



PUBLIC PROCUREMENT OVERSIGHT AUTHORITY

Transforming Procurement

**ANNUAL
REPORT**

30th JUNE 2016

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PPOA Annual Report 2015 - 2016



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LIST OF ABBREVIATIONS AND ACRONYMS

PPOA	Public Procurement Oversight Authority
PPDA	Public Procurement and Disposal Act
PPADA	Public Procurement and Asset Disposal Act
PPDR	Public Procurement and Disposal Regulations
PEs	Procuring Entities
PWDs	People with Disabilities
EACC	Ethics and Anti-Corruption Commission
CIC	Commission for the Implementation of the Constitution
EAPPF	The East African Public Procurement Forum
EAC	East African Community
PPARB	Public Procurement Administrative Review Board
PPRA	Public Procurement Regulatory Authority
ADA	Alcohol & Drug Abuse
SLAs	Service Level Agreements
BPR	Business Process Reengineering
COSO	Committee of Sponsoring Organizations
P2P	Procure to Pay
IFMIS	Integrated Financial Management Information System

MISSION STATEMENT

VISION

A vibrant procurement and disposal system for attainment of Kenya's Vision 2030.

MISSION

To facilitate access to procurement opportunities through enabling regulation that fosters value for money for national socio-economic development.

CORE VALUES

- * Transparency
- * Equitability
- * Customer focus
- * Teamwork
- * Objectivity
- * Integrity
- * Courage

MESSAGE FROM THE CHAIRMAN OF PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD



The implementation of the Constitution of Kenya 2010, introduced a system of checks and balances that provides for more transparency in the management of public resources and subject to increased accountability. As part of the Government reform agenda, the need to strengthen and streamline the procurement process has continued to be given prominence. This therefore, led to the enactment of the Public Procurement and Asset Disposal Act, 2015 (the Act) in January 2016. The new Act addresses governance in accordance with the international best practice. Section 27 of the Act establishes the Public Procurement Administrative Review Board as a central independent procurement appeals board to review, hear and determine tendering and asset disposal disputes; and other related sections.

In performance of its activities, the Board has enhanced efficiency in handling applications for

review as well as increased the access to its services through provision of relevant reference materials.

During the year under review, I am glad to report that the Board cumulatively presided over 80 cases compared to 63 cases in the previous financial year; representing a 27% increase. The average duration for hearing of appeals and determination of cases lodged was 16 and 21 days respectively. Notably, the two main grounds of appeals were on tender evaluation and awards.

Despite the challenges of inadequate staffing and insufficient financial resources experienced during the year under review, the Review Board has continued to review its strategies in order to enhance compliance with the public procurement law.

A handwritten signature in black ink, appearing to read 'Paul Gicheru', written over a horizontal line.

Paul Gicheru
Chairman
Public Procurement Administrative Review Board

DIRECTOR GENERAL'S STATEMENT



Background

The public procurement system in Kenya has over the years been undergoing continuous transformation through the Government's efforts to ensure it is in tandem with emerging issues in procurement, technological changes and embracing best practices with the overall objective of quality service delivery, prudent management and curtailing wastage of public resources.

In this regard, a well functioning public procurement system requires supportive legislative framework, strong institutional capacity, efficient and effective procurement processes that will ensure that all public procurement activities uphold the principles of transparency, accountability, integrity, openness, fairness, competition and value for money.

The efforts PPRA has put in place in monitoring and implementation of public procurement laws and procedures in a productive manner have

contributed largely in enhancing public confidence in the system as well as decrease violation of procurement rules by procuring entities. Besides a number of initiatives taken so far, the Authority is committed to providing uninterrupted services to stakeholders within the ambit of its legal framework.

This annual report is therefore an epitome of activities undertaken by the Authority during the 2015/2016 financial year with highlights of its operations, requisite statistical information; and challenges experienced during the review period and recommendations thereof.

Legal Framework

It is worth noting that, the enactment of the Public Procurement and Asset Disposal Act, 2015 (the Act) in January 2016 massively changed the mandate of the Public Procurement Oversight Authority (PPOA) as it largely assumed the regulatory function which then transited to Public

Procurement Regulatory Authority (PPRA). The Act establishes the Public Procurement Regulatory Authority among other functions, to monitor, assess and review the public procurement and Asset Disposal system to ensure they respect the National values and other provisions including Article 227 of the constitution on public procurement. Therefore, during the period under review, the Authority in furtherance of its mandate ensured that public procurement procedures and regulations established by Public Procurement and Disposal Act (PPDA), 2005, Public Procurement and Asset Disposal Act (PPAD), 2015 as well Public Procurement and Disposal Regulations (PPDR), 2006 were complied with.

Monitoring Compliance

Compliance and Monitoring reviews have continued to ensure value for money is achieved by a public procurement system that pay attention to economy and efficiency. A strategic outcome of compliance has allowed stakeholders to understand and monitor how public funds are spent through public procurement.

During the period in review, the Authority monitored compliance through procurement assessments, reviews, contract audits, complaints management, investigations and review of mandatory reports submitted by Procuring Entities. A total of 131 and 842 PE's submitted their procurement plans and mandatory reports respectively. On the other hand, the Authority conducted 101 compliance assessments, 10 reviews and 10 contract audits.

Consequently, from the above activities, it was noted that there is a need for collaborative efforts between the Authority and the National Treasury in building capacity and providing technical support to the PE's in regards to reporting and inventory management.

Capacity Building and Advisory Services

The Authority continued to offer the appropriate training and advisory services to the procuring entities to ensure that the procurement process is indeed smooth for all the stakeholders. During the year under review, the Authority undertook trainings in 11 counties that were mainly targeted to tender committees and disadvantaged groups. A total of 2,214 persons were trained out of which 1,157 were from Procuring Entities while 1,057 were Youth, Women and Persons with Disabilities.

Nevertheless, the above trainings were only conducted in the first half of the financial year following the operationalization of the Public Procurement and Asset Disposal Act, 2015 in January 2016. In the new dispensation, the National Treasury shall provide technical assistance on procurement and assist in the implementation and operation of the public procurement and asset disposal systems.

Corporate Social Responsibility

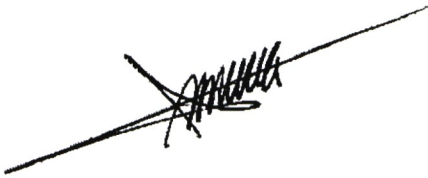
The Authority in the financial year 2015/2016 identified the transcription of Public Procurement and Asset Disposal Act, 2015 into Braille as its Corporate Social Responsibility activity for the year. This

was in recognition that amongst the PWDs who are one of the target groups for the preference and reservation scheme, the visually impaired faced a big challenge in accessing information on the Public procurement law. The Kenya Institute for the Blind (KIEB) was contracted to transcribe, produce and distribute the Act to various institutions.

Appreciation

The aforementioned would not have been realised without the support of staff, government, and stakeholders. I therefore take this opportunity to express my heartfelt appreciation to the Government of Kenya, procuring entities, suppliers and contractors and the public at large for their support in helping the Authority carry out its mandate. Many thanks to PPRA staff for their support and dedication despite the notable challenge of acute staff shortage during the year.

Going forward, with the continued support of the Government and stakeholders, we see great opportunities abounding for PPRA and we shall continue to be committed to provide quality regulatory services by facilitating and ensuring the implementation of an effective and efficient public procurement and disposal system.



M.J.O Juma, MBS
Director General

CHAPTER ONE

ORGANIZATION OVERVIEW

1. Background

1.1 Establishment of Authority

The Public Procurement Oversight Authority (PPOA) is established under Section 8 (1) of the Public Procurement and Disposal Act, 2005 (the Act) and is charged with monitoring compliance with procurement procedures. The Authority also supports the implementation of the procurement law through capacity building and advisory services.

1.2 The Authority

The Public Procurement Oversight Authority is a body corporate comprising of the Director-General and staff. The Authority has organized its functions into two directorates: Technical Services, and Finance and Administration. Technical Services comprises of Compliance, Capacity Building, Administrative Reviews, and Policy & Research departments; whereas Finance and Administration comprises of Finance, Human Resource Management and Administration and Procurement departments. Internal Audit

In addition, Corporate Services and ICT departments report administratively to the Finance and Administration Directorate, but functionally to the Director-General. The Internal Audit Department reports functionally to the Board but administratively to the Director General.

1.2.1 Mandate of the Authority

Section 9 of the Act confers the Authority with the following functions:

- a) to ensure that the procurement procedures established under the Act are complied with;
- b) to monitor the public procurement system and report on the overall functioning of it in accordance with section 20(3)(b) and present to the Minister such other reports and recommendations for improvements as the Director-General considers advisable;
- c) to assist in the implementation and operation of the public procurement system and in doing so:
 - (i) to prepare and distribute manuals and standard documents to be used in connection with procurement by public entities
 - (ii) to provide advice and assistance to procuring entities
 - (iii) to develop, promote and support the training and professional development of persons involved in procurement; and
 - (iv) to issue written directions to public entities with respect to procurement including the conduct of procurement proceedings and the dissemination of information on

- procurements; and
- (v) To ensure that procuring entities engage procurement professionals in their procurement units.
- d) to initiate public procurement policy and propose amendments to the Act or to the regulations; and
- e) to perform such other functions and duties as are provided for under the Act

1.3 The Public Procurement Oversight Advisory Board

The Public Procurement Oversight Advisory Board is established under Section 21 of the Act. Further, Section 22(1) of the Act provides for an Advisory Board comprised of 9 members, appointed by the Minister and approved by Parliament from persons nominated by the prescribed organizations; and the Director-General who serves as secretary to the Board. However, the Act was amended through the Public Finance Act, 2012 to allow representatives from the Ministry of Finance and the Attorney General to be members of the Advisory Board.

PUBLIC PROCUREMENT OVERSIGHT ADVISORY BOARD (PPOAB)

At the beginning of the financial year 2015/2016, the members of the Public Procurement Oversight Advisory Board (as it then was) had three months remaining to the lapse of their respective terms. The members served until the 25th September, 2015 when their terms expired. The Authority continued for the remainder of the financial year without a Board in place.

Members of the Public Procurement Advisory Board

Patrick M. Mtange: Chairperson

Mr. Mtange has vast experience in finance and accounting having worked in both the public, private and non Governmental organization sectors for over 30 years. As at the end of his term, he was the Finance and Administration Manager - Diakonia Sweden, Africa Region. He has previously worked in the private sector (banking – Barclays Bank), public sector (Civil service – Ministry of Tourism and Wildlife and State Corporation – Kenya Wildlife Service) and the Non Governmental Organization sector.

He also has Board governance experience having served on various boards including; Chairman, Council of the Institute of Certified Public Accountants of Kenya (ICPAK), Board member of the Pan African Federation of Accountants Board -PAFA), Board member KCA and Daystar Universities and board member and subsequently Chairman of PPOAB.

He holds a Bachelor of Commerce (Accounting Option), a Certified Public Accountant of Kenya - CPA (K) and Fellow of the Institute of Certified Public Accountants of Kenya – FCPA (K).



Martha K. Mugambi: Vice-Chairperson

Martha Mugambi has held various leadership positions for over 26 years. She was a long serving staff of the Standard Chartered Bank PLC and employee of the Ministry of Community Development and Social Services. As at the end of her term, she was the Chair of the following bodies: Kenya National Chamber of Commerce (Women in Business Committee Board); Board of Governors of the Meru College of Science and Technology and Business; Professional Women's Club, Nairobi and Kahawa Maximum Prison Juvenile Rehabilitation Program.



As at the end of her term, she was a trustee for the following: PPOA Staff Pension Fund; Regina Pacis University College and Ameru Professional Association. She is the founder and Director of International Development Centre for Africa and was also a member of the Standing Committee on Human Rights, Kenya. Martha is a trained Social Worker from the Institute of Social Studies in Oudenbosch Holland {1962-65} and a trained Teacher from Igoji Teachers Training College, Meru.

Maurice J.O Juma, MBS:***Director General and Secretary to the Board***

Mr. Juma has over 27 years experience in procurement and supplies management during which he has headed various procurement units and Departments in the public sector.

He holds a Master of Science in Purchasing and Logistics from University of Salford (UK), Master of Business Administration, Bachelor of Commerce and professional Diploma in Supplies Management.

**Eng Reuben K. Kosgei: Member**

Eng. Reuben Kosgei is a distinguished mechanical engineer with over 41 years experience gained from service in both the public and private sector. As at the end of his term, he was a partner in Associated Services Consultants - Mechanical and Electrical Consulting Engineers and Chairman and Fellow of the Institute of Engineers of Kenya (FIEK). He was a partner at Kaburu Okelo and Partners; a Principal Maintenance Engineer at Kenya Bureau of Standards, a Mechanical Engineer and an Assistant Engineer with the Ministry of Public Works. He underwent practical training locally and in the United Kingdom.



Eng. Kosgei is a registered consulting engineer with the Engineers Board of Kenya (EBK). He holds a BSc (Mechanical Engineering) from the University of Nairobi and a Postgraduate Diploma in Environmental Engineering and Design from Polytechnic of the South Bank, London.



Faith N. Kimani: Member

Faith Kimani has over 27 years of experience gained from the private sector. She is a registered quantity surveyor and as at the end of her term she was working for Barker and Barton (Kenya) as a senior project quantity surveyor. She previously worked for Miguna Consultants as a Quantity Surveyor and associate director.

She is a member of the Architectural Association of Kenya and is a council member of the Quantity Surveyor's chapter.



Fred Odhiambo: Member

Fred Odhiambo has over 28 years work experience in various positions held both in the private and public sector. As at the end of his term, he was the Group Sales and Marketing Director at Riley Security Group. He has previously served as CEO of Postal Corporation of Kenya; Head of Marketing, Barclays Bank and Regional Marketing Manager, Standard Chartered Bank.

He holds a B.Com (Marketing) degree from the University of Nairobi and a Diploma in sports from Kenya National Sports Council.



Joyce M. Njogu: Member

Joyce Njogu is a Business Development, Marketing and Strategic Management professional with 16 years work experience in both the Public and Private Sector. As at the end of her term, she was the Head of Consulting at the Kenya Association of Manufacturers. She has previously worked with the Sports Stadia Management Board as a Sales and Reservations Officer, Development Manager at Association of Chartered Certified Accountant (ACCA) and Kenya Postel Directories Ltd as a Sales Executive.

