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COMMISSION ON REVENUE ALLOCATION

ANNUAL REPORT AND FINANCIAL STATEMENTS 2015 - 2016

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Abbreviations

BPS	Budget Policy Statement
CARA	County Allocation Revenue Act
CDF	Constituency Development Fund
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CRA	Commission on Revenue Allocation
DORA	Division of Revenue Act
EU	European Union
GDTP	Governors' Digital Talent Program
HRIS	Human Resource Information Systems
IAWC	Inter-Agency Working Committee
IFMIS	Integrated Financial Management Information System
IGTRC	Intergovernmental Technical Relations Committee
KEPTAP	Kenya Petroleum Technical Assistance Project
KNBS	Kenya National Bureau of Statistics
NRM	Natural Resource Management
OSR	Own Source Revenue
PBO	Parliamentary Budget Office
SRC	Salaries and Remuneration Commission

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Chairman's Statement



I am delighted to present the Commission's Annual Report for 2015-2016. The Commissioners and I, working closely with the Secretariat are grateful for having been given the opportunity to serve the country during our tenure as commissioners. Our flagship achievement has been setting up of the Commission and ensuring that resources are now allocated to county governments. The result has been the successful implementation of the letter and spirit of devolution as envisaged under the Constitution of Kenya 2010. Quite clearly 'development' is now visible in practically all our counties and especially those that had been historically marginalized. With the introduction of budgetary ceilings, wastage by county governments has been drastically curbed.

At inception, a major obstacle in the work of the Commission was the lack of appreciation and understanding of the role of the Commission, including its relevance, by various stakeholders. However, I am happy to report that over time, the role of the Commission and our relevance has been greatly appreciated by stakeholders, thus going a long way in enabling us secure much-needed support that is crucial and necessary for the delivery of our mandate.

It is instructive to note that the CRA's recommendations on equitable share to county governments have been higher as compared to what Parliament has been approving. Going forward into the future, I therefore propose that CRA should have more powers in the sharing of revenue and its recommendations should never be interfered with.

As important, I call for the cultivation of greater harmony and trust between the leadership of both the national and county level governments, so that together, we can reap maximum benefits from the implementation of devolution.

Moreover, capacity building for the various cadres of leaders who are involved in the implementation of devolution requires to be undertaken.

As I serve my final term as chairman of the Commission, I wish to reiterate that devolution is here to stay. All parties would therefore do well in adhering to the dictates of our robust Constitution in order to champion the critical development agenda required in the counties and in the country as a whole.

Conclusively, I take the opportunity to thank both the national and county governments, Parliament, constitutional commissions, independent offices, development partners, the media as well as the general public among many others, for their support which has contributed immensely to the attainment of our mandate.



Micah Cheserem
Chairman

Statement from the Commission Secretary/Chief Executive Officer



The financial year 2015-2016 marked the sixth year of existence of the Commission on Revenue Allocation. As a Commission, we have made significant contributions in ensuring the sharing of revenue between the national and county governments and among county governments. We have also made important recommendations on the financing as well as financial management needs by county governments.

Our work has resulted in county governments implementing projects touching on the constitutionally devolved functions such as health, agriculture, water, early childhood education and technical training as well as overall improved service delivery. It is thus our delight to present this report which details the programmes and activities undertaken by the Commission towards the attainment of our mandate.

Recommendations on the sharing of revenue between national and county governments were made by the Commission. These recommendations took into consideration latest audited accounts, allocation for county roads, public participation, conditional grants, the national economy, public debt, among other factors. The second revenue sharing formula for sharing revenue among counties came into effect this financial year. The formula has a new parameter that is referred to as the development factor.

The Commission has a mandate to make recommendations on matters concerning the financing of, and the financial management by county governments. In this regard, the Commission prepared guidelines and standards that county governments should follow when automating revenue collection processes.

Furthermore, in conjunction with the European Union, the Commission supported county governments in enhancing their own sources of revenues by making recommendations for reforming county's revenue administration structures and ensuring that there are adequate legal frameworks to administer and collect taxes as well as fees and charges.

Article 205 of the Constitution of Kenya provides that when a bill dealing with sharing of revenue or any financial matter concerning county governments is published, the Commission shall consider the proposed provisions and make its recommendations to the National Assembly and Senate. In observance of this Article, the Commission made recommendations on various bills which included the Draft Statistics (Amendment) Bill 2013 prepared by the Kenya National Bureau of Statistics, The Senate Preservation of Human Dignity and Enforcement of Economic and Social Rights Bill 2015, among others.

Among the challenges that the Commission has faced is being enjoined in constitutional petitions relating to division of revenue as well as the financing and financial management of county governments. The Commission also faced challenges in obtaining data required to inform and guide its decision-making processes. In spite of the challenges, we remain fully committed to the attainment and realisation of the Commission's mandate.

Last but not least, I extend my sincere gratitude to CRA commissioners and to all our staff whose tireless efforts and efficient work enabled the Commission deliver according to our spelt out motto: "promoting an equitable society."



George Ooko
Commission Secretary/CEO

Chapter 1

Mandate and Role of the Commission

MANDATE AND ROLE OF THE COMMISSION

1.0 Mandate of CRA

The Commission on Revenue Allocation (CRA) is an independent Commission set up under Article 215 of the Constitution of Kenya, 2010. Its core mandate is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments, and among county governments.

1.1 Vision

A trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

1.2 Mission

To make recommendations on equitable sharing of revenue, financing of, and financial management of both national and county governments.

1.3 Values

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

- i. Equity
- ii. Teamwork
- iii. Excellence
- iv. Transparency
- v. Employee satisfaction
- vi. Integrity

1.4 Functions of CRA

The functions of the Commission are the following:

- i. Recommend the basis of equitable sharing of revenue raised by national government between national and county governments;
- ii. Recommend the basis of equitable sharing of revenue raised by national government among county governments;
- iii. Recommend on matters concerning the financing of county governments;
- iv. Recommend on matters concerning financial management of county governments;
- v. Define and enhance revenue sources of the national government;
- vi. Define and enhance revenue sources of county governments;
- vii. Encourage fiscal responsibility by national government;
- viii. Encourage fiscal responsibility by county governments;
- ix. Being consulted and its recommendations considered before parliament passes any bill appropriating money out of the Equalization Fund;
- x. Being consulted on any Bill that includes provisions dealing with sharing of revenue;
- xi. Being consulted on any bill that includes provisions dealing with any financial matter concerning county governments;
- xii. Publish and review the policy that sets out the criteria for identifying marginalized areas in actualization of the Equalization Fund.

Chapter 2

Performance Review and Achievements

CRA PERFORMANCE REVIEW AND ACHIEVEMENTS

2.0 Introduction

During the financial year 2015/2016, the Commission undertook several activities in line with its mandate. This chapter highlights the main activities and achievements of the Commission for the period July, 2015 to June, 2016.

2.1 Recommendation on Revenue Sharing between National and County Governments – FY 2015/16

The Constitutional provisions of Article 202(1) provide that revenue raised nationally shall be shared equitably between the national and county governments. Further, Article 216(1) (a) mandates the Commission to recommend a basis for the equitable sharing of revenue. The shareable revenue is defined in the Constitution and Section 2 of the Commission on Revenue Allocation Act, 2011 as:

“all taxes imposed by the national government under Article 209 of the Constitution and any other revenue (including investment income) that may be authorized by an Act of Parliament, but excludes revenues referred to under Articles 209(4) and 206(1)(a)(b) of the Constitution”.

Article 202(2)(3) provides that the shareable revenue allocated to county governments shall not be less than fifteen per cent of all revenue collected, audited and approved by the national Assembly. The most recent audited approved account of revenues raised nationally are for financial year 2013/14, amounting to Ksh. 935,653 million. The projected shareable revenues for the year of expenditure, which is financial year 2016/17 is Ksh. 1,444. 9 billion as presented in Table 1.

In making the recommendations on national revenue sharing between county and national government, the Commission analysed several economic aspects which included; national economy, public debt, functions assigned to each level of government and county own revenues. These informed the recommendation of Ksh 331,765 million equitable share representing 35 per cent of the last approved audited account and Ksh. 45,752 million as conditional grants to county governments for financial year 2016/17 as presented in Table 1.

