COMMISSION ON REVENUE ALLOCATION

ANNUAL REPORT AND FINANCIAL STATEMENT • 2012/2013

Promoting an Equitable Society

COMMISSION ON REVENUE ALLOCATION ANNUAL REPORT JULY 2012 – JUNE 2013

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ACRONYMS

BROPs	Budget Review Outlook Paper
BSP	Budget Strategy Paper
CIDPs	County Integrated Development Plans
CDI	County Development Index
CIC	Commission for the Implementation of the Constitution
CRA	Commission on Revenue Allocation
CSR	Community Social Responsibility
ICPAK	Institute of Certified Public Accounts
IFMIS	Integrated Financial Management Information System
MTEF	Medium Term Expenditure Framework

COMMISSION ON REVENUE ALLOCATION

Mandate

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.

Vision

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

Mission

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

Core Values

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

Equity: CRA will be guided by the spirit of fairness and inclusion.

Teamwork: CRA will always encourage participation of all members of staff in its operations. CRA believes in people working together to achieve results.

Excellence: CRA will maintain quality control and strive for the highest standards in aspects of our work.

Transparency: All service delivery and operations of CRA will include citizen participation.

Employee satisfaction: CRA will strive to attract and retain staff with high morale.

Integrity: CRA staff will abide by and uphold Chapter Six of the Constitution.

THE CHAIRMAN'S STATEMENT

Mr. Micah Cheserem

The financial year 2012/2013 brought to the fore the real challenges of implementing the Constitution. These challenges include keeping the country united, drafting of bills to safeguard elections, putting in place electronic systems to address the pitfalls of previous elections, conducting civic education, electing good leadership to various constitutional offices, making appointments to various executive offices and the provision of resources to operationalize the county governments, among others.

The history of devolution in Kenya reveals numerous initiatives that have done little to stem the rising tide of poverty and underdevelopment. Centralisation has largely been held res ponsible for the vast inequalities, exclusions and deep divisions that have characterized the post-independence Kenyan society for the past fifty years. In this regard, devolution has been identified as the panacea for addressing these imbalances.

During the transition period, however, county governments have been faced with numerous challenges including: inadequate technical capacity at the county level, ignorance that surrounds the devolution process, operationalization of a devolved systems, lack of clear guidelines on processes and procedures, among others.

Lack of understanding of key issues around devolution has continued to generate a great deal of mistrust between stakeholders, especially as it relates to revenue allocation. Although allocations to county governments for financial year 2013/14 constitutes 34.5 per cent of the audited, approved accounts for financial year 2010, county governments are still clamouring for the amendment of the Constitution to make provision for a higher percentage.

The other major challenge was the lack of audited reports for structures, assets and liabilities inherited from former local government authorities. These challenges do not only pose great risks for the effective roll out of devolution in Kenya, but also provoke some critical questions about the current implementation strategy.

The foregoing notwithstanding, CRA is indeed encouraged by the manner in which county governments are committed to deliver services to the people.

CRA calls on all county governments to embrace Integrated Development Planning to actualise their short, medium and long-term plans. The plans will assist the devolved governments to align national and devolved government development as well as spending priorities, financial and institutional resources behind county policies and programmes. The plans will also serve as a basis for engagement between county government and the citizenry at the local level, the various stakeholders and interest groups. This is important because participatory and accountable government only has meaning if it is aligned to plan and resource allocations.

This report, therefore, marks a milestone in the lives of both the Commission on Revenue Allocation and the many stakeholders with whom we have worked together in ensuring the success of devolution among the county governments.

I am grateful for the support given by the National Government, County Governments, to my fellow Commissioners and the Secretariat to the Commission on Revenue Allocation towards fulfilling our mandate.

Mr. Micah Cheserem

FOREWORD BY THE SECRETARY/CEO

Mr. George Ooko

The Commission on Revenue Allocation's principal mandate is to make recommendations on the equitable allocation of the revenue generated nationally between the national and county governments and among county governments. As a Commission, we fully understand the importance and magnitude of the task we have been accorded. We are also cognisant of the fact that our success as a team is central to the success of our nationhood and achievement of Vision 2030.

During the year under review, CRA continued to strengthen and enhance its infrastructure to deliver on its mandate. The research work of CRA has been facilitated by the committed team of professionals at the commission. The Secretariat has worked tirelessly in policy analysis on fiscal decentralization with the capacity and drive to provide independent, timely, reliable, credible and effective advice on revenue allocation and enhancement, financial management, and unlocking of county economic potential.

CRA developed the first generation horizontal allocation formula that was approved by parliament in November 2012. This was achieved through both primary and secondary research, engagement of the public and Parliament through various forums. Additionally, CRA has remained keen on the provision of more information to various stakeholders regarding the formula. In this respect, CRA hopes to attract critical engagement of its work and also further enhance the quality of its research outputs.

On legal matters, the Commission made invaluable contributions to various policy and legislative matters. CRA worked alongside the National Treasury, the Attorney General's Office, The Kenya Law Reform Commission, The Controller of Budgets, The Local Government Ministry, The Auditor General among others, to prepare a plan of action on the implementation of Public Finance Management Act 2012. CRA prepared working papers and made advisory opinions not only on draft bills but also on other Constitutional questions and issues relating to public finance.

To ensure vertical and horizontal equity, CRA prepared (2) finance bills for the financial year 2012/2013 and the financial year 2013/2014. The bills were prepared at the end of December 2012 alongside the Transition County Allocation of Revenue Bill.

CRA engaged with county governments to gauge the levels of preparedness in taking on devolved functions. CRA set up various teams to visit all the counties and discuss their readiness for devolution, planning and budget preparation, ICT development, human resource capacity, county branding, income generation, assessment of natural resources and capacity to get data about the counties.

CRA is dedicated to developing knowledge, systems and structures for effective roll out of the devolved government. To this effect, CRA has been at the forefront in engaging with and advising county governments on the adoption of ICT, the need to develop dynamic websites, and the necessity to establish credible reliable databases by the county governments for effective planning and budgeting.

From its inception, CRA heavily relied on seconded staff from various ministries and other government institutions to deliver on its mandate. However, during the year under review, CRA recruited a large percentage of the key members of staff to discharge its mandate.

During the year, CRA was appropriated Kshs. 344, 961, 00.00 by Parliament compared to Kshs. 340,760,000.00 in the year 2011/2012. The National Treasury released the total amount to CRA. The Commission's expenditure on the other side was Kshs. 276,554,000.00 compared to Kshs. 320,231,000.00 in 2011/2012.

Moving forward, CRA has developed a three year (2013-2015) Strategic Plan that summarizes it's priorities and sets of strategies that will enable us to achieve our mandate. In particular, this Plan addresses the question of how the CRA will support the implementation of the new devolved governance structure through equitable allocation of revenue and revenue enhancement.

Mr. George Ooko

CHAPTER ONE: ECONOMIC GROWTH AND DEVOLUTION

1.1 Overview

Vision 2030 envisages a high and sustainable growth rate of at least 10% to transform the country into a middle income country status. Over the last five years, the country's economic performance had stagnated below 5%. In order to realize the expected double digit growth rate, productivity both at the county and national level needs to be enhanced. Further, such momentous growth will be achieved if efficient and effective institutional structures are created both at the national and county levels of government.

Growth needs to be structured. All county governments need to embrace integrated development planning to actualise short, medium and long-term plans. Integrated plans will provide a framework for devolved governments to align national and devolved government development and to align spending priorities, and financial and institutional resources behind county policies and programmes. The plans will also serve as a basis for engagement between the county government and the citizenry at the local level, and with various stakeholders and interest groups for prudent implementation of projects and programmes.

It is envisioned that devolution will enhance and spread growth, while at the same time accelerating the achievements of Vision 2030. Besides, devolution would ensure equitable distribution of resources among the 47 Counties leading to the attainment of a balanced growth and development. Article 174 of the Constitution provides for the following objectives of devolution:

- To promote democratic and accountable exercise of power
- To foster national unity by recognizing diversity
- To give powers of self-governance to the people and enhance participation of the people in the exercise of the powers of the state and in making decisions affecting them
- To recognize the rights of communities to manage their own affairs and to further their development
- To protect and promote the interests and rights of minorities and marginalized communities
- To promote social and economic development and the provision of proximate, easily accessible services throughout Kenya
- To ensure equitable sharing of national and local resources throughout Kenya
- To facilitate decentralization of state organs, their functions and services from the capital of Kenya; and to enhance checks and balance and separation of powers

Devolution therefore is expected to expand Kenya's economic growth by enhancing public participation, expanding peoples' choices and opportunities and guaranteeing all Kenyans access to quality and readily available services. Nonetheless, the effectiveness and efficiency with which public services are provided to support inclusive growth, economic innovation and competitiveness and maintaining quality places is crucial to the success of individual counties.

1.2 Public Finance Management Act

The enactment of the Constitution paved the way for public financial management reforms. The Constitution created two levels of governments that are distinct yet interdependent. Therefore, the enactment of various Acts of Parliament such as the Public Finance Management Act and the County Government Act transformed public finance system in Kenya.

The Commission on Revenue Allocation is an independent constitutional commission established to, in part; make recommendations for equitable sharing of nationally raised revenues, financing and financial management of both levels of government. The fourth schedule of The Constitution assigns functions to the two levels of government upon which the vertical share of revenue was based. The vertical share accounted for 34.5% (Kshs.190 billion) of Kshs.608.1 billion 2010/2011 audited accounts of revenues received and approved by the National Assembly [Article 203 (3)]. Further, the CRA developed a horizontal formula with five parameters namely; population, basic equal share, poverty gap, land area and fiscal responsibility with 45%, 25%, 20%, 8% and 2% weights respectively.