Joyce holds an MBA (Strategic Management) from University of Nairobi, Bachelor of Education (Moi University), Postgraduate Diploma (Marketing) from Chartered Institute of Marketing (CIM, UK) and Executive practitioner's certificate in Marketing Management from Marketing Society of Kenya (MSK). She is a chartered marketer and member of CIM (UK), MSK and Kenya Institute of Management (KIM). Further she is an Executive Coach with a certificate from the Academy of Executive Coaching (AoEC); and a graduate of Female Future Kenya program offered by Federation of Kenya Employers.

Livingstone Bumbe: Member

Mr Livingstone Bumbe is an alternate to the Cabinet Secretary/National Treasury on the Board. He is an Assistant Director, Debt Management at the National Treasury

He holds a Master's in Public Sector Management from the Africa University, Mutare, Zimbabwe and a Bachelor of Arts from the University of Nairobi.

**Lawrence M. Ngugi: Member**

Mr. Lawrence Ngugi is an alternate to the Attorney General in the Board. He is an advocate of the High Court of Kenya with over 15 years practice in various fields of law. He is currently the Ag. Registrar, Nairobi Centre for International Arbitration and a Senior Principal Litigation Counsel (Head of Commercial and Arbitration Division of the Civil Litigation Department) at the Attorney General's office.

He was a member of the Taskforce on the Dissolution of the Defunct Electoral Commission of Kenya (ECK), in 2008.

He holds a Bachelor of Law (LLB) from Mysore University, India; Post Graduate Diploma in Law from the Kenya School of Law; MA (International Studies) from the University of Nairobi; BA Hons. (Econ) from Punjab University, India. He is also an Alumnus of the National Defence College (NDC) Kenya and a Certified Public Secretary (CPSK).

**Ms. Ruth T. Ngobi: Member**

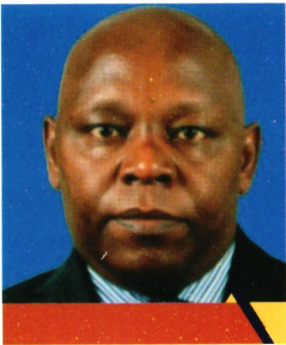
Ms. Ruth Ngobi is an Advocate of the High Court of Kenya of 31 years standing and Certified Public Secretary. She worked with Unilever Kenya Limited for 15 years as Company Secretary and Legal Counsel before joining British American Tobacco Kenya Ltd in 2002 as Company Secretary and Area Legal Counsel. In 2010, she founded Cosec Solutions which provides company secretarial services and corporate governance solutions to various companies.

Ms. Ngobi holds a Bachelor of Laws Degree from University of Kent at Canterbury UK and a Masters of Law from the University of Cambridge UK. As at the end of her term, she was a Non-Executive Director on the Boards of CFC Stanbic Bank Limited and CFC Stanbic Holdings Limited.



PUBLIC PROCUREMENT ADMINISTRATIVE REVIEW BOARD

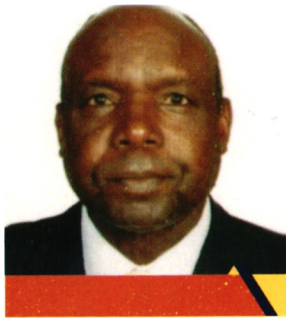
The Public Procurement Administrative Review Board (Review Board) is established under Section 25 of the Public Procurement and Disposal Act, 2005. The Review Board comprises of six members nominated by the specified institutions/bodies and three other members appointed by the Minister, one of whom is the Chairman. The Secretary to the Review Board is appointed by the Director-General from amongst the staff of the Authority. The Review Board objectives are to hear and determine disputes arising from candidates who claim to have suffered loss or damage due to the breach of a duty imposed on a Procuring Entity by the Public Procurement and Disposal Act, 2005 and/or the Public Procurement and Disposal Regulations, 2006. The Board was established to promote and uphold fairness in the Public Procurement System through judicious and impartial adjudication of matters arising from disputed procurement proceedings in order to increase transparency, accountability and public confidence. The Board also adjudicates the Director – General’s decisions made against procuring entities on investigations and debarment of suppliers.



Mr. Paul Gicheru: *Chairperson*

Mr. Gicheru is an advocate of the High Court of Kenya and has been in practicing law for more than 18 years. He is also a Commissioner of Oaths and a Notary Public. He is the proprietor of M/s Gicheru and Company Advocates and was previously an Associate at M/s Kalya and Company Advocates.

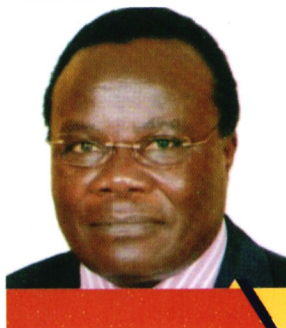
He holds a Bachelor of Law (LLB) degree from the University of Nairobi and a Post Graduate Diploma from the Kenya School of Law.



Mr. Nelson K. Orgut: *Member*

Nelson Orgut has vast experience in the tea industry spanning 42 years. He is an independent Director of Cianda Holdings Ltd and Ngorongo Tea Factory Ltd, Kiambu.

He has served both as an Executive and a Director of the James Finlay Ltd. He retired as the Operations Director. He was also the Chairman of the East African Tea Trade Association (EATTA) Committee in Mombasa.



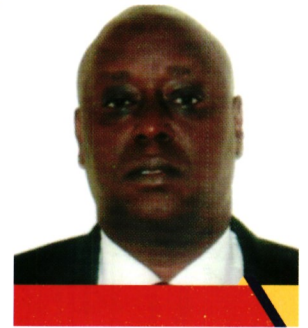
Mr. Peter B. Ondieki, MBS: *Member*

Peter Ondieki has a distinguished public service career spanning over 36 years in economic planning and management. He has served in senior management positions as:- Director of Programs, Relief and Rehabilitation Department-Office of the President; Secretary, Poverty Eradication Commission-Office of the President; Director, Monitoring and Evaluation Department-Ministry of Planning and National Development; and Inspector General, Inspectorate of State Corporations - Office of the President.

Mr. Paul Ngotho: Member

Paul Ngotho is the proprietor of Ngotho Property Consultants Ltd. He is an arbitrator, adjudicator, registered valuer & estate agent. He has previously worked at Stapleton Long, Chartered Surveyors, London where he held the position of Valuation Surveyor and Property Manager; and as the Property Manager at Arab Investments Ltd, London.

He holds a BA (Land Economics) and is a Fellow at the Chartered Institute of Arbitrators' (FCI Arb, UK) and Institute of Surveyors of Kenya (FISK). He is also a member of the Royal Institute.

**Eng. Weche R. Okubo, OGW: Member**

Eng Weche Okubo was a career civil servant with 35 years experience in public service. He started working at the level of Asst. Engineer and retired as Chief Electrical and Mechanical Engineer (Building Services). Eng Okubo is a council member of the Institute of Engineers of Kenya (IEK). He is also a Board member of the Bible Society of Kenya. He holds Bsc (Mechanical Engineering); Post Grad Dip (Environmental Engineering); FIEK; R.Cons.Eng; PE,CEng and MCIBSE.

**Mrs. Josephine W. Mong'are: Member**

Mrs. Josephine W. Mong'are is an advocate of the High Court of Kenya with 25 years post admission qualifications. She is currently in private practice (M/s Wambua, Mbindyo & Makau Advocates). She has previously worked with the Anti Corruption Commission (Now EACC) and has also served in various Boards including: Nairobi Water and Sewerage Company, the National Council for Administration of Justice (NCAJ), Law Society of Kenya (LSK-CCLE). She is the current Chairperson of the Federation of Women Lawyers (FIDA- Kenya). She holds; Masters of Law (LLM), Bachelor of Law (LLB) as well as a post graduate diploma in Legal Studies/ Practice.

**Mr. Hussein Were: Member**

Hussein Were has over 26 years' experience in quantity surveying and project management. He also has 8 years experience in the field of governance and forensic investigation. Mr. Were is the Honorary Treasurer and member of Governing Council of the Architectural Association of Kenya; as well as Principal Partner and founder of Fanisi Consultants, a quantity surveying and project management firm. He holds an MA (Building Management) and a BA (Building Economics) from the University of Nairobi.





Mrs. Gilda A. Odera: *Member*

Mrs Gilda Odera has 26 years work experience 11 years of which were in the Marketing Services sector and 15 years in the ICT sector. She is the founder and Managing Director of Skyweb Technologies Ltd and Skyweb -Evans Company Ltd. Gilda is a leading pioneer in the Business Process Outsourcing industry and is currently providing advisory services on the same.

She serves and has served on several boards in various capacities including Board Member NHIF where she is the Chairperson of the Executive Committee, Board Member of Federation of Kenya Employers, Council Member Kirinyaga University College, Vice Chair ICT Sector Board - KEPISA, Board Member TESPOK, Chairperson Kenya Business Process Outsourcing Association, Chairperson IT Enabled Services Advisory Group, Board Member Computer Society of Kenya, Council Member Marketing Society of Kenya, President Rotary Club of Milimani.

She is currently a PhD student in Public Policy Management and Leadership and holds an MA in Leading Innovation and Change and a BA in Sociology.



Mrs. Rosemary K. Gituma: *Member*

Rosemary Gituma has over 20 years top management experience in accounting & financial management, administration, supply chain, strategy, governance and internal audit in both public and private sectors. Since 2000 she has been working with East Africa Portland Cement Company (EAPCC) LTD in various capacities as Internal Audit Manager, Finance Manager, Ag Head of Financial Management, Board Director-EAPCC Uganda and Trustee & Trust Secretary- EAPCC Staff Retirement Benefits Scheme.

Previously she worked with Numerical Machining Complex (Finance & Administration Manager), Nairobi Bottlers (Treasury & Operations Accountant), Care Kenya (Accountant Consultant) and Kenya Airways (Management Trainee/Budget Accountant). She has served as Council Member & Vice- Chair, ICPAK. She is a member of Institute of Directors (Kenya), ISACA and AWAK.

She is a Certified Public Accountant (CPAK) and holds an MBA (Accounting & Finance), B.Com Degree (Accounting Option), Advanced Management Program (AMP) diploma, Executive Education-Strategy, awarded Corporate Governance Certificate and she is a PhD Student.

MANAGEMENT TEAM



Director General
MSc (Proc. & Logistics)
-UK, MBA
BCom, MCIPS, MKISM,
Dip (Purchasing &
Supplies

Mr. J. O. Juma, MBS



G. M
(Technical
Services) MBA,
BCom, MCIPS, Dip
(Purchasing &
Supplies

Mrs. Jane W. Njoroge



G. M
(Finance & Admin)
PhD (Finance -
Ongoing), MBA
(Finance), B com
(Accounting), CPA
(K), CPS (K)

Mrs. Rose M. Nyamweya



Manager,
Internal Audit
MBA, MA, BA,
CPA (K), CPS
(K), CISA

Julius G. Mungai



Peter K. Ndung'u

Manager, Policy & Research
MA (Econ), BA (Econ)
Dip (Purchasing & Supplies)-UK



Henock Kirungu

Manager, ARB Secretariat
MBA, B.Com, Dip (Purchasing &
Supplies-final), PGD (Computer
Science)



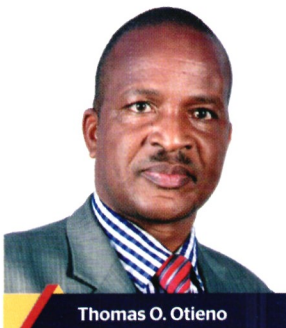
Lucy J. Barno

Manager, Corporate Services
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CORPORATE GOVERNANCE STATEMENT

The Management of the Public Procurement Regulatory Authority (formerly the Public Procurement Oversight Authority) is committed to maintaining the highest standards of corporate governance. This statement describes PPRA's governance principles and practices.

The Authority has two boards namely; the Public Procurement Regulatory Board (the Regulatory Board) and the Public Procurement Administrative Review Board (the Review Board). The roles of the two boards and that of the Director General are distinct from each other but generally fit and feed into the achievement of the Authority's goals, objectives and mandate.

At the beginning of the financial year 2015/2016, the members of the Public Procurement Oversight Advisory Board (as it then was) had three months remaining to the lapse of their respective terms. The members served until the 25th September, 2015 when their terms expired. The Authority continued for the remainder of the financial year without a Board in place.

On 7th January, 2016, the Public Procurement and Asset Disposal Act, 2015 came into force. Under the Act, the Public Procurement Oversight Authority was repealed and replaced by the Public Procurement Regulatory Authority as the body responsible for monitoring compliance with the procurement law, while the body vested with the management of the Authority was renamed the Public Procurement Regulatory Board. As at the close of the financial year, the Public Procurement Regulatory Board had not been constituted.

The governance practices contained in this statement are those put in place by the Public Procurement Oversight Advisory Board (as it then was) for the three months it was in existence in the first quarter of the financial year.

The Role of the Public Procurement Oversight Advisory Board

The Advisory Board of PPOA is responsible for the long-term sustainability and success of the Authority. Its role is essentially three fold:

- To provide strategic leadership,
- To oversee management and
- To ensure that the Authority provides its stakeholders with a balanced and understandable assessment of its current position and prospects.

The specific functions of the Advisory Board are:

- i) To advise the Authority generally on the exercise of its powers and the performance of its

functions;

- ii) To approve the estimates of the revenue and expenditures of the Authority;
- iii) To recommend the appointment or termination of the Director-General in accordance with the Act;
- iv) To approve debarment of persons and
- v) Perform such other functions and duties as are provided for under the Act.

The Advisory Board's leadership responsibilities involve working together with management to set corporate values and to develop strategy; including which risks it is prepared to take in pursuing its strategic objectives. Its oversight responsibilities involve providing constructive challenge to the management team in relation to operational aspects of the Authority's business, including approval of budgets and probing whether risk management and internal controls are sound. It has the responsibility of ensuring that timely and understandable information is provided to stakeholders.

The Board has delegated the responsibility of management of the Authority to the Director General, who is the Chief Executive Officer and the management team. The main areas where the decisions remain with the Board are the approval of budget and annual corporate plan, approval of policies and approval of financial statements. The Board is also responsible for setting the Authority's risk management policy

As is good corporate governance practice, the Board has delegated some of its responsibilities to committees of the Board. The composition and activities of the committees are detailed later in this report. The Board receives reports at its meetings from the Chairmen of each of the committees on their current activities.

Board Independence, Separation of Roles and Responsibilities

A clear division of responsibility exists between the Chairman who is non-executive, the non-executive Board members and the Director General. Each of the responsibilities are clearly set out in writing.

