Public Disclosure Authorized

REPUBLIC OF KENYA

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Ref. No: CB & TA/KDSP/Vol.IV (160)

29th May, 2018

The Country Director
World Bank

Attn. Ms. Josphine Kabura

FINANCIAL STATEMENTS OF THE KENYA DEVOLUTION SUPPORT PROJECT: IDA CREDIT NO.5765-KE FOR THE YEAR ENDED 30TH JUNE, 2017

As per the programme requirement, please find the attached report from the Auditor General for the FY 2016/17 for your necessary action.

Nelson Marwa Sospeter, EBS
PRINCIPAL SECRETARY

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KENYA DEVOLUTION SUPPORT PROJECT IDA CREDIT NO.5765-KE

FOR THE YEAR ENDED 30 JUNE 2017

MINISTRY OF DEVOLUTION AND PLANNING

REPUBLIC OF KENYA

KENYA DEVOLUTION SUPPORT PROJECT:

STATEDEPARTMENTFOR DEVOLUTION

CREDITNUMBER:5765-KE

Project Preparation Advance No. V009

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017

ISSUED ON SEPTEMBER 30, 2017 (UNAUDITED)

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

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1) PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and Registered Office

Name: Kenya Devolution Support Program (KDSP)

Objective: ToStrengthen Capacity of core National and County Institutions to improve Delivery of devolved services at the County level.

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

Kenya Devolution Support Program for Results
Ministryof Devolution and Planning
State Department for Devolution
Teleposta Towers
P.O.Box 30004 -00100
NAIROBI

1.2Project Information

Project Start Date:	Effective Date: September 15, 2016
Project End Date:	Expected Closure: December 31, 2020
Project Manager:	Martin Anyango
Project Sponsor:	The program sponsors are the Government of Kenya (GOK) which will contributeUSD$87.3, and IDA which will contribute USD$200 million. Total Financing USD$287.3 million.

1.3Project Overview

Line Ministry	The project is under the supervision of the MODP State Department for Devolution Ministry.
Project Number	CR–5765-KE
Strategic Goals of the Project	To contribute, enhance and strengthen capacity of counties to manage resources and improve service delivery. 5 key result areas: a) KRA 1: Public Financial Management b) KRA 2: Planning, Monitoring and Evaluation c) KRA 3: Human Resource and Performance Management d) KRA 4: Devolution and Inter-Governmental Relations e) KRA 5: Civic Education and Public Participation
Achievement of Strategic Goals	**KRA 1 Achievements** Some activities implemented by NT Departments include 47 County Governments officers trained on various Budgeting and Accounting Modules. There was Technical Support to County Governments and development of a National Framework Policy/Legislation to support County Own Revenue enhancement, and sensitisation and training on the PPDA -2015. **KRA 2 Achievements** MODP reviewed and developed the CADP and CIDP guidelines, through county governments and other stakeholder's consultative forums. It also provided Technical Assistance to some selected counties on M&E **KRA 3 Achievements**
	MOPSYGA had tremendous achievement in the year under review in all the Capacity Building Modalities. There was CurriculumDevelopment and converting manuals into training materials. **KRA 4 Achievements** All the 47 counties opted for the program and submitted their Capacity Building plans for FY 2016/17, which have informed the National Capacity building plans. The County allocations for FY 2016/17 were included in the CARB and DORB. However, for the second disbursement against this DLI in FY 2016/17, the Government did not disburse the full amount of the first tranche to county governments as per Program entitlements. By the end of the period under review, the counties had fulfilled requirements for accessing the capacity building grants as per this DLI, but had not received the Ksh.1.41 billion because these grants were not included in the FY2016/17 CARA