The horizontal formula was used to equitably allocate the Kshs.190 billion to the 47 counties. In addition to the equitable share, there is also the equalization fund which is 0.5% of the nationally raised revenues provided for by The Constitution. CRA published the marginalization policy, in which 14 counties were identified to benefit from the Equalization Fund. This fund is meant to provide basic services including water, roads, health and electricity to marginalized areas to the extent necessary to bring quality of those services in those areas to the level generally enjoyed by the rest of the country.

1.3 Devolution Status

The Constitution provides for the implementation of the devolved structures in a phased manner over a period of three years. To ensure smooth and successful implementation of devolution, Schedule Five provides for the enactment of legislation specific to devolution. The following laws were enacted to facilitate smooth legislation.

- County Governments Act, 2012
- Intergovernmental Relations Act 2011
- Urban Areas and Cities Act 2011
- Transition to Devolved Government Act 2011
- Public Finance Management Act 2012
- Transition PFM 2012
- County Appropriation ACT 2013
- Public Finance Management Transition Act 2013

The Senator-Kisumu County, Prof. Any'ang Nyong'o visits the CRA stand at the Kisumu Show

CHAPTER TWO: EQUITABLE SHARING OF REVENUE

2.1 Overview

Article 202 provides for equitable sharing of national revenue between the national government and county governments on the basis of the following criteria (Article 203 (1)):

- National interest
- National obligations
- Needs of national government, determined by an objective criteria
- Need to ensure the county governments are able to perform the functions allocated to them
- The capacity and efficiency of county governments
- Developmental and other needs of the county
- Economic disparities within and among counties and the needs to remedy them
- Need for affirmative action in respective of disadvantaged areas and groups
- The need for economic optimization of each county and provide incentives for each county to optimize its capacity to raise revenue
- The desirability and predictable allocations of revenues
- The need for flexibility in responding to emergencies and other temporary needs based on similar objective criteria

Section 22 of the Commission on Revenue Allocation Act, 2011 defines shareable revenue thus:

"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 Article 209 (4) and 206 (1) (a) (b) of the Constitution."

2.2 Vertical Equity

Article 216 (1) (b) provides that CRA recommends the basis of equitable sharing of revenue raised nationally between national and county governments. Article 203(3) of the Constitution stipulates that the revenue to be shared shall be calculated on the basis of the most recent audited accounts of revenue received, as approved by the National Assembly

Based on the 2010/11 audited amounts, approved by the exchequer receipts amounting to Kshs. 920,375,441,286 the shareable revenue amounted to Kshs.608,062,997,500 equivalent to 66 per cent. Based on national and county expenditures analyses, CRA recommended that Kshs. 231 billion be allocated to county governments.

Upon consultation with various stakeholders, namely: the National Treasury, National Assembly, the Senate, the Parliamentary Budget Office, the Controller of Budget, the Transitional Authority among others stakeholders, a county allocation of Kshs. 210 billion was agreed. This constituted Kshs.190 billion equitable share, and Kshs. 20 billion conditional transfers. This accounted for 34.5% of the nationally raised and audited revenues according to Article 203(3) of the Constitution. On the other hand, the National Government was allocated Kshs. 730,375,441,286 which will finance the nationally assigned functions. The county allocations will finance the county assigned functions based on the fourth schedule part (2) on county government functions.

2.2.1. Functions of Devolved Governments

The vertical share between the national and the county governments is based on the cost of functions of the two levels of government, as stipulated in the Fourth Schedule of the Constitution. The following devolved functions have so far been gazetted:

Agriculture

- Livestock sale yards
- County Abattoirs/Slaughter house services

County Health Services

- County health facilities and pharmacies (specific to Nairobi County, Kisumu County, Mombasa
- County, Nakuru County and Uasin Gishu County)
- Ambulance services (specific to Nairobi, Kisumu, Mombasa, Nakuru, Uasin Gishu counties)
- Cemeteries, funeral parlours/ mortuary services and crematoria services

Refuse removal, refuse dumps and solid waste disposal

Control of outdoor advertising

Cultural services, public entertainment and public amenities but limited to:

- Betting services
- Liquor licensing
- Video shows and hiring
- Sports and cultural activities and facilities
- County parks, beaches and recreation facilities

County Transport:

- Access roads
- Street lighting
- Traffic and parking

Animal Control and welfare

- Licensing of dogs
- Facilities for the accommodation, care and burial of animals

Trade and Development regulations

- Markets
- Trade licencing (excluding regulation of professionals)
- Local tourism

County planning and development:

- Land survey and mapping
- Housing

Pre-primary education, home-craft centre and childcare facilities

Implementation of specific National Government policies on natural resources and environment conservation:

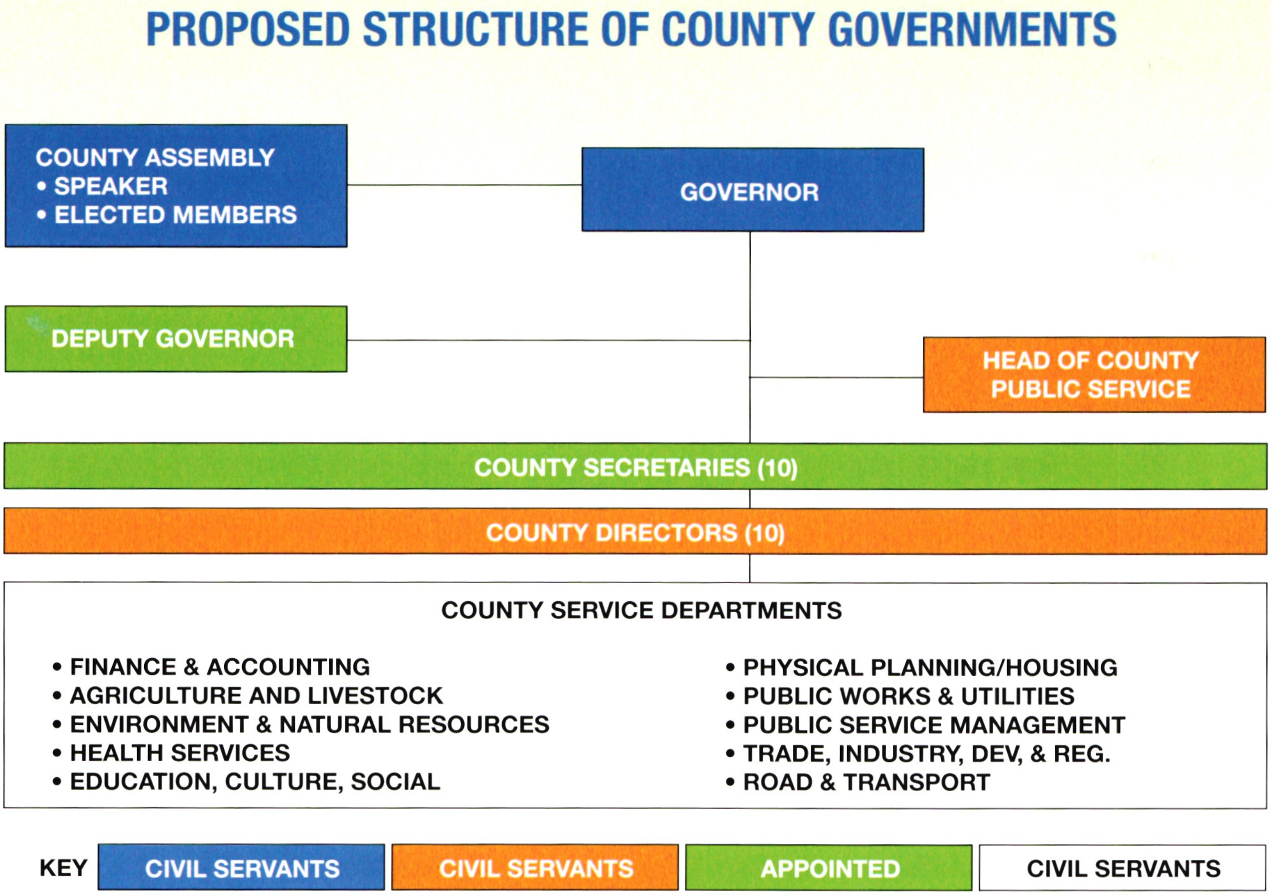
- Protection of water springs
- Protection of wells and dams

County public works and services specific to storm water management systems in built-up areas

Fire fighting services and disaster management

Control of drugs and pornography

Table 1: County Government structure



2.3. Horizontal Equity

CRA's peer visit to Ghana

Article 216 (1) (b) provides that the Commission on Revenue Allocation recommends the basis of equitable sharing of revenue raised by national government among county governments.

Based on research conducted by CRA on equitable distribution of public resources in a devolved system, benchmarking visits to other countries with devolved governments, county stakeholders and expert consultations, the Commission developed a horizontal formula for the equitable sharing of revenue raised by the national government. The formula consists of five parameters, namely: basic equal share; population; poverty, land area and fiscal responsibility. The parameters are weighted as shown in the table below.