Meetings Attended By Board Members

The law provides that the Board shall hold at least one meeting in every quarter. The Board holds regular scheduled meetings in every year and special meetings as and when necessary. In case of non-attendance of a Board member, the information is communicated to the Chairman in advance.

The table below shows Board membership and attendance at scheduled Board meetings in the financial year:

Name	Title	Sector (Public or Private)	Nominating Body	Full Board attendance FY 2015/16
Mr. Patrick Mahonga Mtange	Chairman	Private Non-Executive	Institute of Certified Public Accountants of Kenya (ICPAK)	6 of 7
Mrs. Martha Karwitha Mugambi	Vice Chairman	Private Non-Executive	Kenya National Chamber of Commerce and Industry	6 of 7
Eng. Reuben Kiplangat Kosgei	Board Member	Private Non-Executive	Institution of Engineers of Kenya	7 of 7
Mrs. Faith Njeri Kimani	Board Member	Private Non-Executive	Architectural Association of Kenya	7 of 7
Ms. Ruth Theddesia Ngobi	Board Member	Private Non-Executive	Institute of Certified Public Secretaries of Kenya (ICPSK)	5 of 7
Ms. Joyce Muthoni Njogu	Board Member	Private Non-Executive	Marketing Society of Kenya	6 of 7
Mr. Fred Abednego Odhiambo	Board Member	Private Non-Executive	Kenya Association of Manufacturers	7 of 7
Mr. Livingstone Bumbo	Board Member	Private Non-Executive	Alternate to the Cabinet Secretary, National Treasury	4 of 7
Mr. Patrick Muiruri Ngugi	Board Member	Private Non-Executive	Alternate to the Attorney General	4 of 7

The Board Secretary, who is also the Director General, is responsible for implementing the decisions of the Board and the day to day operations of the Authority.

The Corporation Secretary provides administrative support to the operations of the Board and convenes Board meetings as directed by the Chairman of the Board. The Board Secretary provides advice on corporate governance principles and plans and also on the implementation of corporate governance programs such as Board evaluation. The Corporation Secretary is an advocate of the high court, qualified certified public secretary and a member of the Institute of Certified Public Secretaries (ICPSK) in good standing.

Board Committees and Responsibilities

The Board discharges its functions through committees. All committees of the Board are chaired by a member of the Board. A number of members of the management team are incorporated in the Board Committees as invitees to add value to key Board decisions. This structure ensures that the Board pays attention to critical areas of the Authority's business and provides timely guidance on arising opportunities and mitigation of risks.

Audit, Risk and Governance Committee

The terms of reference of the Authority's Audit, Risk and Governance Committee are drawn from the Treasury Circular No.16/2005 of 4th October 2005. The purpose of the Audit Committee is to support the Authority to enhance oversight over governance, internal controls and risk management in service delivery.

The membership comprises of non-executive board members including a representative of the Principal Secretary, National Treasury. A Chairperson is elected by members of the committee by majority vote. The manager of Internal Audit or his/her representatives provides the Audit Committee with secretariat services while the manager of finance, procurement and internal audit form part of the technical team to guide the committee but have no voting power. Other technical team representatives are co-opted as and when required.

The audit committee meets at least four times a year. Its responsibilities are to:

- i) Evaluate adequacy of management procedures with regard to issues relating to risk management, internal controls and governance.
- ii) Review and approve the audit charter and the internal audit annual work plans.
- iii) Review the internal and external audit findings and recommendations and proposing corrective and preventive action where necessary.
- iv) Review the systems established to ensure sound financial management and internal controls, as well as compliance with policies, laws, regulations, procedures, plans and ethics.
- v) Initiate special audit/ investigation on any allegations, concerns and complaints regarding corruption, lack of accountability and transparency in consultation with the Director-General.

Audit, Risk and Governance Committee Attendance Schedule

Name	Title	Sector (Public or Private)	Nominating Body	Full Board attendance FY 2015/16
Ms. Ruth Theddesia Ngobi	Chairperson	Private Non-Executive	Institute of Certified Public Secretaries of Kenya (ICPSK)	2 of 2
Ms. Joyce Muthoni Njogu	Board Member	Private Non-Executive	Marketing Society of Kenya	2 of 2

Name	Title	Sector (Public or Private)	Nominating Body	Full Board attendance FY 2015/16
Mr. Fred Abednego Odhiambo	Board Member	Private Non-Executive	Kenya Association of Manufacturers	2 of 2
Mr. Livingstone Bumbo	Board Member	Private Non-Executive	Alternate to the Cabinet Secretary, National Treasury	2 of 2
Mr. Patrick Muiruri Ngugi	Board Member	Private Non-Executive	Alternate to the Attorney General	0 of 2

Finance & Administration Committee

This Committee deliberates on Human Resource, Financial, Budgetary and Administrative issues of the Authority. Its responsibilities include:

- (i) To ensure prudent financial management and compliance to statutory financial regulations.
- (ii) To provide a general overview to the Authority on the achievement of corporate objectives.
- (iii) To monitor the Management's strategy toward ensuring efficiency and integrity of the Authority's procurement systems.
- (iv) Ensuring that the Authority upholds Government policy on performance contracting in the Public Sector and other statutory obligations.
- (v) To ensure that the Authority has optimum and well trained and motivated human resource capacity to deliver its mandate.
- (vi) To ensure effective operation of the Administrative Review Board Secretariat.
- (vii) To advise on strategies on how the Authority can relate with the key stakeholders appropriate to the committee.
- (viii) To advise on human resource policy consistent with the changing needs of the Authority.
- (ix) To advise on office facilities and acquisition and maintenance of new assets of the Authority.
- (x) Provide oversight role over the implementation of the strategic plan.
- (xi) Reviewing the management of the Pension Scheme on behalf of the Board to ensure that the obligations of the Authority are discharged.
- (xii) To deliberate and make recommendations to the Advisory Board all matters relating to the welfare of the members of Administrative Review Board and Advisory Board.

Finance & Administration Committee Attendance Schedule

Name	Title	Sector (Public or Private)	Nominating Body	Full Board attendance FY 2015/16
Mr. Fred Abednego Odhiambo	Chairman	Private Non-Executive	Kenya Association of Manufacturers	3 of 3
Mrs. Martha Karwitha	Member	Private Non-Executive	Kenya National Chamber of Commerce and Industry	2 of 3
Ms. Ruth Theddesia Ngobi	Member	Private Non-Executive	Institute of Certified Public Secretaries of Kenya (ICPSK)	2 of 3
Mr. Livingstone Bumbe	Member	Private Non-Executive	Alternate to the Cabinet Secretary, National Treasury	3 of 3

Capacity Building and Communication Committee

The role of the Committee is to assist the Board on matters relating to the education of public entities and creation of awareness of the public procurement and disposal systems amongst stakeholders.

Its responsibilities include:

- i) To advise on Capacity Building and Communication policies of the Authority;
- ii) To advise and guide the Board on the review of Capacity Building strategies of the Authority;
- iii) To advise and guide the Board on programs relating to dissemination of information to stakeholders;
- iv) To advise on Corporate Social Responsibilities and Corporate image of the Authority; and
- v) To advise on Information and Communication strategies of the Authority.

Capacity Building Committee Attendance Schedule

Name	Title	Sector (Public or Private)	Nominating Body	Full Board Attendance FY 2015/16
Eng. Reuben Kiplangat Kosgei	Chairman	Private Non-Executive	Institution of Engineers of Kenya	2 of 2
Mrs. Martha Karwitha Mugambi	Member	Private Non-Executive	Kenya National Chamber of Commerce and Industry	2 of 2
Mrs. Faith Njeri Kimani	Member	Private Non-Executive	Architectural Association of Kenya	2 of 2
Ms. Joyce Muthoni Njogu	Member	Private Non-Executive	Marketing Society of Kenya	2 of 2

Compliance Committee

The Committee's functions are to:

- i) Advise on public procurement policy matters on compliance and amendments to the Act and the Regulations proposed by PPOA.
- ii) Advise on strategies to be used by the Authority to ensure compliance with the procurement law.
- iii) Review and recommends to the Board on the proposed best practices for benchmarking.
- iv) Advice on extent and mode of collaborations with other watchdog agencies.

Compliance Committee Attendance Schedule

Name	Title	Sector (Public or Private)	Nominating Body	Full Board Attendance FY 2015/16
Mrs. Faith Njeri Kimani	Chairperson	Private Non-Executive	Architectural Association of Kenya	2 of 2
Eng. Reuben Kiplangat Kosgei	Member	Private Non-Executive	Institution of Engineers of Kenya	2 of 2
Ms. Joyce Muthoni Njogu	Member	Private Non-Executive	Marketing Society of Kenya	2 of 2
Mr. Patrick Muiruri Ngugi	Member	Private Non-Executive	Alternate to the Attorney General	1 of 2

Board Remuneration

The non-executive Board members are paid taxable sitting allowance as approved by the Minister responsible for finance following guidelines from the State Corporations Advisory Committee. The Chairman is paid honoraria at a rate approved by the Government. Transport expenses are reimbursed on travel for Board business at the prevailing Automobile Association of Kenya (AA) rates. The members are also entitled to outpatient and inpatient medical cover, and a personal accident cover.

Board Development

During the year, several trainings were held for the Board that were considered necessary for the continued discharge of their functions. Board members attended training offered by the Institute of Directors, London that emphasized on the directors role in leading the organization. Although an Induction programme on Mwongozo had been scheduled for December, 2015, the term of the Board ended before the training materialized.

Board Effectiveness and Evaluation

The Board conducts an annual evaluation of the Board as an entity, its committees and each individual Board member to gauge performance. During the year, the Board carried out an evaluation of its performance in the 2014/2015 financial year. The Board evaluation was facilitated by a representative from the State Corporations Advisory Committee.

Some of the areas assessed during the evaluation are whether the Board had properly interpreted and understood the Authority's mandate and strategy; whether the Board defines and disseminates its functions on annual basis; whether the Board evaluates the Director General on an annual basis; board meeting management and procedure; and information and communication to Board members.

The Board attained an overall composite score of 4.6 out of a possible 5, which was rated as very good.

Conflict of Interest, Code of Conduct and Ethics

The Board has developed a Code of Conduct, Ethics and Performance Manual to guide the Board members and staff of the Authority on ethical conduct.

The code requires that all Board members and employees disclose any interest that conflicts or may possibly conflict with the interests of the Authority. If a conflict of interest is declared, it is a requirement that the Board member affected is excluded from any discussion or decision over the matter in question.

All Board members and staff of the Authority declared their wealth as required to the Public Service Commission.

Sustainability

The Authority continues to be fully supported by Exchequer grants. The Board confirms that with the support from the Government, the Authority will continue in business for the foreseeable future. For this reason, the Authority continues to adopt the going concern basis when preparing financial statements.

Risk Management and Internal Control

The Board has put in place a comprehensive risk management framework which identifies and manages risk. The following have been identified as the three key risks facing the organization:-

- a) Compliance Audit Risk
- b) High employee turnover
- c) Inadequate funding

The Audit, Risk and Governance Committee of the Board regularly reviews the effectiveness of the internal control system. The Manager, Internal Audit reports directly to the Board Committee and serves as its secretary.

PPRA Internal Procurement Policy

The Advisory Board approved the PPRA Procurement Policy and Procedures manual in September 2015. The policy to entrench best practice in the Authority's internal procurement system and improve efficiency, ensure compliance to the procurement law as well as enhance internal quality service delivery and make the Authority's procurement function a centre of excellence which other institutions can emulate.

PPRA staff involved at every step of the procurement process take full responsibility for understanding the policies and procedures regarding the entire procurement and disposal cycles with the view that decisions made on behalf of PPRA shall be made with the utmost consideration for what is in the best interest of PPRA in the most efficient & cost effective manner.

Top Ten Contracts

The Authority's procurement budget for the year under review was KSh. 76,406,882.

The top ten procurement contracts awarded during the year are:

1. Lease of office space for the head office **KSh. 14,337,600**
2. Provision Of Medical Insurance cover **KSh. 11,576,943**
3. Supply & Implementation of virtualized Server Infrastructure and Data Back-up Solution **Ksh. 8,236,000**
4. Lease of Parking **Ksh. 7,683,840**
5. Upgrade of Microsoft Dynamics 2009 to 2015 **KSh. 5,760,432**
6. Provision of General Insurance **KSh. 2,166,789**
7. Reception and Guarding Services **KSh. 2,100,000**
8. Provision of Cleaning Services **KSh. 1,722,673.20**
9. Provision of Motor Vehicle Insurance **KSh. 1,613,761**
10. Provision of Group Life Insurance **KSh. 1,354,959**

Legal Challenges

There were no legal challenges to procurements undertaken by the Authority during the period under review.

Stakeholder Relationships

The Board endeavours to actively engage with stakeholders by providing regular and timely information. The Board is guided by a Corporate Communication Strategy which encompasses internal and external communication and customer service. The Authority communicates with stakeholders through press releases, stakeholder forums and annual reports.

The Board regularly monitors customer service as embodied in the service charter.

Corporate Citizenship

The Authority engages in a sustained effort to create a social environment that upholds the opportunity for it to achieve its mandates effectively. In so doing, the Authority strives to build a strong symbiotic bond between the community, stakeholders and customers.

The Authority prioritizes the following sectors in its corporate social responsibility (CSR) activities – special interest groups, the environment; and disaster management. Out of these sectors, the Authority actively pursues activities that address social concerns, economic concerns and environmental concerns.

During the year, the Authority in conjunction with the Kenya Institute for the Blind, undertook a project to transcribe the Public Procurement and Asset Disposal Act into braille, for use by persons who are visually impaired. This is in recognition of the need of this special interest group to have access to the procurement law as they participate in procurement under the preference and reservation scheme. The transcribed copies were distributed to various procuring entities and to the National Council for Persons Living with Disabilities.

The staff of the Authority also supported and participated in the annual First Lady's Half Marathon which is an initiative towards HIV control, promotion of maternal and childcare health in Kenya.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Section 25 the Public Procurement and Asset Disposal Act, 2015 provides that, the Authority shall be audited in accordance to the Public Audit Act, 2015.

The Management is responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the Authority in addition to ensuring that the assets are safeguarded.

The Management is responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of PPOA; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Management accepts responsibility for the Authority's financial statements, which have been prepared using appropriate policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards and in the manner required by the PFM Act and the Public Audit Act, 2015. The Management is of the opinion that the financial statements give a true and fair view of the state of the financial position of the Authority and of its operating results as at 30th June 2016. The Management further confirms the completeness of the accounting records maintained, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Advisory Board members and management to indicate that the Authority will not remain as a going concern for at least the next twelve months from the date of this statement.