Table 1: Summary of CRA Recommendation and Approved Allocation to Counties for FY 2016/17 (Ksh. Millions)

	ITEM	2015/16	2016/17	Approved
A	EQUITABLE SHARE TO COUNTIES	Actual	CRA Recommendation	DoRA 2016
1	Latest Audited Accounts	2012/13	2013/14	2013/14
2	Shareable revenue based on audited accounts	776,858	935,653	935,653
3	Equitable Share (Baseline)	259,775	259,775	259,775
4	Adjust by the three year average revenue growth of 15.09 percent	-	39,200	20,525
5	Add allocation for county roads	-	27,790	-
6	Add allocation for public participation	-	5,000	-
7	Total equitable share to counties	259,775	331,765	280,300
8	Percentage share to counties	33.44%	34.53%	30.0%
B	CURRENT CONDITIONAL ALLOCATIONS	2015/16	2016/1	
9	Level 5 Hospitals	3,600	4,143	4000
10	Free Maternal Health Care	4,298	4,947	4,121
11	Compensation for user fees forgone	900	1,036	900
12	Leasing of medical equipment	4,500	5,179	4,500
13	Road Fuel Levy Fund (15% of Actual 2014/15)	3,300	4,756	4,306
14	Sub Total	16,598	20,061	-
C	NEW CONDITIONAL GRANTS			
15	Personnel emoluments for devolved staff	-	5,196	-
16	Construction of headquarters in five counties ¹	-	4,000	-
17	Rehabilitation of primary and secondary schools	-	5,000	-
18	Establishment of county emergency funds (2% of Equitable Share: Ksh. 259,775 million)	-	5,196	2,000

¹ This conditional allocation will be used to build headquarters for the following five counties: Lamu, Tharaka Nithi, Nyandarua, Tana River and Isiolo

	ITEM	2015/16	2016/17	Approved
19	Rehabilitation of village polytechnics		6,300	-
20	Sub total new conditional grants		25,691	-
21	Total conditional grants	16,598	45,752	3,870
D	Total transfer to counties for 2016/17	276,373	377,517	302,197

Source: CRA 2015 and DORA 2016

Based on the projected shareable revenue for financial year 2016/17, the Commission's recommendation on shareable revenue of Ksh. 332 billion is equivalent to 23% as shown in Table 2.

Table 2: Shareable Revenue for Financial Year 2016/17

Budget Items		Ksh	Percentage
Projected ordinary revenues for 2016/17		1,444.9	100%
<i>Of Which</i>			
1	Equalisation Fund	4	0.3%
2	National government	1,108.9	76.7%
3	County governments	332	23.0%

Source: CRA 2015

2.2 Formulation of the Second Revenue Sharing Formula

The Constitution in Article 203 articulates the criteria for revenue sharing among county governments. In accordance with the provisions of Articles 216(1)(b), 217(2)(b) and the sixth schedule (16), the Commission recommended the basis for sharing revenue among county governments. The Constitution provides that the first and second determinations of the basis of the division of revenue among counties be made at three year intervals.

The Commission reviewed the first basis for revenue sharing among county governments and submitted it for approval to the Senate in November 2014. The basis considered the following parameters and weights; population (45%), poverty (18%), basic equal share (25%), land area (8%), revenue effort (1%), development factor (1%) and personnel emoluments (2%).

However, the Senate rejected this recommendation in February 2015. The rejection necessitated another rigorous process of stakeholder consultation for the review of the second recommendation. In October 2015, the Commission held consultations with the Senate, National Treasury and the Parliamentary Budget Office (PBO).



CRA Commissioners during a press conference on the 2nd Revenue Sharing Formula

After consultations, the Commission considered the following parameters for the second basis for revenue sharing among county governments: Population, Basic Equal Share, Poverty, Land Area, Development Factor and Fiscal effort with weights as indicated in Table 3. The basis for revenue sharing was approved by the Senate in April 2016 and forwarded it to the National Assembly for concurrence. However, the National Assembly did not discuss the recommendation and by lapse of 60 days it was assumed approved without amendments in June, 2016.

Despite the approval of the Second Revenue Sharing Formula by Parliament in June 2016, this was not used in sharing of revenue among county governments for the year 2016/17 as was envisaged. The reason was that the County Allocation Revenue Act (CARA), 2016 had been approved before the National Assembly approved the basis.

Table 3: Summary of parameters and weights for first and second criteria for revenue sharing

No.	PARAMETER	2012/2013 – 2014/2015	2015/16, 2016 – 2017, 2017-2018
		FIRST FORMULA WEIGHT (%)	REVISED AND APPROVED FORMULA WEIGHT (%)
1.	Population	45	45
2.	Basic Equal Share	25	26
3.	Poverty	20	18
4.	Land Area	8	8
5.	Fiscal Effort	2	2
6.	Development Factor	-	1
7.	Personnel Emoluments	-	-
	Total	100	100

Source: *Commission on Revenue Allocation 2016*

Table 4: Aggregate Annual Allocations to County Governments

NO.	County	FINANCIAL YEARS			
		2012/2013 ²	2013/2014	2014/2015	2015/16
1	Mombasa	196	3,802	4,535	5,198
2	Kwale	193	3,749	4,472	5,126
3	Kilifi	280	5,443	6,493	7,441
4	Tana-River	150	2,914	3,477	3,985
5	Lamu	77	1,501	1,790	2,052
6	Taita-Taveta	125	2,421	2,888	3,310
7	Garissa	217	4,221	5,036	5,772
8	Wajir	272	5,290	6,311	7,233
9	Mandera	337	6,550	7,814	8,956
10	Marsabit	195	3,796	4,528	5,189
11	Isiolo	115	2,236	2,667	3,057
12	Meru	245	4,750	5,666	6,494
13	Tharaka-Nithi	118	2,295	2,738	3,138
14	Embu	145	2,807	3,349	3,838
15	Kitui	274	5,315	6,341	7,267
16	Machakos	255	4,951	5,906	6,769
17	Makueni	225	4,366	5,209	5,970
18	Nyandarua	162	3,150	3,758	4,307

² The Allocation for financial year 2012/2013 only covered three months (March to June 2013)

NO.	County	FINANCIAL YEARS			
		2012/2013 ²	2013/2014	2014/2015	2015/16
19	Nyeri	168	3,254	3,882	4,449
20	Kirinyaga	133	2,588	3,087	3,538
21	Murang'a	202	3,917	4,673	5,356
22	Kiambu	281	5,459	6,512	7,464
23	Turkana	395	7,664	9,143	10,479
24	West Pokot	162	3,155	3,764	4,314
25	Samburu	134	2,598	3,099	3,552
26	Trans-Nzoia	192	3,730	4,450	5,100
27	Uasin-Gishu	195	3,797	4,529	5,191
28	Elgeyo-Marakwet	123	2,392	2,854	3,270
29	Nandi	179	3,478	4,149	4,755
30	Baringo	167	3,248	3,875	4,441
31	Laikipia	130	2,523	3,010	3,450
32	Nakuru	306	5,936	7,082	8,116
33	Narok	199	3,868	4,614	5,288
34	Kajiado	166	3,227	3,850	4,413
35	Kericho	170	3,295	3,931	4,487
36	Bomet	177	3,443	4,107	4,725
37	Kakamega	335	6,516	7,773	8,908
38	Vihiga	146	2,832	3,378	3,871

NO.	County	FINANCIAL YEARS			
		2012/2013 ²	2013/2014	2014/2015	2015/16
39	Bungoma	289	5,614	6,697	7,676
40	Busia	205	3,979	4,747	5,440
41	Siaya	188	3,654	4,359	4,995
42	Kisumu	214	4,155	4,957	5,681
43	Homa-Bay	212	4,121	4,917	5,635
44	Migori	220	4,269	5,093	5,837
45	Kisii	267	5,188	6,189	7,094
46	Nyamira	156	3,039	3,625	4,155
47	Nairobi City	489	9,506	11,340	12,997
	Totals	9,784	190,000	226,660	259,775

Source: CARA (Various)

2.3 Review of Policy Identifying Marginalised Areas

In February 2013, the Commission published a policy that identified marginalised areas and gave a criteria for sharing out the Equalisation Fund as provided for in Article 216 (4) of the Constitution. The Article further provides for the Commission to regularly review the policy, hence the Commission embarked on the review of the policy despite the fact that the fund has not yet been operationalized.

A proposal has been developed detailing the new methodological approach intended to be employed in determining marginalised areas away from the use of historical injustices and county survey. The review is mainly intended to use small area analysis in the identification of marginalised areas. The identification of the parameters that shall be used is on-going as well as the collection of data which is being done in collaboration with other government agencies.

2.4 Review of County Fiscal Strategy Papers

Section 117(5) of the Public Finance Management Act (2012) stipulates that in preparing the county fiscal strategy paper (CFSP), a county treasury shall seek and take into account views of the Commission on Revenue Allocation. A CFSP articulates priorities for the county as regards the county government revenues, expenditures and borrowing for the next financial year. It ensures effective linkage between policies, plans and budgets in the medium term.

The CFSP provides expenditure ceilings for county departments, units and agencies and provides priority areas for investment of the county in line with the county integrated development plan and sectoral plans.