CRA's peer visit to India

Parameters for Horizontal Equity

These parameters were approved by Parliament in accordance with the Sixth schedule section 11 (1) (a) for equitable sharing of revenue and are here below defined as:

Table 2: Horizontal Formula Parameters

PARAMETER	% weight
POPULATION	45
BASIC EQUAL SHARE	25
POVERTY	20
LAND AREA	8
FISCAL RESPONSIBILITY	2
TOTAL	100

The People of Kenya

Population: The population parameter ensures all Kenyans are treated equally by distributing the population-based revenue equally among all Kenyans irrespective of their county of residence. The total amount a county is allocated on the basis of the population parameter is equal to the per person allocation based on the population share multiplied by the population of the county.

Basic equal share: All counties have fixed expenses that need to be met irrespective of their size, population and poverty levels. These services include salaries and other expenses for the county executive and county assembly and are critical for effective governance and administration at the county level.

Poverty: CRA used the overall poverty measure in the formula to allocate revenue among counties because poverty is causally linked to expenditure needs differentials of counties. Counties with a higher number of poor people experience greater demand for publicly provided services rather than private ones. An allocation based on poverty ensures that all poor Kenyans are treated equally irrespective of their location. Poverty as a parameter for resource allocation is an affirmative action in respect of disadvantaged areas and groups.

Land area: The cost of service delivery depends on the size of a county. A county with a larger area will definitely incur additional administrative cost to deliver a comparable standard of service to its residents. Additionally, increase in distances adds to costs in a number of ways including greater length of roads to build and maintain, higher freight costs of inputs and longer distances for public servants to travel in the course of providing services. To ensure equity in the use of land area as a parameter, CRA placed a minimum and maximum contribution to total land mass at one per cent and ten per cent respectively. Lower and upper bounds introduces affirmative action in favour of very small counties

Fiscal responsibility: This is an incentivised parameter that encourages counties to manage their fiscal resources prudently and optimize their revenue raising potential. Since there are currently no historical fiscal performance evaluation measures, the 2013/14 allocations among counties used equal weights.

2.3.2 Equitable Allocation to Counties

The equitable sharing of revenue has two components, namely: non-conditional and conditional allocations.

Non-conditional Allocations

Non conditional allocations have been made based on a predetermined objective criteria or formula. These allocations do not impose any specified restrictions or conditions of use and hence the county governments have the discretion to allocate resources.

This means that under this category, both planning and budgeting are done at the county level, a situation which allows for a better match between budget allocations and identified priorities. It also allows the county government to exercise their autonomy. However, the only requirement for such transfers is that their management complies with the Public Finance Management law, regulations and procedures as happens at National Government.

Conditional Allocations

These allocations are for predetermined project and programmes. Specifically, these funds have been allocated to counties with provincial and /or level five hospitals and on-going donor projects. In accordance with the PFM Act, beneficiary institutions will be required to account for all funds disbursed to them.
Based on the formula for equitable sharing of revenue between the national and county governments, the following allocations were approved for financial year 2013/14 as follows:

Table 3: Equitable Allocations Among Counties (Kshs. Millions)

	County	Equitable share	Provincial & level 5 Hospital	Donor Projects	Grand Total	Per Person (Kshs.)
1	Baringo	3,248		383	3,630	6,535
2	Bomet	3,443		273	3,715	4,166
3	Bungoma	6,181		335	6,515	4,738
4	Busia	3,412		266	3,679	4,945

	County	Equitable share	Provincial & level 5 Hospital	Donor Projects	Grand Total	Per Person (Kshs.)
5	Elgeyo/Marakwet	2,392		745	3,137	8,477
6	Embu	2,807	260	297	3,364	6,517
7	Garissa	4,221	184	291	4,696	7,538
8	Homa Bay	4,121		1,605	5,726	5,941
9	Isiolo	2,236		188	2,423	16,913
10	Kajiado	3,227		284	3,512	5,109
11	Kakamega	6,516	311	529	7,356	4,430
12	Kericho	3,295		318	3,613	6,116
13	Kiambu	5,459	368	438	6,264	3,859
14	Kilifi	5,443		378	5,820	5,245
15	Kirinyanga	2,588		242	2,830	5,359
16	Kisii	5,188	211	425	5,824	5,055
17	Kisumu	4,155	396	316	4,867	5,023
18	Kitui	5,315		519	5,834	5,761
19	Kwale	3,749		280	4,029	6,200
20	Laikipia	2,523		235	2,758	6,908
21	Lamu	1,501		99	1,600	15,757
22	Machakos	4,951	109	415	5,474	4,983
23	Makueni	4,366		355	4,721	5,337
24	Mandera	6,550		230	6,781	6,610
25	Marsabit	3,796		273	4,068	13,973
26	Meru	4,749	183	575	5,508	4,061
27	Migori	4,269		491	4,760	5,190
28	Mombasa	3,802	414	131	4,348	4,628
29	Muranga	3,917		404	4,322	4,585
30	Nairobi	9,506		390	9,896	3,153
31	Nakuru	5,936	600	425	6,961	4,342
32	Nandi	3,478		409	3,887	5,162
33	Narok	3,868		279	4,146	4,873
34	Nyamira	3,039		278	3,317	5,545

	County	Equitable share	Provincial & level 5 Hospital	Donor Projects	Grand Total	Per Person (Kshs.)
35	Nyandarua	3,150		285	3,435	5,761
36	Nyeri	3,254	382	435	4,071	5,870
37	Samburu	2,598		207	2,805	12,526
38	Siaya	3,654		318	3,972	4,715
39	Taita	2,421		206	2,626	9,227
40	Tana River	2,914		204	3,119	12,991
41	Tharaka Nithi	2,295		140	2,435	6,664
42	Tranzoia	3,730		193	3,923	4,791
43	Turkana	7,664		230	7,894	9,229
44	Uasin Gishu	3,797		270	4,067	4,548
45	Vihiga	2,832		197	3,029	5,461
46	Wajir	5,290		357	5,648	8,532
47	West Pokot	3,155		438	3,593	7,008
	GRAND TOTAL	190,000	3,419	16,581	210,000	

2.4 Equalization Fund

The Constitution, in Article 216 (4) mandates CRA to determine, publish and regularly review a policy in which it sets out the criteria by which to identify the marginalized areas for purposes of the allocation and use of the Equalization Fund. Further, Article 204 (4) stipulates that the CRA shall be consulted and its recommendations considered before Parliament passes any Bill appropriating money out of the Equalization Fund.

The CRA in 2013 prepared and published a policy on the criteria for identifying marginalized areas for purposes of the Equalization Fund. The policy sets out the criteria for identifying marginalized areas in Kenya. It identifies the marginalized counties and also provides a framework that will guide in the planning, implementation, and monitoring and evaluation in the use of the Equalization Fund. The policy will remain in operation for a period of three years before it is reviewed.

In setting out the criteria for identifying marginalized areas, the policy defines the reasons for marginalization: legislated discrimination, geographical location, culture and lifestyles, external domination, land legislation and administration, minority recognition groups, ineffectual political participation and inequitable government policies.

The policy recommends that the Equalization Fund be managed by an Advisory Committee and appropriated as a conditional grant to counties identified as marginalised in a single budget line instead of the sectors under the Medium Term Expenditure Framework (MTEF).

Evidence of marginalization

The policy recognizes that there are pockets of marginalized areas in counties which are classified as non-marginalized and thus do not benefit from the Equalization Fund. Both the national and county governments should, therefore, institute affirmative action programs targeting minorities and marginalized groups within counties to enable them realize their social and economic rights as enshrined in the Constitution.

The policy further highlights the consequences and impact of marginalisation. These include high levels of absolute and relative poverty, food insecurity, poor infrastructure, poor state of basic social services and poor governance.

2.4.1. Criteria used

The primary criteria chosen for identifying marginalized counties is the County Development Index (CDI), which is a composite index constructed from indicators measuring the state of health, education, infrastructure and poverty in a county. The CDI is complemented by two other approaches, namely:
Expert analysis on historical and legislative discrimination and results of CRA's county marginalisation survey.

Evidence of marginalization

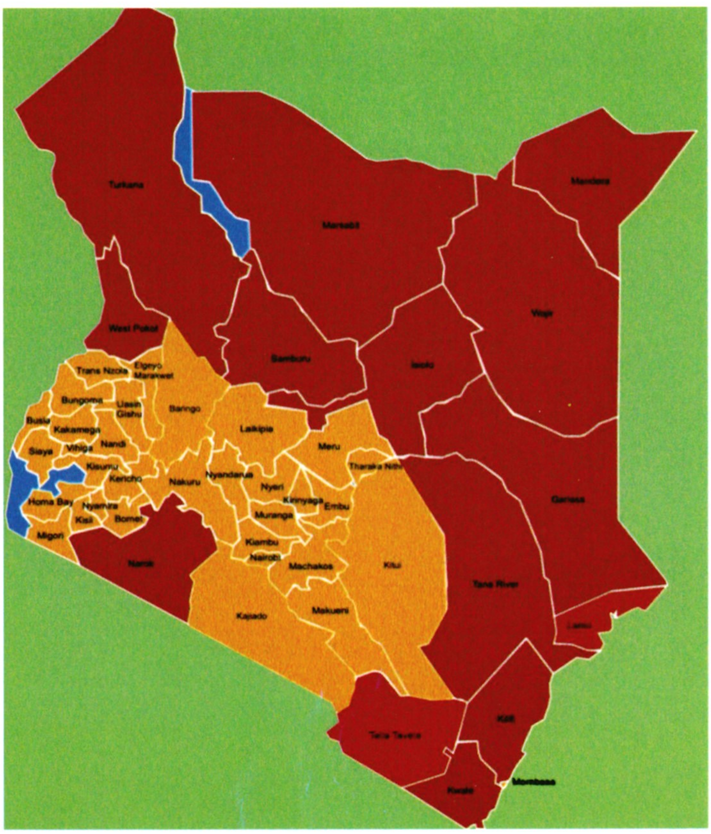
Based on these criteria, the following fourteen (14) counties were identified as marginalised.
Turkana, Mandera, Wajir, Marsabit, Samburu, West Pokot, Tana River, Narok, Kwale, Garissa, Kilifi, Taita, Taveta, Isiolo, Lamu.

