a Bachelor of Economics and Bachelor of Laws from the University of Nairobi.</p>
<p>Mr Abdullahi A. Khalif</p>	
	<p>Mr. Maurice Ogola was appointed a Director on 29th March, 2023 as an alternate to the Principal Secretary, State Department for Devolution.</p> <p>Mr. Ogola has vast experience in Public Service spanning for over 20 years. He is currently a Director, in charge of Policy and Research as well as Co-ordinator of Donor Funds at State Department for Devolution.</p> <p>He has previously been a Town Clerk in Various Municipalities as well as a County Secretary in the new dispensation making him an all rounded expert in Sub-National Governance. Mr. Ogola has a Master's Degree in Business Administration from Egerton University.</p> <p>He is also a member of African Association for Public Administration and Management (AAPAM). He brings to the Board a wealth of experience in managing Devolution</p>
<p>Mr. Maurice Ogola</p>	



Mr Guyo Boru

Mr Guyo Boru is Chief Executive Officer and Secretary to Equalization Fund Advisory Board and Fund Administrator –Equalization Fund.

He was previously Head of Equalisation at National Treasury and Planning from December 2020 with key highlights of responsibility being to operationalize the Fund, administer and manage the Fund on day to day basis, establish the Fund Board, structure a mechanism for implementing the Fund among other responsibility.

With appointment of Board he was appointed the Interim CEO and Secretary to the Board on 25th November 2021 and subsequently appointed substantive CEO effective 30th June 2022.

Mr Boru has a wealth of experiences with a career spanning over 16 years both in corporate and public sector of which a decade has been spent in public finance management. He started his career in 2006 as graduate trainee at Barclays Bank (Now Absa) where he worked and gained significant experience in operation management with focus on operation process efficiency, process re-engineering and risk management for retail business operation among other roles.

He later joined Co-operative Bank of Kenya as Relationship manager in 2009 with responsibility of managing and growing corporate asset finance portfolio before he was tapped for branch manager trainee during talent management exercise.

Mr Boru served at the Office of the Controller of Budget between 2012-2020 with main responsibility for overseeing and monitoring the utilization of public funds issued to spending entities/county and exchequer issue management by processing requests for approval from exchequer request for county governments.

He has also served in the Board of Special Economic Zone Authority as well as Arts, Sport and Social Development Fund Oversight Board as an alternate member to Principal secretary -National Treasury and Planning and has served as a member of various Board Committees of both the Board. Mr Boru has attended numerous trainings in public finance management, Strategic governance, senior leadership and management, among others both locally and internationally.

Mr. Boru has Bachelor of Science (Hons) degree and MBA-Finance degree from University of Nairobi, Masters Degree in Public Policy and Management from Strathmore University (Ongoing) and is CPA finalist.

4. Key Management Team

	Management	Details
1)	Mr. Guyo Boru	Chief Executive Officer Fund Administrator
2)	Mr. Bernard Wandera	Ag. Head, Finance and Administration
3)	Diana Lukalo, PhD	Ag. Head, Technical Services
4)	Mr. Benson Gichohi	Ag. Head, Treasury Management
5)	Mr. Calleb Adongo	Ag. Head Supply Chain Management
6)	Mr. Joanes Oyiembo	Ag. Head Human Resource and Administration

5. Chairman's Statement



On behalf of the Board of Directors of the Equalisation Fund Advisory Board (EFAB), I am delighted to share the second Equalisation Fund Annual Report and Financial Statement for the year ended 30th June 2023, under the new Public Finance Management (Equalisation Fund Administration) Regulations, 2021

The Equalisation Fund was established under Chapter 12 Article 204 (1) of the Constitution of Kenya to provide funding for the development of basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

The publication and approval of the Public Finance Management (Equalisation Fund Administration) Regulations, 2021, paved way for the formation of the EFAB to advise the Cabinet Secretary on the proper and effective administration of the Fund, ensure completion of ongoing projects identified under the First Policy of Marginalization, as well as implement new projects identified under all subsequent policies.

Pursuant to the PFM (Equalisation Fund Administration) Regulations, 2021, the EFAB membership is comprised of: the chairperson appointed by the Cabinet Secretary; representative of the Principal Secretary to the National Treasury; a person from a pastoralist community nominated by the National Assembly; nominees from Senate and Council of Governors; the chief executive officer/ secretary and three other persons nominated from organizations working in Equalisation Fund beneficiary counties and special interest groups.

The Board held several meetings during the period under review whereby pertinent issues were agreed upon and roadmaps drawn. The Board has engaged EF projects implementing Ministries Departments and Agencies in a bid to complete projects from the First Policy of Marginalization and facilitate payment and developed Equalisation Fund implementation matrix to fast-track execution of Equalisation Fund mandate. In addition, the Board held meetings with the Commission on Revenue Allocation on winding up of the First Marginalization Policy, implementation of the Second Marginalization policy and the subsequent development of the Third Marginalization Policy.

The Board has conducted sensitization to 34 EF beneficiary counties on the requirements of the PFM (Equalisation Fund Administration) Regulations, 2021 as well as ensuring efficient and effective implementation of new projects identified under the Second Marginalization Policy.


In compliance with the Public Service Commission Performance Management Regulations, 2021, which stipulate that every public body shall develop and implement a strategic plan in line with the guidelines issued, the EF board has commenced the process of developing a five-year strategic plan.

Equalisation Fund

Annual Report and Financial Statements For the year ended 30^h June 2023.

On behalf of the Board of Directors, I would like to recognise and appreciate all our stakeholder for their support. We also wish to recognize and celebrate our secretariat for their continued agility and resilience throughout these difficult times.

I would also like to thank my fellow Board members for their unwavering support and dedication throughout the year and for delivering a strong corporate governance environment.


AMB. (ENG.) MAHBOUB M. MAALIM, CBS, OGW
CHAIRMAN
EQUALISATION FUND ADVISORY BOARD

6. Report of the Chief Executive Officer



It is with great pleasure and honour that I present the Equalisation Fund Annual Report and Financial Statements for the year ended 30th June 2023.

In compliance with the Public Finance Management Act 2012, the Fund has prepared a report of its operations for the FY 2022/23. This report is based on work programme implemented within the year. It highlights the Fund's performance driven by a professional, committed workforce, steered by the Board of Directors.

During the year, additional critical human resource personnel were deployed from various Ministries to join the secretariat. The Salaries and Remuneration Commission approved the salary structure to support the Fund recruit and retain competent human resources to fully operationalize the Fund.

As part of the Fund's operationalization, the Secretariat has set up the accounting and procurement systems in line with the PFM Act 2012 and the Public Procurement and Asset Disposal Act 2015 respectively. To support the Fund's operations, the EFAB's recurrent budget and procurement plan for FY 2022/23 was approved by the Cabinet Secretary National Treasury and Planning as stipulated in the Equalisation Fund Regulations 2021.

Acknowledging the extent of the pending bills relating to Equalisation Fund projects identified under the First Policy of Marginalization, the secretariat engaged EF projects implementing Ministries Departments and Agencies to establish the projects' implementation status with a view of facilitating payment of pending bills and completion of First Marginalization Policy projects as appropriated under the Equalisation Fund Appropriation Act of 2018. Additionally, the Secretariat facilitated establishment, sensitization and induction of County Committees as per the Public Finance Management (Equalisation Fund Administration) Regulations, 2021 in the 34 beneficiary counties identified in the Second Marginalization Policy

Notwithstanding the above progress, the secretariat faces the following challenges which may impact negatively on its performance: Delays in accessing the 0.5% entitlement as outlined in Article 204 of the Constitution hence obscuring access to the 3% authorised for the administration of the Board and secretariat; and timely identification and consideration of projects given that the Fund has under 7 years to implement projects.

In the 2023/24 financial year, the secretariat targets to: develop and implement its 5-year strategic plan; Carry out verification/ M&E and handover for the 354 projects which were implemented under the First Marginalization Policy and are at different levels of implementation; implement the Second Marginalization Policy as appropriated in the Equalisation Fund Appropriation Act, 2023; participate in project identification/public participation for the Second Policy projects in the 1,424 areas in 34 counties and develop

*Equalisation Fund
Annual Report and Financial Statements For the year ended 30th June 2023.*

various operational guidelines, conditions and standards for the implementation of the Fund's Regulations 2021.

Further, the secretariat intends to purchase and install the E-Board software and Enterprise Resource Planning (ERP) software to attain efficiency and effectiveness in its operations and management.

The Board and Secretariat look forward to continued support and cooperation from stakeholders and other government agencies in order to expedite the full operationalization and implementation of the EF as enshrined in Article 204 of the Kenyan Constitution.



**GUYO BORU
CEO/SECRETARY AND FUND ADMINSTRATOR
EQUALISATION FUND ADVISORY BOARD**

7. Statement of Performance against Predetermined Objectives for FY 2022/23

The publication and approval of the PFM (Equalisation Fund Administration) Regulations, 2021, paved way for the appointment of the Equalisation Fund Advisory Board (EFAB) to facilitate administration of the Fund.

The EFAB, has commenced the process of preparing its five-year strategic plan that shall consolidate its previous gains and propel it to even greater heights in line with the Constitution of Kenya. The strategic plan will guide the Board to set its vision, mission, goals and timeliness for achievement of the Fund's objectives.