During the period under review, the Commission reviewed 12 out of 47 CFSPs for 2015/2016 – 2017/2018 and sent its recommendations to the respective counties. The 12 counties that sent their CFSP for review before 28th February 2016 were: Bomet, Kilifi, Machakos, Kwale, Kitui, Garissa, Kiambu, Marsabit, Nairobi, Vihiga, Lamu and Mombasa. Most of the counties shared their CFSP after approval by their respective assemblies.

Some of the common issues that emerged from the review of the various CFSP included: Failure in observing the provisions of section 25 (6) of the PFM regulations, which provides ceilings for development expenditure and personnel spending by county governments pre-determined at 30% and 35% respectively. In addition, there was low absorption of development funds; unrealistic projection of counties' own revenue; excessive expenditure on non-priority areas; and weak monitoring and evaluation frameworks.

2.5 Debt Management Strategy

Article 216(3)(a) of the Constitution of Kenya requires the Commission on Revenue Allocation to take into account provisions set out in Article 203(1) while making its recommendation for revenue sharing. One of the specified criteria is 'to make provision in respect of public debt and other national obligations'. It is for this reason that the Commission carried out a study to review the Kenyan Public Debt Management issues, challenges and prospects.

Kenya's public debt has risen rapidly over the past one decade from as low as 39 per cent of the GDP in 2006 to 52.8 per cent in 2015. This has mainly been due to heavy government borrowing to fund massive infrastructural projects.

The country's public and publicly guaranteed debt stood at Kshs. 2,828.1 billion as at June 2015 of which domestic debt comprised of Kshs. 1,420.4 billion while external debt was Kshs. 1,408.6 billion. External debt has burgeoned during this period mainly as a result of proceeds from Eurobond tap sale, disbursements from the Chinese government and Export and Import Bank China for the construction of the Standard Gauge Railway and depreciation of the exchange rate revaluation.

The composition of public debt in terms of domestic and foreign sources is an important determinant of debt sustainability. A larger proportion of domestic debt ensures that debt service expenditure remains in the domestic economy rather than being paid out of the country. In addition, exchange rate risk is minimized. However, excessive borrowing from the domestic market can crowd-out private sector borrowing since interest rates could be pushed up. The other consequences of heavy borrowing stance include: debt trap challenge; socio economic and political instability and vulnerability to sudden stop in capital inflows.

The study recommended the following measures to be undertaken to ensure sustainability in public debt management: the country should focus more on concessional financing, fiscal discipline should be observed in public expenditure, avoid too much domestic borrowing which crowds out private investment, reduce primary deficit, and exploring alternative sources of revenue.

2.6 Establishment of a Database of National and County Statistics

The development of evidence-based recommendations on the equitable sharing of revenue raised by national government by the Commission on Revenue Allocation (CRA) using reliable and up-to-date information has received a boost. Further planning, budgeting, monitoring and evaluation in county governments is set to be enhanced. This follows development of databases, data management strategies and frameworks under a technical assistance programme by the European Union to CRA.

The development of databases, data management strategies and frameworks will ensure that comprehensive information on various departments/sectors in counties is identified and documented for easy retrieval and reference. The data will be in areas such as agriculture, health, tourism, water, fisheries among others. Availability of this information will enhance decision making on various recommendations that the Commission develops as well as for county planning. Five pilot counties of Kwale, Wajir, Migori, Nairobi and Nyeri were involved in the process.

2.7 Equipping the Resource Centre

The resource centre collects information on various issues of interest to the Commission. It works as a reservoir of information to other departments and also collaborates with researchers and analysts in academic and research institutions to gather information resources.

The centre is fully automated and comprises of a collection of books, DVDs and journals. The automation system in place has web-based functionality which ensures that the catalogue is accessible from any device within the Commission's network.

2.8 Challenges Experienced During the Implementation Period

During the period under review, the Commission faced a myriad of challenges in delivering its mandate. Some of the notable challenges included the following:

- a. The huge variance between the CRA and the National Treasury recommendations for revenue sharing between national and county governments which resulted into disagreements between the Senate and the National Assembly;
- b. The rejection and delay in the approval of the criteria for revenue sharing among the county governments leading to the delay in the use of the second formula as required by law;
- c. The delay in operationalization of the Equalization Fund in terms of establishing the necessary structures, delayed the review of the Policy Identifying Marginalised Areas;
- d. The legal tussle between a number of counties and the Kenya National Bureau of Statistics (KNBS) on the correct county data on population which is a key parameter in the revenue sharing basis among county governments.

2.9 Recommendations

In addressing the afore-listed challenges, the following are some of the recommendations made to resolve them:

- a) The Commission will continue engaging all stakeholders especially the Senate, Council of Governors, National Assembly, National Treasury among others to ensure that the Commission's recommendations are adopted.
- b) The Commission will continue working closely with the KNBS to ensure that data is regularly updated and provided to meet the requirements of the Commission.

2.10 Legal Matters

The legal matters touching on the Commission's mandate that were addressed include the following:

2.10.1 Interagency Taskforce on Health Workforce

CRA was a member of an interagency taskforce on Health workforce that came up with rules and guidelines on transfer employment and internship of medical health workers. These guidelines aim to clarify the roles of various institutions in the management of staff while also providing uniform standards of managing public officers at county level.

2.10.2 Interagency Taskforce on National Policy on Own Source County Revenue (OSR).

Concern has been raised on issues around double taxation by both levels of government. It is against this backdrop that an inter-agency working committee (IAWC) was established to develop a policy and legal framework for enhancement of county own source revenue collection. CRA was a member of the committee.

The specific terms of reference (ToRs) given to the IAWC when it was established were as follows to:

- i. Develop policy guidelines on enhancement of county government own source revenue;
- ii. Review all existing legislation on revenue, and;
- iii. Draft a law on county government own source revenue

Key deliverables were as follows:

- i. A Policy framework to support county OSR;
- ii. A Legal framework to guide revenue generation by counties

2.10.3 Mediation and Conflict Resolution

CRA was involved in the mediation of various matters which included resolution of conflicts between counties. In particular, CRA helped to resolve the crisis over water between Kericho and Bomet counties. It also mediated talks which led to the resolution of conflicts on county's budgetary ceilings between the county executive and county assembly of Bomet.



Bomet Governor Isaac Ruto and Speaker Geoffrey Korir shake hands in agreement after resolution of a conflict on the county budget which CRA Chairman Micah Cheserem helped mediate.

2.10.4 CRA Contribution to the Mining Act

The Mining Act, 2016 was signed into law by H.E. the President on 27th May 2016. The purpose of the Act is to give effect to the provisions of Article 60 of the Constitution of Kenya, 2010 which sets out the principles of land policy. In addition, Article 62(1)(f) provides that all minerals and mineral oils form part of public land and shall vest and be held by national government in trust for the people of Kenya.

Article 66(2) requires Parliament to enact legislation to ensure that investments in property benefit local communities and their economies. CRA played a role in contributing to the sharing of revenue from the mining sector to devolved units.

2.10.5 CRA Signs Memorandum of Understanding

A memorandum of understanding (MOU) signed between CRA and KNBS is aimed at incorporating stakeholders in the development of new and all-inclusive guidelines on data and statistics management by county governments.

The two organisations specifically aim at enhancing data collection and statistics management at county level. They also seek to review the Statistics Act, 2006; organise a national forum on data and statistics as well as sharing of data with relevant stakeholders.

CRA's responsibilities under the MoU are: the identification and provision of sector-specific data needs on a continuous basis, facilitation and assistance in planning of a national forum on county and data statistics management, and participation in the formulation of guidelines through identification of various data needs by various government stakeholders.

The KNBS's role includes facilitating the formulation of guidelines for data and statistics collection at county level and in conjunction with CRA, to plan the national forum on county data management. It is also expected to formulate a policy framework together with relevant stakeholders and review the Statistics Amendment Bill by CRA in collaboration with other stakeholders. The MoU will be reviewed every four years.

2.11 Recommendations on Fishing for Riparian Counties

The Commission appreciates the fact that fishing is an important economic activity and source of livelihood for riparian counties around Lake Victoria that includes the counties of Kisumu, Homa Bay, Migori, Siaya and Busia.

Given recent concerns about a decline in the volume of fish from the lake, and the proliferation of cheaper imports of the commodity (fish) from other countries, the Commission undertook a field mission in the region with the aim of understanding the underlying causes of the decline in fish from the region and to seek workable solutions that can help the five counties.

