



Commission on Revenue Allocation

Annual Report and Financial Statements

2016-2017

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Abbreviations

AESA	Agriconsulting Europe S.A.
CEC:	County Executive Committee
CRAC:	County Revenue Automation Conference
DANIDA:	Danish International Development Agency
DORA:	Division of Revenue Act
EFAB:	Equalization Fund Advisory Board
EU:	European Union
IBEC:	Intergovernmental Budget and Economic Forum
ICT:	Information and Communication Technology
ICTA:	Information Communication and Technology Authority
IGRTC:	Intergovernmental Relations Technical Committee
KAM:	Kenya Association of Manufacturers
KEPTAP:	Kenya Petroleum Technical Assistance Project
KDSP:	Kenya Devolution Support Program
OSR:	Own Source Revenue
PFMA:	Public Finance Management Act
TIDDP:	The Integrated Devolution Data Portal

Chairperson's Statement



Dr. Jane Kiringai

It is both an honour and a privilege to deliver this statement, which is my first as the chairperson of the Commission. Together with the second group of commissioners we joined CRA in February 2017. I am therefore pleased to present to you the Commission's Annual Report for 2016-2017.

This being our first report as new commissioners, we are grateful for the opportunity to serve the country and make a difference in the devolution mandate, by ensuring equitable sharing of revenue. We appreciate the first commissioners and recognize their efforts and achievements in setting up the Commission.

Following our appointment, the commissioners and I have taken time to familiarize ourselves with the Commission's operations. We established that there exists a strong platform built by the former commissioners. Therefore, we shall endeavour to further build on this platform to achieve a successful future.

We shall continue to champion for the equitable resource allocation for the mwananchi. This is in line with our new vision, '*No Kenyan Left Behind*'.

With the new commissioners on board, this is a period for real change in the Commission. Our ambition now is to go further and do even more in ensuring equity for all. We are currently in the process of developing a new strategic plan for the Commission. The plan addresses the following key result areas: **equitable sharing of revenue, prudent public financial management, revenue enhancement, transitional equalization, institutional capacity and resource mobilization.**

Our notable success this year is our intervention to Parliament, which saw the legislature passing the Division of Revenue Act (DORA) which divides revenue between both the national and county governments, which His Excellency the President assented to.

I would like to thank the national and county governments, Parliament, constitutional commissions, independent offices, development partners, the media, and the public, among others for their support since we joined office, and we look forward to even more fruitful engagements in the coming year.

DR. JANE KIRINGAI

CHAIRPERSON, COMMISSION ON REVENUE ALLOCATION

Statement from the Commission Secretary/Chief Executive Officer



Mr. George Ooko

This financial year saw the transition of the first CRA commissioners, who served from 2011-2016, to the new commissioners who are serving for the period 2017-2022. The Commission focused its activities on reviewing the first policy identifying marginalized areas, enhancement of revenue in counties, recurrent budget ceilings, mediation between county assemblies and county executives on various matters related to budget and financial responsibilities. The Commission also contributed to policies on devolution, natural resources and county revenue and provided recommendations to counties on automation of their revenue streams.

The Commission held various stakeholder engagements with the Senate on sharing of revenue among counties and with the Parliamentary Budget Office on budget, finance and economic matters in relation to Parliament among others. Through Kenya Petroleum Technical Assistance Project (KEPTAP), a World Bank funded project, CRA built the capacity of counties to manage resource exploration for sustainable development through capacity building workshops.

Further, the Commission commenced a review of its first strategic plan and development of a new strategic plan for 2017-2022.

In the year under review, CRA was recognised and awarded by the Council of Governors on the role we played to ensure implementation of devolution. The award serves as a constant reminder that our work is impactful. Consequently, we are motivated by the award to continue undertaking our mandate of promoting an equitable society.

As part of good corporate governance and in compliance with the requirements of the Public Finance Management Act and Regulations, the Commission started the process of recruiting independent members for the Audit, Corporate Governance and Risk Management

Committee. This was necessitated by the requirements of the Gazette Notice No. 2691 of 15th April 2016, which required independent constitutional commissions to have at least two independent members in their audit committees. Having independent members in the committee will ensure proper oversight on corporate governance, risk management and internal control processes of the Commission.

I am grateful to various stakeholders who continue to support the work of the Commission as well as to the members of the secretariat who ensure that our work is undertaken conscientiously.

GEORGE OOKO
COMMISSION SECRETARY/CEO



Chapter 1

Mandate and the Role of the Commission

1. Mandate and Role of the Commission

MANDATE

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.

VISION

No Kenyan Left Behind

MISSION

To make reliable recommendations on equitable revenue sharing, revenue enhancement and prudent public financial management

CORE VALUES

Excellence

Inclusiveness

Integrity

Equity

Objectivity

MOTTO

Promoting an Equitable Society



Chapter 2

Review of CRA's Performance and Achievements

2. Review of CRA's Performance and Achievements

Introduction

In accordance with its mandate, the Commission undertook several activities during the financial year 2016/2017. The main activities included making recommendations on the division of revenue, dissemination of the horizontal formula recommendations, review of the policy addressing marginalization, review of the budget policy statement, analysis of county fiscal strategy papers (CFSPs) and establishment of a data base and resource centre management. This section highlights the major achievements for the period.

2.1 Recommendation on Revenue Sharing between National and County Governments – FY 2016/17

Article 202(1) of the Constitution stipulates that revenue raised nationally shall be shared equitably between national and county governments. More so, Article 216(1) (a) mandates the Commission to recommend a basis for the equitable sharing of revenue. Shareable revenue is defined in section 2 of the Commission on Revenue Allocation Act, 2011 to mean:

“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”.

During the review period, the Commission prepared and submitted a recommendation on vertical sharing of revenue for FY2016/2017: Ksh.331, 600 million for counties and for national government. The recommendation for counties equals to 35.4% of audited approved accounts in line with Article 203(2) which requires that at least 15% be allocated to counties.

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

ITEM	2016/17 Actual	2017/18 CRA Recommendation	2017/18 Actual
A	EQUITABLE SHARE TO COUNTIES		
1	Latest audited accounts	2013/14	2013/14
2	Shareable revenue based on audited accounts	935,653	935,653
3	Equitable Share (Baseline)	259,775	303,740
4	Adjust by the three year average revenue growth of 15.09 percent	20,525	39,200
5	Add allocation for county roads		27,790
6	Add allocation for public participation	-	5,000
	Total Equitable Share to Counties	280,300	331,600
	Percentage Share to Counties	30.0%	32.3%
B	CURRENT CONDITIONAL ALLOCATIONS		
7	Level 5 Hospitals	4,000	4,020
8	Free Maternal Health Care	4,121	4,142
9	Compensation for user fees forgone	900	905
10	Leasing of medical equipment	4,500	4,500
11	Road Fuel Levy Fund (15% of Actual 2014/15)	4,307	13,296
12	County Emergency Fund	200	
	Sub Total Current Conditional Grants	18,028	26,863
C	NEW CONDITIONAL GRANTS		
13	Personnel emoluments for devolved staff		
14	Construction of headquarters in five counties		1,000
15	Rehabilitation of primary and secondary schools		605
16	Rehabilitation of village polytechnics		1,500
17	Establishment of a National Cancer Referral Hospitals		5,000
18	Establishment of a National Cancer Drug Programme		1,000
19	Special Purpose Grant for Emergency Medical Services		200
20	Construction and Equipping of 20 Libraries		400
	Sub Total New Conditional Grants	-	9,100
	LOANS AND GRANTS		
20	World Bank Loan to Supplement financing of County Health facilities		873