During the year under review, the following key achievements were realized:

- a) Developed, adopted and approved the EFAB Charter so as to uphold good governance practices in the board;
- b) Additional seven staff were deployed to the Fund's secretariat from various ministries/State Departments to fully operationalize the Fund;
- c) Approval of the EFAB's recurrent budget and procurement plan for FY 2022/23 by the Cabinet Secretary National Treasury and Planning;
- d) Developed an implementation matrix to fast track the operationalization and implementation of EF which has been adopted by the Board;
- e) Engaged EF projects implementing Ministries Departments and Agencies to finalize payment of pending bills and completion of projects in First Marginalization Policy.
- f) Engaged the Commission on Revenue Allocation on the review of the First and Second Marginalization Policy and the subsequent development of the Third Marginalization Policy;
- g) Engaged with the Special Fund Committee of National Assembly to appraise them on the status of operationalization of the Fund;
- h) Developed guidelines and procedures for withdrawal of funds from the EF accounts, in collaboration with the office of the Controller of Budget. The Controller of Budget has since issued the guidelines and procedures to guide exchequer issue process;
- i) Capacity built board members and secretariat through training and seminars;
- j) Partitioned and equipped the office to create a conducive work environment for the secretariat as well as purchase of a motor vehicle to facilitate staff movement;
- k) Operationalised the County Technical Committees for implementation of projects in the Second marginalisation policy;

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

- l) Conducted sensitization and induction of PFM (Equalisation Fund Administration) Regulations, 2021 to the 34 Equalisation Fund beneficiary counties;
- m) Developed the Equalisation Fund Appropriation Bill, 2023 which was approved by Parliament and enacted. The Equalisation Fund Appropriation Act, 2023 will be utilised for implementation of projects under the Second Marginalisation Policy;

8. Corporate Governance Statement

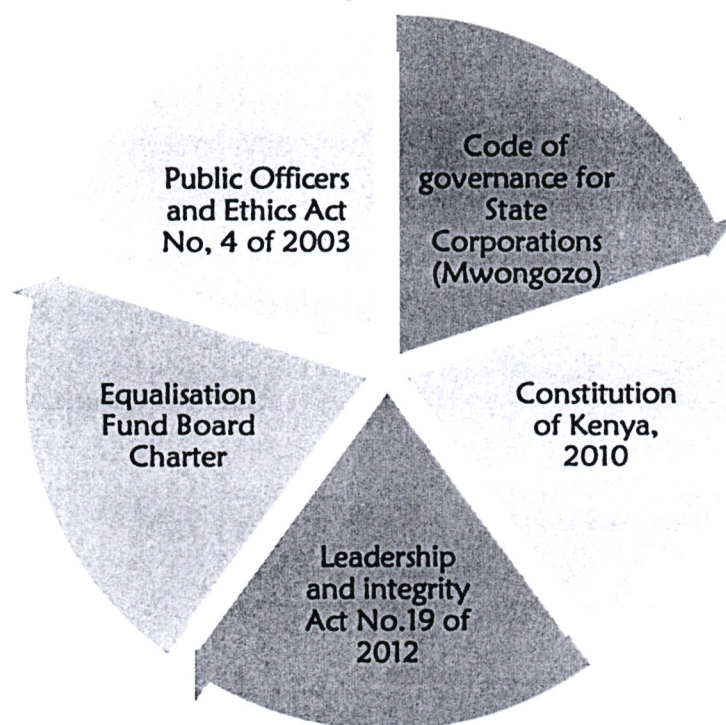
Corporate governance is the exercise of ethical and effective leadership by the governing body towards the achievement of governance outcomes namely; ethical cultures, good performance, effective control and legitimacy.

Being an unincorporated board, the responsibility of governing the Equalisation Fund lies with the Advisory Board and the National Treasury and Planning. The EFAB has put in place systems to ensure that high standards of corporate governance are maintained at all levels in the Fund.

This statement of corporate governance provides an update of Equalisation Fund governance performance to date.

8.1. Statement of Compliance

The Board of Directors upholds the tenets of good governance as guided by the following documents:



8.2. Board Charter

The EFAB has developed, adopted and approved a Charter that provides all members with a high-level policy document to guide and direct them as they undertake their mandate. The Charter allows Board members to think creatively and critically about how their strategic direction and operational plans align with the organization's governance expectations.

The Charter documents the Board's composition, roles and responsibilities, the powers to establish Board committees, the separation of roles between the Board and Management, as well as the Board's corporate governance policies and practices.

The Charter is complimentary and does not intend to change or interpret any statute law or regulation. All Board members have access to it.

8.3. Constitution of the Board

Regulation 4 (1) of the PFM (Equalisation Fund Administration) Regulations, 2021 establishes the Equalisation Fund Advisory Board which comprises of:

- 1) The Chairperson appointed by the Cabinet Secretary;
- 2) The Principal Secretary to the National Treasury or his representative designated in writing;
- 3) The Principal Secretary responsible for matters relating to devolution or his or her representative designated in writing;
- 4) One person from a pastoralist community nominated by the National Assembly;
- 5) One person nominated by the Senate;
- 6) One person nominated by the Council of Governors drawn from the areas defined as marginalized;
- 7) The Chief Executive Officer who shall be the Secretary to the Board; and
- 8) Three other persons nominated from organizations working in Equalisation fund beneficiary counties and special interest group, appointed by the Cabinet Secretary.

The Board therefore has ten (10) members.

As at 30th June 2023, EFAB had ten (10) directors, nine (9) of whom are non- executive and one (1) executive member. Out of the nine (9) non-executives, seven (8) directors are expected to hold office for a non-renewable term of six (6) years.

8.4. Process of Appointment

Regulation 5 of the PFM (Equalisation Fund Administration) Regulations, 2021 provides that a person is qualified for appointment as a board member if that person meets the following requirements:

- 1) is a citizen of Kenya;
- 2) holds a degree from a university recognized in Kenya;
- 3) has at least five years' professional experience in a relevant field; and
- 4) meets the requirements of Chapter Six of the Constitution.

Regulation 6 of the PFM (Equalisation Fund Administration) Regulations, 2021 stipulates that the Board members shall hold office for a period not exceeding six (6) years non-renewable. Apart from the PS representative's other appointment shall be by name and by notice in the Kenya Gazette. The Chief Executive Officer has ensured that a record of the appointment

letter, gazette notice and written acceptance by the Board member are kept in the personal file of the Board member.

8.5. Removal of Directors

According to Regulation 7 of the PFM (Equalisation Fund Administration) Regulations, 2021:

A member of the Board, other than ex-officio member, may–

- 1) at any time resign from office by notice in writing to the appointing authority;
- 2) be removed from office by the appointing authority, if the member–
 - (a) has been absent from three consecutive meetings of the Board without permission from the chairperson;
 - (b) is adjudged bankrupt or enters into a composition scheme or arrangement with his creditors;
 - (c) is convicted of an offense involving dishonesty or fraud;
 - (d) is convicted of a criminal offence and sentenced to imprisonment for a term exceeding six months;
 - (e) is incapacitated by prolonged physical or mental illness; or
 - (f) is otherwise unable or unfit to discharge his functions.

Apart from the PS representatives, any removal of a Board member, shall be through formal revocation.

8.6. Director Appointments and Classification

In the year under review, the Cabinet Secretary, National Treasury and Planning, appointed the EFAB members for a non-renewable term of six years pursuant to the PFM (Equalisation Fund Administration) Regulations, 2021. The members and appointment dates are tabulated below:

EFAB Members and Effective Appointment Date

	Director	Effective Date
1)	Amb. (Eng.) Mahboub Maalim	1 st November 2021
2)	Ms. Lemoosa Ralia	1 st November 2021
3)	Mr. Abdirizack Golicha	1 st November 2021
4)	Ms. Jane Bokayo	1 st November 2021
5)	Mr. Victor Odanga	14 th December 2021
6)	Ms. Tamima Ali	25 th February 2022
7)	Mr. Abdullahi Khalif	25 th February 2022
8)	Mr. Joseph Mbatha	10 th March 2022
9)	Mr. Maurice Ogolla	29 th March 2023

The Head of the Equalisation Fund at the National Treasury, Mr Guyo Boru was appointed on 25th November 2021, as interim CEO and Secretary to the Board upon appointment of the chair and board members.

EQUALISATION FUND ADVISORY BOARD

MR. (Eng.) MACHINDI MACHINDI (Chairman)

Mr. Joseph Mbatia

Mr. Abdullahi Khalif

Mr. Abdirizack Golicha

Mr. Victor Odanga

Ms. Lemoosa Ralia

Ms. Tamima Ali

Ms. Jane Bokayo

Mr. Maurice Ogola

CHIEF EXECUTIVE OFFICER/SECRETARY

Mr. Guyo Boru

8.7. Functions of the Board

The functions of the Board with regard to the Fund, as outlined in Section 8 (a) – (j) of the PFM (Equalisation Fund Administration) Regulations, 2021, include:

- 1) Advise and make recommendations to the Cabinet Secretary on the distribution of resources for the provision of the basic services to the marginalized areas under Article 204 of the Constitution;
- 2) Appraise and evaluate projects proposed under the workplans submitted by county technical committees to ensure compliance with the Constitution and the recommendations issued by the Commission on Revenue Allocation;
- 3) Make recommendations on the priority areas requiring financing and implementation in accordance with the workplans considered under paragraph (2);
- 4) Oversee, in consultation with the county governments, the implementation of the projects to ensure compliance with the Constitution;
- 5) Monitor and evaluate the projects implemented by county governments using Equalisation funds to determine their impact in addressing the factors contributing to the marginalization of the areas identified in the counties;

- 6) Put in place measures to ensure transparency and accountability in the implementation of Equalisation fund projects by county governments;
- 7) Establish a framework for collaboration between the national government and county governments in the implementation of projects in line with the Constitution;
- 8) Review the consolidated quarterly reports prepared by the Secretary on the implementation of the projects and make recommendations to the Cabinet Secretary on performance improvement;
- 9) Review and propose the annual estimates of expenditure of the Fund for approval by the Cabinet Secretary; and
- 10) Undertake project public participation in line with Article 201 of the Constitution.

8.8. Capacity Building for the Board

In adherence to the best practice, the Fund develops an induction program for new Board members which entails the directors' receiving knowledge about the Fund through interactions with Management and staff, regular in-depth reports and presentations.

The CEO also ensures that management updates the Board on matters relevant to Fund's business, changes in law and regulation including government accounting policies through briefs and board papers during board meetings.

The management is in the process of setting up an annual development program for all its Board members to improve on their individual capacity. Board members are also encouraged to undertake continuous professional development in their respective professional bodies.

During the last financial year, the EFAB members attended various training programs and retreats to enhance their knowledge and understanding in various facets thus strengthening their oversight and advisory role in the Fund. The trainings attended were Strategic Leadership and Governance in Eastern and Southern African Management Institute (ESAMI) and Performance Management for Public Sector Board Programme in African Management Services Company (AMSCO).

8.9. Board and Member Performance

Board meetings are constituted in accordance with the constitutive document and are held at least four (4) times a year with a period of at most four (4) months between meetings.

Notices of meetings are issued by the secretary. The Board papers/board packs are circulated in advance to enable the directors prepare adequately for the meetings. Special Board or Committee meetings are held when critical and urgent matters arise. These special meetings only cater for the specified agenda matters.