The findings and recommendations include:

- (i) The lack of infrastructure (e.g. inputs, cooling and processing facilities) to support fish farmers in the sector. Farmers are exposed to unscrupulous middle men who exploit and take advantage of them with no alternative or recourse of action but to sell the fish at throwaway prices;
- (ii) The fish imports from China cost less per kilogram than those produced from the lake by the local fish farmers;
- (iii) The fish imports from China also have all clearances and approvals.
- (iv) Lake pollution has increased and the invasive water hyacinth weed is still common in large portions of the lake.

Accordingly, there is need to ensure that sustainable solutions and strategies are found to deal with these issues. It was noted that Beach Management Units (BMUs) exist and each one of them have well-defined administration structures but these are under-utilized by county governments in the management of the lake and its resources.

2.12 Enterprise Resource Planning (ERP) System

The Commission has implemented an enterprise resource planning (ERP) system. The ERP system has automated processes in human resources, procurement and finance sections. It has greatly improved efficiency in the delivery of services. Some of the modules deployed are employee self-service for requesting and accessing internal services and online recruitment.

2.13 ICT Capacity Support to County Governments

Article 216 (2) mandates the Commission to make recommendations on matters concerning the financing of, and financial management by county governments. On this basis, the Commission has engaged with county governments on ICT-related matters focused on the following areas:

2.13.1 County Revenue Management System Framework

Most county governments have been collecting less than what they had targeted as a result of revenue leakages associated with manual revenue collection methods and fraud from revenue collectors. The Commission prepared guidelines and standards that county governments should follow when automating revenue collection processes as they seek to increase revenue collection.

The document covered the acquisition of a revenue collection system that should have capability to fully integrate with IFMIS for revenue reporting and tracking. These guidelines were shared with all county governments and most counties have implemented systems using the guidelines. This has also led to a clear understanding of their requirements for revenue management systems and ensured that the counties acquire value for money while enhancing revenue in the midst of multiple suppliers.

2.13.2 County Revenue Enhancement, Automation and Revenue Source Mapping

In line with its mandate of making recommendations on matters concerning the financing of, and financial management by county governments as required by the Constitution, the Commission visited counties and conducted revenue automation needs assessment out of which recommendations were proposed and adopted by county governments.

In all the counties visited, CRA compiled a report detailing the following:

- (i) Current revenue sources and revenue collection operations;
- (ii) Revenue loss on the current mode of operation; e.g. having casuals work at key revenue points;
- (iii) Potential of current revenue sources if operations are automated;
- (iv) Recommendations on types of automation that would be of value with return on investment (ROI);
- (v) Recommendations on new revenue sources counties can explore;
- (vi) Recommendations on system requirements on proposed automation;
- (vii) Recommendations on types of contracts and service level agreements for ICT systems;
- (viii) Recommendation for ICT directorates/departments to always work closely with county executive committee (CEC) member for finance during budgeting and system user departments during requirements formulation and system implementation to ensure that ICT projects are owned by all, and;
- (ix) Recommendations on key personnel training needs.

2.13.3 County Revenue Automation Conference 2015

The Commission hosted the County Revenue Automation Conference in July 2015, with the aim of discussing and identifying solutions to address the gaps highlighted above. The delegates to the conference comprised of County Executive Committee (CEC) members of finance, ICT and revenue directors from all county governments and other stakeholders.

The two day conference came up with the following recommendations:

- (i) **CRA to rally governors towards embracing ICT in counties;**
- (ii) **Capacity Building:** In order to address the prevailing capacity gap in counties especially on ICT skills, the President Digital Talent Program model would be replicated in counties, and run by governors as the governors' digital talent (internship) program (GDTP);

- (iii) **ICT Budget Allocation:** For counties to be able to take full advantage of ICT related growth and development, there is need for sufficient ICT budget allocation by county governments. It was proposed that a minimum of 5% of the total budget of the county in all the financial years be allocated to ICT.
- (iv) **Shared Infrastructure Policy:** This policy would provide county governments with a platform to engage in setting up county shared infrastructure which could be shared collectively hence reducing the total cost of ownership (TCO) on hardware and software in order to enhance efficiency. The implementing agency shall be the ICT Authority in consultation with county governments;
- (v) **Conditional Grants:** That county governments should request national government to provide conditional grants earmarked for county ICT projects;
- (vi) **Standardization:** County governments through the ICT committee of the Council of Governors should engage stakeholders and adopt standards and policy documents to be used across counties. These would foster inter-operability among the end users, systems and service delivery, manage user expectations, protect investment and promote innovation in the ICT sector.
- (vii) **Phased or Modular Revenue Automation Approach:** It is recommended that county governments approach revenue automation using a phased/ modular approach emphasizing on revenue streams that generate huge revenue for the counties via using the 20-80 rule (20% revenue streams that generate 80% of county revenue);
- (viii) **Organizational Structure:** There is an urgent need to restructure county governments to accommodate a focused and refined ICT docket that would spearhead a centralized and integrated ICT approach in county automation processes. Such restructuring would help eliminate the 'silo effect' and save financial resources for the counties;
- (ix) **A Legal Framework to Support County Revenue Management System:** The Commission proposes to draft an amendment bill to realign the existing PFM Act to support online transactions supported by facilities such as credit card, debit cards and mobile payment system;
- (x) **Cyber Security of the County Financial System:** it was agreed that counties should have their financial system audited and probed for any vulnerabilities with support from the Commission and the Ministry of ICT.

2.14 Natural Resource Management

The Constitution of Kenya (Article 69) requires the State to ensure sustainable exploitation, utilization, management and conservation of natural resources, and ensure the equitable sharing of accruing benefits and to utilize natural resources for the benefit of the people of Kenya.

The Natural Resource Management (NRM) role in the Commission entails natural resource policy formulation and reforms; making recommendations on effective revenue enhancement in relation to natural resources, as well as ensuring sustainable natural resource management and stable economic development in Kenya. It aims to provide technical advice and oversee implementation of strategies on effective natural resource exploitation and revenue sharing. NRM aims to promote local capacities in sustainable natural resources management and fiscal planning.

2.14.1 Kenya Petroleum Technical Assistance Project (KEPTAP)

The objective of the Kenya Petroleum Technical Assistance Project (KEPTAP) is to strengthen Kenya's capacity to manage its petroleum sector and create wealth for sustainable development. The project also provides technical assistance and support on revenue and investment management reforms and capacity building of which CRA is a beneficiary.



Participants at CRA KEPTAP oil and gas workshop in Kisumu

Through KEPTAP the following activities have been implemented;

- Oil and gas trainings
- International Oil and Gas Accounting and Financial Management – Comprehensive Workshop, where two staff were trained
- Accounting procedures in production of sharing contracts. In house training course, where two staff were trained
- Oil and Gas Workshop in Kisumu covering counties of north eastern region.

2.15 Capacity Building and Competency Development

In Fiscal Year 2015/2016, CRA executed a training plan and implemented it as indicated below:

NO	COURSE	PARTICIPANTS	LOCATION
1	Advanced Public Sector Financial Management	2	ESAMI, Mombasa
2	Leadership, Good Governance and Financial Management	1	ESAMI, Kampala
3	Goods and Equipment Procurement Programme	1	ESAMI, Kampala
4	Public Procurement and Assets Disposal 2015	2	Mombasa
5	Reward Management	1	ESAMI, Hqrs
6	Monitoring and Evaluation Certification	1	KIM, Mombasa
7	IT Audit Training	1	ISACA, Mombasa
8	Executive Course for Drivers	7	KIM, Mombasa
9	High Performance Leadership Course PPI	2	PPI, Mombasa
10	Stores Management	1	KIM, Mombasa

2.16 Staff Benefits

The Human Resource unit has spearheaded the review and implementation of staff benefits such as mortgage scheme implementation. Review of the remuneration structure began in FY 2015/2016 and is set to be completed as the new FY 2016/2017 commences. This will enhance staff terms of service which is an important ingredient in employee retention strategy.

A team building event was hosted at the Simba Lodge on 6th November 2015 where a total of 63 employees and commissioners attended. Recommendations from team building will be implemented in FY 2016/2017.

2.17 Recruitment and Selection

In FY 2015/2016, the following recruitments were undertaken:

NO	POSITION FILLED	DEPARTMENT	DATE OF APPOINTMENT
1.	Manager, Natural Resources Management	NRM	15/7/2015
2.	Front Office Receptionist	Corporate Services	3/8/2015
3.	NRM Assistant	NRM	3/8/2015
4.	Executive Secretary	Corporate Services	1/9/2015
5.	Communication Officer	Communication	1/10/2015
6.	Office Support	Corporate Services	1/10/2015
7.	Secondment, Research Analyst	Research and Policy	1/12/2015
8.	Executive Secretary	Corporate Services	15/2/2016
9.	Executive Secretary	Corporate services	18/2/2016

2.18 Job Evaluation with Salaries and Remuneration Commission

In FY 2015/2016, the Salaries and Remuneration Commission (SRC) engaged CRA on job evaluation as part of a wider exercise carried in the entire Public Service. The exercise involved engagements with staff and the departments on the actual jobs they perform on daily basis in order to place jobs correctly and remunerate the same fairly across the entire public service.