The amount set aside for the Equalisation Fund is 0.5% of all revenue raised nationally. This amounted to Kshs.3.4 billion based on exchequer receipts for financial year 2010/11.

CRA recommended that these amounts be allocated to marginalised counties as shown in the Table below.

Table 4 Allocations from the Equalisation Fund: Kshs.3.4 Billion

County	Population	CDI	Reciprocal of CDI	% of Share of CDI	% of Equal Share	% Combined Share	Total Revenue (Mns.)
Turkana	855,399	0.27	3.7037	10.65	7.14	8.90	302
Mandera	1,025,756	0.31	3.22581	9.27	7.14	8.21	279
Wajir	661,941	0.33	3.0303	8.71	7.14	7.93	270
Marsabit	291,166	0.37	2.7027	7.77	7.14	7.46	254
Samburu	223,947	0.38	2.63158	7.57	7.14	7.35	250
West Pokot	512,690	0.38	2.63158	7.57	7.14	7.35	250
Tana River	240,075	0.39	2.5641	7.37	7.14	7.26	247
Narok	850,920	0.44	2.27273	6.53	7.14	6.84	233
Kwale	649,931	0.45	2.22222	6.39	7.14	6.77	230
Garissa	623,060	0.47	2.12766	6.12	7.14	6.63	225
Kilifi	1,109,735	0.5	2	5.75	7.14	6.45	219
Taita Taveta	284,657	0.51	1.96078	5.64	7.14	6.39	217
Isiolo	365,330	0.52	1.92308	5.53	7.14	6.34	215
Lamu	101,539	0.56	1.78571	5.13	7.14	6.14	209
Totals			34.782	100.00	100.00	100.00	3,400



Map of Kenya showing marginalised counties in red

CHAPTER THREE: FINANCING AND FINANCIAL MANAGEMENT OF COUNTIES

3.1. Financing of County Governments

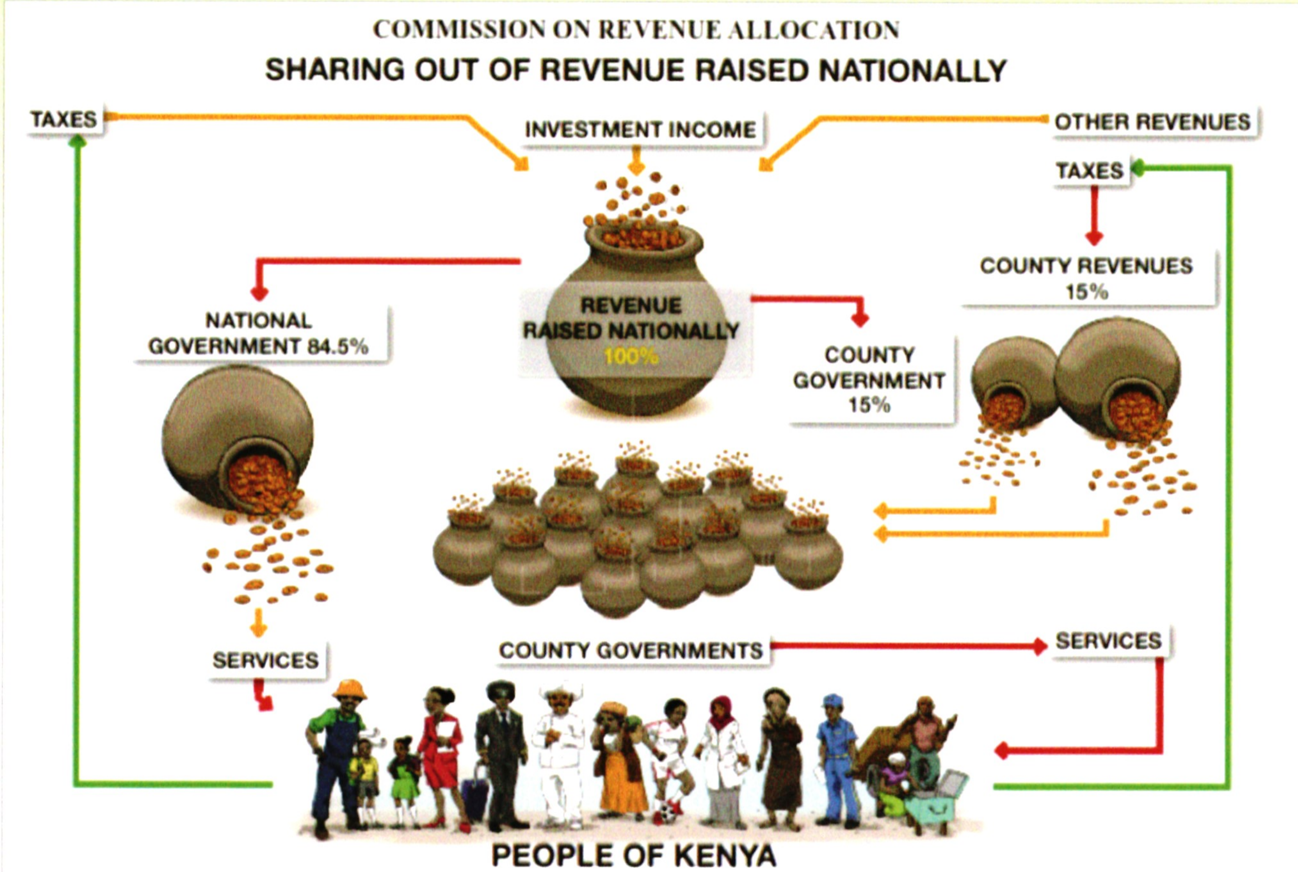
County governments are financed through diverse sources. The largest component is the transfer from the national government composed of the equitable share (article 202) (a) and additional allocations through either conditional or non-conditional grants

The monies raised nationally are supposed to be shared between the national government and county governments; and among the county governments for the purposes of equalization fund. During the financial year 2013/2014, CRA developed criteria that were used to allocate funds between the national government and county governments and among county governments.

The criteria which were followed to fund county governments were guided by Schedule Four of the Constitution. The funding of the county governments was successful and by basing on Schedule Four, CRA ensured an equal share of finances between and among county governments.

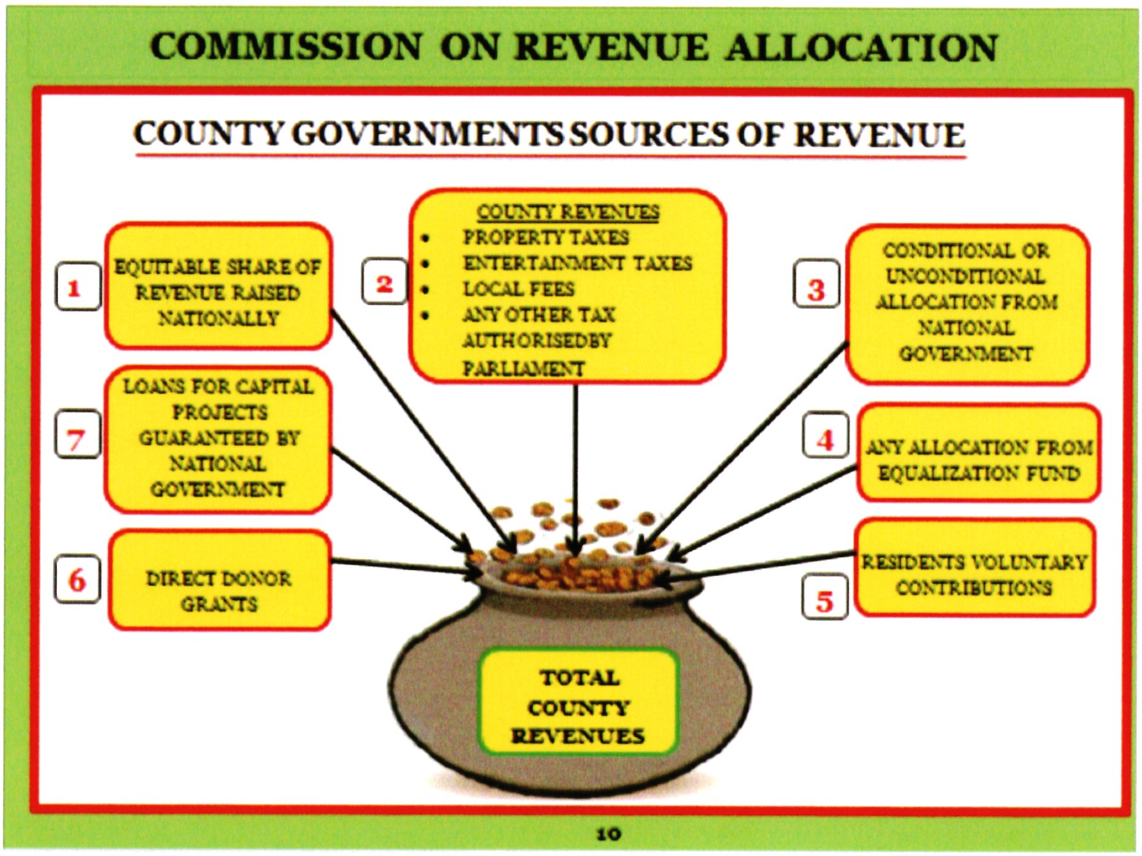
3.1.1. Transfers

Transfers from national government to county governments constitute the largest component of county revenue. On aggregate, the Kshs. 210 billion transferred to counties for financial year 2013/14 constitutes 68 per cent of county financing. With counties only managing just 30 per cent of their aggregate budgets, this poses challenges of dependence of county governments on national governments not only for purposes of development expenditures, but also to finance personnel emoluments. The CRA will continue to make recommendations on prudent financing and financial management of county resources, and alternative sources of county revenues.