The quorum for a Board meeting is five (5) members while for the Board Committees is (3) members. Senior staff or heads of units are invited by the Secretary to the board to attend Board or Committee meetings whenever considered necessary.

During the period under review, the EFAB members held six (6) meetings which were attended as follows: -

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

S/No	Name of Director	Board Position	No. of Meetings Held	No. of Meetings Attended
1)	Amb. (Eng.) Mahbub Maalim	Chairman	6	6
2)	Mr. Joseph Mbatha	Director	6	6
3)	Mr. Victor Odanga	Director	6	6
4)	Ms. Tamima Ali	Director	6	6
5)	Mr. Abdullahi Khalif	Director	6	6
6)	Mr. Lemoosa Ralia	Director	6	6
7)	Mr. Abdulrazak Golicha	Director	6	5
8)	Ms. Jane Bokayo	Director	6	5
9)	Mr. Maurice Ogola	Director	6	0*
10)	Mr. Guyo Boru	CEO	6	6

Note

* Mr. Maurice Ogolla was appointed on 29th March 2023 therefore, did not attend a board meeting during the financial year under review.

The Board has constituted 4 board committees:

1. Technical Committee

- Ms. Jane Bokayo- Chairperson
- Mr. Victor Odanga
- Mr. Abdullahi Khalif
- Mr. Joseph Mbatha

2. Finance Committee

- Mr. Victor Odanga-Chairperson
- Mr. Abdullahi Khalif
- Mr. Joseph Mbatha
- Mr. Maurice Ogola

3. Audit and Risk Committee

- Mr. Abdulrazak Golicha-Chairperson
- Ms. Lemoosa Ralia
- Ms. Jane Bokayo
- Mr. Joseph Mbatha

4. Human Resource Committee

- Ms. Tamima Ali-Chairperson
- Mr. Abdulrazak Golicha
- Ms. Lemoosa Ralia
- Mr. Joseph Mbatha

The committees have held various meetings as outlined in the table below during the year under review.

MEETING	Ms. Jane Bokayo-	Mr. Victor Odanga	Mr. Abdullahi Khalif	Ms. Tamima Ali	Ms. Lemoosa Ralia	Mr. Joseph Mbatha	Mr. Maurice Ogola	Mr. Abdulrazak Golicha	CEO
1 st Technical Committee Meeting held on 2-12-2022	✓		✓			✓			✓
2 nd Technical Committee Meeting held on 21-1-2023	✓		✓	✓		✓			✓
3 rd Technical Committee Meeting held on 7-6-2023	✓	✓		✓			✓		✓
Finance Committee Meeting									
1 st Finance Committee meeting held on 1 -03-2023		✓	✓			✓			✓
2 nd Finance Committee meeting held on 17-7-2023		✓	✓			✓	✓		✓
Audit and Risk Committee Meetings									
1 st Audit and Risk Committee meeting held on 8 -06-2023	✓				✓	✓		✓	✓
Human Resource Committee									
None									

Note: There was no Human Resource Committee meeting held during the financial year under review.

8.10. Board Remuneration

Board members are remunerated for their services in accordance with the prevailing relevant legislative provisions and guidance circulars issued from time to time from the relevant authorities. The regular allowances for board chairpersons and board members are as tabulated below. The rates are based on circular Ref. No. PSC/HRM/12/IV/ (53) dated 16th May 2018 on revised remuneration guidelines for board members

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

No.	Allowance	Chairperson	Board Members
1)	Monthly honoraria	KSh 80,000 per month	N/A
2)	Sitting Allowance	KSh 20,000 per sitting	KSh 20,000 per sitting
3)	Accommodation allowances	KSh 18,200 per day	KSh 18,200 per day
4)	Telephone services/Airtime	KSh.10,000 per month	N/A
5)	Accommodation International Travel	on As stipulated in Circular Ref. OP/SCAC.9/21/2A dated 7 th December 2009	
6)	Lunch	KSh.2,000 per day subject to meeting extending to lunch hours (1pm - 2pm). If lunch is provided the allowance is not payable.	
7)	Transport allowance	Determined by prevailing government guidelines; currently National Treasury Circular of 2015. Paid at the current prevailing Automobile Association of Kenya (AA) rates.	
8)	Medical insurance	Inpatient KSh. 2 million per annum Outpatient KSh. 100,000 per annum Last expense (self) KSh. 100,000	

8.11. Conflict of Interest

Board members are required to avoid conflict of interest in any matter that relates to the Fund. Board members are expected to declare any real or perceived conflict of interest with the Fund upon appointment to the Board. A Board member who subsequently identifies an area of conflict shall be required to disclose any actual or potential conflict of interest to the Board, and provide all relevant information and abstain from decision making where conflict exists.

Declaration of conflict of interest is a standard agenda item which is addressed at the onset of each Board and Committee meeting. EFAB directors declare conflict of interest at the beginning of each and every Board and Committee meetings and immediately thereafter sign in the register of conflict of interest.

No conflicts of interest were declared or reported by Directors in the year under review.

8.12. Board Succession

The Board will put in place a succession plan for the Board and review the same regularly.

8.13. Governance Audit

The Board will ensure that a governance audit of the Fund is undertaken on an annual basis. The purpose of the governance audit will be to ensure that the Fund conforms to the highest standards of good governance. The governance audit will cover the following parameters among others.

- 1) Leadership and strategic management;
- 2) Transparency and Disclosure;
- 3) Compliance with Laws and Regulations;

Senate, Council of Governors, Commission of Revenue Allocation and Controller of Budget was put in place to develop new Equalisation Fund statutory instrument.

This team developed the Public Finance Management (Equalisation Fund Administration) Regulations 2021 which has since been published through Kenya gazette supplement No 69, Legal Notice No 54 of 29th April, 2021 and subsequently approved by the Parliament. The publication and approval of the Regulations paved way for the operationalization of the EF with the appointment and inauguration of the new EFAB.

9.1. Legal and Policy Framework

In appropriating the Fund, the following legal and policy documents provide the framework for the operationalization of the Equalisation Fund:

9.1.1. Constitution of Kenya 2010

Article 204. Stipulates that:

Clause (1): There is established an Equalisation Fund into which shall be paid one-half percent of all the revenue collected by the national government each year calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly.

Clause (2): The National Government shall use the Equalisation Fund only to provide basic services including water, roads, health facilities and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

Clause (3): The National Government may use the Equalisation Fund-

- (a) only to the extent that the expenditure of those funds has been approved in an Appropriation Bill enacted by Parliament; and
- (b) either directly, or indirectly through conditional grants to counties in which marginalized communities exist.

Clause (4): The Commission on Revenue Allocation shall be consulted and its recommendations considered before Parliament passes any Bill appropriating money out of the Equalisation Fund.

Clause (5): Any unexpended money in the Equalisation Fund at the end of a particular financial year shall remain in that Fund for use in accordance with clauses (2) and (3) during any subsequent financial year.

Clause (6): This Article lapses twenty years after the effective date, subject to clause (7).

Clause (7): Parliament may enact legislation suspending the effect of clause (6) for a further fixed period of years, subject to clause (8).

Clause (8): Legislation under clause (7) shall be supported by more than half of all the members of the National Assembly, and more than half of all the county delegations in the Senate.

- 4) Communication with stakeholders;
- 5) Board independence and governance;
- 6) Board systems and procedures;
- 7) Consistent shareholder and stakeholders' value enhancement; and
- 8) Corporate social responsibility and investment.

During the time period under consideration, there was governance audit performed. The following were the auditors' recommendations:

- i. The Board should develop a strategic plan with a clearly defined vision, mission, objectives and action plans
- ii. The sections/ units should develop individual work plans which should be aligned with the boards' strategic plan
- iii. The board should develop a calendar of events and strictly adhere to it to mitigate on the possibilities of budget overruns

Management Discussion and Analysis

The Equalisation Fund was established by the Constitution of Kenya under Chapter 12 Article 204 (1) to facilitate the development of marginalized counties. However, the operationalization of the Fund did not take place immediately in 2013 until 13th March, 2015 when Equalisation Fund Gazette Notice No. 1711 was published providing Guidelines for the Administration of the Fund to the beneficiary counties.

The Fund was first operationalized by the National Treasury under the Intergovernmental Fiscal Relations Department using Guidelines on Administration of the Equalisation Fund that established unincorporated Board comprising of Principal Secretaries from implementing Agencies and four (4) members outside the Civil Service appointed by the Cabinet Secretary. The Secretariat comprised of technical officers from implementing Agencies including public works, water, energy and education, and the National Treasury's Intergovernmental Fiscal Relations Department's officers who provided fiscal and administrative support. The administration of the Fund was therefore, a function of the Intergovernmental Fiscal Relations Department.

The Equalisation Fund was administered through Guidelines on Administration of Equalisation Fund Gazette Notice No.1711 until 5th November, 2019 when the High Court ruling on Petition No. 272 of 2016 declared the Equalisation Fund Guidelines as unconstitutional, null and void. This in effect disbanded the Equalisation Fund Advisory Board (EFAB) and stopped any further expenditure from Equalisation Fund.

The Court directed the National Treasury to develop a statutory instrument on the administration of the Equalisation Fund within six months and it is on this basis, that a multi-agency committee comprising of representatives from National Treasury, National Assembly,

Table 1: Equalisation Fund Entitlement and Allocation since Inception (Figures in KSh)

S/N.	Financial Year	Most recent audited revenues approved by the National Assembly		Equalization Fund Allocation (KSh.)	Equalization Fund Entitlement (0.5% of most recent audited and approved revenues) (KSh.)	Amount Reflected in the DORA
		Base Year for most recent audited revenues approved by National Assembly	Audited and approved revenues by National Assembly (KSh.)			
	(a)	(b)	(c)	(d)	(e)	
1)	2011/12	2008/2009	468,151,970,000	0	2,340,759,850	0
2)	2012/13	2009/2010	529,300,000,000	0	2,646,500,000	0
3)	2013/14	2009/2010	529,300,000,000	0	2,646,500,000	0
4)	2014/15	2009/2010	529,300,000,000	400,000,000	2,646,500,000	3,400,000,000
5)	2015/16	2012/2013	776,900,000,000	6,000,000,000	3,884,500,000	6,000,000,000
6)	2016/17	2013/2014	935,653,000,000	6,000,000,000	4,678,265,000	6,000,000,000
7)	2017/18	2013/2014	935,653,000,000	0	4,678,265,000	7,727,000,000
8)	2018/19	2013/2014	935,653,000,000	0	4,678,265,000	4,700,000,000
9)	2019/20	2014/2015	1,038,035,000,000	0	5,190,175,000	5,760,000,000
10)	2020/21	2016/2017	1,357,698,000,000	6,825,317,433	6,788,490,000	6,788,490,000
11)	2021/22	2016/2017	1,357,698,000,000	7,068,474,211	6,788,490,000	6,825,317,433
12)	2022/23	2017/2018	1,413,694,840,000	0	7,068,474,200	7,068,474,211
GRAND TOTAL			10,807,036,810,000	26,293,791,644	54,035,184,050	54,269,281,644

Source: Division of Revenue Act, 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 & 2014.