21	KDSP (Level 1 Grant + FY 2016/17 allocations)			2,148
22	Conditional Allocation-Other Loans & Grants			7,837
23	World Bank Loan for Transforming Health Systems for Universal Care Project			2,750
24	World Bank Loan for National Agricultural and Rural Inclusive Growth Project			1,050
25	DANIDA Grant for Universal Healthcare in Devolved System Program			763
26	EU Grant for Instrumental for Devolution Advice and Support			986
	Sub Total Loans & Grants	-	-	16,407
	Sub Total Conditional Grants	18,028	35,963	39,680
D	Total Transfer to Counties	298,328	367,563	341,680

2.2 Dissemination of the Horizontal Formula Recommendations

The second revenue sharing formula was prepared by the Commission in FY2015/2016 and approved by Parliament at the end of June 2016. The approved formula is as summarized in table 2.

Table 2: Summary on Parameters and Weights

No.	Parameter	First Revenue Sharing Formula
1	Population	45
2	Equal Share	26
3	Poverty	18
4	Land Area	8
5	Fiscal Effort	2
6	Development Factor	1
	Total	100

Through 2016/2017, the Commission held different forums in which the formula was disseminated to various stakeholders.

2.3 Policy Addressing Marginalization

The first policy addressing marginalization was developed by the Commission and published in February 2013 pursuant to Article 216(4). Implementation commenced

in financial year 2016/17, when the Equalization Fund Advisory Board (EFAB) was set up to steer the fund's execution.

During the FY2016/17, the Commission began reviewing the first policy identifying marginalized areas. During the review, the Commission undertook visits to 14 counties identified as marginalized in the first policy for fact finding on how aspects of marginalization are being addressed. The information gathered informed the preparation of the Second Policy. Among the key changes incorporated is the change of the unit of analysis from county to sub-location to ensure effective targeting of marginalised areas and change of methodology in defining the criteria for revenue sharing among marginalised areas.

2.4 County Engagement with Stakeholders on the Review of the First Policy Identifying Marginalized Areas



Focus group discussions in Eldera, Isiolo County



Citizen engagement in Ewaso-Kedong, Kajiado County



Stakeholder Participation in Bura East, Tana River County



Stakeholder engagement, Marsabit County

2.5 Project Identification

In December 2016, EFAB embarked on the process of public participation in 14 counties identified as marginalized to identify projects to be funded through the Equalization Fund. The Commission visited six among the 14 marginalized counties: Kwale, Narok, Wajir, Taita Taveta, Isiolo and Marsabit counties.

Issues of concern noted by the Commission during this expedition were:-

- a. Sustainability of the projects beyond the funds life span, given the law involved
- b. Allocation of funds by each of the 14 counties across their constituencies. This negated the essence of the Fund and the principle of equity.

2.6 Budget Policy Statement Review

In accordance with the Commission's mandate of making recommendations on matters that touch on financing of county governments; the Commission reviewed and made comments on the 2017/18 Budget Policy Statement (BPS). The comments were shared with National Treasury and Parliament for consideration in the finalization of the BPS. The issues raised touched on:

- a. The variance in the adjustment factor for the vertical division of revenue used for both county governments and the national government.
- b. Horizontal allocation of revenue where the first revenue sharing formula was used to share revenue despite the new formula being in place.

- c. Promotion of Public Private Partnership (PPP) Projects in green energy production with a view to provide cheap, renewable and safe energy that will enhance production.
- d. Timely resource disbursement to county governments.

2.7 County Fiscal Strategy Papers

Counties are required to seek and take into account views of the Commission before submitting county fiscal strategy papers (CFSPs) in accordance with Section 117(5)(a) of the PFM Act, 2012. The counties which submitted their CFSPs include: Nairobi, Bomet, Samburu, Kakamega, Kericho, Nyandarua, Kwale, Kitui, Wajir and Turkana.

In summary, the Commission advised counties on the following areas:

- a. Accurate projections of future revenue collection: counties need to depict performance in local revenue over the past medium term period to inform subsequent financial years' projections.
- b. Priorities set out in the CFSPs should be aligned to those set out in the County Integrated Development Plans (CIDPs).
- c. A CFSP should contain information on the absorption rate of both recurrent and development expenditure in the medium term. This will assist in identification of challenges faced in implementing projects.
- d. County governments should prioritize delivery of services and confine themselves to functions outlined in Schedule 4 of the Constitution.
- e. Institutionalization of the monitoring and evaluation frameworks in all counties, so as to assess the output of projects implemented. This is to ensure value for money is achieved.
- f. Alignment of county budgets to ceilings provided by the Commission for county assemblies and executives.

2.8 Establishment of a Database of National and County Statistics

- a. The Commission developed a comprehensive data management strategy for:-
 - i. CRA, which stipulates data institutional policies and procedures, information technology infrastructures (hardware and software), support services, and metadata management.
 - ii. County governments, which stipulates data institutional policies and procedures, information technology infrastructure (hardware and

software), support services, and metadata management was developed using Nairobi, Nyeri, Wajir, Kwale and Migori counties as a pilot.

- b. A web-based database management system (DBMS) with a Geographical Information System (GIS) feature was designed.
- c. Staff training manual on data management concepts (strategy, framework, requirements analysis, data governance, data requirements analysis, data verification and validation, data management, database management system, integrated database management system, data warehousing, ERP, information/knowledge management, MIS monitoring and evaluation) was carried out for both CRA and county governments of Kwale, Nyeri, Wajir, Nairobi and Migori.
- d. Baseline data for sectors of the five pilot counties was collected and uploaded to the database by CRA and the five pilot counties.
- e. The Integrated Devolution Portal (TIDP) platform for sharing information from the database was developed and launched to the public.

2.9 Equipping CRA's Resource Centre

The CRA resource centre acquired additional information resources covering the areas of political science, economics, labour economics, financial economics, economics of land and energy, public finance, macroeconomics, law, public administration, social services, commerce, human resource, communication and transportation. Avenues for access to electronic information resources from the Directory of Open Access Journals (DOAJ), JSTOR and the American reference centre were created.

2.10 Development of County Recurrent Expenditure Ceilings

Pursuant to the Constitutional mandate under Article 216(2) to make recommendations on the financing of, and financial management by County Governments, as required by the Constitution and other national legislation, the Commission developed and submitted to Senate recurrent expenditure ceilings for county governments for the 2017/2018 financial year. This is in line with Section 107(2)(A) of the Public Finance Management Act (PFMA) 2012 which requires that, *“Pursuant to Article 201 and 216 of the Constitution and notwithstanding subsection*

(2), the Commission on Revenue Allocation shall recommend to the Senate the budgetary ceilings on the recurrent expenditures of each county government”.