3.1.2. Taxes, Fees and user charges

The Constitution mandates the national government to impose taxes and charges for the purpose of raising national revenue (Art. 209). Among the taxes that can be imposed include income tax, value added tax, custom duties on import and export goods and exercise tax.



Likewise, the county governments are mandated to impose taxation on properties and entertainment as a way of broadening their own revenue base. However all these forms of taxation and revenue raising powers are to be exercised in a manner that does not prejudice the national economic policies, economic activities of the country or interfere in any way with mobility of goods, services, capital or labour. The County Government Public Finance Management Transition Act section 23 provides for the county governments to continue imposing rates and charges as provided for by the law. The Public Finance Management Act Section 161 provides that county governments seek the views of the cabinet secretary and the Commission on Revenue Allocation before imposing any tax.

3.2. Financial Management of Counties

Article 216) (2) mandates CRA to make recommendations on matters concerning the financing and financial management of county governments. During the financial year 2012/13, the Commission discussed and made the following recommendations:

- The fundamental function of CRA under article 216 of the Constitution is to make recommendations on the basis of equitable sharing of revenue raised nationally between the national and county governments. CRA discussed and advised county governments to plan for realistic revenue collection projections based on individual county potentials in order to finance their budgets and avoid the risk of revenue shortfalls
- From May 2013, CRA visited all 47 counties and recommended the establishment of financial management systems and procedures to seal loopholes in revenue collection and utilisation.
- During the budget making process of the county governments, CRA recommended the preparation of balanced budgets and proper budgeting of devolved functions. CRA advised county governments to prepare and submit budgets that adhered to the MTEF and also aligned to the country's development priorities as espoused in Vision 2030.
- In an effort to create understanding on the functions to be budgeted for by the counties, CRA engaged with the county governors in a series of structured meetings and county visits.
- CRA continued to provide advice to the county governments on what is constitutional for inclusion in their budgets based on constitutional provisions on county government functions.
- CRA contributed to the enactment of the Public Financial Management Act 2012 as well as the development of the Public Financial Management Reform Strategy.
- To guide proper planning at counties, CRA published the 2nd edition of the County Fact Sheets.
- CRA through its representative, continued to make recommendations on prudent financial management through the IFMIS Steering Committee and IFMIS Technical Committee.
- CRA has undertaken county visits to ascertain the ICT infrastructure preparedness in counties. CRA has also been involved in the installation and roll out of IFMIS in some counties.
- To ensure that counties have adequate capacity, CRA recommended that counties rationalize their staff in order to reduce their personnel costs.
- CRA has assisted counties on how to develop County Integrated Development Plans (CIDP) by providing inputs on projects and programmes to be undertaken by counties thereby ensuring that county budget estimates were done in a realistic and accurate manner.

County Facts Sheet

The launch of county fact sheets by CRA on 19 July 2013 provides the counties with the most critical information resource. The information in the fact sheet is useful to the county governments in helping them discharge their functions well.

The fundamental function of CRA under Article 216 of the Constitution is to make recommendations on the basis of equitable sharing of revenue raised nationally between the national and county governments, and, among county governments. CRA has several other functions enumerated in Article 216 of the Constitution. These include making recommendations on matters concerning the financing of, and financial management by county governments, enhancing revenue sources of the national and county governments, and determining, publishing, regularly reviewing policy criteria by which to identify marginalized counties for purpose of Equalization Fund.

However, reliable statistics are key to the commission's functions and vital for policy formulation and analysis. The edition provides an update and also introduces new data such as; HIV data under the health outcomes, the 1999 population and county population growth rate for the period 1999 to 2009.

The fact sheets provide important yet simplified data for each county on: population, health, education and infrastructure. No other single book has attempted to provide county-specific data in such a manner.

The data on each of the 47 counties is useful to many stakeholders, including national and county government political leadership, the executive and other policy makers. It is also useful to development partners, academic institutions and the public service in national and county governments. The book is part of a series of publications which have been launched by CRA to provide data that informs policy formulation and planning under Kenya's new system of devolved government.

County visits

In an effort to assess the county governments level of preparedness for the constitutional dispensation of devolution during the transition period, CRA set up various teams to visit all 47 counties and discuss their readiness for devolulution, budget preparation strategic plan, ICT development, human resource and capacity county branding, income generation, assessment of natural resources and capacity to get data about the county.

The CRA Chairman Micah Cheserem and his team visited Nairobi, Machakos, Embu, Kitui and Makueni County. A team led by Commissioner Meshack Onyango visited Mombasa, Kwale, Kilifi, Tana River, Lamu and Taita Taveta county. Commissioner Prof. Raphael Munavu led the team that visited Garissa, Wajir, Mandera, Marsabit, Isiolo and Meru county.

The team that was led by Commissioner Fatuma Abdulkadir-the Vice chairperson, visited Siaya, Homa Bay, Migori, Kisii and Nyamira County. A team led by Commissioner Rose Osoro visited Baringo, Nakuru, Narok, Kajiado, Kericho and Bomet County.

Another team led by Commissioner Prof. Wafula Masai visited Nyandarua, Nyeri, Kirinyaga, Murang'a, Kiambu and Tharaka-Nithi. While the group led by commissioner Amina Ahmed visited Turkana, West Pokot, Samburu, Trans-Nzoia, Uasin-Gishu and Elgeyo/ Marakwet County. Commissioner Prof. Joseph Kimura and his team visited Kakamega, Vihiga, Bungoma, Busia, Nandi and Laikipia County.

3.3. Revenue Enhancement

Article 216 (3) (b) mandates CRA to define and enhance revenue sources of national government. In actualising this mandate:

Revenue Enhancement through the informal sector

CRA participated and made contributions towards the preparations of the 2nd Medium Term Expenditure Framework Plan 2013-2017 for Vision 2030.

CRA enhanced its capacity on natural resources exploitation by recruiting an advisor on natural resources. CRA took part in the development of the Geology, Minerals and Mining Bill, 2012 and the Energy Policy. In addition, CRA has been visiting the counties to identify counties comparative advantage.

Article 216) (3) (b) mandates the Commission to define and enhance revenue sources of county governments.

Tullow strikes oil deposits in Turkana

More deposits of rare earth mineral are found in Kwale

- During the county visits, CRA encouraged county governments to identify methods that would seal leakages and enhance revenue collection. Some of the suggestions made include advice on automation of revenue collection processes, allocating funds to promote tourism and attract investors and county branding.
- Counties were also advised on exploring other revenue potentials to enhance their revenue base.

3.4 Fiscal Responsibility

Article 216 (3) (c) mandates CRA to encourage fiscal responsibility by national and county governments

During consultative forums at the national level, CRA emphasized the need by the national government to ensure prudent utilisation of allocated resources. CRA made recommendations to national and county governments to prepare budgets that reflect the functions outlined in the Fourth Schedule of the Constitution.

Article 216 (3) (c) mandates CRA to encourage fiscal responsibility by county governments. This mandate was actualised as follows:

- CRA advised county governments to prepare balanced budgets and not to borrow funds in the initial three years of county government operations
- CRA advised county governments to ensure equitable sharing of county funds among the sub-counties detailed in the County Integrated Development Plans.
- CRA is in the process of developing an assessment framework for measuring fiscal responsibility of individual counties with a view to provide incentives for prudent financial management practices.
- CRA has built its internal capacity to analyze budgets and expenditure patterns through recruitment of additional technical staff.
- CRA has been working with the Governors Council in creating awareness among county leaders. In addition, CRA has also been working with the County Speaker's Forum on their responsibilities.
- CRA made provision of 2% to fiscal responsibility as one of the parameters in the horizontal formula. This is to incentivize proper financial management among counties. CRA is in the process of developing a fiscal responsibility index in partnership with Institute of Certified Public Accountants of Kenya (ICPAK). The index will guide subsequent allocations based on the fiscal responsibility component.

3.5 Legislations on Devolution

The Constitution provides that CRA be consulted and its recommendations considered by Parliament on all laws being enacted relating to devolved governments (schedule 6, sec. 14(1) and any bill appropriating money out of the Equalization Fund (Article 204) (4).

CRA has developed and published criteria that identified 14 marginalized counties for the purposes of equalization fund. This informed the recommendation for parliament's enactment of an Act appropriating the funds to the eligible counties.