1. There was no allocation in the first three financial years i.e., 2011/12, 2012/13 and 2013/14 since the First Policy identifying the marginalized areas had not been put in place by the CRA.
2. The total entitlement to the Fund since inception is **KSh 54,269,281,644**. The total allocation to the Fund (approved by Parliament) since inception is **KSh. 26,293,791,644**. Out of this, **KSh.12,400,000,000** was appropriated through the Equalisation Fund Appropriation Act 2018.
3. The outstanding KSh 13,893,791,644 which comprises of **KSh 6,825,317,433** and KSh **7,068,474,211** for FY 2021/22 and FY 2022/23 which were appropriated through the Equalisation Fund Appropriation Bill 2023 (Senate Bills No. 3 of 2023) published on 31st January, 2023.
4. In the FY 2022/23 supplementary budget, the National Treasury considered and included KSh 6,825,317,433 being Equalisation Fund budget allocation for FY 2021/22. However, in the FY 2022/23 Supplementary budget, Parliament considered and approved KSh 3,262,317,433 only. Thus, the amount appropriated through the Equalisation Fund Appropriation Act 2023 which was enacted on 30th June 2023 was **KSh 10,330,317,433**.

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

However, in the FY 2022/23 Supplementary II, the National Treasury revised the Equalisation Fund allocation to zero due to the following reasons:

- i. The National Treasury encountered shortfall in financing since the revenue collection was below target by over Ksh.100 billion;
- ii. The National Treasury were not able to raise all the projected borrowing; and
- iii. By the time of Supplementary budget II, the Equalisation Fund Appropriation Bill 2023 had not been approved and assented, therefore, the National Treasury did not have authority to expense the funds.

In view of above the National Treasury committed to consider and allocate the **Ksh.10.3 billion** in FY 2023/24 first supplementary budget.

Additionally, the National Treasury vide letter **Ref: TNT/ZZ/81/014/E (74)** dated 19th May, 2023 to the clerk of senate, committed to pay the Equalisation Fund arrears as per the table below.

Table 2: Proposed Plan on Appropriation of Equalisation Fund Arrears

Financial Year (A)	Budget Estimates (B)	Equalisation Fund Arrears (C)
2023/24	8,368,574,000	-
2024/25	8,368,574,000	9,976,766,000
2025/26	9,590,000,000	9,976,766,000
2026/27	10,960,000,000	9,976,766,000
2027/28	14,393,000,000	9,976,766,000
Grand Total	51,680,148,000	39,907,064,000

It is important to note that in the FY 2023/24 budget the Equalisation Fund has been allocated **Ksh.10.9 billion**. This includes Equalisation Fund allocation for FY 2023/24 and arrears from FY 2021/22. This will be used to fund the now assented Equalisation Fund Appropriation Act, 2023. The project identification of projects for Equalisation Fund Appropriation Act, 2023 is ongoing and the implementation of the projects will commence at the end of first quarter.

9.2.2. Disbursements from the Equalisation Fund to date

As mentioned above, a total of **KSh.12.4 billion** on Equalisation Fund entitlements relating to financial years 2014/15, 2015/16 and 2016/17 have been allocated and appropriated to finance projects identified in 14 marginalized counties and for the purpose of administrative expenses.

Of these funds, the Equalisation Fund has to date disbursed a total of **KSh.10,931,801,597 (942,313,944 + 6,937,847,293 + 2,466,411,814 + 585,228,546)** in Financial Years 2016/17,

2017/18, 2018/19 and 2022/23 respectively to the Ministries, Departments and Agencies (MDAs) implementing the identified projects in the 14 marginalized counties as shown in tables 2, 3 and 4 below:

Table 2: Disbursements in FY 2016/17 (Figures in KSh)

COUNTIES	State Department for Irrigation	State Department Vocational & Technical Training	State department for Water	Ministry of Health	State Department for Infrastructure Roads	State Department for Energy	State department for Basic Education	The National Treasury	Total
Garissa County			97,816,106.00			70,000,000.00			167,816,106
Isiolo County			50,000,000.00			16,600,000.00			66,600,000
Kilifi County						5,750,000.00			5,750,000
Kwale County						20,000,000.00			20,000,000
Lamu County						60,000,000.00			60,000,000
Mandera County						27,000,000.00			27,000,000
Marsabit county						16,000,000.00			16,000,000
Narok County									-
Samburu County									-
Taita Taveta County									-
Tana River County						15,000,000.00			15,000,000
Turkana county									-
Wajir county									-
West Pokot County			103,782,138.00						103,782,138
Secretariat Administrative Cost	54,791,200.00	7,870,000.00	166,300,000.00	88,155,000.00	102,500,000.00	38,500,000.00	2,249,500.00		460,365,700
Total	54,791,200		417,898,244	88,155,000	102,500,000	268,850,000	2,249,500	-	942,313,944

Table 3: Disbursements in FY 2017/18 (Figures in KSh)

COUNTIES	State Department for Irrigation	State Department Vocational & Technical Training	State department for Water	Ministry of Health (Health Facilities)	State Department for Infrastructure (Roads)	State Department for Energy	State department for Education Education	The National Treasury	Total
Garissa County			185,682,609.00	35,000,000.00	317,520,000.00	70,000,000.00			608,202,609.00
Isiolo County			45,158,734.00	30,900,000.00	450,300,000.00	16,600,000.00			542,958,734
Kilifi County			98,883,566.00	56,214,369.00	181,721,610.00	6,000,000.00			342,819,545
Kwale County			136,750,654.00	2,706,250.00	317,475,000.00	77,000,000.00			533,931,904
Lamu County	21,841,872.00		55,068,900.00	89,965,723.00	178,805,300.00	60,000,000.00			405,681,795
Mandera County	185,312,520.00		127,070,518.00	170,600,000.00	300,000,000.00	27,000,000.00			809,983,038
Marsabit county	106,978,800.00		46,759,121.00	94,149,100.00	148,928,000.00	16,000,000.00			412,815,021
Narok County			92,500,543.00	69,393,303.00	270,904,145.00				432,797,991
Samburu County			305,010,167.00		111,800,000.00				416,810,167
Taita Taveta County			40,255,235.00	167,725,000.00	414,500,000.00	15,000,000.00			637,480,235
Tana River County	204,327,007.00		28,171,309.00		179,000,000.00				411,498,316
Turkana county			39,847,657.00	23,750,000.00	320,066,668.00				383,664,325
Wajir county			289,454,791.00	141,200,000.00	80,000,000.00				510,654,791
West Pokot County			32,173,822.00	38,800,000.00	417,575,000.00				488,548,822
Total	518,460,199	-	1,522,787,626	920,403,745	3,688,595,723	287,600,000	-	-	6,937,847,293

Equalisation Fund

Annual Report and Financial Statements For the year ended 30^h June 2023.

Table 4: Disbursements in FY 2018/19 (Figures in KSh)

COUNTIES	State Department for Irrigation	State Department Vocational & Technical Training	State department for Water	Ministry of Health (Health Facilities)	State Department for Infrastructure (Roads)	State Department for Energy	State department for Education Education	The National Treasury	Total
Garissa County			57,566,258.00						57,566,258
Isiolo County			36,361,403.50	59,750,000.00					96,111,404
Kilifi County			101,576,474.20	64,045,502.00			23,000,000.00		188,621,976
Kwale County			42,074,602.00	8,118,750.00			50,000,000.00		100,193,352
Lamu County	5,312,684.00		91,460,101.90	53,024,948.00					149,797,734
Mandera County	125,328,632.60		22,522,900.00						147,851,533
Marsabit county	189,333,006.10		50,183,477.50	122,496,400.00					362,012,884
Narok County			61,925,816.50	132,929,908.00					194,855,725
Samburu County			234,895,466.10						234,895,466
Taita Taveta County			21,005,493.00	3,975,000.00					24,980,493
Tana River County	189,059,101.30		68,993,349.35				60,000,000.00		318,052,451
Turkana county			124,963,665.40	67,500,000.00					192,463,665
Wajir county			76,137,534.00	162,800,000.00					238,937,534
West Pokot County			40,071,341.00	120,000,000.00					160,071,341
Total	509,033,424	-	1,029,737,882	794,640,508	-	-	133,000,000	-	2,466,411,814

Table 5: Disbursements in FY 2022/23 (Figures in Ksh)

COUNTIES	State Department for Irrigation	State Department for Vocational & Technical Training	State Department for Water & Sanitation	Ministry of Health	State Department for Infrastructure	State Department for Ministry of Energy	State Department for Ministry of Education	The National Treasury	Total
Garissa			4,480,965.16						
Isiolo			0						
Kilifi			41,122,501.24				17,380,475.00		
Kwale			43,728,993.40						
Lamu			77,842,536.09						
Mandera			0						
Marsabit			55,852,377.95						
Narok			30,985,859.60						
Samburu			62,908,798.00						
Taita Taveta			66,179,537.00						
Tana River			60,515,648.90						
Turkana			107,350,031.44						
Wajir			69,607,076.99						
West Pokot			19,164,644.00						
Total	-	-	639,738,969.77	-	-	-	17,380,475.00	-	657,119,444.77

NOTE:

The **Ksh.639,738,969.77** disbursed to State Department for Water & Sanitation is inclusive of **Ksh. 71,890,899.25** which was an administrative cost balance held by the State Department.