The ceilings were developed in consideration of the Salaries and Remuneration Commission’s directives on the salaries and benefits of State Officers at county level and in consultation with the counties. A one-day workshop was held at the Utalii hotel on 22nd November 2016 during which the Commission sought and secured the input of the counties on the ceilings.

The ceilings were submitted to the Senate on 20th December 2016 for deliberation as required by law. They were approved without amendment and included in the County Allocation of Revenue Act 2017. The amounts were Kshs. 25.886 billion and Kshs. 28.897 billion for the county executives and the county assemblies respectively.

2.11 EU Funded Revenue Programme under Agriconsulting Europe S.A. (AESAs)

The Commission implemented Phase II of the European Union funded Technical Assistance programme on revenue enhancement. The programme focussed on the five counties of Wajir, Kwale, Nyeri, Migori, and Nairobi which were studied as part of the Phase I project implemented in the previous year. The ultimate aim of the exercise was to determine ways to improve revenue enhancement in these counties, and the efforts in the study examined the operations, economic environment and backdrop, and inevitably the political and legislative environment in which the revenue operation was structured and operated.

The programme set out to review the implementation of recommendations made during Phase I of the study in the period from December 2015 to May 2016. The culmination of the project was a training of county revenue staff from these counties on revenue legislation, administration, internal controls and forecasting. The training broadly focused on leaders in county revenue management and sub-county officers. The Technical Assistance consultant worked closely with the CRA Revenue team throughout to ensure knowledge transfer and capacity building of the team.

2.12 Review of County Planning, Budgets and Budget Implementation Documents

The Commission reviewed county planning documents, budget and financial reports to evaluate the alignment of the same as required by the law. Through this process, the Commission was able to establish how devolved funds are allocated to various functions / sectors under the county governments.

2.13 Natural Resources Management

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

The Commission aims to provide technical advice and oversee implementation of strategies on effective natural resource exploitation and revenue sharing, promote local capacities in sustainable natural resources management and fiscal planning, and natural resource policy formulation/reforms. In line with this, the Commission carried out the following activities:

1. The Commission visited Migori County to assess Gold Artisanal Mining activities, dissemination of the Mining Act 2016 and other natural resources management issues.
2. The Commission visited Nakuru and Baringo counties to assess geothermal development in the Rift Valley and explore modalities of collaboration and exchange of ideas geared towards sustainable natural resources development and revenue enhancement of the resources within the Rift Valley.
3. Consultative meetings with various stakeholders were held e.g. Oil for Development with a Norwegian team and meetings with county governments, World Bank teams among others.
4. Oil and Gas sensitization workshops in Naivasha involving several counties.
5. Training of CRA staff members on management of natural resources, specifically oil and gas management.
7. Collaborated with various government institutions to establish and make regulations of the Climate Change Fund as stipulated in the Climate Act, 2016.

2.14 Legal Matters

2.14.1 Litigation

The Commission discharges its mission in accordance to the Constitution and in compliance with CRA's regulations, Public Finance Management Act of 2012 and County Government Act of 2012, among others.

Some of the matters that the Commission addressed in relation to its legal mandate include the completion of;

1. Petition No. 576 of 2015, Andrew Kiplimo Sang Muge & 2 others vs Independent Electoral and Boundaries Commission and others. The court held that an order directing the government to pay MCA's for eight months after the August 8, 2017, General Election was made through misinterpretation of the Constitution and would amount to loss of public funds.
2. In Case Number 252 of 2016, The Council of Governors sued the AG, National Assembly, Senate, National Treasury, CRA and OCOB on the matter of the Division of Revenue Act 2016. The issue in contention is that the national government has been allocated money by way of conditional grants for the following devolved functions:-
 - a. KES 4,121 Billion for free maternal health care;
 - b. KES 4.5 Billion for leasing of medical equipment; and
 - c. KES 4 Billion for Level 5 hospitals.

This matter is still in court.

The Commission is also handling court matters involving:-

- a. The Public Finance Management Act in relation to imposition of property rates and valuation.
- b. Population and Housing Census results for purposes of revenue allocation in counties.
- c. There is a petition before the Supreme Court for interpretation on constitutional issues as well as legislative phrases and their meanings, in the context of revenue management and public funds for national and county levels of government.

2.14.2 Representation in Inter-Agency Committee

This Commission is represented in:-

- a. The inter-governmental task force on national policy and legislation on county revenue. The Commission has contributed to the development of the national policy and legislation on county revenue enhancement thereby contributing to streamlining issues on taxation and revenue raising laws.
- b. Inter-governmental Budget and Economic Council (IBEC) Loans and Grants Committee: The Commission in this committee sought to ensure that IBEC complies with the Constitution and PFMA, 2012.
- c. Kenya Law Reports '*Know Your Law Campaign*' Devolution and Constitution Committees. The Commission has been involved in spearheading the campaign on creating awareness on PFMA, 2012.

2.14.3 World Bank project on Revenue Enhancement in Counties

The Commission is currently engaged in a project piloted by the World Bank to define and enhance revenue sources of county governments as well as encourage fiscal responsibility by county governments. The objectives are to:

- a. Enhance efficiency in collection and administration of county governments' Own Source Revenue (OSR).
- b. Strengthening legal and institutional frameworks for county OSR.
- c. Build capacity of county assemblies to enable them understand Public Finance Management (PFM) legislative needs and pass laws to strengthen PFM.

The project will be undertaken in four phases:

1. Enactment of annual finance act in counties;
2. Enactment of land valuation;
3. Establishing umbrella trade licenses to avoid multiplicity of charges (similar to single business permit);
4. Capacity building of county assemblies.

2.14.4 Operationalization of Urban Areas and Cities for Revenue Enhancement

The Commission has piloted a project to enhance revenue collected in counties by encouraging further devolution of counties as stipulated and provided for under the

Urban Areas and Cities Act, 2011. The aim of the project is to encourage adoption of management framework and personnel at smaller devolved units to promote service delivery which in turn improves revenue collection and accountability. The Commission has already begun following up on revenue management trends in city counties and established that counties and city counties should be treated differently.

2.15 Information Communication and Technology (ICT) Engagements

2.15.1 CRA ICT Capacity Support to County Governments

Article 216 (2) of the Constitution mandates the Commission to make recommendations on matters concerning the financing of, and financial management by county governments. It is in this regard that the Commission's engagement with County Governments on ICT matters has focused on the following areas:

2.15.2 County Revenue Enhancement, Automation and Revenue Source Mapping

The Commission received various requests from counties to assist in revenue enhancement through mapping of various county revenue sources and automation of revenue management.

The Commission visited counties and conducted revenue automation need assessments, out of which various recommendations were proposed and adopted by county governments.

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

- a. Current revenue sources and revenue collection operations.
- b. Identified risks of revenue loss on the current mode of operation e.g. having casual staff responsible for key revenue points.
- c. Potential of current revenue sources if operations are automated.
- d. Recommendations on types of automation that would be of value with return on investment (ROI).
- e. Recommendations on new revenue sources that counties can explore.
- f. Recommendations on system requirements for proposed automation.