2.19 Communicating the CRA Mandate

In communicating the CRA mandate and ensuring continuous dialogue with stakeholders, the following have been accomplished:

2.19.1 Publication of Documents

The Commission has published its annual reports, brochures, and reports on the recommendations on sharing of revenue. These publications have been disseminated to various stakeholders.

2.19.2 Website and Social Media Updates

The Commission's website and social media pages (Facebook, Twitter and Youtube) have been regularly updated in order to keep members of the public informed on various activities being undertaken by the Commission.

2.19.3 A Library of Still Photos and Video Recordings

The Commission has developed a library of still photos and video recordings of CRA activities as well as various projects being implemented by counties. The photographs and video recordings have been used to communicate CRA and county activities and achievements.

Chapter 3

Partnerships

THE CRA/EU REVENUE ENHANCEMENT PROJECT

In collaboration with the European Union (EU), the Commission supported county governments to enhance their own source revenues by strengthening their analytical and institutional capacities. The support was in the form of technical assistance (from experts seconded to CRA by the EU) and CRA technical staff who undertook field trips to five pre-selected counties; namely: Nairobi, Wajir, Kwale, Nyeri and Migori.

Consultative meetings were held with senior county management teams with the teams adopting a three-pronged approach, that covered the following areas:

- i. Reforming the revenue administration structure;
- ii. Ensuring the existence of laws and policies to give counties the legal mandate to administer and collect taxes, fees and charges, and;
- iii. Setting the optimum revenue rates that will ensure sustainable service delivery while maximizing revenue collection.

The result was a comprehensive set of findings, which include the following:

- i) Some revenue collection staff are not professionally trained and hence, they lack capacity in the area of revenue administration, collection, accounting and reporting;
- ii) Counties are collecting revenues without any proper legislation or regulatory frameworks;
- iii) The revenues that are collected are not properly accounted for and that banking is not carried out in accordance with the law. Moreover, the collectors assume the custody of the cash collected, usually for a period ranging from one (1) day to 30 days in their homes, all depending on respective localities;
- iv) Colossal amounts of revenue collected are therefore not accounted for;
- v) Revenue automation is considered to be a key reform area but counties are implementing this in an unstructured, fragmented and uncoordinated manner.
- vi) The revenue forecasting is not based on any scientific or technical foundations. Rather, many counties adopt ad-hoc and subjective approaches;
- vii) Rate setting in many counties is done crudely without invoking such questions as affordability or the willingness to pay. Moreover the setting does not relate to service delivery by county governments.

The field visits culminated in the preparation of comprehensive reports that contain findings, observations and recommendations on how the counties can enhance their own source revenues and improve revenue data analysis skills. It is hoped that this would subsequently enable them to achieve improvements in service delivery. It is noted that the counties that adopted the recommendations have already realized an upward surge in their revenue collection and CRA anticipates extending this exercise to the other forty-two counties.

Chapter 4

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

I. REPORT OF THE AUDITOR GENERAL

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COMMISSION ON REVENUE ALLOCATION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Commission on Revenue Allocation set out on pages 1 to 15, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows 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.

Management's Responsibility for the Financial Statements

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

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

Report of the Auditor-General on the Financial Statements of Commission on Revenue Allocation for the year ended 30 June 2016

I. REPORT OF THE AUDITOR GENERAL

opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

Unreconciled Balances

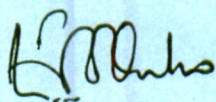
Various account balances reflected in the financial statements differ with the Integrated Financial Management Information System (IFMIS) trial balance figures as at 30 June 2016 as summarized below:

Account Details	Financial Statements Balance (Kshs)	IFMIS Trial Balance (Kshs)	Difference (Kshs)
Total Expenses	325,071,845.00	301,066,164.95	24,005,680.05
Total Assets	188,459,241.00	12,933,238.45	175,526,002.55
Total Liabilities	6,302,041.00	7,321,441.45	(1,019,400.45)

No reconciliation has been provided for the differences.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Commission on Revenue Allocation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with Commission on Revenue Allocation Act, 2011 and the Public Finance Management Act, 2012.



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

Nairobi

03 July 2017

Report of the Auditor-General on the Financial Statements of Commission on Revenue Allocation for the year ended 30 June 2016

II. KEY COMMISSION INFORMATION AND MANAGEMENT

(a) Background information

The Commission was formed by the Constitution under Article 215 in December, 2010 and is represented by the Commission Secretary who is responsible for the general policy and strategic direction of the Commission.

(b) Principal Activities

The principal activity of the Commission is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments and sharing of revenue among the county governments.

The Mission of the Commission is to make recommendations for equitable sharing of revenue, financing of, and financial management for both national and county governments.

The Vision is to be a trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

(c) Key Management

The Commission's day-to-day management for the said financial year was under the following team:

- | | |
|-------------------------|------------------------------|
| 1. George Ooko | Commission Secretary |
| 2. Angela Kariuki | Director Corporate Services |
| 3. James Katule | Director Fiscal Affairs |
| 4. Sheila Yieke | Director Legal |
| 5. Joseph Kuria | Director ICT |
| 6. Lineth Oyugi | Director Research and Policy |
| 7. Dr. Amenity Nyakundi | Advisor Natural Resources |

(d) Commission Headquarters

Commission on Revenue Allocation

14 Riverside Drive
Grosvenor Suite 2nd and 3rd Floor
P.O Box 1310-00200 Nairobi
Tel: (020) 4298000

(e) Commission Contacts

Telephone: (254) (020) 4298000
E-mail: info@crakenya.org
Website: www.crakenya.org

(f) Commission Bankers

1. Central Bank of Kenya Haile Selassie Avenue

P.O. Box 60000
City Square 00200
Nairobi, Kenya

2. Kenya Commercial Bank

KICC Branch
Harambee Avenue
P. O. Box 46950-00100, Nairobi
Tel: (020)29248501, Fax: (020) 29248501,

3. I & M Bank

Riverside Branch,
14 Riverside Drive
P. O. Box 30238-00100, Nairobi

4. Co-operative Bank of Kenya Ltd

Upperhill
P.O Box 48231 – 00100
Nairobi, Kenya

(g) Independent Auditors

Auditor General

Kenya National Audit Office Anniversary Towers, University Way

P.O. Box 30084 GOP 00100

Nairobi, Kenya

(h) Principal Legal Adviser

The Attorney General State Law Office Harambee Avenue

P.O. Box 40112 City Square 00200

Nairobi, Kenya

III. THE COMMISSIONERS



Micah Cheserem
Chairman

Is a qualified Fellow of the Association of Chartered Certified Accountants of London since 1974. He is a former Governor of Central Bank of Kenya and the immediate former chairperson of the Capital Markets Authority.



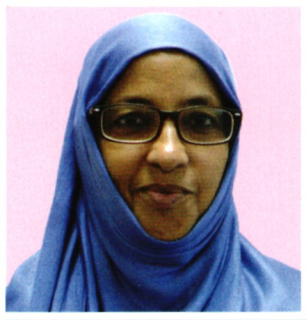
Fatuma Abdulkadir
Vice Chairperson

Holds a Masters in Business Administration and Bachelor of Education. She has been the National Project Coordinator in Arid Lands Resource Management Project. She has wide experience in development and implementation of government policies in Arid and Semi – Arid (ASAL) regions. She has also facilitated the implementation of programmes funded by development partner such as the EU, UNDP, WFP, FAO, UNICEF and OXFAM. She is the immediate former chair of the Kenya Food Security Meeting which coordinates humanitarian interventions of all actors including government, donors and NGOs in the food security sector.



Prof. Wafula Masai
Commissioner

He is a holder of a Doctorate in Economic Analysis and Planning, a Masters of Arts in Development Economics and Bachelor of Arts in Economics. For about thirty years he served as a lecturer and Associate Professor of Economics, Chairman of Economics Department (University of Nairobi), Programmes Director at the African Centre for Economic Growth and economic policy consultant for many international agencies, Kenyan public, private and civil society organizations.



Amina Ahmed
Commissioner

Holds a Bachelor of Arts in Economics and French. She has been the immediate chairperson of the Kenyatta International Conference Centre and a member of the Executive Committee of the One Shilling Foundation. She previously held senior positions in Kenya Commercial Bank for a number of years.