Clause (9): Money shall not be withdrawn from the Equalisation Fund unless the Controller of Budget has approved the withdrawal.

9.1.2. The Public Finance Management Act, 2012

Section 18 of the PFM Act 2012 stipulates that:

Section 18 (1)

The National Treasury shall administer the Equalisation Fund in accordance with Article 204 of the Constitution.

Section 18 (2)

The National Treasury shall keep the Equalisation Fund in a separate account maintained at the Central Bank of Kenya and shall: -

- (a) transfer into that Equalisation Fund all revenues payable into the Fund under Article 204(1) of the Constitution; and
- (b) transfer from that Equalisation Fund, without undue delay, all money for purposes specified in Article 204(2) of the Constitution.

Section 18 (3)

The National Treasury shall ensure that the Equalisation Fund Account is not overdrawn at any time.

Section 18 (4)

Where a withdrawal from the Equalisation Fund is authorized under an Act of Parliament that approves the appropriation of money, the National Treasury shall make a requisition for the withdrawal and submit it to the Controller of Budget for approval.

Section 18 (5)

The approval by the Controller of Budget of a withdrawal from the Equalisation Fund, together with written instructions from the National Treasury requesting for the withdrawal, shall be sufficient authority for the Central Bank of Kenya to pay amounts from the Equalisation Fund Account in accordance with the approval and instructions given.

Section 18 (6)

Any unutilized balances in the Equalisation Fund shall not lapse at the end of the financial year, but shall be retained for use for the purposes for which the Equalisation Fund was established.

9.1.3. The PFM (Equalisation Fund Administration) Regulations, 2021

According to Regulation 3 of the PFM (EF Administration) Regulations, 2021, the Fund was established to: -

- (a) establish an unincorporated Board to advise the Cabinet Secretary on the proper and effective performance of the Fund;
- (b) provide guidance on the administration and management of the Fund;
- (c) provide for the withdrawals from the Fund;
- (d) provide for completion of ongoing projects under the first policy;
- (e) provide for implementation of new projects under all subsequent policies; and

- (f) provide for the procedures in relation to winding up of the Fund

9.1.4. Marginalization Policy

Article 215 of the Constitution of Kenya establishes the Commission on Revenue Allocation (CRA). Further, as a precondition to the allocation and utilization of the Equalisation Fund, Article 216(4) of the Constitution requires that the CRA determines, publishes and regularly reviews a policy in which it sets out the criteria by which to identify marginalized areas

The CRA Marginalization Policy also provides a framework that guides in the planning, implementation, monitoring and evaluation the use of the Equalisation Fund. In setting out the criteria for identifying marginalized areas, the Commission has so far developed and reviewed two (2) policy frameworks namely:

- (i) The First Marginalization Policy; and
- (ii) Second Marginalization Policy.

The First Marginalization Policy was developed in 2013 and approved by parliament in December 2014. The Policy was to be effective for three financial years from the date of its approval that is (2014/15; 2015/16/ 2016/17). The Policy identified fourteen (14) counties as marginalized and have benefited from the Fund namely: Kilifi, Kwale, Taita Taveta, Garissa, Mandera, Wajir, Tana River, Marsabit, Isiolo, Samburu, Narok, Turkana, West Pokot and Lamu

The Second Policy was developed and published in 2018. The Policy identified wards/areas as planning units spread in 34 counties in total (1,424 marginalised areas). The Second Policy will be used to share revenues for FYs 2011/12; 2012/13; 2013/14; 2017/18; 2018/19 2019/20; 2020/21.

9.2. A Report on the Fund's Operational and Financial Performance

The Equalisation Fund facilitates the identification, implementation and monitoring and evaluation of projects. The implementation of the projects is the responsibility of the implementing agencies and beneficiary counties. In carrying out its mandate, the Equalisation Fund has made the following milestones:

9.2.1 Appropriation into the Equalisation Fund to date

The disbursements made up to date are based on the First Policy on Marginalization which identified 14 counties as marginalized areas. The policy also recommended the criteria for sharing revenue among the 14 marginalized counties for three consecutive financial years, namely, 2014/15, 2015/16 and 2016/17.

The Equalisation Fund entitlement and allocation since promulgation of the Kenya Constitution 2010 is as shown in Table 1 below: -

However, after establishment of the EFAB which is the only one entitled to recurrent expenditure, the amount was recovered and will be factored in the recurrent budget of the Fund for FY 2023/24.

Therefore, the total transfers to the State Department for Water and Sanitation to is **Ksh. 567,848,070.52** i.e. **(639,738,969.77 - 71,890,899.25)** and the total transfers to MDAs for the year under review is **Ksh. 585,228,546 (Ksh. 567,848,070.52 + Ksh. 17,380,475.00)**.

It should be noted that disbursement of funds from Equalisation to MDAs are based on specific requests accompanied by certificates which are ready for payments and with requisite approval of the Controller of Budget.

Out of KSh.10,931,801,597 disbursed from the Equalisation Fund to MDAs from FY 2016/17 to FY 2022/23, the MDAs have been able to spend a cumulative of KSh.7,627,697,426 or 70% of the funds disbursed to them.

The detailed development expenditures of MDAs and as per IFMIS report of 30th June, 2023 is as shown in Table 5;

Table 5: Development Expenditure Vote Book Status Report for the Period Ending 30th June, 2023. (Figures in KSh)

	Ministry / State Department	Approved Estimates (Net)	Cumulative Expenditure	Outstanding Commitments	Total Payment and Commitments	Balance
1	State Department for Infrastructure	0	0	0	0	0
2	Ministry of Health	1,964,219,396	0	0	0	1,964,219,396
3	State Department for Basic Education	0	0	0	0	0
4	State Department for Water & Sanitation	1,810,508,664	595,512,435	0	595,512,435	1,214,996,229
5	State Department for Irrigation	344,460,509	259,800,881	0	259,800,881	84,659,628
6	State Department for Vocational Training	84,000,000	17,380,475.00	0	17,380,475.00	66,619,525.00
7	State Department for Energy	0	0	0	0	0
TOTAL		4,203,188,569	872,693,791	0	872,693,791	3,330,494,778

Source: IFMIS

9.2.3. Status of Projects Undertaken by implementing MDAs identified in Financial Years 2016/17, 2017/18 and 2018/19 in the 14 Counties

Since the commencement of the Fund, projects identified for funding from the Fund have been in the 14 counties identified by the first marginalization policy. These projects were to be financed to their completion, from allocations to the EF for the FY 2014/15, 2015/16 and 2016/17 and as appropriated in EF Appropriation Act of 2018. As such, projects have only been identified once and the same have been under implementation since then. New projects will only be identified based on the second policy on marginalization.

The projects, as per EF Appropriation Act of 2018 are implemented by specific MDAs who periodically forward status reports on these projects to the National Treasury. Based on submission by MDAs, there are a total of 354 projects, financed by the EF and are at different status of implementation as shown in Table 6 below;

*Equalisation Fund
Annual Report and Financial Statements For the year ended 30th June 2023.*

Table 6: Status of all the Equalisation projects as at 30th June, 2023.

Implementing MDA	No. of Projects	Tendering/ Awarded	Stalled/Not Started	Inception	<50 %	50%-75%	76%-99%	100% (Completed)
Ministry of Health	84	-	-	12	7	12	47	6
State Department for Infrastructure, through KERRA	84	9	6	-	-	-	1	68
State Department for Irrigation	30	0	0	30		0	0	0
Ministry of Water and Sanitation	122		1	0	9	14	18	80
State Department for Technical and Vocational Training	4	2		0	1	1	0	0
State Department for Early Learning Basic Education	10	-	-	1	-	1	4	4
Ministry of Energy	20		1	0	0	0	0	19
Total	354	11	8	43	17	28	70	177

9.2.4. Payment of Pending Bills and Completion of First Marginalization Policy Projects.

The Equalisation Fund budget based on the Equalisation Fund Appropriation Act, 2018 which does not lapse and balances for FY 2018/19 was uploaded in the IFMIS system, to fast-track payment of pending bills and completion of implementation of Equalisation Fund Projects under the First Marginalization Policy.

The MDAs have been facilitating payment of pending bills and completion of projects. A total balance of **KSh 3,009,998,064.60** held at various MDAs was being utilized pay pending bills.

Table 7: Summary of Balances Available for Payment of Pending Bills and Completion of Projects in the Period Under Review

	Account Name	Account Number	Balance
1.	Ministry of Health Equalization Fund Operations	1000328037	583,596,177.65
2.	State Dept of Infrastructure Equalization Fund Operations	1000328045	1,329,865,467.75
3.	State Department for Vocational Technical Equalization Fund Operations	1000328061	120,348.00
4.	State Dept for Irrigation Equalization Fund	100039162	365,178,641.60
5.	State Dept for Energy Equalization Fund Operations	1000410302	98,297,334.20
6.	Equalization Fund -Water	1000457198	632,940,095.40
7.	State Dept for Basic Education Equalization Fund Operations	1000397928	0
	Total		3,009,998,064.6

9.3. Equalisation Fund's compliance with statutory requirements

During the year ended 30th June 2023, the Fund complied with all its statutory obligations to tax authorities, the National Treasury, the office of the Auditor General and all other statutory entities.

9.4. Material Arrears in Statutory and Other Financial Obligations,

No material arrears in statutory or other financial obligations had been identified as at 30th June 2023.

9.5. Overall Challenges Encountered

The Fund was operationalized in the FY 2015/16 and projects to be financed from the Fund were identified in December 2016. The operationalization and implementation of the Fund has faced the following challenges since inception to date: -

- 1) First Policy on identifying marginalized areas was intended to cover the FYs 2011/12, 2012/2013 and 2013/14. However, there was a delay in approval of the policy (approved in December, 2015). The approved policy covered FYs 2014/15, 2015/16 and 2016/17;
- 2) There was an initial delay in grant of approval of the guidelines for administration of the EF. The guidelines were approved by the National Assembly in 2016;
- 3) On 5th November 2019 the High Court made a ruling on Petition no. 292 of 2016. The ruling declared the EF guidelines as unconstitutional, null and void. This in effect disbanded the EFAB and stopped any further expenditure from the EF. This has had a negative bearing including stalling of ongoing projects and exposing government to litigation by contractors based on going contracts which are binding;
- 4) Tight fiscal space to allocate and appropriate all Equalisation Fund entitlement.
- 5) Litigation; and multi legislative instruments in National Assembly and Senate
- 6) Court cases:
 - a) **Petition number 003 of 2023** in the High Court of Kenya at Garissa and court order dated 31st May, 2023. In the Petition, Sahal Sugow Muhamud, Abdi Madow Elmi, Muhamud Mohamed Abdi and Kusuw Degow Maow have petitioned Equalisation Fund Board, Commission on Revenue Allocation, Controller of Budget, The National Treasury and Office of the Attorney General.
 - b) **Petition 4 of 2023** in the High Court of Kenya at Garissa. In the Petition, Sahal Sugow Muhamud, Rashid Billow Adan, Muhfuda Hajji, Mahat Mohamed, Mohamed Ibrahim Hussein and Ayub Abdi Osman have petitioned Equalisation Fund Board, the National Assembly, the National Senate, Commission on Revenue Allocation, Office of the Attorney General and Controller of Budget.