- g. Recommendations on types of contracts and services level agreements for ICT systems.
- h. Recommendation for ICT directorates or departments to work closely with CEC Finance during budgeting, and system user departments during requirements formulation and system implementation to ensure that ICT projects are owned by all.
- i. Recommendation on key personnel training.

2.15.3 County Revenue Automation Conference

The Commission on Revenue Allocation in collaboration with Information Communication and Technology Authority (ICTA) organized the second “County Revenue Automation Conference (CRA-C-2016).”

The CRA-C focused on the theme, *"Automation for Sustainable Revenue Growth and Efficiency."* The conference provided a capacity-oriented forum where county revenue, ICT and financial executives, met with experts and persons who have experienced results in automation. It also provided an opportunity to share experiences and reflect on how to move the automation agenda forward in the direction of efficient mobilization of *"in-county own revenue"* for development.



Participants at the County Revenue Automation Conference - November, 2016.

From the conference the following recommendations and outcomes were made:

1. The need to develop a unified ICT structure that can be clearly replicated across counties.
2. ICT departments to be independent from other departments and to have clear mandates in ICT infrastructure development.
3. Revenue administration to be handled in every department so that each department becomes a revenue source, just as it is an expenditure point.
4. Develop clear reporting structures for all levels of revenue officers.
5. There is need to increase budgetary allocations to factor in implementation and maintenance of revenue automation processes.
6. It is important to sensitize the community and county government's staff as well as political leaders on the importance of using automated revenue collection systems.
7. Public-private partnerships should be encouraged in development of infrastructure.
8. Funding of ICT infrastructure as a percentage of county budgets should be prioritized.
9. County governments should introduce induction and competency trainings for ICT staff.
10. Intolerance to corruption should be promoted through internal sensitization among county government staff as well as members of the public.

2.15.4 Launch of the Integrated Devolution Data Portal

The Commission in partnership with the Kenya Association of Manufacturers (KAM) and technical support from European Union (EU) launched the Integrated Devolution Data Portal (TIDDP) aimed at centralizing devolution information onto a single platform.

The portal is an interactive platform for information sharing between county governments, constitutional implementation bodies, the public and other stakeholders. It provides a unified space for users to easily identify and retrieve devolution information.



CRA Commissioners, staff and guests at the launch of the Integrated Data Devolution Portal in July, 2017

Launching the portal on 12th July 2017, ICT Cabinet Secretary, Mr. Joe Mucheru noted that the government is keen to provide relevant information from all counties to investors for decision making and encourage accountability of public officers.

2.16 Capacity Building and Competency Development

Training and capacity building is essential for building employee morale and efficiency. Activities undertaken here included the restructuring of the CRA's organizational structure, engagement with SRC on salary reviews, team building initiatives, staff meetings and creation of the Transformation Team to champion changes in the organization. Training employees as well as improving communication and interaction has improved the company through competencies, knowledge building, synergy and employee attitude.

2.17 Challenges Experienced

During the financial year 2016/17 the following were some of the challenges encountered by the Commission in its quest to deliver on its mandate:

- a. Since 2014/15 the basis of sharing of revenues between the national and county governments has been the audited accounts of 2013/14.

- b. Most counties did not share their CFSP with the Commission in time to enable the Commission to provide comments on the same before they were approved by county assemblies.
- c. The equal allocation of the Equalization Fund across each county's constituencies negated the principle of equity and is bound to undermine the realization of the intended purpose of the funds.
- d. Most of the county revenue management systems are still manual, and it was therefore difficult to acquire and analyse county disaggregated data. The CRA revenue team will continue to work with the specific counties to acquire and analyse this data to inform revenue policy recommendations.
- e. The Public Finance Management Act (2012) does not specifically require county governments to submit budget, including the subsequent revisions, to the Commission on Revenue Allocation. It therefore becomes a question of goodwill relationship with the counties rather than provisions of the law.

2.18 Recommendations on addressing the challenges experienced

- a. The Commission recommends that the Legislature expedites the process of approval of audited accounts to enable sharing of revenues between national and county governments be based on the most recent audited accounts.
- b. The Commission intends to work with the Equalization Fund Advisory Board to ensure integrated project planning and project execution by different players such as national government, counties, and NGOs among others. This will ensure sustainability of projects, efficiency and effectiveness of the fund as well as eliminate duplication in project implementation.
- c. Amendment of the Public Finance Management Act (2012) to make it mandatory for county governments to submit budgets including the subsequent revisions, to the Commission. This will enable CRA to receive and review these documents to inform future recommendations on financing of, and financial management by county governments.

3. Communication, Awards and Outreach Activities

3.1 CRA wins the Devolution Warrior Award at the 4th Annual Devolution Conference in Naivasha

The Commission won first place at the Devolution Warrior Awards Ceremony (Knowledge Management Category) held during a dinner at the 4th Annual Devolution Conference in 2017, held in Naivasha, Nakuru County.

The accolade recognizes institutions/individuals from all sectors in Kenya on the role they play to “change perspective, change narrative and entrench devolution.”



CRA Chairperson Dr. Jane Kiringai receives the Devolution Warrior Award (Knowledge Management Category) on behalf of the Commission at the 4th Annual Devolution Conference, 2017 in Naivasha, Nakuru County.

3.2 Communicating CRA Activities

In FY 2016/2017 CRA communicated its mandate and functions with its stakeholders and the following are some of the key activities undertaken:

3.2.1 Public Forums and Exhibitions

The Commission participated in several public forums and exhibitions including the 4th Annual Devolution Conference in Naivasha. During this time, the Commission had the privilege of hosting the President of Kenya, H.E. Uhuru Kenyatta at its booth. The president engaged with staff on the CRA mandate.

Staff of the Commission educated various stakeholders on the Commission's obligation.



H. E. President Uhuru Kenyatta visited CRA exhibition stand at the 4th Annual Devolution Conference in Naivasha, Nakuru County

The Commission also participated in The Fifth Congress of Chairpersons of Commissions and Holders of Independent Offices held in Nairobi. The theme of the conference was *“Integrity and Accountability: The Path to Efficient Delivery of Services to the Public”*. The conference provided a platform to assess the progress made by constitutional commissions and independent offices in the implementation of the Constitution, financial accountability, anti-corruption among other themes as well as share the successes and challenges in discharging respective mandates.

The Commission interacted with members of the public by responding to their queries. IEC materials were also disseminated.

3.2.2 Meeting with Diplomats

The Commission met representatives from the French Embassy in Kenya to explore ways in which they can partner to advance devolution in Kenya. The French Embassy is keen to partner with the country to help in the management of debt at the national level.



*French Embassy Officials, Mr Brahmi and Ms. Elisa met with
CRA CEO Mr George Ooko.*

3.2.3 Meeting with County Governments

The Commission met with representatives of various county governments to discuss issues relating to sharing of revenue and financial matters of counties.



CRA's visit to Embu County

3.3 CRA Welcomes New Commissioners

New CRA commissioners were sworn in on 28th February, 2017 by Deputy Chief Justice Philomena Mwili to head the Commission on Revenue Allocation. The new team was sworn in at the Supreme Court in Nairobi and will serve for a period of 6 years.