Prof. Joseph Kimura
Commissioner

Holds a PhD in Accounting, MBA in Accounting and Finance and Bachelor of Commerce in Accounting and is a Certified Public Accountant. He holds rank of Fellow of the Institute of Certified Public Accountants of Kenya and is a founder member of the Association of Financial Analysts of East Africa. Prof Kimura has held a large number of positions both in the public and private sectors including the University of Nairobi, United States International University, KASNEB and Higher Education Loans Board among others.



Rose Osoro
Commissioner

Holds a Masters in Business Administration from the University of Nairobi and a Bachelor of Arts from Kenyatta University. She is a Certified Public Accountant (CPA) and Certified Public Secretary (CPS) finalist. She has extensive work experience in public finance with emphasis on budgeting and financial allocation. She is a member of Institute of Certified Public Accountants of Kenya (ICPAK) and Kenya Institute of Management. She previously held positions at the Kenya Forestry Research Institute.



Prof. Raphael Munavu
Commissioner

Holds a Ph.D. in Chemistry, a Master of Science degree in Chemistry and Bachelor of Arts in Chemistry. He has held senior academic and administrative positions in Moi University, University of Nairobi, Egerton University, the Kenya National Examinations Council and the South Eastern University College (SEUCO). He has wide research and teaching experience and is a Fellow of the Kenya National Academy of Sciences (KNAS).



Meshack Onyango
Commissioner

Holds a Master of Science Degree in International Banking and Finance (1983) from Herriot– Watt University, Edinburgh, Scotland and a Bachelor of Commerce degree(Accounting option) (1975) from the University of Nairobi and Certificate in Money and Capital Markets Development from the prestigious New York Institute of Finance.

He is a financial sector payments system development expert with thirty years' experience working with the Central Bank of Kenya. He has undertaken various consultancy assignments with varied donor agencies such as UNDP, USAID among others and has been a board member at the Capital Markets Authority. He is also a member of the Kenya Institute of Directors.



Dr. Kamau Thugge
(Commissioner/PS
Treasury)

He is a distinguished economist with a PhD in Economics from Johns Hopkins University. He's worked for mainly two organizations before his appointment to The National Treasury as the Principal Secretary. He started his employment in the International Monetary Fund (IMF).

IV. MANAGEMENT TEAM



George Ooko

Commission Secretary/CEO



Angela Kariuki

Director Corporate Services



James Katule

Director Fiscal Affairs



Sheila Yieke

Director Legal



Joseph Kuria

Director ICT



Lineth Oyugi

Director Research and Policy



Dr. Amenya. P. Nyakundi

Advisor Natural Resources



Jacqueline Marita

Manager, Communication



Maureen Junge

Finance Manager

V. REPORT OF THE COMMISSIONERS

The Public Finance Management Act, 2012 requires the Commission to prepare financial statements for each financial year, which includes a Statement of Financial Position showing in details, assets and liabilities of the Commission, a Statement of Comprehensive Income, and such other Statements that the Commissioners may deem necessary.

CRA Act, 2011 Section (22) requires the Commission to ensure that proper books are kept recording all the property, undertakings, funds, activities, contracts, transactions and other business of the Commission. The Commissioners are also responsible for safeguarding assets of the Commission.

The Commissioners accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with generally accepted accounting practice and in the manner required by the CRA Act. The Commissioners are of the opinion that the financial statements give a true and fair view of the state of financial affairs of the Commission and of its operating results. The Commissioners further accept responsibility for maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Commissioners to indicate that the Commission will not remain as a going concern for at least the next 12 months from the date of this statement.

Principal activities

The principal activity of the Commission is to recommend the basis for equitable sharing of revenues raised nationally between the national and the county governments and sharing of revenue among the county governments.

The Mission of the Commission is to make recommendations for equitable sharing of revenue, financing of, and financial management for both national and county governments.

The Vision is to be a trusted and effective adviser on equitable distribution of resources for rapid and balanced economic growth.

Results

The results of the Commission for the year ended June 30, 2016 are as attached.

Commissioners

The members of the Commission who served during the year are as shown and in accordance with CRA Act, 2011.

Auditors

The Auditor General is responsible for the statutory audit of the Commission in accordance with the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Commission



Micah Cheserem
CHAIRMAN

19/12/2016

Date:.....

VI. STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

Section 81(1) of the Public Finance Management Act, 2012 requires the Accounting Officer to prepare financial statements in respect of that Commission, which give a true and fair view of the state of affairs of the Commission at the end of the financial year/period and the operating results of the Commission for that year/period.

The Commissioners are also required to ensure that the Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Commission. The Commissioners are also responsible for safeguarding the assets of the Commission.

The Commissioners are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the Commission for and as at the end of the financial year (period) ended on June 30, 2016.

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 Commission;
- (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 Commission;
- (v) Selecting and applying appropriate accounting policies; and
- (vi) Making accounting estimates that are reasonable in the circumstances.

The Commissioners accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the Commission's Act.

The Commissioners are of the opinion that the Commission's financial statements give a true and fair view of the state of Commission's transactions during the financial year ended June 30, 2016, and of the Commission's financial position as at that date.

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

Nothing has come to the attention of the Commissioners to indicate that the Commission will not remain a going concern for at least the next 12 months from the date of this statement.

Approval of the financial statements

The Commission's financial statements were approved by the Commission on 28th September, 2016 and signed on its behalf by:



Micah Cheserem
CHAIRMAN

Date:.....
19/12/2016

VII. STATEMENT OF FINANCIAL PERFORMANCE
For the Year Ended 30 June 2016

	Note	2015-2016 Kshs	2014-2015 Kshs
Revenue from non-exchange transactions			
Transfers from other governments—gifts and services-in-kind	1	324,537,110	210,500,000
		324,537,110	210,500,000
Revenue from exchange transactions			
Finance income-outstanding receivables	2	-	-
Other income	3	1,797,500	10,762,890
		1,797,500	10,762,890
Total revenue		326,334,610	221,262,890
Expenses			
Employee costs	4	157,605,156	135,432,449
Commissioner's Expenses	5	14,555,630	16,819,574
Depreciation and amortization expense	6	29,990,722	42,967,460
Repairs and maintenance	7	6,955,000	4,749,850
General expenses	8	115,849,677	99,105,415
Finance costs	9	115,660	982,708
Total expenses		325,071,845	300,057,456
Other gains/(losses)			
Gain on sale/Write off of assets	12.a	-	12,000
Loss on foreign exchange transactions	13.a	(171,609)	1,015,953
Unrealized gain on fair value of investments		-	-
Impairment loss		-	-
Surplus before tax		1,091,156	(77,766,613)
Taxation			
Surplus for the period		1,091,156	(77,766,613)
Attributable to:			
Surplus/(deficit) attributable to minority interest		-	-
Surplus attributable to owners of the controlling entity		-	-
		1,091,156	(77,766,613)

The notes form an integral part of the Financial Statements

VIII. STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Note	2015 - 2016 Kshs	2014 - 2015 Kshs
Assets			
Current assets			
Cash and cash equivalents	10	15,821,198	71,719,815
Receivables from non-exchange transactions	11	36,305,766	39,316,017
		52,126,964	111,035,832
Non-current assets			
Property, plant and equipment	12	52,795,391	71,822,337
Intangible assets	13	2,731,763	2,022,276
Mortgage Account (Restricted cash)	14	80,805,126	-
		136,332,281	73,844,612
Total assets		188,459,244	184,880,445
Liabilities			
Current liabilities			
Trade and other payables from exchange transactions	15	6,302,041	3,814,398
		6,302,041	3,814,398
Non-current liabilities			
Non-current employee benefit obligation		-	-
Total liabilities		6,302,041	3,814,398
Net assets		182,157,203	181,066,047
Reserves		1,091,156	(77,766,613)
Accumulated surplus		181,066,047	258,832,660
Total net assets and liabilities		182,157,203	181,066,047

These Financial Statements were signed on behalf of the Commission by:

COMMISSION SECRETARY/CEO

CHAIRMAN

Sign.....

Sign.....

Date.....

Date.....