The questions for determination were:

- i. What criteria was used by the respondents (Equalisation Fund Board, the National Assembly, the National Senate, Commission on Revenue Allocation, Office of the Attorney General and Controller of Budget) in omitting certain wards in Wajir county from the Equalisation Fund Appropriation Bill, 2023 yet there was no public participation in the entire county
- ii. What was the basis of allocation of funds under the Bill and the creation of fake wards (Ganyure and Wagalla) in Wajir county
- iii. Why was public participation not carried out in Wajir and what was the basis of allocating funds in that county. The appropriation Bill, 2023 mentioned Ganyure and Wagalla wards as beneficiaries do not exist in Wajir county

In the Petitions, the **Court ordered** that pending the hearing and determination of the applications:

1. An order restraining the respondents from implementing the Commission on Revenue Allocation Second Marginalisation Policy and Criteria 2022/2023 for sharing revenue amongst marginalised areas; and
2. Conservatory orders issued restraining the Controller of Budget from authorising the withdrawal of Equalisation funds.

These pending court cases pose a challenge in efficient implementation of the Fund.

9. Environmental and Sustainability Reporting

The subject of environmental and sustainability reporting and its relation between their financial performances continue to gain traction. The Equalisation Fund is committed to facilitating development of basic services including water, roads, health facilities and electricity in marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.

The Fund takes cognisance in nurturing friendly co-existence in an environment that supports socio economic development and sustainability as advocated for by Sustainable Development Goals No. 3 on good health; No. 6 on provision of clean water and sensitization; No. 7 on provision of affordable and clean energy and No. 10 on reducing inequality.

The Fund commits to comply to all relevant national and international environmental and other statutory regulatory provisions, best practices and standards. The Fund will ensure that its environmental and social management/ monitoring plans are anchored and comply with all the relevant regulations and standards.

1.1. Employee welfare

In order to guide management of staff, attain optimal staffing levels and attract and facilitate appointment and retention of suitably qualified officers, the Fund has developed various Human Resource Instruments namely: Organizational Structure and Staffing; Job Descriptions and Specification Guidelines; Human Resource Policies and Procedures Manual; and Salary Structure for EFAB Secretariat.

During recruitment and management of staff, the Fund will strive to adhere to its human resources policies, procedures and guidelines while taking into account the gender ratio, regional balance and special groups. Additionally, the Fund will continually provide a conducive work environment and facilitate staff to undertake continuous training and skill development. Finally, the Fund will procure a medical and insurance cover to take care of any uncertainties.

To enhance effective delivery of its broad mandate the Fund recognizes the need for employees training and skill development. During the period under review, the Fund conducted a training need assessment and analysis and sponsored employees for the following courses:

- Public Service Innovation- Eastern and Southern Africa Management Institute (ESAMI)
- Project formulation and Feasibility Studies Analysis- Eastern and Southern Africa Management Institute (ESAMI)

1.2. Market place practices

In sourcing for goods, works and services, the Fund shall comply with the provisions of Public Procurement and Asset Disposal Act 2015 and other enabling legislations. Under the preference and reservations schemes, the Fund shall allocate 30% of its procurement opportunities to firms owned by the affirmative action groups (youth, women and persons with disability).

Moreover, following laid down procedures and guidelines, the Fund shall adopt best practices and endeavour to honour contractual obligations to supplier/contractors by making timely payment for goods, works and services. The Fund shall appraise its suppliers/contractors of goods, works and services to develop and regularly update its suppliers' database.

1.3. Corporate Social Responsibility / Community Engagements

The Fund commits to undertake CSR activities, Corporate Social Investment and other forms of community engagements in the next financial years.

10. Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended June 30, 2023, which show the state of the Fund's affairs.

i) Principal activities

The principal activities of the entity are on page (ii).

ii) Results

The results of the entity for the year ended June 30, 2023, are set out on page 1 to 7.

iii) Directors

The members of the Board who served during the year are shown on page xxx.

iv) Auditors

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

By Order of the Board



.....
Guyo Boru

Secretary to the Board

Date: 18/12/2023

11. Statement of Directors Responsibilities

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

The Directors are responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year ended on June 30, 2023. 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 Fund; (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 Fund; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Fund'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. The Directors are of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2023, and of the Fund's financial position as at that date.

The Directors further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Fund 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 Fund's financial statements were approved by the Board on 28th September, 2023 and signed on its behalf by:



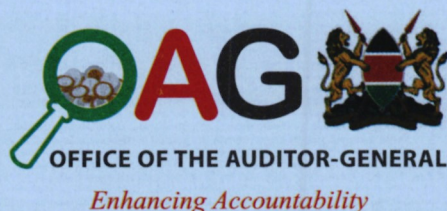
.....
Name: Amb. (Eng.) Mahbub Maalim
Chairman of the Board



.....
Name: Guyo Boru
CEO/Fund Administrator

REPUBLIC OF KENYA

Telephone: +254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON EQUALISATION FUND FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Equalisation Fund set out on pages 1 to 23, which comprise of the statement of financial position as at

30 June, 2023, and the statement of financial performance, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Equalisation Fund as at 30 June, 2023, and of its financial performance and its cash flows for the year then ended, in accordance with the 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 International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Equalisation Fund Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter 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

Non-Compliance with the Constitution

Article 204(1) of the Constitution of Kenya, 2010 requires that one half per cent (0.5%) of all the revenue collected by the National Government each year, calculated on the basis of the most recent audited accounts of revenue received as approved by the National Assembly, be paid into the Equalisation Fund.

As reported in the previous year, review of the financial statements for the Equalisation Fund for the year ended 30 June, 2023 revealed that only an amount of

Kshs.12,400,000,000 out of the expected Kshs.51,586,214,050 of the total entitlement from the financial years 2011/2012 to 2022/2023 had been transferred to the Equalisation Fund Account as tabulated below:

Financial Year	Approved Audited Revenues (Kshs.)	Amount of Equalisation Fund Entitlement (Kshs.)	Amount Transferred to the Fund (Kshs.)
2011/2012	468,151,970,000	2,340,759,850	
2012/2013	529,300,000,000	2,646,500,000	
2013/2014	529,300,000,000	2,646,500,000	
2014/2015	776,900,000,000	3,884,500,000	6,400,000,000
2015/2016	776,900,000,000	3,884,500,000	
2016/2017	776,900,000,000	3,884,500,000	6,000,000,000
2017/2018	776,900,000,000	3,884,500,000	
2018/2019	776,900,000,000	3,884,500,000	
2019/2020	776,900,000,000	3,884,500,000	
2020/2021	1,357,698,000,000	6,788,490,000	
2021/2022	1,357,689,000,000	6,788,490,000	
2022/2023	1,413,694,840,000	7,068,474,200	
Total	10,317,233,810,000	51,586,214,050	12,400,000,000

The National Treasury had not remitted the outstanding balance of Kshs.39,186,214,050 to the Fund as at 30 June, 2023. Further, it is not clear if the Fund will receive the accrued share of revenue tabulated above. Lack of disbursements casts doubt on realisation of the Fund's intended objective of providing basic services to the marginalized areas.

Management has, however, indicated that the Equalisation Fund Appropriation Bill, 2022 was prepared and submitted to the National Assembly to authorise the disbursements of funds due to the Equalisation Fund including the allocation for the 2021/2022 and 2022/2023 financial years, but the Bill had not been passed at the time of the audit.

In the circumstances, The National Treasury was in breach of the law.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

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 Fund Advisory Board

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

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to abolish the Fund 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 Fund Advisory Board is responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

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

In addition to the audit of the financial statements, a compliance 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 noncompliance. 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 Fund's ability 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 Fund 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 Fund to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and where applicable, related safeguards.


FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

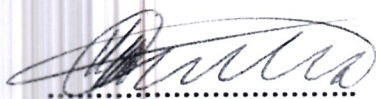
Nairobi

19 December, 2023

13. Statement of Financial Performance for the Year Ended 30th June 2023

	Notes	30-Jun-2023	30-Jun-22
			Kshs
Revenue from non-exchange transactions			
Transfers from other governments entities	6	-	113,812,780.00
Total revenue			113,812,780.00
Expenses			
Employee Cost	7	4,855,294	
Use of goods	8	86,127,243	29,748,878.00
Board Expenses	9	25,751,817	16,299,472.00
Transfers to other Government entities	10	585,228,546	2,249,500.00
Depreciation Expense	13	7,992,288	-
Total Expenditure		709,955,188	48,297,850.00
Surplus/(deficit) for the period		(709,955,188)	65,514,930.00

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:



Benson K. Gichohi

Head of Finance

ICPAK M/No: 25013

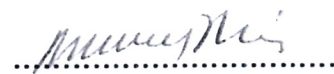
Date: 18/12/2023



Guyo Boru

CEO/ Fund Administrator

Date: 18/12/2023



Amb. (Eng.) Mahboub M.
Maalim CBS, OGW

Chairman of the Board

Date: 18/12/2023

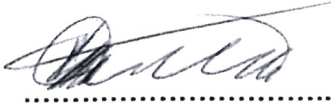
Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