1. Article 205(1) stipulates that CRA be consulted on any Bill that includes provisions dealing with

sharing of revenue

CRA was active in making recommendations on the following Acts of Parliament and Bills:

- **Transition County Allocation of Revenue Act 2012/2013** which provides for allocations of wages and administration costs for the county executive and county assemblies for the period of March to June, 2013.
- **Transition County Appropriation Act 2012/2013** which authorizes the issue of a sum of money out of the relevant County Revenue Fund and its application towards the service of the year ending on the 30th June, 2013 and to appropriate that sum for certain respective county public services.
- **Division of Revenue Act 2013/2014** which provides for the equitable division of revenue that is raised nationally between the national and county governments in 2013/14 financial year.
- **County Allocation of Revenue Act 2013/2014** which provides, pursuant to Article 202(2) (Equitable sharing of national revenue) and 218(1)(b) (Annual Division and Allocation of Revenue Bills) of the Constitution, for the division, among the counties, of conditional allocations and equitable share of revenue allocated to the county level of government on the basis determined in accordance with the resolution in force under Article 217 (Division of revenue) of the Constitution for the financial year 2013/14.

CRA made its recommendations on the Bills to the National Treasury, the Parliamentary Budget Committee of the 10th Parliament, the National Assembly, Parliamentary Budget Office and Appropriations Committee and the Senate.

At the review of the Budget Policy Statement 2012/2013, CRA recommended to Treasury the Revenue Allocation formula which was adopted by Parliament for equitable allocations of funds to both national and county government.

CRA also analysed the National Budget Estimate for 2012/2013 financial year, in which it identified more than Kshs.100 billion which could further be transferred to Counties.

CRA participated in drafting the Medium Term Plan 2013/2017 that spells out key priorities based on Vision 2030

2. Article 205(1) stipulates that CRA be consulted on any Bill that includes provisions dealing with any financial matter concerning county governments.

In the period under review, CRA took part in developing the following laws touching on devolution and public finance:

- **Public Finance Management Act, 2012** which provides for the effective management of public finances by the national and county governments.
- **Constituency Development fund Act, 2013** which provides for the establishment of the Constituencies Development Fund.
- **County Governments Act, 2012** which gives effect to Chapter Eleven of the Constitution (devolved government).

- **Urban Areas and Cities Act, 2011** which gives effect to Article 184 of the Constitution(governance of urban areas and cities); provides for the, classification, governance and management of urban areas and cities.

- **National Government Co-ordination Act, 2013** which establishes an administrative and institutional framework for co-ordination of national government functions at the national and county levels of governance.
- **Basic Education Act 2013** which gives effect to Article 53 (specific applicable rights to children) of the Constitution and other enabling provisions; provides for accreditation, registration, governance and management of institutions of basic education; provides for the establishment of the National Education Board, the Education Standards and Quality Assurance Commission, and the County Education Board.
- **Intergovernmental Relations Act, 2011** which establishes a framework for consultation and co-operation between the national and county governments and amongst county governments pursuant to Articles 6(devolution and access to services) and 189(cooperation between national and county governments) of the Constitution.
- **Transition to Devolved Government Act, 2011** which provides a framework for the transition to devolved government pursuant to section 15 of the Sixth Schedule to the Constitution (transitional and consequential provisions).
- **Leadership and Integrity Act 2012** which gives effect to, and establishes procedures and mechanisms for the effective administration of Chapter Six of the Constitution (leadership and integrity).
- **The Election Campaign Finance Bill 2012**,which provides for the regulation, management, expenditure and accountability of election campaign funds during election and referendum campaigns; and for connected purposes
- **Geology, Minerals and Mining Act 2012,** which consolidates the law relating to mining.

3. Schedule 6 section 5 (5) mandates a CRA Commissioner to participate, but shall not vote, in the meetings of the Commission for the Implementation of the Constitution (CIC)

The CRA representative regularly attended the CIC meetings and participated in all matters concerning devolution, public finance and governance.

4. Schedule 6, Part 14(1) stipulates that CRA shall be consulted and their recommendations considered by Parliament for all laws being enacted relating to financial matters of county governments

CRA was consulted and its recommendations considered on the following devolution laws:

- The County Government Public Finance Management Transition Act 2013
- The Public Finance Management Act 2012

CHAPTER FOUR: THE COMMISSION'S CORPORATE RESPONSIBILITY

As a public institution, CRA acts in the broad interest of society, supporting ongoing and new development initiatives.

Being a good corporate citizen includes listening to, understanding and responding to stakeholders about their needs regarding CRA policies and operations.

CRA donated books to needy students

CRA's relationship with stakeholders is of utmost importance because they define what it means to create value.

CRA recognises that it has to integrate its operations to meet the expectations of its stakeholders and maintain a good rapport with them.

It is against this background that CRA is committed to the welfare, health and safety of all Kenyans. The Chairman and commissioners recognize the importance and implications of health, safety, welfare and environmental issues.

Education is an important contributor to national development and CRA has set aside some resources to boost the education system.

During the year under review, the commission visited the informal settlements in Nairobi to see first-hand the economic and social conditions in these areas. This included visits to schools, hospitals and markets such as Olympic Primary in Kibera, Kariakor Market, Pumwani Maternity Hospital. Out of this visit, the Commission as part of its corporate social responsibility donated books worth Kshs. 150,000 Including Chairman's personal donation of Kshs.10, 000 to Olympic Primary School.

The Commission's visit to Pumwani Maternity Hospital, Nairobi

REPUBLIC OF KENYA

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF COMMISSION ON REVENUE ALLOCATION FOR THE YEAR ENDED 30 JUNE 2013

TABLE OF CONTENTS

COMMISSION INFORMATION
FOR THE YEAR ENDED 30 JUNE, 2013

PRINCIPAL PLACE OF BUSINESS

Commission on Revenue Allocation
14 Riverside Drive
Grosvenor suite 2nd Floor
P.O Box 1310-00200
NAIROBI

BANKERS

Kenya Commercial Bank
KICC Branch
Harambee Avenue
P. O. Box 46950-00100 Nairobi
Tel: 020-29248501,
Fax: 020-29248501,

I & M Bank
Riverside Branch,
14 Riverside Drive
P. O. Box 30238 – 00100 Nairobi

AUDITORS

The Auditor General
Kenya National Audit Office
Anniversary Towers
P.O Box 30084 – 00100
NAIROBI

REPORT OF THE COMMISSIONERS
FOR THE YEAR ENDED 30 JUNE, 2013

The Commissioners submit their report and the financial statements for the financial year ended 30 June, 2013 which show the state of the Commission's affairs.

1. INCORPORATION

The Commission on Revenue Allocation is an Independent Commission set up under Article 215 of the Constitution of Kenya.

Principal Activity

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.

Vision Statement

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

Mission Statement

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

Core Values

To achieve its Mission and Vision, the Commission is committed to the following:

- **Equity:** CRA will be guided by the spirit of fairness and inclusion.
- **Teamwork:** CRA will always encourage participation of all members of staff in its operations. CRA believes in people working together to achieve results.
- **Excellence:** CRA will maintain quality control and strive for the highest standards in aspects of our work.
- **Transparency**: All service delivery and operations of the Commission will include citizen participation.
- **Employee satisfaction:** CRA will strive to attract and retain staff with high morale.
- **Integrity**: CRA staff will abide and uphold Chapter Six of the Constitution

2. FINANCIAL STATEMENTS

The results for the year are shown from page 11.

3. COMMISSIONERS

The Commissioners who served during the date of this report were:-

1. Micah Cheserem – Chairman
2. Fatuma Abdulkadir – Vice Chair
3. Meshack Onyango – Commissioner
4. Prof. Joseph Kimura - Commissioner
5. Prof. Wafula Masai - Commissioner
6. Amina Ahmed – Commissioner
7. Rose Osoro – Commissioner
8. Prof. Raphael Munavu – Commissioner
9. Dr. Kamau Thugge PS - Treasury - Commissioner

4. SENIOR MANAGEMENT STAFF

1. George Ooko – Commission Secretary
2. James Katule – Director, Corporate Services
3. Joseph Kuria – Director ICT
4. Sheila Yieke – Director Legal
5. Dr. Peter Nyakundi – Director Natural Resources
6. Stephen Masha – Director County and Fiscal Affairs
7. Lineth Oyugi – Director Research
8. George Muruli – Director Communication

Mr. Micah Cheserem
CHAIRMAN

Mr. George Ooko
COMMISSION SECRETARY

CHAIRMAN'S REPORT

IT gives me great pleasure to present the commission's financial statements for the year ended 30th June 2013. During the year under review, the commission continued to build the foundations for an equitable society in line with it's motto: *'tunaimarisha usawa'*.

The year in focus is monumental in the history of devolution in Kenya. It is the year that witnessed elections held under the new constitution, ushering in a new governance structure in the country with an ambitious strain of decentralisation. It is also within the same year that the first allocation was made to county governments.

The ordinary Kenyan see devolution from two perspectives: on the one hand it brings with it a set of challenges. It is a new ambitious development that brings into existence forty-seven brand new units of governance bestowed with relatively wide financial and political latitude. Both the political and administrative leadership is still grappling with the complexities of transitioning from a heavily centralized to a devolved system of governance. This requires political goodwill as well as the capacity and genuine desire to let go of the old and usher in the new.

On the other hand, Kenyans see devolution as a means of making right what has been wrong within the nation for a very long time. To them, devolution gives a greater say to individual communities in the management of their own affairs. In it, they see the promise of bringing about equitable distribution of resources and a chance to address the socio-economic inequalities that have been inherent in a centralized system of governance for many decades.