	KRA 5 Achievements The department has developed a comprehensive set of guidelines to enable effective county performance in this area. The Program will provide resources for the department to contract expertise to complement staff, and operating resources to enable outreach to counties. The department will finalize training modules, roll out a civic education program, approve and disseminate public participation guidelines and provide training and backstopping to counties.
Other important background information of the project	KDSP is implemented using the existing intergovernmental architecture as enshrined in the Constitution of the Republic of Kenya, 2010. The counties are responsible for planning, budgeting, implementing and reporting on Program-funded activities, consistent with their mandate under the County Government Act and the Public Finance Management Act. County Governments are also responsible for implementing activities to improve their institutional capacity in key results areas as articulated in the National Capacity Building Framework (NCBF). Several National Government Agencies are supporting the KDSP program implementation, namely, MoDP—responsible for overall Program Management; the National Treasury, MoPSYGA-DPSM and KSG provide capacity building support to Counties in the Program Key Results Areas (KRAs); and the Office of the Auditor General (OAG)—responsible for all program audits. The Program-for-Results (PforR) financing instrument is a results-based approach to building capacity for devolution which will leverage the effectiveness of other capacity building resources at both national and county levels. The PforR instrument will support the Government to introduce a well-targeted incentive structure in which clearly identified performance is linked to disbursement and leveraging the institutional outcomes which the Program is meant to achieve. Since the PforR focuses on enhancing existing Country Systems and financing for capacity building, it will reinforce Government's own program and system strengthening initiatives, including through providing Results-Based Financing (RBF) directly to counties.
Current situation that the project was formed to intervene	It was against the above backdrop that the Government developed the National Capacity Building Framework (NCBF) in 2013 to mitigate the major capacity challenges posed by devolution. The overall objective of the NCBF is "to ensure the devolution process is smooth and seamless to safeguard the delivery of quality services to the citizenry." The NCBF has five pillars: Training and Induction; Technical Assistance to Counties; Inter-governmental Sectoral Forums; Civic Education and Public Awareness; and Institutional Support and Strengthening. KDSP supports national and county-level results that contribute to strengthened institutions for devolved service delivery. Essentially, the PforR supports and incentivizes national government to provide improved capacity building support to counties in each KRA, while simultaneously supporting counties to make system and capacity improvements.
Project duration	4 years

1.4Bankers

The following are the bankers for the currentyear:

LocalProjectAccounts
Central Bank of Kenya–AccountNo.1000307366
HaileSelassie Avenue,
P.O.Box60000-0200,
Nairobi,Kenya

Special Deposit Account
Central Bank of Kenya–AccountNo.1000291688
HaileSelassie Avenue,
P.O.Box 60000-0200,
Nairobi,Kenya

1.5 Auditors

Auditor General
Office of Auditor General
AnniversaryTowers,University Way
P.O.Box30084
Nairobi, Kenya

1.6 Project Governance

The Projects governance frame work requires the stakeholders to uphold the highest professional, ethical, moral and legal standards. This is achieved through effective segregation of duties with clear checks and balances as articulated in the Project Loan/Credit Agreement, the PFM Act 2012,the Project Design Report, the Implementation Manual and the Finance and Procurement Manuals.

1. The Project Steering Committee (PSC)

This Committee is responsible for overseeing the implementation of the Project, approving the annual work plan and budget, and ensuring that the activities are in compliance with the donor and government policies.

2. The World Bank

These are the project sponsors. They are responsible for reviewing and approving the project's withdrawal applications, expenditure justifications, no objection requests, reviewing and approving the annual work plan and budget, expenditure category reallocation request, and participating in implementation support missions.

3. The Parent Ministry

The parent ministry, State Department of Devolution, ensures that the Project's budget is captured in its development Projects and disburses the government counterpart funding. The Ministry reviews and tracks the Project's annual work plan and budget against these targets and makes the approvals. The parent ministry also oversees the execution of the project coordinating team.

4. TheAuditor

The Supreme Audit Institution in Kenya, that is, the Office of the Auditor General, is mandated by the Constitution of Kenya Chapter 12, Part 6, and Article 229 which establishes the Office of the Auditor General. Chapter 15,Article 248,Section 3 and Article 249,Section2(a) and (b) and Section 10 of the Public Audit Act,2015 provide for the independence of the Office of the Auditor General.