Approval of the Financial Statements

At the beginning of the financial year 2015/2016, the members of the Public Procurement Oversight Advisory Board (as it then was) had three months remaining to the lapse of their respective terms. The members served until the 25th September, 2015 when their terms expired. The Authority continued for the remainder of the financial year without a Board in place.

The Authority's financial statements were approved by the Authority's management on 26th September, 2016.

A handwritten signature in black ink, appearing to read 'M.J.O JUMA', is written over a long, thin horizontal line that extends across the page.

**M.J.O JUMA, MBS
DIRECTOR GENERAL**

**CHAPTER
TWO****ACTIVITIES OF
THE AUTHORITY****2.1 Introduction**

This section presents the progress made by the Authority as its mandate under section 9 of the Public Procurement and Disposal Act, 2005.

2.2 Monitoring Compliance

The Authority is mandated to ensure that public procurement procedures and regulations established by Public Procurement and Disposal Act (PPDA), 2005, Public Procurement and Asset Disposal Act (PPADA), 2015 and Public Procurement and Disposal Regulations (PPDR), 2006 are complied with by public entities in order to achieve the objectives of the Procurement Law. The Authority monitors compliance through procurement assessments, reviews, contract audits, complaints management, investigations and review of mandatory reports submitted by procuring entities (PEs). During the 2015/16 financial year, the Authority undertook this mandate through the following activities:

2.2.1 Review of Procurement Plans and Mandatory Reports Submitted by Procuring Entities**a) Review of Annual Procurement Plans**

The PEs are required to submit their approved procurement plans to the Authority every financial year in accordance with PPOA Circular No. 1/2014 and PPOA Circular 4/2009. Upon receipt of the plans, the Authority reviews the procurement plans to ensure they are prepared in accordance with the provisions of the Procurement law and other directives.

During the year under review, 131 PEs submitted their procurement plans; of which only 55 expressly indicated in their procurement plans the contracts reserved for the Youth, Women and PWDs. Out of the 55 PEs, only 34 reserved at least 30% of their procurement budget to the target groups. The Authority reviewed the plans and came up with the following findings:

- i. Failure by majority of PEs to submit the procurement plans as required.
- ii. All the entities that submitted the procurement plans were from National Government and none from the County Governments.
- iii. a total of 76 out of the 131 PEs did not expressly indicate in their procurement plans the contracts reserved for the Youth, Women and PWDs.
- iv. a total 97 out of 131 PEs did not reserve the minimum 30 % of their procurement budget for the Youth, women and PWDs.

Based on the findings above the Authority will enhance its enforcement efforts to ensure all public entities submit their procurement plans. In addition, the Authority in consultation with the National Treasury will issue a clarification circular on which items of the budget should be considered in the procurement plan for purposes of the reservation scheme as many entities claim that the types of items which they procure can not be reserved.

b) Review of Mandatory Reports

The PEs are required to submit the following Mandatory reports: Contracts awards above Ksh. 5 million; terminations of procurement proceedings; direct procurement above Ksh. 500,000; disposal to employees; and contract awards to disadvantaged groups (Youth, Women and Persons with Disabilities). The Authority uses the submitted reports for compliance monitoring as well as publication of all contract awards above Ksh. 5 million by PE's in its website.

The number of PEs that submitted the required report per quarter are as tabulated below:

Table 2.2.1: Number of PEs that Submitted Mandatory Reports

	Q1	Q2	Q3	Q4	Total	County Government PEs	National Government PEs
Terminations	18	37	37	47	139	3	136
Direct Procurements	22	30	33	45	130	2	128
Disposals to employees	19	26	25	32	102	2	100
Contracts above 5M	24	58	56	69	207	2	205
Preference and Reservations	42	60	75	87	264		
Total	125	211	226	280	842		

The major findings from review of Mandatory reports included:

- i. Failure by the PEs to submit mandatory reports to the Authority.
- ii. Late submission of the mandatory reports by the PEs.
- iii. Submission of incomplete reports such as failure to provide relevant information and attachments
- iv. Failure by PEs to submit reports in the prescribed format.
- v. A number of direct Procurements and Terminations of procurement proceedings do not meet the thresholds set out in the Law.

The Authority has put in place mechanisms to ensure that:

- i. All PEs comply with the reporting requirements by developing simpler / user friendly reporting templates and collaborating with other State agencies to harmonize reporting templates used to request PEs for procurement related information.

- ii. It offers technical support to the PEs by building their capacity on preparation of the mandatory reports.
- iii. It enforces compliance with reporting timelines and formats by rejecting non compliant and late reports.
- iv. An online platform to facilitate reporting by PEs is set up.
- v. Further investigations of irregular direct procurements and terminations are conducted and recommendations shared with other law enforcement agencies as a deterrence to non compliant PEs.

2.2.2 Undertake Compliance Assessments and Reviews

a) Compliance Assessments

The Authority is mandated to conduct procurement assessment to ensure that the procurement systems and processes as provided for in the Law are complied with by the PEs. The key indicators used during the assessments include: procurement institutional arrangements; the procurement & disposal processes; mandatory reporting to the Authority; records management; and stores & inventory control and management. During the year under review, the Authority conducted 101 compliance assessments in 101 PEs as tabulated below:

Table 2.2.2: Number of Assessments Conducted by Quarter

Quarter	No. of PEs Assessed	No. of PEs by Level Government	
		National Government	County Government
1	20	20	0
2	28	22	6
3	30	24	6
4	23	16	7
Total	101	82	19

b) Procurement Reviews

Procurement reviews are detailed/comprehensive audits of an entity's procurement and disposal activities for a specified period of time to ascertain their compliance with the procurement law. During the year under review, the Authority conducted 10 reviews in 10 PEs as presented by quarter in the table below:

Table 2.2.3: Number of Procurement Reviews Conducted

Quarter	No. of PEs Assessed	No. of PEs by Level Government	
		National Government	County Government
1	5	3	2
2	2	2	0
3	1	1	0
4	2	0	2
Total	10	6	4

Table 2.2.4: Findings of Procurement Assessments and Reviews

Institutional Structures	<p>Most of the PEs assessed and reviewed have their institutional arrangements in place except for the public schools.</p> <p>The major challenge is on the functioning and composition of the Institutions.</p>	<ol style="list-style-type: none"> i. The National Treasury should develop guidelines on setting up procurement institutional arrangements for public schools ii. The National Treasury should build capacity of the PEs on effective functioning of the set procurement institutions. iii. The PEs with the guidance of the National Treasury and the Authority should ensure that the institutions are set up as required by the Law.
Procurement Process	<p>Most PEs have procurement plans with appropriate procurement method(s) to be used.</p> <p>Among the key weaknesses identified included:</p> <ol style="list-style-type: none"> i. Bid documents do not contain adequate specifications of requirements. ii. Non adherence to evaluation criteria / use of criteria not specified in tender document. iii. Use of alternative procurement methods, mainly restricted tender and requests for quotations without fulfilling the conditions for use of such methods. iv. Unsuccessful bidders not notified / not given reasons for being unsuccessful in the tender. v. Delays in payment of suppliers. 	<p>The National Treasury and the Authority should build capacity of the PEs on effective development of objective specifications and evaluation of tenders amongst other areas of the procurement process</p>

Record Keeping	Most PEs assessed and reviewed prepared relevant procurement records. However, the major challenge was on creating and maintaining a complete procurement and contract file.	<ul style="list-style-type: none"> i. The PEs should ensure they prepare and maintained prerequisite procurement records. ii. The National Treasury and the Authority should build capacity of the PEs on effective procurement records management.
Reporting	Majority of the reports submitted are from National Government, with most reports received from State Corporation. The major weaknesses are reporting using inappropriate format and submitting the reports after lapse of the stipulated timelines.	The Authority should enforce compliance with reporting timelines and formats by rejecting non compliant reports.
Inventory Management	Most PEs have store facility and relevant store records. The major challenges identified were updating store records, security of store and failure to conduct regular stock taking.	The PEs should ensure compliance with the requirements on stores and inventory control & management.
	Assets Registers- PEs have maintained Assets Registers. It was noted that the Assets Registers were not up to date.	PEs should ensure that the Assets Registers are regularly updated.

The entities assessed/reviewed were advised to take corrective actions to remedy the weaknesses identified. The entities signed action plans detailing the specific actions to be taken by the entity to address the non compliance issues.

2.2.3 Contract Audits

Contract audits consist of procurement review and financial audits of single high value or specialized procurement contracts with a view of finding out how the process was carried out, whether payments and deliverables were made as per contract. The findings of such audits lead to conclusions as to whether the PE was procurement compliant or not in carrying out the said contracts. During the year under review, the Authority conducted 10 reviews in 10 PEs as presented by quarter in the table below:

Table 2.2.5: Number of Contract Audits Conducted

Quarter	No. of PEs Assessed	No. of Contracts	No. of PEs by Level Government	
			National Government	County Government
1	3	3	3	0
2	3	4	3	0
3	0	0	0	0
4	4	4	2	2
Total	10		8	2

A summary of common findings across all the audits were as follows:

Table 2.2.6: Summary of Contract Audit Findings

No	Findings	Recommendations
1	Lack of clarity in specification of requirements.	The National Treasury and the Authority should build the capacity and provide technical support to the PEs targeting the areas of weaknesses
2	Evaluation / award criteria not adhered to in determining the winning bid.	The Authority should recommend/ impose relevant sanctions against the noncompliant PEs.
3	Legal procedures for certain procurement processes particularly, tender opening, tender evaluation, contract signing/contract negotiations and due diligence/ post qualification are not followed.	
	Communication of tender results to successful and unsuccessful bidders not done in accordance with the provisions of the law.	

The concerned entities were advised to take corrective actions to remedy the weaknesses identified.

2.2.4 Investigations

Investigations of specific procurement and disposal cases are often focused on single procurement transactions (contracts) with a view of finding out how the process was carried out. Very often these investigations arise from allegations of misconduct in a procurement and disposal operations, including those from whistle-blowers and other bodies. The findings of such investigations lead to conclusions as to whether the Procuring

Entity complied with public procurement law in the specific procurement and disposal transaction/process.

During the year under review, the Authority conducted investigations in two (2) PEs covering a total of four contracts. All the investigations were conducted at the County Government entities. The reports were shared with the EACC for further necessary action. The findings and recommendations from the investigations were as follows:

Table 2.2.7 Summary of Investigations Findings

No	Findings	Recommendations
1	Direct procurement done without meeting the conditions set out in the Law.	Appropriate sanctions as per the provisions of the Act should constituted against the officers, PEs and the bidders
2	Breach of the Law in tender processing (advertising opening evaluation, notification and award)	
3	Failure to conduct due diligence / post qualification	
4	Collusion / Use of forged documents	
5	Use of incorrect procurement method, failure to use standard bid documents, unclear specifications of requirements, and signing a contract valued above available budget	

2.2.5 **Complaints Management**

The Authority conducted inquiries on the basis of complaints and queries from bidders, PE and members of the public. The Authority during the year under review received 552 complaints out of which 238 were resolved while 314 were unresolved. A large number of the unresolved complaints were as a result of public entities' non co-operation with regard to provision of documents / information required to resolve the complaints.

Table 2.2.8: Distribution of Complaints Received

Quarter	No. of Complaints by Level Government		Total No. of Complaints Received	Resolved	Unresolved
	National Government	County Government			
1	16	92	108	47	61
2	127	56	183	83	100
3	88	26	114	50	64
4	112	35	147	58	89
Total	343	209	552	238	314

Most of the complaints received during the year were with regard to: delayed payments; flaws in tender evaluation and award; noncompliant tender advertisements, unprocedural tender opening, restrictive / ambiguous clauses in tender documents and flaws in notification of unsuccessful bidders.

The Authority is putting in place a structured and efficient system of handling complaints to facilitate efficient monitoring of all complaints to their logical conclusion. The enforcement function of the authority has been strengthened to follow-up on PEs that fail to cooperate with the Authority on complaints raised against them.

2.2.6 Review of Tender Notices

In carrying out its mandate of ensuring compliance with the law, the Authority ensures that the tender advertisements posted in the newspapers by the procuring entities are in compliance with the requirements of the Act and the regulations. Where irregularities are discovered, the PEs are informed and directed to rectify the irregularities by issuance of addenda. During the year under review, the Authority identified 135 non-compliant Tender Notices. Non-compliance issues identified and brought to the attention of PEs for corrective measures and that the corrective measures undertaken be communicated back to Authority.

2.3 CAPACITY BUILDING ON THE PUBLIC PROCUREMENT SYSTEM

Section 9(c) of the Public Procurement and Disposal Act, 2005 mandated the Authority to assist the procuring entities (PEs) in the implementation and operationalization of the public procurement system through, among other things, development, promotion and support of training and professional development of persons involved in public procurement process.

To achieve this, the Authority through its Capacity Building Department conducted trainings for various persons involved in public procurement. However, the trainings were only conducted during the first half of the financial year following the operationalization of the Public Procurement and Asset Disposal Act, 2015 in January 2016.

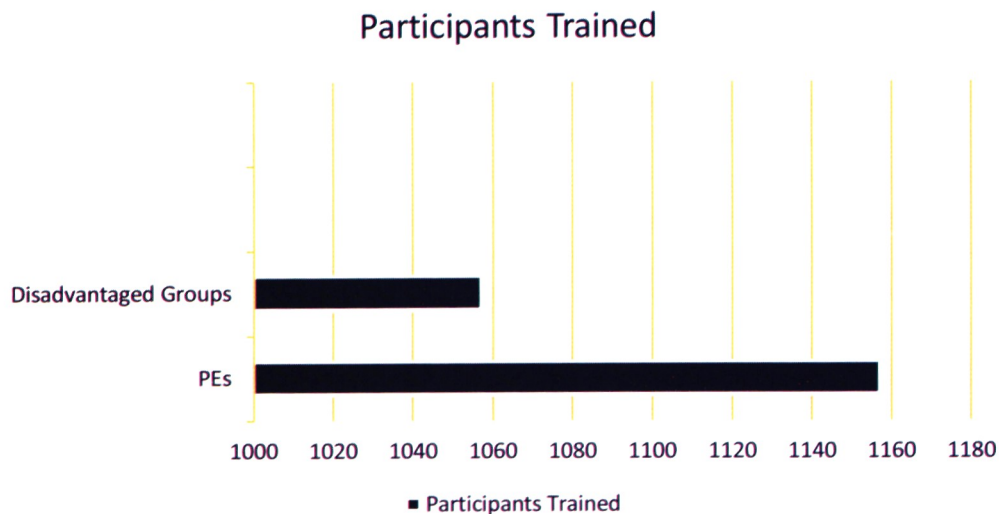
2.3.1 Trainings Conducted

During the 2015/2016 financial year the Authority conducted 11 out of the 17 planned trainings in the counties. The trainings targeted tender committees and the disadvantaged groups. The training modules covered included: Legal Framework – Public Procurement and Disposal Act, 2005 and Public Procurement and Disposal Regulations, 2006; Preference and Reservations Regulations; Procurement Methods & Threshold Matrix; Roles of Procurement Committees; Procurement Records Management, and Ethics, Fraud & Integrity in Public Procurement. The disadvantaged groups were trained on how to prepare responsive bids, and their obligations and rights in public procurement.