We at CRA continue to support Kenyans in ensuring that this promise bears fruit. We are mandated to confront the challenges noted above and institute suitable strategies that will ensure that Kenyans reap the dividends of devolution. During the year under review, we developed our first strategic plan that identified four (4) key result areas. These are: developing and reviewing sound systems for fiscal decentralization and transfers; ensuring prudent public finance management; enhancing public revenues and developing our institutional capacity.

We successfully developed the first generation vertical and horizontal formula with a recommendation of Kenya shillings two hundred and thirty one billion to be shared amongst the counties. We also developed Marginalization Policy that identified fourteen counties to be considered for the purposes of the Equalization Fund. Numerous recommendations to the counties on prudent financial management were made. The commission published relevant information including the county fact sheets as a means for civic education on devolution. Finally, we continued to build the capacity of our staff through partnerships with reputable counterpart bodies in other countries as well as training programmes both locally and abroad.

For the commission to continue delivering its key result areas, several factors remain critical. These include reasonable allocations from National Treasury, enhanced technical capacity, access to real time and accurate information and being open to public scrutiny.

As the commission enters 2013/14 in which it plans to recruit staff to full strength, we also look up to the National Treasury to increase resource allocation for administrative and programme activities in line with our strategic plan. During the year under review, the commission received Kenya shillings three hundred and forty four million (344 M) from the National Treasury. The Commission expects Kenya shillings four hundred and fifty nine million (459 M) to enable it operate smoothly in the year 2013/14.

I wish to thank the secretariat, my fellow commissioners, the National Treasury, county governments and all our stakeholders for their continuing support.

REPORT OF THE COMMISSION'S SECRETARY

The Commission on Revenue Allocation is mandated to make recommendations on the equitable allocation of the revenue generated nationally between the national and county governments and among county governments. As a Commission, we fully understand the importance and magnitude of the task we have been accorded. We are also cognisant of the fact that our success as a team is central to the success of our nationhood and achievement of Vision 2030.

During the year under review, the commission continued to strengthen and enhance its infrastructure to deliver on its mandate. The research work of the Commission has been facilitated by the committed team of professionals at the commission. The Secretariat has worked tirelessly in policy analysis on fiscal decentralization with the capacity and drive to provide independent, timely, reliable, credible and effective advice on revenue allocation and enhancement, financial management, and unlocking of county economic potential.

The Commission developed the first generation horizontal allocation formulae that was approved by parliament in October 2012. This was achieved through both primary and secondary research, engagement of the public and Parliament through various forums. Additionally, the Commission has remained keen on the provision of more information to various stakeholders regarding the formula. In this respect, the Commission hopes to attract critical engagement of its work and also further enhance the quality of its research outputs.

On legal matters, the Commission made invaluable contributions to various policy and legislative matters. The CRA worked alongside the National Treasury, the Attorney General's office, The Kenya Law Reform Commission, The Controller of Budgets, The local Government Ministry, The Auditor General among others, to prepare a Plan of Action on the implementation of Public Finance Management Act 2012. The Commission prepared working papers and made advisory opinions not only on draft bills but also on other Constitutional questions and issues relating to Public Finance.

To ensure vertical and horizontal equity, CRA prepared (2) finance bills for the financial year 2012/2013 and the financial year 2013/2014. The bills were prepared at the end of December 2012 alongside the Transition County Allocation of Revenue Bill.

The Commission engaged with county governments to gauge the levels of preparedness in taking on devolved functions. The Commission set up various teams to visit all the counties and discuss their readiness for devolution, planning and budget preparation, ICT development, human resource capacity, county branding, income generation, assessment of natural resources and capacity to get data about the counties.

The Commission is dedicated to develop knowledge, systems and structures for effective roll out of the devolved government. To this effect, the Commission has been at the forefront in engaging with and advising County governments on the adoption of ICT, the need to develop dynamic websites, and the necessity to establish credible reliable databases by the county governments for effective planning and budgeting.

From its inception, the Commission heavily relied on seconded staff from various Ministries and other government institutions to deliver on its mandate. However, during the year under review, the Commission recruited a large percentage of the key members of staff to discharge its mandate.

Moving forward, the Commission has developed a three year (2013-2015) Strategic Plan that summarizes its priorities and sets of strategies that will enable us to achieve our mandate. In particular, this Plan addresses the question of how the Commission will support the implementation of the new devolved governance structure through equitable allocation of revenue and revenue enhancement.

STATEMENT OF COMMISSIONERS' RESPONSIBILITIES

The Public Audit Act, 2003 requires the Commission to prepare financial statements for each financial year, which includes a Statement of Financial Position showing in details the assets and liabilities of the Commission, a Statement of Comprehensive Income, and such other Statements that the Commissioners may deem necessary. Article 215 of the Constitution 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 the assets of the Commission.

The Commissioners accept the 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 the 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.

Mr. Micah Cheserem
CHAIRMAN

Mr. George Ooko
COMMISSION SECRETARY

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REPUBLIC OF KENYA

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NAIROBI

KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON COMMISSION ON REVENUE ALLOCATION FOR THE YEAR ENDED 30 JUNE 2013

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Commission on Revenue Allocation set out on pages 11 to 18, which comprise the statement of financial position as at 30 June 2013, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003. I have obtained all information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with provisions of Section 20 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

Promoting Accountability in the Public Sector material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at 30 June 2013, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Commission on Revenue Allocation Act, 2011.

Edward R.O. Ouko, CBS
AUDITOR–GENERAL

Nairobi

20 November 2013

COMMISSION ON REVENUE ALLOCATION

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE, 2013

	Notes	2012/2013 KShs	2011/2012 KShs
NON CURRENT ASSETS			
Property, Plant and Equipment	4	154,555,207	152,669,312
Intangible Assets	4(a)	2,044,409	463,504
WIP			14,560,482
		156,599,616	**167,693,298**
CURRENT ASSETS			
Trade and other receivable	10	35,599,924	26,869,137
Cash and Bank Balances	11	130,628,278	72,170,786
		166,228,202	**99,039,923**
TOTAL ASSETS		**322,827,818**	**266,733,221**
FUNDS AND LIABILITIES			
Revenue Reserves		295,842,553	241,692,825
		295,842,553	**241,692,825**
CURRENT LIABILITIES			
Trade and Other Payables	12	26,985,265	25,040,396
		26,985,265	**25,040,396**
TOTAL FUNDS AND LIABILITIES		**322,827,818**	**266,733,221**

31. 10. 2013

Mr. Micah Cheserem
Chairman

Date

30 . 10 . 13

Mr. George Ooko
Commission Secretary

Date

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COMMISSION ON REVENUE ALLOCATION

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE, 2013

	Note	2012/2013	2011/2012
INCOME		KSHS	KSHS
GOK GRANTS - RECURRENT	2	340,000,000	340,000,000
INCOME RECEIVABLE	10	4,952,000	-
A-in-A	3	3,172,101	107,000
TOTAL INCOME		**348,124,101**	**340,107,000**
RECURRENT EXPENDITURE			
PERSONAL EMOLUMENTS	5	116,789,139	67,875,727
DEPRECIATION & AMORTIZATION EXPENSES	4	39,150,083	19,277,175
COMMISSIONERS' EXPENSES	6	25,173,327	9,253,978
OPERATING EXPENSES	7	111,674,397	93,478,587
FINANCING COSTS	8	723,427	256,111
AUDIT FEES	9	464,000	464,000
TOTAL EXPENDITURE		**293,974,373**	**190,605,578**
SURPLUS/(DEFICIT) FOR THE YEAR		**54,149,728**	**149,501,422**

COMMISSION ON REVENUE ALLOCATION

STATEMENT OF CHANGES IN REVENUE RESERVES
FOR THE YEAR ENDED 30 JUNE, 2013

	Revenue Reserves Kshs
As at 1 July 2011	92,191,403
Surplus/(Deficit) for the year	149,501,422
As at 30 June 2012	**241,692,825**
As at 1 July 2012	241,692,825
Surplus/(Deficit) for the year	54,149,728
As at 30 June 2013	**295,842,553**

COMMISSION ON REVENUE ALLOCATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE, 2013

	Note	2012/2013	2011/2012
		KSHS	KSHS
Cash flow From Operating Activities:			
Net (Deficit)/ Surplus from Operations		54,149,728	149,501,422
Adjustments:			
Depreciation and Amortization	4	39,150,083	19,277,175
Operating (Deficit)/Surplus Before working capital changes		**93,299,811**	**168,778,597**
Decrease/(increase) in Trade and Other Receivables	10	(8,730,788)	(22,358,202)
(Decrease)/ Increase in Trade and Other payables	12	1,944,870	7,771,997
Net Cash flow from Operating Activities		**86,513,893**	**154,192,391**
Investing Activities:			
Acquisition of Property, Plant & Equipment	4	(26,024,766)	(123,221,984)
Acquisition of Intangible assets	4(a)	(2,031,635)	(413,743)
Work in progress			(14,560,482)
Net Cash flow from Investing Activities		**(28,056,401)**	**(138,196,209)**
Net (Decrease)/ Increase in Cash & Cash equivalents		58,457,492	15,996,182
Cash & Cash Equivalents at the beginning of the Period		72,170,786	56,174,604
Cash & Cash Equivalents at the end of the Period		**130,628,278**	**72,170,786**

COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

1 Significant Accounting Policies

(i) Basis of Accounting

The Financial statements are prepared in accordance with and comply with International Financial Reporting Standards and international Accounting Standard 1.

The Accounts have been prepared under the Historical Cost Convention.