The Auditor General is mandated to audit all National Government entities, which include government development projects and present these statutory financial statements to the Parliament. This facilitates the submission of the audited report to the project's sponsors by 31 December each year.

5. Project Coordinating Team (PCT)

This team is based in Nairobi and is responsible for the project management and coordination functions. The PCT comprises of the Project Coordinator and a team of Technical Officers. The PCT is also supported by other administrative staff.

These key staff, who form the project coordinating team that is involved in the day to day management of the project and its implementation are:

Name and Contact details	Title Designation	Qualifications	Responsibilities
Mr. Martin Anyango 0722749638 Email:	Program Coordinator	MBA (Finance) B.Com(Accounting Option), Postgraduate Diploma in Governance	Coordination of the day today Activities of the Program.
Nyabicha Onang'o. 0722701923 Email:	IGFR Expert/Team Leader of Consultants	B.Com(Accounting option), MSc(Finance), CPA(K)	Provide Leadership to the team of Experts and support project on IGFR activities

Mr. Simon Ochieng. 0721867484 Email:	Monitoring & Evaluation Expert	MA (International Studies); MA (Project Planning & Management): PGD (Project Planning,	Support national and County Implementation Agencies in all areas of M&E and reporting
Absolom Ayodo 0722823599 Email: absayodo@yahoo.com	Capacity Building Expert	BA (Economics)	Lead the capacity Building Strategy and ensure its implementation as envisaged in KDSP at National and County Level
Treza Bwanzo 0721771103 Email: trezabodhiambo@gmail.com	Public Financial Management Expert	MBA(Finance) BA Degree (Economics) CPA (K)	Support Project Coordination in KRA 1 – Public Financial Management activities
Alice Wanjiru Mwaniki. 0722866754 Email: alwapeter1@yahoo.com	Project Accountant	MBA(Finance) BBA(Accounting and Finance) CPA (K)	Managing monitoring and reporting on the accounting functions of the Project.

1.7 Funding Summary

The Project was for duration of one year from 1st July 2016 to 30th June 2017 with an approved budget of (Unit of Account) USD 1,000,000 equivalent to about KShs. 101,170,000 as highlighted in the table below:

Source of funding summary **Source of funds**	**Donor Commitment**		**Amount received todate (30th June,2017)**		**Undrawn balance todate (30th June,2017)**	
	Donor currency USD	***KShs***	***Donor currency (USD)***	***KShs***	***Donor currency (USD)***	***KShs***
	(A)	***(A')***	***(B)***	**(B')**	***(A)-***	***(A')-***
LOANSUMMARY						
World Bank	1,000,000	101,170,000	999,900	101,159,88	100	10,117
Total Grants	**1,000,000**	**101,170,000**	**999,900**	**101,159,88**	**100**	**10,117**

1.8 Summary of Overall Project Performance:

During the year under review, the Project received KShs. 101,159,883 and incurred a cumulative expenditure of KShs. 99,995,994.00.

1.9 Receipts Utilization

The Project received KShs. 101,159,883 against a final budget of KShs. 101,170,000. This represented utilization of 99.99%.

1.10 Payments Utilization

The Project paid KShs. 99,995,994.00 against a final budget of KShs. 101,170,000. This represented utilization of 98%.

Challenges Encountered

The table below summarizes the challenges encountered and recommends way forward:

	Challenges	Recommendation/WayForward
1	Budgetary Allocations to the MDAs	Sensitization of the Chief Finance Officers to enhance MDA budgets so as to cater for program activities.

1.11 Summary of Project Compliance

The Program has ensured that all its activities carried out are within the laws of the Republic of Kenya and that all regulations and procedures have been followed. Among the regulationsinclude the Environmental and Social Impact Assessment(ESIA) for which authority was issued for the implementation of the project. In casesof inconsistency between the GOK Regulations and those of the donors, the latter have been applied.

2) STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the State Department For Devolution and the Project Coordinator for KDSP project are responsible for the preparation and presentation of the Project's financial statements, which give a true and fair view of the state of affairs of the Project for and as at the end of the financial year ended on June,30th 2017. This responsibility includes:(i) maintaining adequate financial management arrangement and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Project; (iii)designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud;(iv)safeguarding the assets of the Project;(v) selecting and applying appropriate accounting policies; and(vi)making accounting estimates that are reasonable in the circumstances.

The Principal Secretary for the State Department for Devolution and the Project Coordinator for KDSP project accept responsibility for the Project's financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the State Department For Devolution and the Project Coordinator for KDSP project are of the opinion that the Project's financial statements give a true and fair view of the state of Project's transactions during the financial year ended June 30,2017, and of the Project's financial position as at that date. The Principal Secretary for the State Department For Devolution and the Project Coordinator for KDSP project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the State Department For Devolution and the Project Coordinator for KDSP project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.Approval of the Project financial statement.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary for the State Department for Devolution and the Project Coordinator for KDSP projection 29th September, 2017 andsigned by them.

Principal Secretary Micah Pkopus Powon	Project Coordinator Martin Anyango	Project Accountant Alice Wanjiru Mwaniki

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA DEVOLUTION SUPPORT PROJECT IDA CREDIT NO.5765-KE FOR THE YEAR ENDED 30 JUNE 2017 - MINISTRY OF DEVOLUTION AND PLANNING

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Devolution Support Project IDA Credit No. 5765-KE set out on pages 1 to 18, which comprise the statement of financial assets as at 30 June 2017,and the statement of receipts and payments, statement of cash flows and statement of comparative budget and actual amounts, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya, Section 35 of the Public Audit Act, 2015 and Financing Agreement Credit Number 5765-KE dated 15 April 2016 between International Development Association (IDA) and the Republic of Kenya. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Devolution Support Project 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 (Cash Basis) and comply with the terms of the Financing Agreement Credit No. 5765-KE dated 15 April 2016.

In addition, the special account statement presents fairly, transactions for the year, and the closing balance has been reconciled with the books of account.

Further as required by Article 229(6) of the Constitution, I confirm that public money has been applied lawfully and in an effective way.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Devolution Support Project in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Responsibilities of Management and Those Charged with Governance 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 (Cash 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 Project's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless management either intends to have the Project 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 Project's financial reporting process.

Auditor-General's Responsibilities for 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 misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. 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 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 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 Project'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 basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Project to cease to sustain its services.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether 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 Project to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

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

Nairobi

28 December 2017

3) STATEMENT OF RECEIPTS AND PAYMENTS FOR THE PERIOD ENDED 30/06/2017

	Note	FY2016/17	FY2015/16	Cumulative ToDate
		Receiptsand payments	Receiptsand payments	
		Kshs	Kshs	Kshs
RECEIPTS				
Loan from External Development Partners	8.5	101,159,883	-	101,159,883
TOTALRECEIPTS		**101,159,883**	-	**101,159,883**
PAYMENTS				
Purchase of goods and services	8.8	52,568,743	-	52,568,743
Acquisition of Non-Financial Assets	8.10	46,449,271	-	46,449,271
Other grants and transfers and payments	8.12	977,980	-	977,980
TOTALPAYMENTS		**99,995,995**	-	**99,995,995**
SURPLUS/DEFICIT		**1,163,889**	-	**1,163,889**

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

The Project Financial Statements were approved on 29th September, 2017 and signed by;

Principal Secretary
Micah Pkopus Powon

Project Coordinator
Martin Anyango

Project Accountant
Alice Wanjiru Mwaniki

4) STATEMENT OF FINANCIAL ASSETS AS AT 30th JUNE 2017

	Note	2016/17	2015/16
		KShs	KShs
FINANCIAL ASSETS			
Cash and Cash Equivalents			
Bank Balances	8.13	1,163,889	-
Total Cash Equivalents		**1,163,889**	-
TOTAL FINANCIAL ASSETS		**1,163,889**	-
REPRESENTED BY			
Fund Balance B/forward			
Surplus/Deficit for the year		1,163,889	-
NET FINANCIAL POSITION		**1.163.889**	-