15 Statement of Financial Position as at 30th June 2023

	Notes	30-Jun-2023	30-Jun-22
			Kshs
Assets			
Current Assets			
Cash And Cash Equivalents	11	1,636,847,858	2,373,358,541
Total Current Assets		1,636,847,858	2,373,358,541
Non-Current Assets			
Property and Equipment	12	53,781,163	25,583,338
Total Non-Current Assets		53,781,163	25,583,338
Total Assets		1,690,629,021	2,398,941,879
Net Assets and Liabilities			
Current Liabilities			
Trade Payables	14	1,642,330	
Net Assets			
Accumulated Fund Balance		1,688,986,691	2,398,941,879
Total Net Assets		1,690,629,021	2,398,941,879

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:



Benson K. Gichohi

Head of Finance

ICPAK M/No: 25013

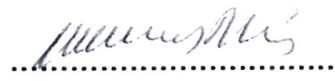
Date: 12/12/2023



Guyo Boru

CEO/ Fund Administrator

Date: 18/12/2023



Amb. (Eng.) Mahboub M.
Maalim CBS OGW

Chairman of the Board

Date: 18/12/2023

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

16 Statement of Changes in Net Assets for the Year Ended 30th June 2023

	Accumulated Fund Balance
As at July 1, 2021	2,333,426,949
Surplus/ deficit for the Period	65,514,930
As at June 30, 2022	2,398,941,879
As at July 1, 2022	2,398,941,879
Surplus/ deficit for the year	(709,955,188)
As at June 30, 2023	1,688,986,691

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:

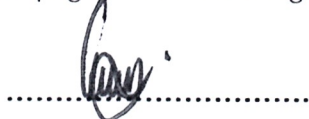


Benson K. Gichohi

Head of Finance

ICPAK M/No: 25013

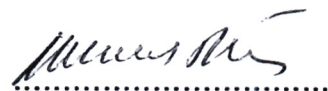
Date... 18/12/2023



Guyo Boru

CEO/ Fund Administrator

Date... 18/12/2023



Amb. (Eng.) Mahboub M.
Maalim CBS OGW

Chairman of the Board

Date... 18/12/2023

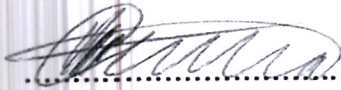
*Equalisation Fund**Annual Report and Financial Statements For the year ended 30th June 2023.*17. Statement of Cash Flows for the Year Ended 30th June 2023

		30-Jun-2023	30-Jun-22
	Notes	Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other governments entities			113,812,780
Total receipts		-	113,812,780
Payments			
Employee cost	7	4,773,132	
Use of goods	8	84,567,075	29,748,878
Board Expenses	9	25,751,817	16,299,472
Transfer to other Govt Entities	10	585,228,546	2,249,500
Total payments		700,320,570	48,297,850
Net cash flows from operating activities		(700,320,570)	65,514,930
Cash flows from investing activities			
Purchase of PPE	12	(36,190,113)	(25,583,338)
Net cash flows from investing activities		(36,190,113)	(25,583,338)
Cash flows from financing activities			
Financing activities		-	-
Net cash flows from financing Activities		-	-
Net increase/(decrease) in cash & Cash equivalents		(736,510,683)	39,931,592
Cash and cash equivalents at 1 July,2022		2,373,358,541	2,333,426,949
Cash and cash equivalents at 30 June, 2023		1,636,847,858	2,373,358,541

Equalisation Fund

Annual Report and Financial Statements For the year ended 30th June 2023.

The Financial Statements set out on pages 1 to 7 were signed on behalf of the Board of Directors by:

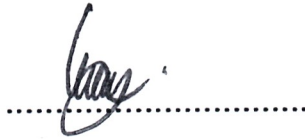


Benson K. Gichohi

Head of Finance

ICPAK M/No: 25013

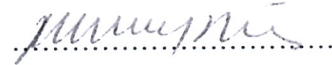
Date... 18/12/2023



Guyo Boru

CEO/ Fund Administrator

Date... 18/12/2023



Amb. (Eng.) Mahboub M.
Maalim CBS OGW

Chairman of the Board

Date... 18/12/2023

18. Statement of Comparison of Budget & Actual Amounts for the Year Ended 30th June 2023

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	% of utilisation
	Kshs	Kshs	Kshs	Kshs	Kshs	
	A	b	C=(a+b)	d	e=(c-d)	F=d/c
Revenue			0		0	
Fund Balance B/F	2,373,358,541	-	2,373,358,541	2,373,358,541	-	100.00%
Transfers From Other Governments Entities	-	-	-		-	
Total Revenue	2,373,358,541	-	2,373,358,541	2,373,358,541	-	100.00%
Expenses						
Employee Cost	66,853,302	61,997,302	4,856,000	4,855,294	706	99.99%
Use of goods	366,446,221	280,167,059	86,279,162	86,127,243	151,919	99.82%
Board Expenses	30,000,000	4,212,000	25,788,000	25,751,817	36,183	99.86%
Transfers to other Government entities	585,228,546	-	585,228,546	585,228,546	0.00	100.00%
Capital Expenditure	56,000,000	19,806,000	36,194,000	36,190,113	3,887	99.99%
Total Expenditure	1,104,528,069	366,182,361	738,345,708	738,153,013	192,695	99.97%
Balance	1,268,830,472	(366,182,361)	1,635,012,833	1,635,205,528	(192,695)	

Budget notes

- i) The budget adjustment was due to non-receipt of Equalisation fund share of revenue allocation for 2022/2023.
- ii) The Cabinet Secretary, National Treasury and Economic Planning on 19th August, 2022, considered and approved utilisation of Ksh 102,500,000 in the implementation of the recurrent budget in anticipation of receipt of Equalisation Fund allocation for FY 2022/23.

- iii) In total, the budget was financed by Ksh. 102,500,000 which was a recovery of unspent administrative costs (recurrent) from MDAs and a balance b/f from EF secretariat CBK account of Ksh. 50,617,162.35 totalling to Ksh. 153,117,162.35
- iv) Personal emolument involved monthly salary for the CEO and one staff. Majority of the staff are on deployment terms from other State Departments
- v) **Reconciliation Between Surplus as per Statement of Comparison of Budget & Actual amounts and Statement of Financial Performance.**

S/No.	Details	Amount (Kshs)
1	Surplus as per Statement of Comparison & Actual Amounts	1,635,205,528.28
2	Less: Surplus as per Statement of Financial Performance	(709,955,187.73)
3	Difference	2,345,160,716.01
	Explained by:	
4	Surplus as per Statement of Comparison of Budget& Actual Amounts	1,635,205,528.28
5	Add: Capital Expenditure/Purchase of Assets	36,190,112.92
	Less: Depreciation	(7,992,287.83)
6	Less: Unspent balance b/f	(2,373,358,541)
7	Surplus as per Statement of Financial Performance	(709,955,187.73)

19. Notes to the Financial Statements

1. General Information

The Equalisation Fund is established by the Constitution of Kenya under article 204 and derives its authority and accountability from PFM (Equalisation fund administration) regulations 2021 and other related legislations. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is to provide funding for the development of basic services including water, roads, health facilities and electricity to marginalized areas.

2. Statement of Compliance and Basis of Preparation

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Fund.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

3. Adoption of New and Revised Standards

i) New and amended standards and interpretations in issue effective in the year ended 30 June 2022. IPSASB deferred the application date of standards from 1st January 2022 owing to COVID 19. This was done to provide entities with time to effectively apply the standards. The deferral was set for 1st January 2023.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30th June 2023.

Standard	Effective date and impact:
IPSAS 41: Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the Fund's future cash flows. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> • Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy. <p>The standard has no impact on the Fund</p>
IPSAS 42: Social Benefits	<p>Applicable: 1st January 2023</p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general-purpose financial reports assess:</p> <ol style="list-style-type: none"> a) The nature of such social benefits provided by the Fund. b) The key features of the operation of those social benefit schemes; and c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

Standard	Effective date and impact:
	The Standard has no impact on the Fund.
Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments	<p>Applicable: 1st January 2023:</p> <p>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</p> <p>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</p> <p>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</p> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p>The Standard does not have an impact on the Fund.</p>
Other improvements to IPSAS	<p>Applicable 1st January 2023</p> <ul style="list-style-type: none"> • <i>IPSAS 22 Disclosure of Financial Information about the General Government Sector.</i> <p>Amendments to refer to the latest System of National Accounts (SNA 2008).</p> <ul style="list-style-type: none"> • <i>IPSAS 39: Employee Benefits</i> <p>Now deletes the term composite social security benefits as it is no longer defined in IPSAS.</p> <ul style="list-style-type: none"> • IPSAS 29: Financial instruments: Recognition and Measurement <p>Standard no longer included in the 2021 IPSAS handbook as it is now superseded by IPSAS 41 which took effect as from 1st January 2023.</p> <p>The Standard does not have an impact on the Fund.</p>
IPSAS 43	<p>Applicable 1st January 2025</p> <p>The standard sets out the principles for the recognition, measurement, presentation, and disclosure of leases. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the fund.</p> <p>The new standard requires entities to recognise, measure and present information on right of use assets and lease liabilities.</p>

Standard	Effective date and impact:
	The Standard does not have an impact on the Fund.
IPSAS 44: Non- Current Assets Held for Sale and Discontinued Operations	<p><i>Applicable 1st January 2025</i></p> <p>The Standard requires, Assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell and the depreciation of such assets to cease and: Assets that meet the criteria to be classified as held for sale to be presented separately in the statement of financial position and the results of discontinued operations to be presented separately in the statement of financial performance.</p> <p>The Standard does not have an impact on the Fund.</p>

iii) Early adoption of standards

The Fund did not early – adopt any new or amended standards in year 2022/2023.

4. Summary of Significant Accounting Policies

a) Revenue recognition

i) Revenue from non-exchange transactions

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 Fund and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

b) Budget information

The original budget for FY 2022-2023 was approved by the National Assembly in June 2022. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Fund upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Fund recorded additional appropriations budget following the governing body's approval.

The Fund'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) Property, Plant and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

Assets are depreciated in accordance with the National Assets and Liabilities Management approved guidelines and assets acquired during the year are depreciated on a pro-rata basis.

d) Nature and purpose of reserves

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

Fund Balance/Accumulated surplus is the residue of funds received from The National Treasury and Secretariat expenses and the transfers to the implementing agencies.

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

e) Changes in accounting policies and estimates

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

f) Related parties

The Fund 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 Fund, or vice versa. Members of key management are regarded as related parties and comprise the Directors, the CEO and Senior Managers.

g) 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.

h) Comparative figures

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

i) 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, 2023.