The participants targeted for each group were; 5000 disadvantaged groups and 1500 persons from the procuring entities totalling to 6500. 2,214 participated, of which 1,157 were from the PEs while 1,057 were Youth, Women and Persons with Disabilities were trained. The trainings were spread out across the country covering 11 counties namely Kisumu, Mombasa, Nandi, Kakamega, Baringo, Marsabit, Laikipia, Nakuru, Kajiado, Homabay and Kilifi.

The distribution of the participants trained was as shown in figure 2.3.1;

Figure 2.3.1: Number of Participants trained



Based on the attendance, only 21% of the targeted disadvantaged group and 77% of the targeted officers from the PEs were trained. It can be noted that the attendance by the disadvantaged group was low. The Authority therefore should device better ways of mobilizing the disadvantaged groups in future trainings.

During the training sessions a number of issues were raised and were addressed as shown in table 2.3.1.

Table 2.3.1: Emerging Issues and Recommendations from the Trainings

No	Issues that Emerged During Trainings	Actions Suggested	Recommendations
1	Poor attendance by disadvantaged groups	Engage with other relevant stakeholders for mobilization	Constant publicity using relevant media e.g. radio, television, newspapers, twitter, Facebook Authority should also exploit the network of various groups and bodies working with these target groups
2	Short training duration	To increase training duration especially for public officers so as to enhance content coverage	The Authority should increase the number of contact hours by increasing the training days.
3	Need for regular trainings	To make more regular trainings to cater for the changing needs occasioned by the new law and circulars on public procurement	The Authority should organize regular trainings in order to address changes in procurement law and regulations
4	Change in training approach	To make the trainings more engaging to the participants	Future trainings should include activities, group work and case studies
5	Training Certification	To motivate the participants especially public officers	The Authority should set aside a budget for printing and issuance of certificates to trainees
6	Facilitation of participants (refund of transport allowance)	The authority to reconsider reimbursements especially for PWDs	Policy document by the authority to be developed to guide on transport reimbursement.

2.3.2 Training Documents Developed

Due to the coming into force of the PPADA, 2015, the Authority developed one training module on the procurement process. This module addresses the changes in the procurement process brought about by the new law. However, the module is yet to be uploaded on to the Authority's website.

2.3.3 Demand Driven Trainings

The Authority received 248 training requests from various procuring entities which included Ministries, Departments and Agencies, County Governments, State Corporations, Universities and Colleges, and Semi- Autonomous Government Agencies. Out of the 248 trainings requests, only 57 were facilitated with the rest not facilitated after coming into force of the New Public Procurement Act. Most training requests focused on sensitization on the PPADA, 2015, role of boards, senior management and staff in public procurement. Some entities requested for sensitization of the youth, women and PWDs, this was necessitated by the fact that most PEs had this target in their annual performance contract.

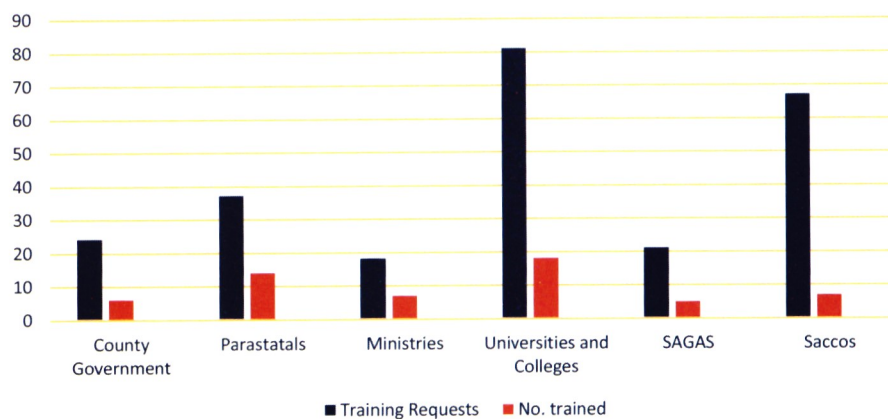
Table 2.3.2: Number of Training Requests

PE Category	Training Requests	No. trained
County Government	24	6
Parastatals	37	14
Ministries	18	7
Universities and Colleges	81	18
SAGAS	21	5
Saccos	67	7
Total	248	57

The training requests by the PEs were distributed as shown in figure 2.3.2 below

Figure 2.3.2: Distribution of the training the 2015/2016 financial year

Distribution of the Training Requests



As shown in figure 2.3.3 above, a number of PEs made requests to be trained on the public procurement system. However, the Authority only managed to attend to 23% of the requests made.

During the year, the Authority faced a number of challenges ranging from inadequate staffing to meet the large number of training requests from PEs and stakeholders; short training durations and inadequate funding to carry out extensive capacity building programs to meet all stakeholders objectives while implementing capacity building activities. The capacity building on public procurement processes should be strengthened and well funded to ensure that the persons involved in the public procurement and disposal process are well versed with the procedures as per the requirement of the law. Consequently, this will enable the government to get value for money from the procurement activities and therefore provision of quality services delivery to the citizenry.

2.4 POLICY, RESEARCH, LEGAL AND REGULATORY FRAMEWORK

The Policy and Research function responds to the Authority's mandate in accordance with section 9(c) – provision of assistance in the implementation and operation of the public procurement system, section 9(d) – initiate public procurement policy and propose amendments to the Act, and section 92 – approving specially permitted procurement procedures. This section first provides updates on the service area annual work plan for the period under review and then uses suitable metrics to assess achievements under sections 9(c), 9(d) and 92 of the Act.

2.4.1 *Development and Dissemination of Standard Documents*

During the period under review, the Authority received and reviewed three manuals submitted by the PEs. The Authority further advised the PEs that under the current dispensation, the National Treasury is the body responsible for public procurement and asset disposal policy formulation as contained in Section 7(1) of the new Procurement Law.

2.4.2 *Advisory Services*

Pursuant to section 9(g) of the Public Procurement and Asset Disposal Act, 2015, the Authority is mandated to advise and provide technical assistance to the procuring entities and other stakeholders upon request. During the period under review, the Authority received 222 written requests for advice.

Many requests were received in the second half of the financial year with a total of 129 requests compared to the 93 in the first half of the year. This is possibly due to the enactment of the new Act and so most procuring entities sought advice on the implementation of the said Act. On Quarterly basis, the Authority received a total of 53, 40, 65 and 64 requests for the four quarters respectively.

Table: 2.4.1: Number of Request for Advice by Source

QUARTER	PARASTATALS	OTHER ENTITIES	SCHOOLS	MINISTRIES	COMMISSIONS	COUNTIES	TOTAL
1st	18	15	9	1	5	5	53
2nd	13	5	9	1	6	6	40
3rd	21	14	8	8	4	10	65
4th	20	23	10	4	3	4	64
Total	72	57	36	14	18	25	222

Figure 2.4.1: Distribution of Requests for Advise by Source

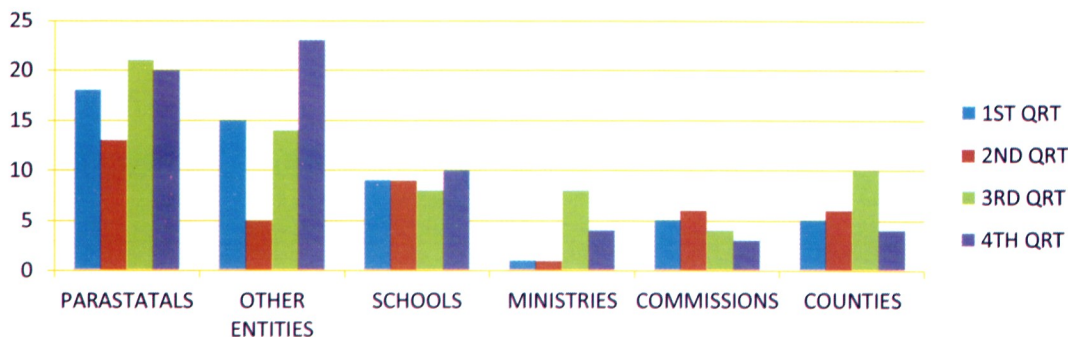
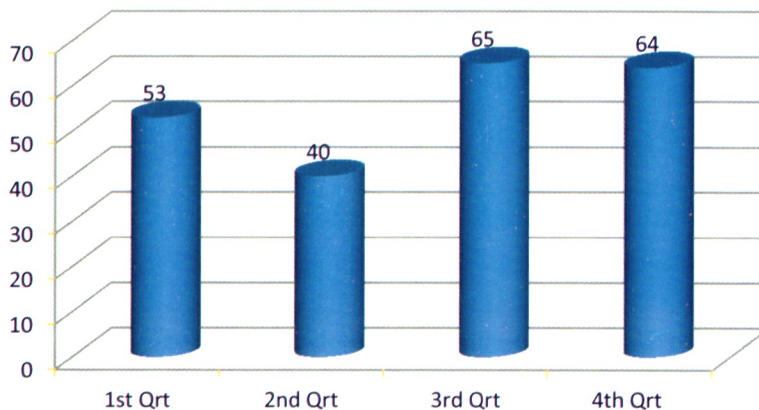


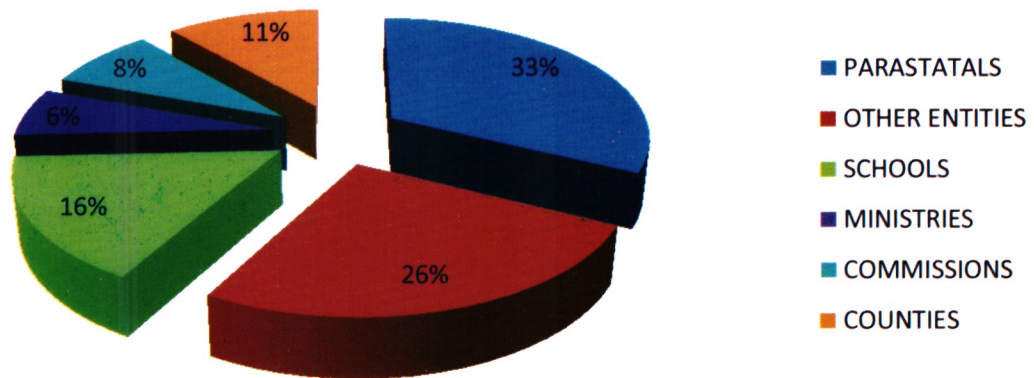
Figure 2.4.2: Quarterly Distribution of Requests for Advice

TOTAL NUMBER OF PES SEEKING ADVICE PER QUARTER



The figure below further shows the distribution of requests by procuring entities (PEs). From which more requests for advice were recieved from parastatals and lowest from Ministries at 72 (33%) and 18 (6%) respectively.

Figure 2.4.3: Percentage distribution of Requests by Source

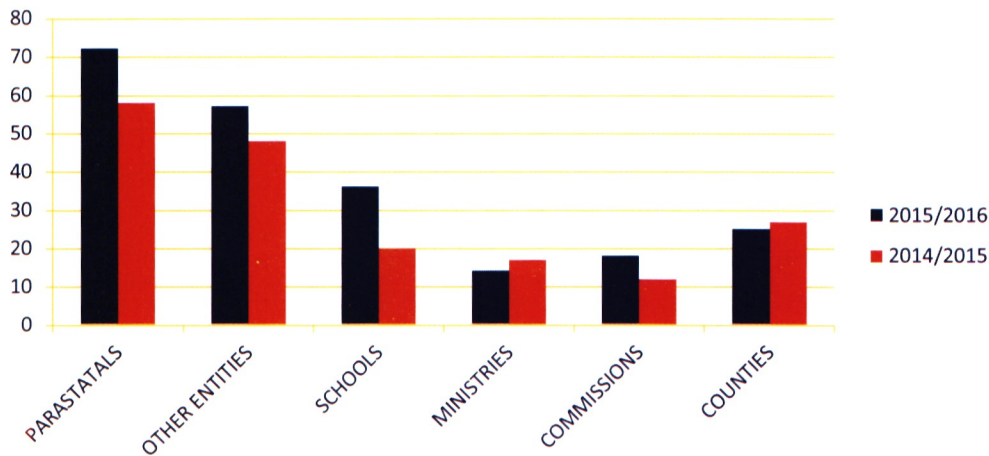


Further, the Authority reviewed and issued written advisories on all the requests received. In addition to the written advices, some were handled through phone calls and face to face discussions. The following table presents the summary of all written advices and period for which the Authority took to respond to the advices. From the table, 45 % of the requests delayed due to late submission of additional information from the sources.

Table 2.4.2: Processing Duration of Requests for Advice

RANGE (DAYS)	FREQUENCIES	PERCENTAGE
1 - 7	68	30%
8 - 14	55	25%
15 -21	26	12%
22 -30	31	14%
30 +	42	19%

During the year under review, the Authority handled more request for advice to the procuring entities and other stakeholders compared to the previous year as demonstrated below.



2.4.3 Major areas of Requests for Advice

- Composition of committees involved in the tender process/Status of existing tender and procurement committees after the commencement of the new Act.
- Application of Contract Variations for contracts initiated before the enactment of the new Act (Public Procurement and Asset Disposal Act,2015)
- Roles of County Secretaries in public procurement upon commencement of the new Act.
- Implementations of the Public Procurement and Asset Disposal Act, 2015.

From the foregoing, the Authority in conjunction with the National Treasury commenced sensitization of the PEs on the different aspects of the New Act. The National Treasury further issued a circular on the Operationalization of the of the New Public Procurement and Asset Disposal Act, 2015 to guide the PEs and the stakeholders in the procurement activities. The National Treasury should also fast track the finalization of the Regulations to the New Act.