CRA Commissioners together with their family members after being sworn at the Supreme Court offices in Nairobi. Also present was the Deputy Chief Justice Philomena Mwilu, Mr. Abdikadir Mohamed, Senior Advisor, Constitutional and Legal Affairs in the Office of the President.



Chapter 4


Financial Statements

4. Financial Statements

4.1 Report of the Auditor General

REPUBLIC OF KENYA

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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 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Commission on Revenue Allocation set out on pages 1 to 14, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Commission on Revenue Allocation as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAs). I am independent of Commission on Revenue Allocation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other 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.

Report of the Auditor-General on the Financial Statements of Salaries and Remuneration Commission for the Year Ended 30 June 2017

Promoting Accountability in the Public Sector

4.1 Report of the Auditor General

Key Audit Matters

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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.

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

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

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, 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.

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

4.1 Report of the Auditor General

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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern assumption 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 Commission's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Commission to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commission 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.

4.1 Report of the Auditor General

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



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

Nairobi

16 April 2018

4.2 Key Commission Information and Management

4.2.1 Background information

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

4.2.2 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.

4.2.3 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 |
| 7. | Dr. Amenya Nyakundi | Advisor Natural Resources |
| 8. | Maureen Junge | Finance Manager |

4.2.4 Commission Headquarters

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

4.2.5 Commission Contacts

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

4.2.6 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

4.2.7 Independent Auditors

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

4.2.8 Principal Legal Adviser

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

4.3 Commissioners



Chairperson

Dr. Jane Kiringai is a seasoned economist with experience spanning over twenty years. She started her career as an economist in the Ministry of Finance determining the aggregate budget framework and ministerial and sectoral budget ceilings.

Before joining CRA she worked as a senior Economist with the World Bank covering a broad range of economic development issues, including macroeconomic analysis and forecasting, public expenditure management and fiscal decentralization. She has also worked with other development institutions including Department for International Development (DFID), the European Commission Delegation, and as a Policy Analyst with Kenya's Policy think tank, Kenya Institute for Public Policy Research and Analysis (KIPPRA).



**Vice
Chairperson**

Mr. Humphrey Wattanga holds a Masters in Business Administration from the Wharton School of Finance, USA, and a Bachelor's degree in Biochemistry (cum laude) from Harvard University, USA.

He has over 15 years' global experience serving as a business development, corporate finance and transaction advisor to private equity entities, private sector companies, development finance institutions, governments and public organisations.

He is a Peer Review member of Grand Challenges Canada; a member of the Brookings Institution's review panel on the potential and limitations of Social Impact Bonds; and an integral party in the conceptualization, structuring and rollout of the M-Akiba platform, the world's first mobile-only government bond.



Commissioner

Professor Edward Akong'o Oyugi holds a PhD in Psychology and Pedagogy from the University of Cologne, Germany and post-doctoral training from University of Cologne, Germany and University of Bayreuth, Germany.

He has held senior academic and research positions in several universities such as Kenyatta University, Bayreuth University (Germany), University of Heidelberg, (Germany), United States International University, Kenya and Tangaza College, Kenya.

He has been a member of the National Economic and Social Council and the Task Force on Devolution. He was also the executive Director of Social Development Network (SODNET) for several years. He has received several awards including Otto Benecke Foundation Award (1980) and Hellmann/Hammett Award of the Fund for Free Expression, New York (1992).



Commissioner

Prior to joining the Commission on Revenue Allocation, Dr. Irene Koech Asienga worked as a Senior Lecturer and Director of Kabarak University, Nairobi Campus. Under this capacity, she was responsible for mentoring, teaching, grading and supervising students. She is a former Dean, Business School and Head of Commerce Department at the same university.

She holds a doctorate degree in Economics from the University of Strathclyde, Scotland, UK; a Master of Arts in Economics from the University of Malawi and a Bachelor of Arts in Economics from the University of Nairobi.

She has interests in public finance, environmental, agricultural and development economics and has published widely in peer reviewed journals.



Commissioner

Mr. Kishanto ole Suuji has over twenty seven years' experience in public service and the financial sector.

Prior to joining the Commission on Revenue Allocation, Mr. Suuji worked as a Director at Kenya School of Monetary Studies, Central Bank of Kenya, where he rose through the ranks in various departments of the bank. Under this capacity, he was in charge of the Finance and Administration Department.

He holds an MBA from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a B.A. in Economics and Government from University of Nairobi.



Commissioner

Mr. Peter Gachuba is an Investment Banker with over 20 years of Investment Banking and Private Equity experience. Prior to joining CRA, Mr. Gachuba worked as the Managing Partner of Strategic Africa Fund, Strategic Africa Advisors from 2012 to 2016 and as the Managing Partner of AfriCap Fund, a specialized Private Equity Fund based in Johannesburg, South Africa from 2004 to 2010.

Mr. Gachuba has also worked for Kestrel Capital, Cooperative Bank of Kenya, Acacia Fund Limited, CDC Capital Partners, KPMG and Loita Capital Partners. He has also served as a Non- Executive Director in many boards including Faulu Microfinance Bank and Equity Bank Limited, and has worked in USA, South Africa, Mozambique, Malawi, Uganda and Tanzania.

He holds an Accounting and a Master's Degree in International Business from Southern New Hampshire University in New Hampshire, USA.



Commissioner

Professor Peter Kiko Kimuyu holds a PhD in Energy Economics from University of Nairobi, a M.Sc. in Energy Economics from University of Surrey, UK, an M.A. in Economics from University of Nairobi, and a B. Ed. in Economics and Mathematics from University of Nairobi.

He is the founder director of the School of Economics in the University of Nairobi and former Executive Director of the Institute of Policy Analysis and Research.

He has held board-level appointments with the Export Promotion Council, Privatization Commission and KCB Group. He is a trustee with Africa International University, Technical Advisor to Scott Christian University and a lapsed member of the New York Academy of Sciences. Professor Kimuyu has published extensively and written several books, articles, book chapters, and papers on diverse development issues.



Commissioner

Ms. Fouzia has over 10 years' experience in financial management. Prior to joining the Commission on Revenue Allocation, she worked as a finance manager.

She holds a Postgraduate Diploma in Portfolio Management and Investment Analysis from the London School of Commerce, U.K. and a Bachelor of Commerce-Finance from Jomo Kenyatta University of Agriculture and Technology (JKUAT). She is currently undertaking an MBA from the University of Wales Institute, Cardiff. She also has certification in civic leadership from Tulane University (USA).

Commissioner Fouzia is a Mandela fellow (Young African Leadership Initiative, 2014) and she has also published on the challenges of the girl child in Africa education in the Hunger Report by Bread for the World.



Commissioner

Dr. Thugge holds a Bachelors of Arts (Economics) from Colorado College, USA, Master in Economics from Johns Hopkins University, USA and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University, USA.

Dr. Kamau Thugge is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as Head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor.

Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) both in the policy making Departments and non-policy making Departments as Economist/Senior Economist and Deputy Division Chief.