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 29th September, 2017 and signed by:

Principal Secretary
Micah Pkopus Powon

Project Coordinator
Martin Anyango

Project Accountant
Alice Wanjiru Mwaniki

5) STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Consolidated	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Utilization Variance	%of Utilization
	A	B	c=a+b	D	e=c-d	f=d/c%
Receipts/Payments Item						
Receipts						
Loan from External Development Partners	-	-	101,159,883	101,159,883	-	100%
Total Receipts	-	-	**101,159,883**	**101,159,883**	-	
Payments						
Use of goods and services	-	-	52,568,743	52,568,743	-	100%
Acquisition of Non-financial Assets	-	-	48,591,140	46,449,271	2,141,869	86%
Other Grants and Other Payments	-	-	-	977,980	-977,980	-
Total Payments	-	-	**101,159,883**	**99,995,994**	1,163,889	

Note: The significant budget utilization/performance differences in the last column are explained in**Annex1** to these financial statements.

Principal Secretary
Micah Pkopus Powon

Project Coordinator
Martin Anyango

Project Accountant
Alice Wanjiru Mwaniki

6) STATEMENT OF CASH FLOW FOR THE PERIOD 30th JUNE 2017

	Note	2016/17 KShs	2015/16 KShs
Receipts for operating activities			
Payments for operating activities		-	
Purchase of goods and services	8.8	(52,568,743)	
Other grants and transfers	8.12	(997,980)	
Adjustedfor:		**(53,546,723)**	
Net cash flow from operating activities		**(53,546,723**	
CASH FLOW FROM INVESTING ACTIVITIES			
Acquisition of Assets	8.10	(46,449,271)	
Net cash flows from Investing Activities		**(46,449,271)**	
CASH FLOW FROM BORROWING ACTIVITIES			
Proceeds from Foreign Borrowings	8.5	101,159,883	
Net cash flow from financing activities		**101,159,883**	
NET INCREASE IN CASH AND CASH EQUIVALENT			
Cash and cash equivalent at BEGINNING of the year		**1,163,889**	
Cash and cash equivalent at END of the year		- **1,163,883**	

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The entity financial statements were approved on 29th September, 2017 and signed by:

Principal Secretary
Micah Pkopus Powon

Project Coordinator
Martin Anyango

Project Accountant
Alice Wanjiru Mwaniki

7) NOTES TO THE FINANCIAL STATEMENTS

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

8.1. Basis of Preparation

8.1.1. Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with Cash-basis IPSAS financial reporting under the cash basis of Accounting, as prescribed by the PSASB and set out in the accounting policy noted below. This cash basis of accounting has been supplemented with accounting for;

a) receivables that include imprests and salary advancesand
b)payables that include deposits and retentions.

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

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

8.1.2. Reporting entity

The financial statements are for the Kenya Devolution Support Programme (KDSP)under the State Department for Devolution. The financial statements encompass the reporting entityas specified in the relevant legislation PFM Act 2012.

8.1.3. Reporting currency

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

8.2. Significant Accounting Policies

a) Recognition of receipts

The Project recognizes all receipts from the various sources when the event occursand the related cash has actually been received by the Government.

- **Transfers from the Exchequer**

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

- **External Assistance**

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

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.2 Significant Accounting Policies (Continued)

a) Recognition of receipts

Donations and grants

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

Proceeds from borrowing

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

Undrawn external assistance

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

b) Recognition of payments

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

- **Compensation of employees**
  Salaries and Wages, Allowances, Statutory Contribution for employees are Recognized in the period when the compensation is paid.
- **Use of goods and services**
  Goods and services are recognized as payments in the period when the goods/services are consumed and paid for. If not paid for during the period where goods/services are consumed, they shall be disclosed as pending bills.