(ii) Non Current Assets

Non Current 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 Depreciation rates used are as follows:

Motor vehicle	25.0%
Furniture & Fitting	12.5%
Office Equipments & Accessories	30.0%
Computers & Printers	30.0%
Computer Software	33.3%

(iii) Retirement Benefits Obligations

The employees are members of the statutory National Social Security Fund (NSSF).

(iv) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise Cash in hand & Cash book balance as at 30th June, 2013

(v) Revenue Recognition

Income is recognized in the period in which it's received. Government funding is only recognized on receipt. Income is not accrued if its recoverability is considered doubtful.

(vi) Revenue

The revenue constitutes all funds accruing to the Commission in the form of exchequer allocations, sale of Tender and Bank interest earned

2 GOK Grants

The Commission relies on the exchequer to fund its activities for the financial year. The funds are received as one line budget for recurrent

	Date	2012/2013 KShs	2011/2012 KShs
1st Quarter Exchequer	24/08/2012	100,000,000	100,000,000
2nd Quarter Exchequer	05/02/2013	100,000,000	100,000,000
3rd Quarter Exchequer	21/03/2013	110,000,000	92,000,000
4th Quarter Exchequer	30/05/2013	30,000,000	48,000,000
		340,000,000	**340,000,000**

2(a) Income Receivable

	2012/2013 KShs	2011/2012 KShs
Part of 4th Quarter Exchequer	4,952,000	0
	4,952,000	-

3 A-in-A Income

	2012/2013 KShs	2011/2012 KShs
Interest on Bank Deposit	2,012,101	
Sale of Tender	1,160,000	97,000
Token allowance to the Chairman		10,000
	3,172,101	**107,000**

The amounts received as A-in- A during the year relates to amounts collected from both earned and accrued interest on bank deposit and also from sale of Tender.

COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

4 Property Plant and Equipment

FY 2012 - 2013	Computers & Printers	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Cost or Valuation:					
As at 1st July, 2012	**14,439,696**	**625,257**	**70,297,260**	**87,369,529**	**172,731,742**
Additions during the year	6,560,172	5,611,772	22,283,513	6,129,791	40,585,248
As at 30th June 2013	**20,999,868**	**6,237,029**	**92,580,773**	**93,499,320**	**213,316,989**
Depreciation:					
As at 1st July, 2012	**2,275,148**	**196,261**	**3,840,654**	**13,750,368**	**20,062,430**
Charge for the Year	5,788,205	349,820	9,952,721	22,608,606	38,699,352
As at 30th June, 2013	**8,063,353**	**546,081**	**13,793,375**	**36,358,974**	**58,761,783**
Net Book Value:					
As at 30th, June 2013	**12,936,515**	**5,690,948**	**78,787,398**	**57,140,346**	**154,555,207**

FY 2011 - 2012	Computers & Printers	Office Equipment	Furniture & Fittings	Motor Vehicles	Total
Cost or Valuation:					
As at 1st July, 2011	**355,000**	**625,257**	**0**	**48,529,501**	**49,509,758**
Additions during the year	14,084,696	-	70,297,260	38,840,028	123,221,984
As at 30th June 2012	**14,439,696**	**625,257**	**70,297,260**	**87,369,529**	**172,731,742**
Depreciation:					
As at 1st July, 2011	**9,861**	**8,684**	**0**	**808,825**	**827,370**
Charge for the Year	2,265,287	187,577	3,840,654	12,941,543	19,235,060
As at 30th June, 2012	**2,275,148**	**196,261**	**3,840,654**	**13,750,368**	**20,062,430**
Net Book Value:					
As at 30th, June 2012	**12,164,548**	**428,996**	**66,456,606**	**73,619,162**	**152,669,312**

4(a) Intangible Assets

	2012/2013	2011/2012
	KShs	KShs
Cost or Valuation:		
As at 1st July, 2012	**508,244**	**94,500**
Additions during the year	2,031,635	413,744
As at 30th June 2013	**2,539,879**	**508,244**
Amortization:		
As at 1st July, 2012	44,740	2,625
Charge for the Year	450,730	42,115
As at 30th June, 2013	495,470	44,740
Net Book Value:		
As at 30th, June 2013	**2,044,409**	**463,504**

4(b) Work in Progress

	2012/2013	2011/2012
	KShs	KShs
Construction		11,732,982
Consultancy		2,827,500
	0	**14,560,482**

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COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

5	Staff Salaries & Benefits	2012/2013 KShs	2011/2012 KShs
	Basic salaries	59,257,299	59,820,457
	Top up for seconded staff	2,774,761	
	House Allowance	12,008,550	
	Commuter Allowance	6,091,177	
	Responsibility Allowance	4,040,000	
	Telephone Allowance	2,369,983	
	Special Duty	1,694,452	
	Leave Allowance	1,002,159	491,000
	Security Allowance	745,714	
	Pension contribution	92,600	
	Accrued Pension	399,345	
	Gratuity	1,114,338	
	Provision for Gratuity	16,267,102	7,564,269
	Medical	6,080,906	
	Wages	217,500	
	Terminal Dues	413,361	
	Other cash deductions	2,219,892	
		116,789,139	67,875,727

The cost of staff salaries and benefits has increased significantly because the Commission hired more staff in the course of the year which also increased the cost of medical insurance. Provision for Gratuity has also been made for the outstanding balance.

6	Commissioner's Expenses	2012/2013 KShs	2011/2012 KShs
	Telephone Allowance	2,694,858	190,000
	Leave Allowance	415,000	80,500
	Security Allowance	10,102,068	
	Domestic Travel costs	3,630,970	4,182,057
	Foreign Travel Costs	2,915,566	
	Training Expenses	1,586,370	-
	Medical Insurance	2,091,030	3,880,091
	Hospitality Supplies & Services	-	489,865
	Special Expenditure	406,000	-
	Club Membership	1,331,465	431,465
		25,173,327	9,253,978

7	Operating Expenses	2012/2013 KShs	2011/2012 KShs
	Utilities Supplies & Services	1,508,979	1,943,657
	Communication Supplies & Services	3,422,184	3,608,883
	Domestic Travel costs	8,574,064	10,840,865
	Foreign Travel Costs	4,195,379	517,952
	Printing Advertising & Information	17,504,857	31,665,137
	Rent Expenses	29,424,931	25,749,652
	Training Expenses	8,379,452	119,000
	Hospitality Supplies & Services	5,452,567	2,324,351
	Insurance Costs (Motor Vehicle & Plant and Mach	3,624,398	948,813
	Specialised Materials & Supplies	1,128,574	1,020,560
	Office & General Expenses	7,080,100	9,558,520
	Fuel oils and Lubricants	4,499,176	1,553,427
	Security Guards & Cleaning Services	3,858,988	2,440,978
	Contracted Professional Services	10,422,039	-
	Routine maintenance of Motor vehicles	2,307,509	-
	Routine maintenance of Assets	291,201	1,186,793
		111,674,397	93,478,587

8 **Financing costs**

This constitutes commissions in form of bank charges and tax on interest earned from the Sweep Account

9 **Audit fee**

The amount relates to audit fee for Financial year 2012/2013

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COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

COMMISSION ON REVENUE ALLOCATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2013

		2012/2013	2011/2012
10	**Trade and Other Receivables**		
	Suppliers	KShs	KShs
	Medical Insurance	5,475,523	4,347,525
	Group Life	774,262	
	Motor Vehicle	2,247,047	2,636,082
	Plant & Machiner	1,405,253	
	Dstv and Others	475,094	132,208
		10,377,180	**7,115,815**
	Deposit		
	Rent	18,753,322	18,753,322
	Fuel	1,000,000	1,000,000
		19,753,322	**19,753,322**

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

	2012/2013	2011/2012
Debtors		
Staff outstanding salary advance	302,500	0
Others	214,922	0
	517,422	-
Income Receivable		
Part of 4th Quarter Exchequer	4,952,000	0
	4,952,000	-
Total	**35,599,924**	**26,869,136**

			2012/2013	2011/2012
11	**Cash and Bank Balance**		KShs	KShs
	Petty Cash -HQS		7,951	13,324
	KCB - Cash Book	All accounts	128,900,754	72,157,462
	I&M - Cash Book	Current Account	1,719,573	
			130,628,278	**72,170,786**

		2012/2013	2011/2012
12	**Trade and Other Payables**	KShs	KShs
	Creditors		
	Suppliers Invoices	9,854,818	2,451,644
	Refurbishment	0	14,560,482
	Audit Fee	464,000	464,000
	Accrued Pension	399,345	
	Gratuity	16,267,102	7,564,269
		26,985,265	**25,040,396**

These Accounts are presented in Kenya Shillings (KShs)

THE COMMISSION

Micah Cheserem
Chairman

Fatuma Abdulkadir
Vice Chairperson

Meshak Onyango
Commissioner

Prof. Joseph Kimura
Commissioner

Prof. Wafula Masai
Commissioner

Amina Ahamed
Commissioner

Rose Osoro
Commissioner

Dr. Kamau Thugge
Commissioner

Prof. Raphael Munavu
Commissioner

THE SECRETARIAT

George Ooko
Chief Executive Officer

Joseph Kuria
Director- ICT

Dr. Amenya Nyakundi
Advisor, Natural Resources

James Katule
Director Corporate Services

Lineth Oyugi
Director Research

Sheila Yieke
Director Legal Services

Stephen Masha
Director County Fiscal Affairs

George Muruli
Director Communications

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