5. Significant Judgments and Sources of Estimation Uncertainty

The preparation of the Fund'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 Fund 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 Fund. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful Lives and Residual Value

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

- a) The condition of the asset based on the assessment of experts employed by the Fund.
- b) The nature of the asset, its susceptibility and adaptability to changes in technology and processes.
- c) The nature of the processes in which the asset is deployed.
- d) Availability of funding to replace the asset.
- e) Changes in the market in relation to the asset

*Equalisation Fund**Annual Reports and Financial Statements For the year ended 30th June 2023.***6. Transfers from Other Government Entities**

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
The National Treasury		-
MDAs (Refund of unspent balances)	-	113,812,780
Total	-	113,812,780

7. Employee Cost

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Basic Salary	4,805,294	-
Allowances	50,000	
Total	4,855,294	-

8. Use of Goods and Services

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Branding and Publicity	2,738,478	279,483
Airtime, Telephone & Internet	1,325,855	109,498
Cleaning Services	1,095,054	82,415
Conference and Seminar	3,912,600	4,266,700
Domestic subsistence allowances	20,022,534	11,424,161
Travel Costs	3,051,735	-
Foreign Travel and allowances	12,633,284	3,662,792
Fuel and Lubricants	1,134,556	48,994
General Office Supplies	3,645,191	2,766,503
Monitoring & Evaluation	12,200,620	-
Sensitization on Fund Regulation	7,539,600	-
Development of Guidelines & Policies	1,329,200	-
Membership & Subscriptions	185,400	-
Hospitality & Entertainment	1,199,839	154,336
Rent	7,683,840	3,201,600

*Equalisation Fund**Annual Reports and Financial Statements For the year ended 30th June 2023.*

Repairs and Maintenance	561,869	569,700
Parking Fees	696,000	463,429
Staff training & Internship	4,610,454	2,719,267
Printing & Publishing	516,055	-
Bank Charges	45,080	-
Total	86,127,243	29,748,878

9. Board Expenses

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Chairman's Honoraria	960,000	640,000
Airtime	120,000	20,000
Sitting Allowances	2,180,000	1,642,000
Medical Insurance	805,231	-
Mileage	1,825,346	-
Travel Costs	2,751,670	-
Induction And Training	2,007,760	6,154,528
Conference and Seminars	785,720	-
Local Travel and Accommodation	6,379,000	6,526,544
Other Allowances	-	1,316,400
Foreign Travel and Accommodation	7,721,240	-
Other board Expenses	215,850	-
Total	25,751,817	16,299,472

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

10. Transfers to other Government Entities

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Ministry of Water, Sanitation & Irrigation	567,848,071	2,249,500
State Department for Vocational Training	17,380,475	
Total	585,228,546	2,249,500

11. Cash and Cash Equivalents

	Bank Account	30-Jun-2023	30-Jun-22
	Number	Kshs	Kshs
Equalization Fund Account	1000183225	1,635,012,782.50	2,322,741,329
Equalization Fund Secretariat CBK A/c	1000342056	70,635.29	25,617,162
Equalization Fund Advisory Board NBK	01570244909900	1,764,440.07	25,000,050
Total Cash & Cash Equivalents		1,636,847,858	2,373,358,541

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

12. Property, Plant and Equipment

	Motor vehicles	Furniture and fittings	ICT Equipment	Total
Cost	Shs	Shs	Shs	Shs
Depreciation Rate	12.50%	12.50%	30%	
As At 1st July 2021				
Additions	12,780,000	1,976,820	10,826,518	25,583,338
Disposals				
Transfer/Adjustments				
As At 30 th June 2022	12,780,000	1,976,820	10,826,518	25,583,338
As At 1 st July 2022	12,780,000	1,976,820	10,826,518	25,583,338
Additions		28,900,423	7,289,690	36,190,113
Disposals				
Transfer/Adjustments				
As At 30 th June 2023	12,780,000	30,877,243	18,116,208	61,773,451
Depreciation And Impairment				
As At 1st July 2022	-	-	-	-
Charge for the Period	1,597,500	2,053,379	4,341,409	7,992,288
As At 30 th June 2023	1,597,500	2,053,379	4,341,409	7,992,288
Net Book Values				
As At 30 th June 2023	11,182,500	28,823,864	13,774,799	53,781,163
As At 30 th June 2022	12,780,000	1,976,820	10,826,518	25,583,338

13. Depreciation Expense

Asset depreciation was done in accordance to the National Assets and Liabilities Management Guidelines as follows:

- Motor Vehicle - 12.5%
- Furniture and Fittings – 12.5%
- ICT Equipment – 30%

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Motor Vehicle	1,597,500	-
Furniture & Fittings	2,053,379	-
ICT Equipment	4,341,409	-
Total	7,992,288	-

14. Payables

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Office Furniture & Fittings	1,261,668	
Travel costs	298,500	
Employee Costs	82,162	
Total	1,642,330	

15. Net Cash from Operating Activities

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Surplus for the year before tax	(709,955,188)	65,514,931
Adjusted for:		
Depreciation	7,992,288	
Working capital adjustments		
Increase in receivables		
Increase in payables	1,642,330	
Net cash flow from operating activities	(700,320,570)	65,514,931

Other Disclosures**16. Financial Risk Management**

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Fund does not hedge any risks.

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

i) Credit Risk

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

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

ii) **Liquidity Risk Management**

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

iii) **Market Risk**

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

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

The Fund's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day-to-day implementation of those policies. There has been no change to the Fund's exposure to market risks or the manner in which it manages and measures the risk.

a) **Foreign Currency Risk**

The Fund has no transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

iv) **Capital Risk Management**

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

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Retained Earnings	1,688,986,691	2,333,426,949.00
Total	1,688,986,691	2,333,426,949.00
Total Borrowings	-	-
Less cash and Bank Balances		
Gearing	0%	0%

17. Related Party Disclosures

Nature of related party relationships

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

Government of Kenya

The Government of Kenya is the principal shareholder of the Fund, holding 100% of the Fund's equity interest.

Other related parties include:

- i) The Parent Ministry.
- ii) County Governments
- iii) Key management.
- iv) Board of directors.

Equalisation Fund

Annual Reports and Financial Statements For the year ended 30th June 2023.

Other Disclosures (Continued)

	30-Jun-2023	30-Jun-22
	Kshs	Kshs
Transactions with related parties		
a) Transfers to/From the government		
Transfers from national govt	-	50,000,000
Transfers to MDAs	585,228,546	
b) Key management compensation		
Directors' emoluments	25,751,817	
Compensation to key management		

18. Events after the Reporting Period

There were no material adjusting and non- adjusting events after the reporting period.

19. Ultimate And Holding Fund

The Fund is a Semi- Autonomous Government Agency under The National Treasury. Its ultimate parent is the Government of Kenya.

20. Currency

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

*Equalisation Fund
Annual Reports and Financial Statements For the year ended 30th June 2023.*

20. Appendices

Appendix I: Progress on Follow up Of Auditor Recommendations

There were no outstanding matters

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
OAG/TNT/EQF/2021/ (32)	Non remittance of Equalisation Fund entitlement from FY 2011/2012 to 2021/22	The Cabinet Secretary, National Treasury vide letter Ref. No. TNT/ZZ/81/014/E (74) committed to appropriate Equalisation Fund entitlement over the next four financial years from FY 2024/25 to FY2027/28.	Resolved	



 Guyo Boru
 CEO/ Fund Administrator
 Date: 18/12/2023

*Equalisation Fund
Annual Reports and Financial Statements For the year ended 30th June 2023.*


Appendix II: Projects Implemented

There were no Project Implemented by the Main Fund.

Appendix III: Inter-Fund Transfers FY2022/23

Entity Name:			
Break Down of Transfers from The National Treasury			
	<u>Transfers</u>	<u>Bank Statement Date</u>	<u>Amount (Kshs)</u>
a.	There were no Funds received from National Treasury during the year		
			<u>Indicate the FY to which the amounts relate</u>

The above amounts have been communicated to and reconciled with the parent Ministry


.....

Head of Finance

Benson K. Gichohi
Equalisation Fund

**Equalisation Fund
Annual Reports and Financial Statements For the year ended 30th June 2023.**

Appendix IV- Inter-Entity Confirmation Letter

[Insert your Letterhead]

[Insert name of beneficiary entity]

[Insert Address]

The *[insert SC/SAGA/Fund name here]* wishes to confirm the amounts disbursed to you as at 30th June 2023 as indicated in the table below. Please compare the amounts disbursed to you with the amounts you received and populate the column E in the table below Please sign and stamp this request in the space provided and return it to us.

Confirmation of amounts received by [Insert name of beneficiary entity] as at 30th June 2022						
Reference Number	Date Disbursed	Amounts Disbursed by [SC/SAGA/Fund] (KShs) as at 30 th June 2022			Amount Received by [beneficiary entity] (KShs) as at 30 th June 2021 (E)	Differences (KShs) (F) = (D-E)
		Recurrent (A)	Development (B)	Inter-Ministerial (C)		
Total						

In confirm that the amounts shown above are correct as of the date indicated.

Head of Accounts Department of beneficiary entity:

Name **Sign** **Date**

*Equalisation Fund
Annual Reports and Financial Statements For the year ended 30th June 2023.*

Appendix V: Reporting of Climate Relevant Expenditures

Name of the Organization
Telephone Number
Email Address
Name of CEO/MD/Head

Name and contact details of contact person (in case of any clarifications)

Project Name	Project Description	Project Objectives	Project Activities				Source Of Funds	Implementing Partners
			Q1	Q2	Q3	Q4		
	There were no Expenditure under this category							

*Equalisation Fund
Annual Reports and Financial Statements For the year ended 30th June 2023.
Appendix VI: Disaster Expenditure Reporting Template*

Date:

Entity

Period to which this report refers (FY)	Year	Quarter				
Name of Reporting Officer						
Contact details of the reporting officer:	Email	Telephone				
Column I	Column II	Column III	Column IV	Column V	Column VI	Column VII
Programme	Sub-programme	Disaster Type	Category of disaster related Activity that require expenditure reporting (response/recovery/mitigation/preparedness)	Expenditure item	Amount (Kshs.)	Comments
<i>There was no expenditure under this category</i>						