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.2 Significant Accounting Policies (Continued)

b) Recognition of Payments (continued)

•Repayment of borrowing(PrincipalAmount)

The payment of principal amount of borrowing is recognized as payment in the period in which the payment is made.

•Acquisition of fixed assets

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

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

c) In-kind donations

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

d)Cash and cash equivalents

Bank account balances include amounts held at the Central Bank of Kenya, at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short-term cash imprests and advances to authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year but there were no cash imprests and advances.

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.2 Significant Accounting Policies(Continued)

e) Accounts receivable

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

f) Pending Bills

There were no pending bills at the end of the financial year.

g) Budget

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

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

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.2 Significant Accounting Policies (Continued)

i) Exchange rate differences

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

8.3.Receipts from Government of Kenya

Receipts from the government are either counter part funding or other transfers. Counterpart funding represents the Government's share of contribution towards the implementation of the Project. These amounts are disbursed by the Parent Ministry in line with the budget.

Other transfers from government entities represent support received by the Project from other government entities including the State Departments and Projects listed above for the implementation of its activities.

8.4. Proceeds from Domestic and Foreign Grants

These are grants received from development partners directly through the Exchequer and through Ministries and Departments during the 12 Months to 30 June 2017.

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.5. Loan from External Development Partners

These comprise of receipts received from borrowing from bilateral, multilateral and commercial lending institutions. During the 12 months to 30 June 2017,we received funding from development partners in form of loans negotiated by the National Treasury as detailed in the table below:

Nameof Donor	Date received	Amount in loan currency	Loans received in cash	Total amount in KShs	
				FY2016/17	FY2015/16
Loans Received from Multilateral Donors (International Organizations)					
		USD	KShs	KShs	KShs
IDA	11/10/2016	999,900	101,159,883	101,159,883	
Total		**999,900**	**101,159,883**	**101,159,883**	

8.6. Miscellaneous Receipts

There were no other receipts like fines, penalties and other fees and charges for the project.

8.7. Compensation of Employees

There were no compensation of employees during the financial year ending 30th June, 2017.

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.8. Purchase of Goods and Services

These comprise the total value of goods and services consumed by the Project.

		Total Payments		Cumulative todate
	Payments made by the Entity	FY2016/17	FY2015/16	
	KShs	KShs	KShs	KShs
Training expenses	52,568,743	52,568,743	-	52,568,743
Total	**52,568,743**	**52,568,743**		**52,568,743**

8.9. Social Security Benefits

There were no payments in relation to Social Security Benefit for the project.

8.10. Acquisition of Non-Financial Assets

These represent the payments made to acquire property, plant and equipment and other assets in the year. These are expensed in the year of purchase as per the accounting policy. A fixed assets register has been attached as an appendix to these financial statements, incorporating these assets purchased in the year.

		Total Payments		Cumulative to-date
	Payments Made by the Entity	FY2016/17	FY2015/16	
	KShs	KShs	KShs	KShs
Purchase of vehicles &other Transport equipment	18,621,150	18,621,150		18,621,150
Purchase of office furniture & General equipment	27,828,121	27,828,121		27,828,121
Total	**46,449,271**	**46,449,271**		**46,449,271**

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.11. Transfers to other Government Entities

There were no non-compulsory transfers to either MDAs, Projectsand County Governments.

8.12. Other Grants and Transfers and Payments

Included in other transfers and payments are disbursements to other non-reporting entities. These are considered as payments at the point of transfer.

			Total Payments		Cumulative to-date
	Payments Made by the Entity in	Payments made by third parties	FY2016/17	FY2015/16	
	KShs	KShs	KShs	KShs	KShs
Miscellaneous payments	977,980		977,980		977,980
Total	**977,980**		**977,980**		**977,980**

8.13.Cash and Cash Equivalents carriedForward

These comprise of cash book bank and cash balances and short-termdeposits as at30th June 2017and comparatives for financial year to 30thJune2016 representedbybank balances.