2.4.4 Request for Transfer of Procurement Responsibility

Section 27(6) of the repealed Act 2005 and the PPADA, 2015 mandates the Authority to approve transfer of the procuring responsibility of a procuring entity to another procuring entity or procuring agent in the event of delay or in such other instances as may be prescribed. During the period under review, the Authority received twelve (12) requests for approval for the transfer of procurement responsibilities from eight (8) PEs; for which approvals were granted to nine and the other three rejected as they did not meet the requirements of the Act. It was noted that most of the requests were due to lack of capacity of staff to adequately handle the procurement processes.

2.4.5 Development of Market Price Index

Pursuant to section 9(m)(iii) of the Public Procurement and Asset Disposal Act, 2015, requiring that Authority to create a central repository or database that includes among others market prices of goods services and works, the Authority prepared Market Price Indices to help the PEs while implementing the procurement procedures as required in the Act.

2.4.6 Development and Review of the Public Procurement Policies

The Authority reviewed the Draft Public Procurement and Asset Disposal Bill, 2014 in liaison with the National Treasury, the Office of the Attorney General and Department of Justice, the Commission for the Implementation of the Constitution (CIC) (now defunct) and Cabinet Committees. The Bill has since been finalized. Subsequently the PPAD, Act 2015 was gazetted on 24th December 2015 which has been in force since 7th January 2016. The purpose of the Act was to give effect to the provisions of Article 227 of the Constitution of Kenya, 2010 and other connected matters on public procurement and assets disposal.

2.4.7 Annual East African Public Procurement Forum

The East African Public Procurement Forum (EAPPF) is an annual forum organized by the respective public procurement regulatory bodies drawn from the EAC Member states. The participants are drawn from public Sector, Private Sector, Professional Organizations, Civil Society and Training Institutions. The objective of the forum is to serve as a frame work that helps participants learn and benchmark with each other on their respective public procurement systems including policies and enforcement measures.

During the year under review, the 8th EAPPF was held in Arusha, Tanzania on 2nd to 4th September 2015. The main theme of the 8th EAPPF was '*Harmonizing public procurement frameworks in the context of EAC Monetary Union.*'

The resolutions were as listed below:

1. Member countries shall respectively develop a procurement policy and report in the next Forum
2. Member countries shall develop a preferential scheme for its citizens and regional preferences and report in the next Forum
3. Member countries need to enhance capacity building for persons involved in procurement
4. All member countries should hasten implementation /development of e-procurement
5. Member countries recognize the role played by CEOs , media and individual in extra-regulatory oversight of procurement to complement oversight by the regulatory authorities

**CHAPTER
THREE****PUBLIC PROCUREMENT
ADMINISTRATIVE
REVIEW BOARD****3.1 Introduction**

Section 25 of the Repealed PPDA, 2005 and sections 27 of the PPADA, 2015 established the Public Procurement Administrative Review Board (PPARB). The Review Board had the mandate to receive and deliberate on complaints from candidates who claim to have suffered or risk suffering, loss or damage due to the breach of a duty imposed on a procuring entity by the Act/Regulations. The Review Board was also mandated to review an order of the Director-General or review debarment of a person or firm from participating in procurement proceedings. The main function of the Review Board under the PPADA, 2015 is to review, hear and determine public procurement tendering and asset disposal disputes.

In performance of its activities, the Review Board applied the following strategies:-

- i) enhance efficiency in handling applications for review
- ii) enhance compliance with the public procurement law
- iii) enhance the capacity of the board
- iv) provision of relevant reference materials for PPARB
- v) promote a culture of continuous learning and improvement and
- vi) increase access to PPARB services

3.2 Handling of Applications for Review

During the year under review, the Review Board cumulatively presided over 80 cases as detailed in the table below:-

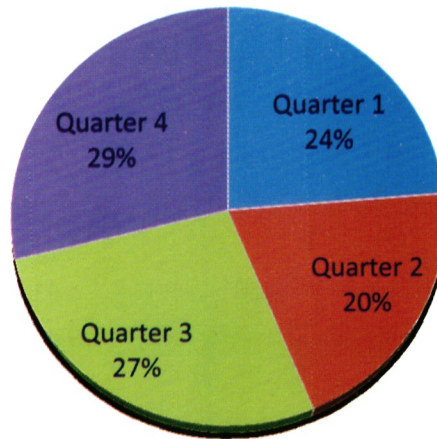
Table 3.1: Number of Requests for Review Handled

Number of Cases	QUARTER				TOTAL
	1	2	3	4	
Successful	12	9	11	10	42
Unsuccessful	5	6	9	9	29
Withdrawn	2	1	2	1	6
Pending Determination	0	0	0	2	2
Total	19	16	22	23	80

The total numbers of reviews in the period under review were 80 cases compared to 63 cases in the previous financial year; representing a 27% increase.

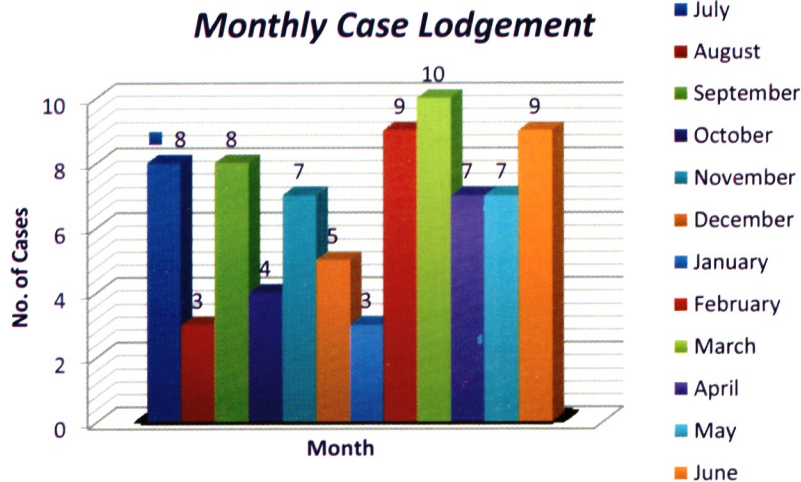
Figure 3.1: Quarterly Distribution of Cases for Reviews

Quarterly Case Distribution



On a monthly basis, the cases were lodged as illustrated below:-

Figure 3.2: Monthly Distribution of Cases for Review



From the figure above, August and January experienced the lowest No. of cases lodged, while March had the highest No. of cases lodged. This trend suggests that less procurement was initiated by PEs in July and December due to slow start in every half year. This could indicate that most procurement by PEs was done in the third quarter of the financial year.

3.3 Notification of Appeals to Procuring Entities

The concerned PEs were notified of the lodging of the appeals within an average of 18 hours from the time they lodged as detailed in the table below:-

Table 3.2: Average Notification of Appeals Duration (Hours)

Item	QUARTER				Cum. Average
	1	2	3	4	
Average No. of Hours Taken to Notify P.E.s	10	21	17	25	18

Table 3.3: Notification Duration upon Lodging of Cases

DURATION (DAYS)	NO. OF CASES	PERCENTAGE
Same day	35	39
1-2	37	41
2-3	18	20

3.4 Hearing of Appeals

All appeals were heard within an average of 16 days after being lodged. This is as detailed in the table below:-

Table 3.4: Average Appeals Hearing Duration

Item	QUARTER				Cum. Average
	1	2	3	4	
Average Days Taken to Hear Appeals	17	16	16	15	16

3.5 Determination of Cases

All cases lodged were heard and determined within an average of 21 days. This is similar to the performance in the previous financial year. This is as illustrated in the Table below:-

Table 3.5: Average Determination of Cases Duration

Item	QUARTER				Cum. Average
	1	2	3	4	
Average Days Taken to Determine Appeals	23	23	19	20	21

A total of 53 PEs were brought before the Board as shown in Annex 1. The Ministry of State for Defence was the most accused PE by appearing four times before the Board. Category of PEs that appeared before the Board is as follows:

Table 3.6: Frequency of Appearance by PEs

S/No.	PE Category	Frequency
1.	Commissions	1
2.	Cooperatives	1
3.	Hospitals	1
4.	Judiciary	1
5.	Parliament	1
6.	Schools	1
7.	Colleges	4
8.	Universities	6
9.	Water Boards	6
10.	County Governments	10
11.	Ministries	12
12.	State Corporations	36

3.6 Common Grounds of Appeal

The two main grounds of appeals were noted to be tender evaluation and tender Award. On tender evaluation most contentions were on two arguments: failure to set forth evaluation criteria in tender documents and failure to apply the criteria set forth in the tender documents. On tender awards, the arguments were based on failure to award to the lowest evaluated bid and failure to award to the most responsive bid.

3.7 Common Grounds for Objections

Common grounds for objections are mainly a challenge against the Review Board's jurisdiction and the locus standi of the applicant. The Board's jurisdiction is usually challenged on the ground that a contract could have been entered into by the PE with the successful tenders. On the other hand an applicant's standing is challenged to determine whether the applicant is a candidate or not.

3.8 Judicial Review

Twelve out of the 80 cases lodged were subjected to judicial review at the High Court. Therefore, 15% of all cases determined were subject of judicial review. However, 90% of the cases subjected to judicial review, the High Court upheld the Review Board's decision.

CHAPTER FOUR

STATUS ON SPECIALLY PERMITTED PROCUREMENT PROCEDURES

4.1 Introduction

4.2 Requests for Approval of Specially Permitted Procedures

The Authority may exempt the procedure from the application of a provision of the General Procurement Rules (Part IV of the Act) or vary the application of such a provision. The Authority received four requests for approval of specially permitted procurement procedure on the 1st July 2015 to 30th December 2015. However, none of the request was approved. Reasons for rejection are as illustrated in the table below.

Table 4.1: Number of Requests for Specially Permitted

Date Proposal Received		Method Proposed (relevant section of the law)	Reasons Advanced	Date Proposal Approved	PPOA's Action	Reasons for Rejection
22/06/2015	Moi Teaching and Referral Hospital	Direct Method	<ul style="list-style-type: none"> - Cases of patients requiring radiation services have increased in recent past and this necessitates urgent procurement to save lives - The Government of Kenya being one of the state member of International Atomic Energy Agency, the Hospital shall therefore benefit since we will only pay 75% of the total equipment cost. 	09/07/2015	Rejected	Provisions of Section 92 of the Act and Regulation 64 of the PPDR, 2006 were not fully met, as it is the PE that should conduct subject procurement and not a private party
23/04/2016	Ethics and Anti Corruption Commission	Competitive Negotiation	The procedure requested will allow submission of proposals and best and final offer in acquisition of the office space for its Head quarters	10/08/2015	Approved	N/A

Date Proposal Received		Method Proposed (relevant section of the law)	Reasons Advanced	Date Proposal Approved	PPOA's Action.	Reasons for Rejection
18/08/2015	Kenyatta National Hospital		The IAEA will procure the Cancer Equipment since it is in a better position to negotiate very competitive prices for the equipment as it is the United Nations body governing Cancer Radiation Safety globally		Rejected	Asked by the Authority to reconsider leasing the equipment as it will enable the Hospital to have more equipment , save on servicing and maintenance costs and ensure the latest technology is provided in view of the changing times
09/11/2015	County Government of Nakuru	Direct Method	There is already a service provider appointed by the Secretariat of Miss Tourism Kenya	24/12/2015	Rejected	The service provider M/S Court Yard Restaurant is proposed to organize the event on behalf of the Miss Tourism Kenya and not on behalf of the County Government of Nakuru

CHAPTER FIVE

PREFERENCE AND RESERVATION SCHEMES

5.1 Introduction

The repealed Public Procurement and Disposal Act 2005 had provided for preferences and reservations under Sec. 28 and which was operationalized through the Public Procurement and Disposal (Preference and Reservations) Regulations 2011 and Amended Regulations 2013.

The public procurement and asset disposal system is anchored in the Constitution of Kenya, 2010 under article 227 (a) (b) which specifically states that public entities shall set aside categories of preference in the allocation of contracts and protection or advancement of persons or categories of persons or groups previously disadvantaged by unfair competition or discrimination.

The PPADA, 2015 has provided for Preferences and Reservations under Sec.155 through to 158 setting out the eligibility, target groups, application and monitoring of the scheme.

The Public Procurement and Disposal Act, 2005 and its attendant regulations requires the procuring entities (PEs) to report quarterly and annually on the contracts awarded to the preference and reservation group that includes persons with disabilities (PWDs) and women to the Authority. During the period under review, 22 PEs reported to the Authority on the number of contracts awarded and their values.

5.2 Reservation of Procurement Budget to the Target Groups

Section 155 of the Public Procurement and Asset Disposal Act, 2015 (the Act) makes it mandatory for Public Entities to comply with the provisions of Part XII of the Act on Preference and Reservations in Procurement. Section 53(6), and 157(5)& (10) of the Act requires Accounting Officers of public entities to reserve a prescribed percentage of its procurement budget, which shall not be less than 30%, to the disadvantaged group and comply with the Act and the Regulations in respect of preference and reservations.

Table 5.1: A summary of procurement budget allocated to the target groups during 2015/2016 financial year

Category of institutions/ sector	Total budget	Amount Reserved	Percentage Reserved
Category of institutions/sector			
Ministries & State Departments	27,045,912,668.00	5,848,976,146.00	21.63
State Corporations	53,192,776,947.00	11,135,791,179.00	29.00
Universities And Colleges	3,703,467,494.14	1,182,618,276.30	32.05

Category of institutions/ sector	Total budget	Amount Reserved	Percentage Reserved
Commissions and Independent Offices	2,611,456,663.00	493,335,191.10	18.89
Subtotal	86,553,613,772.14	18,660,720,792.4	
County Government Procuring Entities			
County Executives	26,342,999,010.00	5,552,549,702.00	27.00
County Assemblies	2,521,842,875.00	618,237,660.00	24.52
Subtotal	28,864,841,885.00	6,170,787,362.00	
Grand total	115,418,455,657.14	24,831,508,154.40	21.51

During the period of reporting (January – June, 2016), a total of 156 procuring entities reported on the contract awards to the target groups (women, youth and PWDs) under the preference and reservation scheme. Out of the 156 procuring entities, 123 were from National Government entities; which included 86 State Corporations, 13 Ministries, 16 Universities and Colleges and 8 Commissions and Independent Offices. On the other hand, the remaining 33 entities were from the County Governments (21 County Assemblies and 12 County Executives).