IX. STATEMENT OF CHANGES IN NET ASSETS For the year ended 30 June 2016

Attributable to the owners of the controlling entity

	Accumulated Surplus Kshs'000
Balance as at 30th June 2014	258,832,660
Surplus/(deficit) for the period	(77,766,613)
Transfers to / from accumulated surplus	-
Balance as at 30th June 2015	181,066,047
	-
Surplus for the period	1,091,156
Transfers to/ from accumulated surplus	-
Balance as at 30th June 2016	182,157,204

X. STATEMENT OF CASH FLOWS

	Note	2015-2016 Kshs	2014-2015 Kshs
Cash flows from operating activities			
Net cash flows from operating activities	16	35,579,773	(40,731,543)
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	12	(8,784,974)	(868,709)
Purchase of intangible assets	13	(2,888,290)	(2,342,248)
Mortgage Account (Restricted cash)	14	(80,805,126)	-
Net cash flows used in investing activities		(92,478,390)	(3,210,957)
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
Decrease in deposits	11	1,000,000	(550,000)
Net cash flows used in financing activities		1,000,000	(550,000)
Net increase/(decrease)in cash and cash equivalents		(55,898,618)	(44,492,500)
Cash and cash equivalent sat 1July 2015	10	71,719,816	116,212,317
Cash and cash equivalents at 30 June 2016	10	15,821,198	71,719,816

XI. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2015 - 2016 Kshs	2015 - 2016 Kshs	2015 - 2016 Kshs	2015 - 2016 Kshs	2015 - 2016 Kshs
Revenue					
Government grants and subsidies	344,342,400	(19,805,290)	324,537,110	324,537,110	-
Finance Income		-	-	-	-
Other Income (A.I.A)	1,232,971	-	1,232,971	1,797,500	(564,529)
Total income	345,575,371	(19,805,290)	325,770,081	326,334,610	(564,529)
Expenses					
Compensation and expenses for employees	182,028,660	(5,235,000)	176,793,660	172,160,787	4,632,873
Repair and Maintenance	8,215,963	(732,395)	7,483,568	6,955,000	528,568
General Expenses (Operation and Maintenance)	149,354,761	(16,546,426)	132,808,335	115,849,678	16,958,657
Finance cost	115,669	-	115,660	115,660	0
Depreciation	-	-	-	29,990,722	(29,990,722)
Loss on Foreign Exchange Transactions	-	-	-	171,609	(171,609)
Total expenditure PE & O&M)	339,715,043	(22,513,821)	317,201,222	325,243,456	(8,042,233)
Surplus for the Period				1,091,156	
Non-current Assets	5,860,327	2,708,531	8,568,858	11,673,264	(3,104,406)
TOTAL	345,575,370	(19,805,290)	325,770,080	336,916,719	(11,146,639)

XII. SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Accounting

The Financial Statements have been prepared in accordance to and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Accrual Basis Financial Reporting under the Accrual basis of Accounting and relevant legal framework of Kenya. The financial statements comply with and conform to the form of presentation prescribed by the Public Sector Accounting Standards Board of Kenya (PSASB).

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Commission.

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

The financial statements have been prepared on accrual basis following the Government's standard chart of accounts. The accrual basis of accounting recognises transactions and events whenever they are incurred.

2. Non-Current Assets

Non-Current assets are stated at Cost or valuation less Accumulated Depreciation which is calculated on the cost of the fixed assets on a straight line basis at annual rates estimated to write off these assets over their expected useful life.

The approved Mortgage Scheme setup by the Commission is also classified as restricted cash since its utilisation goes beyond one year after the balance sheet date. The scheme is mainly setup to facilitate members of staff to benefit from Government funded loans by accessing affordable mortgage facilities. The Scheme draws its strength from the SRC's circular Ref No.SRC/ADM/CIR/1/13.III (128) dated 17th December, 2014 and CRA's internal rules.

3. The Depreciation rates used are as follows:

Motor vehicle	25%
Furniture & Fitting	12.5%
Office Equipment & Accessories	30%
Computers & Printers	30%
Computer Software	33%

4. Retirement Benefits Obligations

The Commission maintains a private Pension Scheme with Jubilee Insurance and administered by ICEA. Further, the employees are members of the statutory National Social Security Fund (NSSF).

5. Recognition of Revenue and Expenses

Income is recognized in the period in which it's received while Government funding is only recognized on receipt. Income is not accrued if its recoverability is considered doubtful. Revenue constitutes all funds accruing to the Commission in the form of Exchequer allocations, Appropriation in Aid and Donor funding.

6. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise of Cash in hand and Cash book balances at 30th June, 2016.

The Commission initially maintained a USD account mainly for payment of rent for the office premises. The ruling rate used at the close of 2014/15 was Kshs.99.4347 to the USD while the ruling rate at end of financial year 2015/16 was Kshs. 97.3 to the USD as at 30th June 2016.

7. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year or in past years. Such bills are accrued in the year in which they are incurred.

XIII. NOTES TO THE FINANCIAL STATEMENTS

1. Transfers from other governments—gifts and services-in-kind	2015-2016 Kshs	2014-2015 Kshs
Unconditional grants (Operational Grant-GOK)		
1st Quarter Exchequer	77,500,000	10,000,000
2nd Quarter Exchequer	78,900,000	61,000,000
3rd Quarter Exchequer	90,700,000	62,500,000
4th Quarter Exchequer	77,437,110	64,000,000
	324,537,110	197,500,000
Part of 4th Quarter Exchequer - Receivables		13,000,000
	324,537,110	210,500,000
Conditional grants		
Other organizational grants	-	-
	-	-
Total government grants and Subsidies	324,537,110	210,500,000
2. Finance income-outstanding receivables	2015-2016 Kshs	2014-2015 Kshs
Total receivables finance income-outstanding	-	-
3. Other income (A.I.A)	2015-2016 Kshs	2014-2015 Kshs
Interest on Bank Deposit	-	10,701,215
Sale of Tender	3,000	35,675
Sale of Newspapers/Assets	-	26,000
Insurance Refund	1,794,500	-
	1,797,500	10,762,890
Total other income	1,797,500	10,762,890

UNDP (United Nations Development Programme) was one of the donors who funded CRA's activities relating to developing the criteria for revenue for the basis of equitable sharing of revenue among county governments and capacity building of members of the county assemblies.

4. Employee costs

	2015-2016 Kshs	2014-2015 Kshs
Basic salaries	87,106,985	75,761,277
Top up for seconded staff	527,820	514,320
House Allowance	18,920,472	15,299,468
Commuter Allowance	8,743,730	7,838,350
Responsibility Allowance	4,080,000	4,040,000
Telephone Allowance	3,114,990	2,809,694
Special Duty	1,840,591	1,632,000
Leave Allowance	1,320,000	1,130,000
Security Allowance	720,000	720,000
Acting Allowance	47,140	17,139
Pension contribution	15,322,182	12,931,045
Gratuity	1,657,468	1,878,042
Medical Insurance	13,371,560	9,305,239
Medical - Ex Gratia	-	420,386
Travel Insurance	-	27,430
Group Life Insurance	814,518	920,720
Wages	17,700	94,700
Terminal Dues		92,639
	157,605,156	135,432,449

The cost of staff salaries and benefits increased significantly. This is attributed to Annual increments, hiring of more staff in the course of the year which also increased the cost of medical insurance. Provision for Pension also increased due to the increased salaries.

5. Commissioner's Expenses

	2015-2016 Kshs	2014-2015 Kshs
Telephone Allowance	2,784,000	2,784,000
Leave Allowance	415,000	415,000
Security Allowance	5,778,206	5,693,370
Domestic Travel costs	2,580,645	3,133,150
Foreign Travel Costs	1,029,942	685,155
Training Expenses	985,890	-
Medical Insurance	700,119	3,652,059
Special Expenditure	-	270,000
Club Membership	281,828	186,840
	14,555,630	16,819,574

6. Depreciation and amortization expense

	2015-2016 Kshs	2014-2015 Kshs
Computer & Printers	2,055,901	5,267,305
Office Equipment	2,322,757	1,817,369
Furniture & Fittings	11,851,655	11,699,239
Motor Vehicle	11,581,606	22,566,005
Intangible Assets	2,178,803	1,617,542
Total depreciation and amortization	29,990,722	42,967,460

7. Repairs and maintenance

	2015-2016 Kshs	2014-2015 Kshs
Routine maintenance of Motor vehicles	6,067,846	3,607,078
Routine maintenance of Assets	887,154	1,142,772
Total repairs and maintenance	6,955,000	4,749,850

8. General expenses

	2015-2016 Kshs	2014-2015 Kshs
Utilities Supplies -Electricity	2,077,495	2,148,662
Utilities Supplies -Water	342,602	207,884
Communication Supplies & Services	4,856,999	4,283,729
Domestic Travel costs	11,472,144	14,349,647
Foreign Travel Costs	1,970,409	5,771,044
Printing Advertising & Information	5,015,914	3,508,195
Rent Expenses	41,617,360	34,734,047
Hire of Transport	582,014	-
Training Expenses	11,980,425	6,086,627
Hospitality Supplies & Services	11,222,081	5,665,165
Insurance Costs (Motor Vehicle & Plant and Machinery)	4,232,906	3,944,044
Specialized Materials & Supplies	1,306,891	391,403
Office & General Expenses	5,715,370	5,777,512
Fuel oils and Lubricants	3,864,335	3,411,154
Security Guards	2,309,774	2,248,297
Cleaning Services	2,190,533	1,930,917
Contracted Professional Services	732,651	4,183,088
Feasibility Study	3,895,774	-
	115,385,677	98,641,415
Audit fee	464,000	464,000
	464,000	464,000
Total General Expenses	115,849,677	99,105,415