4.4 Management



**Commission
Secretary**

Mr. George Ooko holds a Masters of Business Administration degrees and Bachelor of Commerce from the University of Nairobi. He has vast experience from both the public and private sectors. He was formerly a Senior Executive at Barclays and NIC Banks.

He is the founding CEO of Coffee Development Fund where he served from 2007 to 2011 and has practical experience in establishing and managing public sector special fund. He is also the first CEO at Commission on Revenue Allocation since August 2011.



**Director of
Corporate Services**

Mrs. Angela Kariuki holds a Masters in International Commercial Law (LLM) from the University of Nottingham (UK) and a Bachelor of Laws (LLB) from the University of Sheffield (UK). She is an Advocate of the High Court of Kenya; member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

Mrs. Kariuki has broad professional experience in the areas of human capital management, facilities management, supply chain management, strategic planning and corporate governance, legal compliance with regards to securities law, corporate law, policy formulation and implementation.



**Director of
Fiscal Affairs**

Mr. James Katule holds a Masters of Business Administration from the Eastern and Southern Africa Management Institute (ESAMI) and a Bachelor of Arts in Economics & Business Education from Kenyatta University. He is a Certified Public Accountant and a member of ICPAK.

He has a wealth of experience working for the Kenya National Trading Corporation, the International Centre for Insect Physiology and Ecology (ICIPE), International Livestock Research Institute (ILRI), the Africa Medical Research Foundation (AMREF) and most recently, Capital Markets Authority (CMA).



**Director of Legal
and Public Affairs**

Ms. Sheila Yieke is an Advocate of the High Court of Kenya and holds an MBA, Finance from the United States International University and a Certified Public Secretary (K). In addition she is alumni of the International Development Law Organization (IDLO) and a member of the Chartered Institute of Purchasing and Supplies (UK).

She has worked with Sotik Tea and Sotik Highlands Tea Estates, Kenya Investment Authority and Kosgey and Masese Co. Advocates. Internationally she has worked at the UN, IGAD, NORDIC and UNOPS.



**Director of
ICT**

He holds a Master's Degree in Business Administration, Strategic Management from the University of Nairobi and a BSc. Degree in Computer Science from Egerton University. He is currently pursuing a PhD in Information Systems.

He holds the following professional certifications: MCP, MCSE, MCDDBA, CISA, CEH, MCT, PMP and PRINCE2 He is a member of Information Systems Audit and Control Association (ISACA). He has over 16 years working experience in both Public and Private Sector. Mr. Kuria is a leading technology strategist with experience spanning systems and network architecture, business re-engineering, data centre technologies, application development, global vendor management, budgeting and project portfolio management. He is a strategic adviser to both National and County Governments of Kenya on the adoption of computer based financial and revenue management systems and deployment of Integrated Shared Services across government.



**Director of
Research and Policy**

Lineth Oyugi holds a Masters of Arts in Economics from the University of Nairobi and a 4th year PhD student of Economics at University of Nairobi. She has vast knowledge and experience in Research having worked for the Federation of Kenya Employers as the Head of Research and Policy Advocacy.

Additionally Lineth has worked with the Institute of Policy Analysis and as a Research Fellow, Macroeconomics programme and also with the Ministry of Finance and Ministry of Planning and National Development as an Economist.



**Advisor Natural
Resource**

Dr. Amenity Nyakundi has a distinctive knowledge in the field of natural resources development, energy, and environment. He holds PhD in Environment Technology from JKUAT; an MA in (planning) from the University of Nairobi, a B.Sc in Geology from Poona University, Advanced Certificate in Geothermal Energy- University of Pisa (Italy), Certificate of Corporate Governance (KIM), Certificate in Strategic leadership Development (Kenya School of Governance) and senior management course (Government Training Institute Mombasa).

Dr. Nyakundi previously worked in the office of the former Prime Minister (Coordinating Inter-Ministerial Energy and Environment projects). He also worked in the Ministry of Energy for over Twenty Five (25) years and has extensive experience in energy project planning, development and management.

4.5 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 detail assets and liabilities of the Commission, a Statement of Comprehensive Income, and such other Statements that the Commissioners may deem necessary. CRA Act (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 national and 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, 2017 are set out on page 1 to 16.

Commissioner

The members of the Commission who served during the year are shown on page VI In accordance with CRA’s act.

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

Dr. Jane Kiringai
CHAIRPERSON

Date:

4.6 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 assets of the Commission.

The Commissioners are responsible for 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, 2017. 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 financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud
- iv. Safeguarding 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, 2017, 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 **29th September 2017** and signed on its behalf by:

Dr. Jane Kiringai
CHAIRPERSON

Date:

4.7 Statement of Financial Performance

	Note	2016-2017	2015-2016
		Kshs	Kshs
Revenue from non-exchange transactions			
Transfers from other governments – gifts and services-in-kind	1	318,957,000	324,537,110
		318,957,000	324,537,110
Revenue from exchange transactions			
Finance income - outstanding receivables	2	-	-
Other income	3	609,709	1,797,500
		609,709	1,797,500
TOTAL REVENUE		319,566,709	326,334,610
Expenses			
Employee costs	4	161,534,180	157,605,156
Commissioner's Expenses	5	15,319,278	14,555,631
Depreciation and Amortization expense	6	17,021,324	29,990,722
Repairs and Maintenance	7	7,096,596	6,955,000
General expenses	8	130,628,120	115,849,676
Finance Costs	9	7,449	115,660
TOTAL EXPENSES		331,606,946	325,071,845
Other gains/(losses)			
Gain on sale/Write off of assets	12.a	-	-
Loss on foreign exchange transactions	13.a	-	(171,609)
Unrealized gain on fair value of investments		-	-
Impairment loss		-	-
Surplus before tax		(12,040,237)	1,091,156
Taxation			
Surplus for the period		(12,040,237)	1,091,156
Attributable to:			
Surplus/(deficit) attributable to minority interest		-	-
Surplus attributable to owners of the controlling entity		-	-
Surplus / (Deficit)		(12,040,237)	1,091,156

4.8 Statement of Financial Position

	Note	2016-2017	2015-2016
		Kshs	Kshs
ASSETS			
Current assets			
Cash and cash equivalents	10	9,596,070	15,821,198
Receivables from non-exchange transactions	11	30,843,894	36,305,766
		40,439,963	52,126,964
Non-current assets			
Property, Plant and Equipment	12	41,290,940	52,795,392
Intangible Assets	13	3,551,762	2,731,763
Mortgage Account (Restricted cash)	14	90,805,126	80,805,126
		135,647,828	136,332,281
TOTAL ASSETS		176,087,791	188,459,245
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	15	5,970,825	6,302,041
		5,970,825	6,302,041
Non-current liabilities			
Non-current employee benefit obligation			
TOTAL LIABILITIES		5,970,825	6,302,041
NET ASSETS		170,116,966	182,157,204
Reserves		(12,040,237)	1,091,156
Accumulated surplus		182,157,203	181,066,047
TOTAL NET ASSETS		170,116,966	182,157,203

By:

COMMISSION SECRETARY / CEO

CHAIRPERSON

Sign.....

Sign.....

Date.....

Date.....