The 156 procuring entities reported to have reserved a total of Kshs. 18,660,720,792.4 for the target groups (Youth, women and PWDs) by the National government entities of a cumulative total procurement budget of Kshs. 86,553,613,772.14. On the hand, the County Government entities reported to have reserved a total of Kshs. 6,170,787,362.00 out of total cumulative budget of Kshs. 28,864,841,885.00. Cumulatively, the two levels of government reported to have reserved a total of Kshs. 24,831,508,154.40 representing 21.51% of the total annual procurement budget of Kshs. 115,418,455,657.14. The 21.51% shows that a number of PEs did not reserve the requisite 30% of their procurement budgets to the target groups.

5.3 Contract Awards to the Disadvantaged Groups

Section 158 (3) provides that, “all procurement awards by procuring entities where a preference or reservation scheme was applied shall be reported with disaggregated data to the Authority on a quarterly basis.” During the period under review, 156 PE reported to have awarded contracts to the disadvantaged groups (women, youth and PWDs) as shown in the table below:

Table 5.2: Summary of Contract Awards to the Disadvantaged Groups

PROCURING ENTITIES	WOMEN		YOUTH		PWDs		TOTAL CONTRACT VALUE PER PEs
	No.	VALUE	No.	VALUE	No.	VALUE	
STATE CORPORATIONS	3,915	2,225,671,438	2,991	2,452,473,467	674	450,113,543	5,128,258,448
UNIVERSITIES/ COLLEGES	2,253	254,223,548	1,246	208,478,533	246	78,122,306	540,824,387
COUNTY EXECUTIVES	474	842,076,828	1,131	1,710,182,776	67	89,644,157	2,641,903,761
COUNTY ASSEMBLIES	117	91,707,899	256	99,148,899	26	5,363,383	196,220,181
COMMISSIONS AND INDEPENDENT OFFICES	112	207,107,095	134	59,703,273	32	227,919,699	494,730,067
TOTAL	6,871	3,620,786,808	5,758	4,529,986,948	1,045	851,163,088	9,001,936,844
% CONTRACT VALUE PER SCHEME		40		50		10	100
% OF NO. OF CONTRACTS	50		42		8		

From the table above, all the procuring entities that reported had awarded a total of 13,674 contracts worth Kshs. 9,001,936,844 to the target groups. Out of the total contract awards, the Women were awarded 6,871 (50%) contracts while the Youth and PWDs were awarded 5,758 (42%) and 1,045 (8%) contracts respectively. In terms of contract values, the Youth recorded the highest percentage total at 50% while the Persons living with disabilities had.

OVERALL FUNCTION OF THE PUBLIC PROCUREMENT SYSTEM

6.1 Introduction

The Authority under Section 26 of the PPADA, 2015 and the repealed PPDA, 2005 is required to report on how the public procurement and disposal systems are working and those that are subject of controversy or litigation and on the overall functioning of the public procurement system.

A well functioning public procurement system requires supportive legislative framework, strong institutional capacity, efficient and effective procurement processes and provision of bid protest mechanisms. This will ensure that all public procurement activities uphold the principles of transparency, accountability, integrity, openness, fairness, competition and value for money for quality service delivery to the citizenry as well as enhancing public confidence in the system. This chapter highlights on the key elements of the overall functioning of the public procurement system in year under review.

6.2 Legislative/Regulatory Framework

The Public Procurement System in Kenya has been undergoing reforms consistent with the global trend since the mid-1990s. Most notable reforms in this area took place within the period covering 1997-2001 and 2005. The landmark in the reforms was in 2005 when the Public Procurement and Disposal Act, 2005 (the Act) was enacted by Parliament and operationalized on 1st January, 2007. The Act established the Public Procurement Oversight Authority (PPOA) which, inter alia, is mandated to monitor the public procurement system, report on its overall functioning, and recommend areas of improvement.

The Constitution of Kenya, 2010 required the Government to enact a Public Procurement law to operationalize Article 227 of the Constitution. To this end, a new Act, the Public Procurement and Asset Disposal Act (PPADA), 2015 was enacted and commenced on 7th January, 2016 which established the Public Procurement Regulatory Authority (PPRA). The Act has been aligned to the Constitution of Kenya, 2010 and Vision 2030 and is designed to achieve the following:

- a) Address challenges that existed in the repealed law;
- b) Enhance devolution of procurement decisions
- c) Incorporate emerging issues such as e-procurement, framework contracting , green and sustainable procurement among others;
- d) Embrace new procurement methods such as e-reverse auctions, design competition, force account, competitive negotiations and 2-stage tendering methods among others;
- e) Bring under its ambits new procuring entities such as independent and constitutional offices,

constitutional commissions, Kenya diplomatic missions, County Government entities, pension funds and any other entity that uses, is maintained or assisted by public funds;

- f) Harmonize procurement procedures to simplify operations and compliance, by increasing clarity; To operationalize different sections of the Act, the National Treasury should fast track the finalization the Public Procurement and Asset Disposal Regulations. Further the Authority is in the process of finalizing the review and development of standard bid documents once the regulations are gazetted. The National Treasury and the Authority have commenced sensitization of the persons involved in the public procurement process on the provisions of the New Act and the same will be ensured once the regulations and the standard bid documents are finalized.

6.3 Institutional/Management Capacity

The National Treasury, the Public Procurement Regulatory Authority (PPRA) and the Public Procurement Administrative Review Board are the bodies involved in the regulation of the public procurement and asset disposal as provided for in the Act.

On the other hand, the procuring entities (PE) are required to internally set up a number of institutions to facilitate the implementation of the public procurement system/ operations/processes; which include: establishment of a procurement unit/function; ad hoc opening and evaluation committees; inspection & acceptance committees, contract management team; and tender committee (under the repealed Act, 2005).

During the year under review, the Authority while undertaking compliance monitoring activities found that the most common areas of noncompliance by the PEs included:

- a) That the public schools had not established the procurement unit.
- b) The staff manning the procurement units of the PEs did not possess professional qualifications
- c) The Accounting Officers had not constituted the mandatory procurement committees
- d) Members to various statutory committees were not formally appointed by their respective Accounting Officers
- e) Where the committees existed, they were not functioning as envisaged.

The Authority has put in place an enforcement mechanism to ensure that PEs comply with the provisions of the Act.

6.4 Procurement Processes

To ensure achievement of the public procurement objectives, procuring entities are expected to follow the laid down procurement processes and procedures. While undertaking compliance monitoring activities, the Authority identified the following most common areas of weaknesses to include:

- i. The items reserved for the disadvantaged groups were not expressly stated in the procurement plans

- ii. The PEs did not reserve the minimum 30% for the disadvantaged groups in their procurement plans
- iii. Bid documents did not contain adequate specifications of requirements.
- iv. Non adherence to evaluation criteria / use of criteria not specified in tender documents.
- v. Use of alternative procurement methods, mainly restricted tender and requests for quotations without fulfilling the conditions for use of such methods.
- vi. Unsuccessful bidders not notified / not given reasons for being unsuccessful in the tender.
- vii. Delays in payment of suppliers.
- viii. Failure to use standard bid documents by PEs

The Authority has put in place an enforcement mechanism to ensure that PEs comply with the provisions of the Act.

6.5 Areas Subject to Controversies or Litigation

Despite the robustness of the procurement legal framework, a number of areas have continued to stand out as controversial or subject to litigation. These areas include

- a) Evaluation of tenders where unsuccessful bidders normally contend that they were unprocedurally and unfairly evaluated.
- b) Tender awards where the unsuccessful bidders believe that tenders were awarded unprocedurally.
- c) Notification of award to unsuccessful bidders where there are cases of delayed notification and failure to give reasons why their bids were unsuccessful and identity of the winning bid.
- d) Termination of procurement processes and contracts where due procedure was not adhered to and sometimes lack of proper justification.
- e) Delayed payments where complaints have been raised over unjustifiable delays in payments upon contract close out.
- f) Preference and reservation schemes where the achievement of the minimum 30% reservation and the items to be reserved have been subject to controversy.
- g) Procurements above prevailing market prices where determination of actual market prices is a challenge in terms of standard supplier mark-up and delivery charges.
- h) Use of alternative procurement methods where conditions in the Act are not adhered to.
- i) Procurement plan implementation vis-a-vis funds flow where the requirements of the Act and the actual funds flow delays procurement activities.
- j) Donor funded procurements where the PEs overlooks the provisions of the Act when implementing donor funded projects.

There is need to strengthen the provisions of the Act on the highlighted areas as well as enforcement measures by the Authority.

CHAPTER SEVEN

MANAGEMENT OF INTERNAL ORGANISATION

7.1 Procurement Division

The Authority has established a procurement function to coordinate and facilitate all its procurement activities. As required by the Public Procurement Law, the Authority has ensured that at least 30% of its annual procurement spend is reserved for youth, women and persons with disabilities.

During the 2015/16 financial year, the Authority reserved Kshs. 22, 990,000 for the target groups out of its annual procurement spend of Kshs. 69,313,000. The contracts awarded to the target groups is presented in the table below.

Category	Value	%
Youth	9,756,170	40.79
Women	10,684,858.04	44.67
PWD	3,477,480	14.54
Grand Total	23,918,508.04	100

7.2 Human Resource Management

The Authority takes cognizance of the fact that employees are a key resource in the delivery and provision of quality services to our stakeholders. In this regard, the Authority has continued to invest in improving human resource processes, policy development and application, training and development, adequate staff remuneration in addition to creating effective working structures among other initiatives.

In this regard, the Authority has strengthened and sustained the operations of the Staff Advisory Committee, Gender & Disability Mainstreaming Committee, HIV&AIDS Mainstreaming Committee, and Alcohol & Drug Abuse (ADA) Mainstreaming Committee with a view to enhancing service delivery. The Authority observed the 30% gender requirement on employment and promotion, and affirmed equal employment opportunities in relation to ethnic balancing and availing opportunity to citizens living with disability. In addition, environmental protection initiatives were also undertaken in the year under review. Capacity and skills development is a strong pillar for improved performance within an organization. Thus the Authority undertook capacity and skills development for Management, staff and Board Members. The following trainings were conducted:

- a) Four officers were trained on Senior Management Course
- b) Two officers were trained on Strategic Leadership and Development Program
- c) Professional trainings for various professionals within the Authority

- d) One Board Member and one officer were trained on Corporate Governance.
- e) Seven officers were trained on Risk Management

To professionalize all staff cadres within the Authority, funds were made available to cater for staff training and subscriptions to relevant professional bodies.

Implementation of a results-based Performance management system was continued, with a view to measuring and sustaining the desired levels of performance within the Authority.

Enhanced Employee relation has been strengthened over years in PPOA. Towards Improving employee relationships, a team building event was organized for all staff.

The Authority ensured employee facilitation, through provision of a conducive working environment and adequate transport management. Also, timely medical and general insurances, were provided to all staff throughout the year. During the year of reporting the Authority recruited additional four officers, where as five officers resigned from the institution.

7.3 ICT Support Services

The ICT department provides the primary point of contact for end-user support, and offers a wide range of services that includes initiation of ICT projects, management of computing equipment and software, technology training as well as spearheading ICT policy implementation.

In order to enhance ICT governance and mainstream operations, the Advisory Board approved the ICT Policy aimed at achieving efficiency and effectiveness accruing from the application of ICT, and ultimately improving service delivery. Also in line with this, all new ICT initiatives and projects were reported to the ICT Authority as per their regulatory requirement.

The Authority has continued to embrace emerging technologies and trends in the ICT sector in order to enhance efficiency and effectiveness within the dynamic business environment. To this end the Authority has:

- a) Virtualised the server infrastructure to improve its efficiency and reliability in application hosting and further implemented a data backup solution for the existing Information systems as well as user desktops and laptops.
- b) Upgraded the website to give it a more modern and stylish look with a reorganised structure for ease of navigation. The content was also reorganised to match our goals and improve the Authority's online presence. The department ensured that the professional look of the website is maintained.
- c) Embarked on a Business Process Reengineering (BPR) exercise to improve systems and optimise processes for the Administrative Review Board. This will ultimately lead to an increased

level of automation of the Review Board operations.

- d) Restructured and secured its network using an upgraded firewall with advanced controls and features for protection against a blend of threats that are eminent in the cyber world.

In summary, the ICT Department has continued to provide first level support and manage ICT contracts and Service Level Agreements (SLAs) to ensure that users experience uninterrupted services throughout the year.

7.4 Internal Audit Function

7.4.1 Introduction

The Authority's Internal Audit function is mandated to monitor the internal control systems and processes through planned internal audit reviews carried out within the financial year.

The Internal Audit's role is to evaluate and give recommendations on the effectiveness of governance, risk management and control processes in the Authority. Internal audit findings are brought to the attention of management and the Advisory Board through the Board Audit Committee.

To ensure the independence and objectivity of the Internal Audit, the function reports functionally to the Board Audit Committee and administratively to the Director General. The Internal Audit function has an approved Charter that serves as a guide in the performance of its duties. The charter defines the purpose, authority and responsibilities of Internal Audit function. It also provides a basis for the Board Audit Committee in evaluating the operations of the Internal Audit function.

7.4.2 Board Audit Committee

The members of the Advisory Board who served in the Board Audit Committee in the 2015/16 Financial Year included;

- a) Ms. Ruth Ngobi - Chairperson
- b) Mr. Lawrence Ngugi - Member
- c) Mr. Fred A. Odhiambo - Member
- d) Ms. Joyce Njogu - Member
- e) Mr. Livingstone Bumbe - Member

The Secretary to the Board Audit Committee was Mr. Julius Mungai who was the Authority's Manager in charge of the Internal Audit function. The Board members were all independent and non-executive directors.

Note: The term of the Advisory Board and by extension that of the Board Audit Committee ended on 25th September, 2015. As at 30th June 2016, a new Board was yet to be appointed.

In the 2015/16 Financial Year, the Board Audit Committee met two (2) times and the attendance was as indicated below;

Table showing attendance of meetings by the Board Audit Committee Members in the 2015/16 FY

S/No.	NAME	11/07/2015	10/09/2015	TOTAL
1.	Ms. Ruth Ngobi	√	√	2
2.	Mr. Lawrence Ngugi	-	-	0
3.	Mr. Fred Odhiambo	√	√	2
4.	Ms. Joyce Njogu	√	√	2
5.	Mr. Livingstone Bumbe	√	√	2
TOTAL		4	4	8

In the two Board Audit Committee meetings, members deliberated on a number of issues some of which include;

- i) Review of the provisions of 'Mwongozo: The Code of Governance for State Corporations';
- ii) Review of the performance of the Internal Audit function for the period 1st July 2014 to 30th June 2015;
- iii) Review and approval of the Work plan for the Internal Audit function for the 2015/16 Financial Year;
- iv) Review of the Authority's draft financial statements for the year ended 30th June, 2015 and the audit report on the financial statements and finance procedures; and
- v) Review the Enterprise Risk Management Policy Framework of the Authority.