	FY2016/17	FY2015/16
	KShs	KShs
Bank accounts(Note8.13A)	1,163,889	
Total	**1,163,889**	

8.NOTESTOTHEFINANCIALSTATEMENTS(continued)

8.13. A) Bank Accounts

i) Project Bank Accounts

Local Currency Accounts	**FY2016/17**	**FY2015/16**
Central Bank of Kenya[A/cNo.1000307366]	**KShs**	**KShs**
	1,163,889	-
Total local currency balances		
	1,163,889	
Total bank account balances		
	1,163,889	

ii)Special DepositAccounts

The balances in the Project's Special Deposit Accounts as at 30th June 2017are not included in the Statement of Financial Assets since they are below-the-line items and are yet to be drawn into the Exchequer Account as a voted provision. The Special Deposit Account (SDA) movement schedule which shows the flow of funds that were voted in the year is presented below. These funds have been reported as loans/grants received in the year under the Statement of Receipts and Payments.

Special Deposit Accounts Movement Schedule

	2016/17	**2016/17**
(i) Central Bank of Kenya[A/cNO:]	**USD**	**KShs**
Opening balance		
Total amount deposited in the account	-	-
Total amount withdrawn(as per Statement of Receipts &Payments)	25,817,919.44	2,611,998,909.75
	(999,900)	101,159,883
Closing balance(as per SDA bank account Reconciliation attached)	24,818,019.44	2,510,839,026.75

The Special Deposit Account reconciliation statements have been attached as *Appendix v* to support these closing balances.

8. NOTES TO THE FINANCIAL STATEMENTS (continued)

8.13. B) Cash inHand

There were no cash balances held at the different Project implementation locations

8.13. C) Cash equivalents(short-term deposits)

There were no amounts held with various financial institutions for the purposes of earning interest.

8.14. Outstanding Imprestand Advances

There were no outstanding imprest and advances for the project.

8.15. Prior Year Adjustments

There were no prior adjustments made during the year ended30thJune2017.

8) OTHER IMPORTANT DISCLOSURES

9.1 PENDING ACCOUNTS PAYABLE

There were no pending bills for the project.

ANNEX 1- VARIANCE EXPLANATIONS-COMPARATIVE BUDGET AND ACTUAL AMOUNTS

Explain all variancebelow90%andabove100%.

	Final Budget	Actual on Comparable Basis	Utilisation Variance	%of Utilisation	Comments on Variance
	c=a+b	d	e=c-d	f=d/c%	
Receipts					
Loan from External Development Partners	101,159,883	101,159,883	-	100%	
Total Receipts	101,159,883	**101,159,883**	-	100%	
Payments					
Use of goods and services	52,568,743	52,568,743	-	100%	
Acquisition of Non-financial Assets	48,591,140	46,449,271	2,141,869	96%	
Other Grants and Other Payments		977,980	-977,980		Represents donor refund
Total Payments	101,159,88	**99,995,994**			

ANNEX 2–SUMMARYOFFIXEDASSETREGISTER

This summary of fixed assets is provided for disclosure purposes since the financial statements are prepared on cash basis. The fixed assets summary is extracted from the asset registers maintained by the Project.

Asset class		*Purchases/Additions in the Year	**Disposals in the Year	
	(KShs)	(KShs)	(KShs)	(KShs)
	2015/16	2016/17	2016/	2017
	(a)	(b)	(c)	(d)=(a)+(b)-(c)
Transport equipment	-	18,621,150		18,621,150
Office equipment, furniture and fittings	-	16,019,001		16,019,001
ICT Equipment, Software and Other ICT Assets	-			
Total	-	**46,449,271**		**46,449,271**

Notes

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

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

APPPENDICES

i. Bank Reconciliations (these should be accompanied by the board of survey and bank balance certificate for each account)
ii. Bank Balance Certificate
iii. Special Deposit Account(s) reconciliation statement(s) (these should be accompanied by the bank balance certificate for each account.