9. Finance costs

	2015-2016 Kshs	2014-2015 Kshs
Bank Charges	115,660	982,708
Borrowings (amortized cost)		
Finance leases(amortized cost)		
Unwinding of discount		
Bank overdrafts		
Total finance costs	115,660	982,708

10. Cash and cash equivalents	2015-2016 Kshs	2014-2015 Kshs
CBK - Exchequer Accounts (1000181281, 1000181998, 1000182512)	14,343,916	(3,245,298)
KCB –Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	-	74,739,717
I&M - Cash Book (01900710961210)	1,555	5,130
Cash-on-hand (Petty Cash & office float)	1,475,727	220,266
Co-op Bank of Kenya (01141163485600)	-	-
Short-term deposits	-	-
Total cash and cash equivalents	15,821,198	71,719,815

11. Receivables from Current receivables	2015-2016 Kshs	2014-2015 Kshs
Prepayments	-	
Medical Insurance	6,602,206	9,960,728
Group Life	508,993	560,021
Motor Vehicle	801,859	-
Plant & Machinery	753,271	1,315,188
Dstv and others	196,187	432,940
	8,862,516	12,268,877
Deposit	-	
Rent	18,753,322	18,753,322
Fuel	-	1,000,000
Motor vehicle maintenance	500,000	500,000
Provision of E1line (Internet)	50,000	50,000
	19,303,322	20,303,322

The rent deposit refers to 6 months' rent deposit and it's inclusive of parking fees and service charge for the same period.

Debtors		
Outstanding Salary advance from Staff	1,637,500	1,571,500
Outstanding Imprest from staff	6,440,892	5,110,782
Others (Jubilee and First Assurance)	61,536	61,536
	8,139,928	6,743,818
	-	-
Less: impairment allowance	-	-
Total current receivables	36,305,766	39,316,017

12. Property, plant and equipment

<i>Cost or Valuation:</i>	Computers & Printers KShs	Office Equipment KShs	Furniture Fittings KShs	Motor Vehicle KShs	Total KShs
As at 30th June 2014	21,506,963	6,241,891	93,160,991	93,499,320	214,409,165
Additions during the year	174,000	261,789	432,920	-	868,709
Disposal	(60,000)				(60,000)
Write off				(2,705,625)	(2,705,625)
Transfer/Adjustments					
As at 30th June 2015	21,620,963	6,503,680	93,593,911	90,793,695	212,512,249
Additions during the year	1,084,880	1,887,489	1,219,330	4,593,275	8,784,974
Disposal					
Write off					
Transfer/Adjustments					
As at 30th June 2016	22,705,843	8,391,169	94,813,241	95,386,970	221,297,221
Depreciation and impairment					
At 1 July 2014	14,515,442	2,418,027	25,438,348	59,733,804	102,105,620
Depreciation	5,267,305	1,817,369	11,699,239	22,566,005	41,349,918
Write off	(60,000)			(2,705,625)	(60,000)
Disposal					
Impairment					
Transfer/adjustment					0
At 30 June 2015	19,722,747	4,235,396	37,137,587	79,594,184	140,689,913
Depreciation	2,055,901	2,322,757	11,851,655	11,581,606	27,811,919
Disposals					
Transfer/adjustment					
At 30 June 2016	21,778,648	6,558,153	48,989,242	91,175,790	168,501,832
Net book values					
At 30 June 2016	927,197	1,833,016	45,823,999	4,211,180	52,795,391
At 30 June 2015	1,898,217	2,268,285	56,456,324	11,199,511	71,822,337

12. a Sale/Write off of Fixed Assets

	OfficeEquipment KShs	Motor Vehicle KShs	Total KShs
Cost or Valuation:			
As at 30th June 2015	60,000	2,705,625	2,765,625
Accumulated depreciation	(60,000)	(2,705,625)	(2,705,625)
Net Book Value At 30th June 2015	-	-	-
Sale proceeds	12,000	-	12,000
		-	-
Gain on disposal	12,000	-	12,000

13. In tangible assets-software

	KShs
Cost	
At 1st July 2014	2,676,179
Additions	2,342,248
At 30th June 2015	5,018,427
Additions—internal development	2,888,290
At 30th June 2016	7,906,717
Amortization and impairment	
At 1st July 2014	1,378,609
Amortization	1,617,542
At 30th June 2015	2,996,151
Amortization	2,178,803
Impairment loss	
At 30th June 2016	5,174,954
Net book values	
At 30th June 2016	2,731,763
At 30th June 2015	2,022,276

13. a Gain/Loss on foreign transactions

	2015-2016 Kshs	2014-2015 Kshs
KCB USD Account	(171,609)	1,015,953
	(171,609)	1,015,953

14. Mortgage Fund Account

	2015-2016 Kshs	2014-2015 Kshs
KCB - Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	80,805,126	-
	80,805,126	-

The Mortgage scheme will be administered by Cooperative Bank of Kenya (Upper Hill branch). The loans will be issued at an interest rate of 6% being; 3% Administration cost and 3% earnings to the revolving fund.

15. Trade and other payables

	2015-2016 Kshs	2014-2015 Kshs
Trade payables (Supplier's Invoices)	874,774	44,598
Audit Fees	464,000	464,000
Accrued Pension	1,648,331	1,648,331
Gratuity	3,314,936	1,657,468
Total trade and other payables	6,302,041	3,814,398

16. Cash generated from operations

	2015-2016 Kshs	2014-2015 Kshs
Surplus/Deficit for the year before tax	1,091,156	(77,766,613)
Adjusted for:		
Depreciation and Amortisation	29,990,722	42,967,460
(Non-cash grants received)		
(Contributed assets)		
Impairment		
(Gains and losses on disposal of assets)	-	-
Contribution to provisions		
Contribution to impairment allowance		
(Finance income)		
Finance cost		
Working capital adjustments:		
(Increase in inventory)		
Decrease in receivables	2,010,251	(4,469,119)
Increase in deferred income		
Increase in payables	2,487,643	(1,463,271)
Increase in payments received in advance		
Net cash flows from operating activities	35,579,773	(40,731,543)

XIV. ANNEX 1. ANALYSIS OF PENDING ACCOUNTS PAYABLE

Supplier of Goods or Services	Particulars	Vote Item	Original Amount	Date Contracted	Amount Paid To-Date	Outstanding Balance 2016	Outstanding Balance 2015	Comments
			a	b	c	d=a-c		
Jubilee Ins – Accrued Pension	2015/16	2710100	1,648,331				1,648,331	
Accrued Gratuity-2014/15	2014/15	2710100	1,657,468				1,657,468	
Accrued Gratuity-2015/16	2015/16	2710100	1,657,468			1,657,468		
Cic Insurance	=51084-50714	2210900	370				370	
Pension Deposit A/C	For September 14	2110100	8,807				8,807	
Pension Deposit A/C	For October 14	2110100	8,807				8,807	
Principal Sec Min Of Land	For October 14	2110100	3,000				3,000	
Pension Deposit A/C	For November 14	2110100	8,807				8,807	
Principal Sec Min Of Land	For November 14	2110100	3,000				3,000	
Pension Deposit A/C	For December 14	2110100	8,807				8,807	
Principal Sec Min Of Land	For December 14	2110100	3,000				3,000	
Safaricom Kenya Limited		2210201	20.15			20.15		
Safaricom Kenya Limited		2210201	72.35			72.35		
Peak Performance International Limi		2210700	42,212.15			42,212.15		
Aquatech Cleaning And Sanitation Se		2211305	8,327.60			8,327.60		
Aquatech Cleaning And Sanitation Se		2211305	8,327.60			8,327.60		
Public Relations Society Of Kenya		2211306	517.25			517.25		
Stoic Company Limited		2220101	13,035.50			13,035.50		
Plumbing Stlyes Company		2220201	4,531.05			4,531.05		
Total-FuelJune2016		2211201	334,096.00			334,096.00		
Toyota-ServiceForGKA838X		2220101	67,972.00			67,972.00		
Toyota-ServiceForGKB041A		2220101	55,561.00			55,561.00		
Toyota-ServiceForGKA840X		2220101	52,104.00			52,104.00		
Pewin- Transport For June		2210604	114,100.00			114,100.00		
Apa Life-Extra Medical Premium		2210910	43,888.00			43,888.00		
Dusit D2		2210801	37,503.00			37,503.00		
Secret Garden		2210801	47,910.00			47,910.00		
Auditor General		2211310	464,000		0	464,000		
Grand-Total			6,302,043	0	0	2,951,646	3,350,397	



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