4.9 Statement of Changes in Net Assets

Attributable to the owners of the controlling entity	Accumulated surplus
	Kshs '000
Balance as at 30 June 2015	181,066,047
Surplus/(deficit) for the period	1,091,156
Transfers to/from accumulated surplus	-
Balance as at 30 June 2016	182,157,203
Surplus for the period	(12,040,237)
Transfers to/from accumulated surplus	-
Balance as at 30 June 2017	170,116,966

4.10 Statement of Cash Flows

	Note	2016-2017	2015-2016
		Kshs	Kshs
Cash flows from operating activities			
Net cash flows from operating activities	16	9,611,744	35,579,773
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets	12	(3,789,433)	(8,784,974)
Purchase of intangible assets	13	(2,547,441)	(2,888,290)
Mortgage Account (Restricted cash)	14	(10,000,000)	(80,805,126)
Net cash flows used in investing activities		(16,336,874)	(92,478,390)
Cash flows from financing activities			
Proceeds from borrowings			
Repayment of borrowings			
(Increase)/Decrease in deposits	11	500,000	1,000,000
Net cash flows used in financing activities		500,000	1,000,000
Net increase/(decrease) in cash and cash equivalents		(6,225,130)	(55,898,617)
Cash and cash equivalents at 1 July 2015	10	15,821,199	71,719,816
Cash and cash equivalents at 30 June 2017	10	9,596,069	15,821,199

4.11 Statement of Comparison of Budget and Actual Amounts

	Original budget	Adjustments	Final budget	Actual on comparable basis	Pe
	2016-2017	2016-2017	2016-2017	2016-2017	
	Kshs	Kshs	Kshs	Kshs	
REVENUE					
Government grants and subsidies	355,781,774		355,781,774	318,957,000	(
Finance Income		-	-	-	
Other Income (A.I.A)	800,000	-	800,000	609,709	
TOTAL INCOME	356,581,774	-	356,581,774	319,566,709	(3
EXPENSES					
Compensation of employees	189,514,550	(2,555,450)	186,959,100	169,334,573	
Repair and Maintenance	7,161,361	1,634,600	8,795,961	7,096,596	
General Expenses (Operation and Maintenance)	143,301,698	(2,704,550)	140,597,148	121,811,462	
General Expenses (Capital Expenditure)	16,604,165	3,625,400	20,229,565	16,336,874	
Finance cost	-	-	-	7,448	
Depreciation	-	-	-	17,021,325	0
Loss on Foreign Exchange Transactions	-	-	-		
Total expenditure (O&M)	356,581,774	-	356,581,774	331,608,278	2
Surplus/(Deficit) for the period				<u>(12,041,569)</u>	

4.12 Notes to the Financial Statements for the Year Ended 30 June 2017

4.12.1 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 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 (IPSASB).

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

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

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

2. Non-Current Assets

Noncurrent assets are stated at cost or valuation less accumulated depreciation. Depreciation 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 set up 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 set up 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 & Fittings	12.5%
Office Equipment and Accessories	30%
Computers & Printers	30%
Software (Intangible assets)	33%

A straight-line method of depreciation was applicable to all Commission's assets.

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 recognised in the period in which it's earned, government funding is however recognised 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 statements, cash and cash equivalent comprise cash in hand and cash book balance at the end of the period.

7. Pending Bills

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

4.13.1 Transfers from other governments

	2016-2017	2015-2016
	Kshs	Kshs
Unconditional grants (Operational Grant-GOK)		
1st Quarter Exchequer	72,457,000	77,500,000
2nd Quarter Exchequer	87,400,000	78,900,000
3rd Quarter Exchequer	113,000,000	90,700,000
4th Quarter Exchequer	46,100,000	77,437,110
	318,957,000	324,537,110
Part of 4th Quarter Exchequer - Receivable	-	-
	318,957,000	324,537,110
Conditional grants		
Other organizational grants	-	-
	-	-
Total government grants and subsidies	318,957,000	324,537,110

4.13.2 Finance income - outstanding receivables

	2016-2017	2015-2016
	Kshs	Kshs
Total receivables finance income outstanding	-	-

4.13.3 Other income (A.I.A)

	2016-2017	2015-2016
	Kshs	Kshs
Interest on Deposit and other receipts	536,779.00	-
Sale of Tender	-	3,000
Sale of Newspapers/Assets	4,555.00	-
Insurance Refund	68,375.00	1,794,500
Total other Income	609,709.00	1,797,500

4.13.4 Employee costs

	2016-2017	2015-2016
	Kshs	Kshs
Basic Salaries	89,485,850	87,106,985
Casual Labour	1,466,882	-
Top up for seconded staff	266,160	527,820
House Allowance	19,195,929	18,920,472
Commuter Allowance	8,805,915	8,743,730
Responsibility Allowance	3,920,000	4,080,000
Telephone Allowance	3,120,100	3,114,990
Special Duty	1,818,000	1,840,591
Leave Allowance	1,080,834	1,320,000
Security Allowance	720,000	720,000
Acting Allowance	-	47,140
Pension Contribution	16,176,247	15,322,182
Gratuity	1,657,468	1,657,468
Medical Insurance	13,820,795	13,371,560
Medical - Ex Gratia	-	-
Travel Insurance	-	-
Group Life Insurance	-	814,518
Wages	-	17,700
Terminal Dues	-	-
	161,534,180	157,605,156

The cost of staff salaries and benefits increased significantly because of annual increment; hiring of more staff in the course of the year which also increased the medical expense and the provision for pension.

4.13.5 Commissioners' Expenses

	2016-2017	2015-2016
	Kshs	Kshs
Telephone Allowance	2,784,000	2,784,000
Leave Allowance	830,000	415,000
Security Allowance	5,902,944	5,778,206
Domestic Travel costs	-	2,580,645
Foreign Travel Costs	5,802,333	1,029,942
Pre-Feasibility Studies	-	-
Hospitality and Conference	-	-
Office and General Supplies	-	-
Training Expenses	-	985,890
Medical Insurance	-	700,119
Club Membership	-	281,828
	15,319,278	14,555,631

4.13.6 Depreciation and Amortization Expense

	2016-2017	2015-2016
	Kshs	Kshs
Computer & Printers	475,843	2,055,901
Office Equipment	1,051,843	2,322,757
Furniture & Fittings	11,851,655	11,851,655
Motor Vehicle	1,914,543	11,581,606
Intangible Assets	1,727,441	2,178,803
Total depreciation and amortization	17,021,325	29,990,722

4.13.7 Repairs and Maintenance

	2016-2017	2015-2016
	Kshs	Kshs
Routine maintenance of Motor vehicles	4,711,398	6,067,846
Routine maintenance of Assets	2,385,198	887,154
Total repairs and maintenance	7,096,596	6,955,000

4.13.8 General Expenses

	2016-2017	2015-2016
	Kshs	Kshs
Utilities Supplies -Electricity	2,084,131	2,077,495
Utilities Supplies -Water	352,048	342,602
Communication Supplies & Services	4,774,675	4,856,999
Domestic Travel costs	10,729,483	11,472,144
Foreign Travel Costs	301,039	1,970,409
Printing Advertising & Information	4,639,347	5,015,914
Rent Expenses	44,522,725	41,617,360
Hire of Transport	473,830	582,014
Training Expenses	9,103,262	11,980,425
Hospitality Supplies & Services	14,855,283	11,222,081
Insurance Costs (Motor Vehicle & Plant and Machinery	2,722,770	4,232,906
Specialised Materials & Supplies	300,320	1,306,891
Office & General Expenses	7,075,607	5,715,370
Fuel oils and Lubricants	5,816,733	3,864,335
Security Guards	1,503,406	2,309,774
Cleaning Services	1,860,600	2,190,533
Membership fee, Dues and Subscriptions	1,143,723	
Contracted Professional Services	1,360,574	732,651
Feasibility Study	2,466,550	3,895,774
Refund to other Government entities (NT)	14,078,014	-
	130,164,119	115,385,678
Audit fee	464,000	464,000
	464,000	464,000
Total General Expenses	130,628,119	115,849,678

4.13.9 Finance Costs

	2016-2017	2015-2016
	Kshs	Kshs
Bank Charges	7,449	115,660
Borrowings (amortized cost)		
Finance leases (amortized cost)		
Total finance costs	7,449	115,660

4.13.10 Cash and Cash Equivalents

	2016-2017	2015-2016
	Kshs	Kshs
CBK - Exchequer Accounts (1000181281, 1000181998, 1000182512)	9,245,323	14,343,916
KCB - Cash Book (1124885358, 1136367519, 1143027272, 1152647784)	4,750	-
I&M - Cash Book (01900710961210)	(2,565)	1,555
Cash-on-hand (Petty Cash & office float)	348,561	1,475,727
Co-op Bank of Kenya (01141163485600)	-	-
Short term Deposits	-	-
Total cash and cash equivalents	9,596,070	15,821,198

4.13.11 Receivables from Current Receivables-Exchange Contract

	2016-2017	2015-2016
	Kshs	Kshs
<u>Prepayments</u>		
Medical Insurance	6,791,888	6,602,206
Group Life	1,666,410	508,993
Motor Vehicle	1,260,966	801,859
Plant & Machinery	827,236	753,271
Dstv and Others	193,780	196,187
	10,740,280	8,862,516
<u>Deposit</u>		
Rent	18,753,322	18,753,322
Fuel	-	-
Motor vehicle maintenance	-	500,000
Provision of Eline (Internet)	50,000	50,000
	18,803,322	19,303,322

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

4.13.12 Debtors

Outstanding Salary advance from Staff	1,167,000	1,637,500
Outstanding Imprest from staff	-	6,440,892
Others (Jubilee and First Assurance)	133,292	61,536
	1,300,292	8,139,928
	-	-
Less: impairment allowance	-	-
Total current receivables	30,843,894	36,305,766

4.13.13 Property, Plant and Equipment

	Computers & Printers	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
<u>Cost or</u>	Kshs	Kshs	Kshs	Kshs	Kshs
<u>Valuation:</u>					
As at 30 June 2015	21,620,963	6,503,680	93,593,911	90,793,695	212,512,250
Additions during the year	1,084,880	1,887,489	1,219,330	4,593,275	8,784,974
Disposal					0
Write off					0
Transfer/Adjustments					
As at 30th June 2016	22,705,843	8,391,169	94,813,241	95,386,970	221,297,224
Additions during the year	2,170,304	219,530	1,399,599	-	3,789,433
Disposal					
Write off	(796,824)				
Transfer/Adjustments					
As at 30th June 2017	24,079,323	8,610,699	96,212,840	95,386,970	225,086,655
Depreciation and impairment					
As 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
Write off					0
Disposal					0
Impairment					0

Transfer/adjustment					0
At 1 June 2016	21,778,648	6,558,153	48,989,242	91,175,790	168,501,832
Depreciation	475,843	1,051,843	11,851,655	1,914,543	15,293,884
Disposals /Write off	(796,824)				
Transfer/adjustment					
At 30 June 2017	21,457,667	7,609,996	60,840,897	93,090,333	183,795,716
Net book values					
At 30 June 2017	2,621,657	1,000,704	35,371,943	2,296,637	41,290,941
At 30 June 2016	927,196	1,833,017	45,823,999	4,211,180	52,795,392

4.13.14 (a) Write off of Fixed Assets

Computers & Printers	2016-2017
Cost or Valuation:	<u>Kshs</u>
As at 1st July 2016	796,824
Accumulated Depreciation	(796,824)
Net Book Value At 30 June 2017	0
Salvage Value	0
Gain /Loss on write off	0

4.13.15 Intangible Assets – Software

2016-2017	
Cost	<u>Kshs</u>
At 30 June 2015	5,018,427
Additions	2,888,290
At 30 June 2016	7,906,717
Additions	2,547,441
At 30 June 2017	10,454,158
Amortization and impairment	
At 30 June 2015	2,996,151
Amortization	2,178,803
At 30 June 2016	5,174,954
Amortization	1,727,441
Impairment loss	
At 30 June 2017	6,902,395
Net book values	
At 30 June 2017	3,551,763
At 30 June 2016	2,731,763

4.13.16 Gain/Loss on Foreign Transactions

	2016-2017	2015-2016
	Kshs	Kshs
KCB USD Account		(171,609)
	-	(171,609)

4.13.17 Mortgage Account (Restricted Cash) exchange transactions

	2016-2017	2015-2016
	Kshs	Kshs
KCB - Cash Book (1124885358, 1136367519, 1152647784)	90,805,126	80,805,126
	90,805,126	80,805,126

The Mortgage scheme is administered by Kenya Commercial Bank (KCB). The loans are issued at an interest rate of 6% being: administration cost at 3% and earnings to the revolving fund also at 3%.

4.13.18 Trade and other payables from exchange transactions

	2016-2017	2015-2016
	Kshs	Kshs
Trade payables (Suppliers Invoices-Credit Notes)	70,421	874,774
Audit Fees	928,000	464,000
Accrued Pension	-	1,648,331
Gratuity	4,972,404	3,314,936
Other payables	-	-
Total trade and other payables	5,970,825	6,302,041

4.13.19 Cash Generated from Operations

	2016-2017	2015-2016
	Kshs	Kshs
Surplus/Deficit for the year before tax	(12,040,237)	1,091,156
Adjusted for:		
Depreciation and Amortisation	17,021,325	29,990,722
(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	4,961,872	2,010,251
Increase in deferred income		
Decrease in payables	(331,216)	2,487,643
Increase in payments received in advance		
Net cash flows from operating activities	9,611,744	35,579,773

4.14 Annex I. Progress on Follow up of Audit Recommendations

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

Reference No. on external audit report	Issue / Observation from Auditor	Management Comments	Focal point person to resolve the issue (Name and Designation)	Status: (Resolved/Not Resolved)	Time frame:
Audit Certificate FY 2015/16	Unreconciled balances of the Financial Statements FY 2015/16 with IFMIS Trial balance	The figures differ because of the two different basis of reporting in IFMIS (Cash) and actual basis used (Accrual)	Maureen Junge, Finance Manager	100% resolved	31st December, 2017