7.4.3 Risk Management

Risk management is an integral part of the Authority's Strategic management. Risk is the potentiality that expected and unexpected events may have an adverse impact on the achievement of the Authority's objectives. Risk management aims at identifying, measuring and mitigating various risks that are intrinsic as well as extrinsic. The PPRA's Regulatory Board and management realize the centrality of risk management in the

Authority and have continuously advocated for an overarching risk management culture in strategy implementation.

The Authority has developed a robust risk management framework in line with the Committee of Sponsoring Organizations (COSO) requirements. The framework has been implemented through a number of activities which include:

- i) Review of the Risk Management Policy Framework.
- ii) Development of departmental risk registers;
- iii) Mapping out of key risks facing the Authority;
- iv) Establishing the risk mitigation strategies; and
- v) Staff training on risk and risk management

7.4.4 Key risks facing the Authority

The Authority identified a number of key risks that were likely to impede the implementation of its objectives. Strategies to mitigate the identified risks were mapped out and an implementation action plan developed. The key risks facing the Authority and the mitigation measures included;

a) Compliance audit risk

While undertaking its mandate, of monitoring the public procurement system and reporting on its overall functioning, the Authority is challenged when it comes to covering all the procuring entities. There were about 40,000 procuring entities in Kenya.

The mitigation measures to mitigate the compliance audit risk included initiation of plans to acquire the supervisory rights to Procure to Pay (P2P) module of IFMIS; Strengthening the capacity of technical functions; ongoing collaborations with other law enforcement agencies; Benchmarking with other Procurement regulators; and the development and operationalization of ICT based monitoring & evaluation systems.

b) High employee turnover

The Authority continues to face high employee turnover. This has been impeding on the achievement of the timely achievement of the Authority's strategic objectives.

The mitigation measures that have been put in place include follow up on the re-categorization of the Authority from PC 6 to PC 8 thus matching PPRA terms with similar organizations & Constitutional offices; implementation of the job evaluation report; Instituting a Culture Change Management Programme; Implementing a comprehensive Performance Management System; Reviewing the Human Resources Policies and procedures; Implementation of mortgage and car loan schemes; In

service graduate trainee programs; and Re-engineering of workflow processes & automation of core business operations.

c) Inadequate financing

The Authority's main source of funds is the Exchequer. The allocation that the Authority has been receiving from the Exchequer is not adequate to cover the mandate of the Authority as is expected by Law. This has on a number of occasions made the Authority to scale down on its operations.

The mitigation measures that the Authority has put in place include prudent financial management; Collaboration with development partners; Implementation of the internal revenue generation strategies; and lobbying for additional government funding.

d) Loss of Authority's and clients' records and information

The Authority receives volumes of records, documents and information from the public entities and other stakeholders in the course of its operations. Thus, there is need to safeguard these records, documents and information while under the Authority's custody.

The mitigation measures that have been put in place include initiation of the process of acquisition of more office space; Frequent trainings of staff on records and information management; Development and implementation of a records management policy; IT innovations; acquisition of adequate secure and convenient storage facilities; and development and operationalization of the ICT Policy.

e) Reputational risks

The Authority's reputation is likely to be put in jeopardy more so when the mandate of the Authority is not clearly understood by the general public and when its employees are involved in unethical conduct.

The mitigation strategies that have been put in place include an endeavour by the Authority to have a clear understanding of the Authority's mandate amongst the internal & external stakeholders; Review of service charter and sharing it with all the stakeholders; Rebranding; Implementation of customer feedback; Signing of MOU's with strategic stakeholders; Communicating and enforcing the Authority's Code of Conduct and Ethics; and Developing and implementing the Anti- Corruption and Whistle blowing Policy.

f) Litigation risks

As a corporate body, the Authority may be sued as a result of its deeds or misdeeds from its operations. There is therefore need to put in place adequate mechanisms to mitigate any intentions by other parties to sue or reduce the adverse outcomes that may arise from such suits.

The mitigation strategies include strengthening of the Authority's legal capacity; acquisition of Professional indemnity Insurance; Promotion of amicable settlement of matters; and having a robust case management system for the Public Procurement Administrative Review Board.

g) Occupational Safety, Health and Environmental risks

The Authority's staff is faced with safety, health and environmental risks and thus the need to put in place measures to minimise their adversarial effect.

The mitigation strategies include acquisition of adequate office space; provision of quality furniture; having a clean and conducive working environment; strengthening the security measures for its staff; staff training on safety and security matters; and implementation of the Corporate Safety and Security Policy.

**CHAPTER
EIGHT****CONCLUSION AND
RECOMMENDATION****8.1 Conclusion**

From the activities implemented by the Authority over the period under review, it was noted that a number procuring entities did not fully comply with the provisions of the Act. This was evidenced by failure to submit mandatory reports to the Authority; challenges in preparation and implementation of the procurement plans; poor management of procurement records & documents; failure to set up mandatory institutional structures and noncompliance with the laid down procurement procedures and processes amongst others.

8.2 Recommendations

From the foregoing, the Authority makes the following recommendations:

a) To the Accounting Officers

All Accounting Officer should:

1. Ensure that mandatory reports are submitted to the Authority as required by the Act and within the stipulated timelines.
2. Ensure that the procurement unit/function is established and staffed with procurement professionals as stipulated in the Act.
3. Ensure that all procurements and disposal activities are undertaken with strict adherence to the Act with a view of promoting fairness, competition, transparency, accountability and value for money.
4. Ensure that all procurement records are properly maintained and secured.

b) To the National Treasury

1. Fastrack the finalization of the Public Procurement and Asset Disposal Regulations to ensure full operationalization of the New Act.
2. To sustain capacity building and sensitization of the persons involved in the public procurement and disposal activities.
3. Ensure timely release of funds to the PEs to facilitate initiation of new procurements and timely payment of closed out contracts.
4. Facilitate the Authority through additional funding to adequately deliver on its mandate.

c) To the County Treasury

The County Treasuries should ensure that the procurement function is established in all the county entites and staffed with procurement professional.

**ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30TH JUNE 2016**

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

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PUBLIC PROCUREMENT REGULATORY
AUTHORITY**

**FOR THE YEAR ENDED
30 JUNE 2016**

REPUBLIC OF KENYA

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P.O. Box 30084-00100
 NAIROBI

OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL ON PUBLIC PROCUREMENT REGULATORY
 AUTHORITY FOR THE YEAR ENDED 30 JUNE 2016**
REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Public Procurement Regulatory Authority set out on pages 39 to 62, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Report of the Auditor-General on the Financial Statements of Public Procurement Regulatory Authority for the year ended 30 June 2016

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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, 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 Public Procurement Regulatory Authority as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Procurement and Asset Disposal Act, 2015.



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

Nairobi

17 May 2017

KEY ENTITY INFORMATION AND MANAGEMENT

a) Background Information

On 7th January, 2016, the Public Procurement and Asset Disposal Act, 2015 came into force. Under the Act, the Public Procurement Oversight Authority (PPOA) was replaced by the Public Procurement Regulatory Authority (PPRA) as the body responsible for monitoring compliance with the procurement law, while the body vested with the management of the Authority was renamed the Public Procurement Regulatory Board.

b) Principal Activities

Section 9 of the Public Procurement and Asset Disposal Act 2015 states that the Authority shall have the following functions;-

- (a) Monitor, assess and review the public procurement and asset disposal system to ensure that they respect the national values and other provisions of the Constitution, including Article 227 and make recommendations for improvements;
- (b) Monitor the public procurement system and report on the overall functioning of it and present to the Cabinet Secretary and the county executive member for finance in each county, such other reports and recommendations for improvements;
- (c) Enforce any standards developed under this Act;
- (d) Monitor classified procurement information, including that of specific items of security organs and make recommendations to the Cabinet Secretary;
- (e) Monitor the implementation of the preference and reservation schemes by procuring entities;
- (f) Prepare, issue and publicize standard public procurement and asset disposal documents and formats to be used by public entities and other stakeholders;
- (g) Provide advice and technical support upon request;
- (h) To investigate and act on complaints received on procurement and asset disposal proceedings from procuring entities, tenderers, contractors or the general public that are not subject of administrative review;
- (i) Research on the public procurement and asset disposal system and any developments arising from the same;
- (j) Advise the Cabinet Secretary on the setting of standards including international public procurement and asset disposal standards;
- (k) Develop and manage the State portal on procurement and asset disposal and ensure that it is available and easily accessible;
- (l) Monitor and evaluate the preference and reservations provided for under this Act and provide quarterly public reports;
- (m) Create a central repository or database that includes—

- (i) Complaints made on procuring entities;
 - (ii) A record of those prohibited from participating in tenders or those debarred;
 - (iii) Market prices of goods, services and works;
 - (iv) Benchmarked prices;
 - (v) State organs and public entities that are non-compliant with procurement laws;
 - (vi) Statistics related to public procurement and asset disposal;
 - (vii) Price comparisons for goods, services and works; and
 - (viii) Any information related to procurement that may be necessary for the public;
- (n) Inform, as applicable, the Cabinet Secretary, Parliament, the relevant County Executive member for finance, the relevant County Assembly or Auditor-General on issues of noncompliance with procurement laws once the relevant State organ or public entity ignores the written directives of the Authority, including material breaches of the measures established under this Act;
- (o) Generally report to Parliament and the relevant county assembly;
- (p) Develop a code of ethics to guide procuring entities and winning bidders when undertaking public procurement and disposal with State organs and public entities;
- (q) In undertaking its functions, cooperate with state and non-state actors with a view to obtaining recommendations on how public procurement and disposal can be improved;
- (r) Ensure the procurement entities implement the preference and reservations and provide data to the Authority disaggregated to indicate the number of disadvantaged groups that have benefitted;
- (s) Perform such other functions and duties as are provided for under this Act and any other relevant law.

c) Key Management

PPRA's day to day management is under the following:

M.J.O Juma, MBS	Director General
Jane W. Njoroge (Mrs)	General Manager, Technical Services
Rose M. Nyamweya (Mrs)	General Manager, Finance & Admin

d) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2016 and had direct fiduciary responsibility were:

M.J.O Juma, MBS	Director General
Jane W. Njoroge (Mrs)	General Manager, Technical Services
Rose M. Nyamweya (Mrs)	General Manager, Finance & Admin
Lucy J. Barno (Ms)	Corporation Secretary and Head of Legal & Corporate Affairs
Chris Sakwa	Manager, Finance

e) Entity Headquarters

P.O. Box 58535-00200
National Bank Building, 11th Floor
Harambee Avenue
Nairobi, Kenya

f) Entity Contacts

Tel: +254 20 3244000
Email: info@ppoa.go.ke,
Website: www.ppoa.go.ke

g) Entity Bankers

National Bank of Kenya
Harambee Avenue Branch
P.O. Box 41862-00200
Nairobi, Kenya

h) Independent Auditors

Auditor General
Office of Auditor General
P.O. Box 30084 - 00100
Nairobi, Kenya

i) Principal Legal Adviser

The Attorney General
State Law Office
P.O. Box 40112 - 00100
Nairobi, Kenya

REPORT OF THE AUDITOR-GENERAL


STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30TH JUNE 2016


Revenue from Non-exchange Transactions	Note	2016 Ksh	2015 Ksh
Unconditional Government Grants	2	414,200,000	386,947,903
Revenue from exchange transactions			
Rendering of services	3	8,926,448	7,009,307
Finance Income	4	41,408,084	14,630,630
Other Income	5	836,301	1,081,899
Total Revenue from exchange transactions		<u>51,170,833</u>	<u>22,721,836</u>
Total Revenue		<u>465,370,833</u>	<u>409,669,739</u>
EXPENSES			
Employee Costs	6	170,049,631	176,914,687
Board Expenses	7	31,157,324	34,904,736
General Expenses	8	49,763,926	78,641,281
Repairs and Maintenance	9	1,176,489	2,585,521
Contracted Services	10	8,760,927	21,937,493
Finance Costs	11	5,198,096	2,214,773
Depreciation and Amortization	12	21,421,460	17,076,399
Total Expenses		<u>287,527,853</u>	<u>334,274,889</u>
Surplus / (Deficit) for the year		<u>177,842,980</u>	<u>75,394,850</u>

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2016

ASSET	Note	2016 Ksh	2015 Ksh
Current Assets			
Cash and cash equivalents	13	453,435,590	285,753,258
Receivables from exchange transactions	14	12,236,304	26,670,377
Receivables from non-exchange transactions	15	880,005	531,293
Total Current Assets		<u>466,551,899</u>	<u>312,954,928</u>
Non- current Assets			
Property, Plant and Equipment	16	38,877,468	21,363,392
Intangible Assets	17	1,812,552	1,278,206
Work In Progress	18	2,653,462	0
Total Non-Current Assets		<u>43,343,482</u>	<u>22,641,598</u>
Total Assets		<u>509,895,381</u>	<u>335,596,526</u>
LIABILITIES			
Current Liabilities			
Trade & Other Payables from exchange transactions	19	15,880,901	19,425,026
Provisions	20	672,800	672,800
Total Current Liabilities		16,553,701	20,097,826
Net Assets			
Revaluation Reserve	21	1,231,673	4,473,217
Revenue Reserve	22	492,110,007	311,025,483
Total Net Assets		<u>493,341,680</u>	<u>315,498,700</u>
Total Net Assets and Liabilities		<u>509,895,381</u>	<u>335,596,526</u>

The financial statements and accompanying notes on page 39 to 59 were approved by the PPRA management on 26th September 2016. Signed on its behalf by:


M.J.O Juma, MBS
Director General


L. Bumbe
National Treasury

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30TH JUNE 2016

	Revenue Reserve Ksh	Revaluation Reserve Ksh	Total Ksh
Balance as at 30/06/2014	233,243,943	6,709,826	239,953,769
Restatement of reserves	-	-	-
Transfer to revenue reserve	2,236,609	(2,236,609)	-
Reversal of Provision	150,081		150,081
Surplus for the year	75,394,850	-	75,394,850
Balance as at 30/06/2015	311,025,483	4,473,217	315,498,700
Transfer to revenue reserve	3,241,544	(3,241,544)	-
Reversal of Provision	-	-	-
Surplus for the year	177,842,980	-	177,842,980
Balance as at 30/06/2016	492,110,007	1,231,673	493,341,680

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Notes	2016 Ksh	2015 Ksh
Net Cash flows from Operating Activities	23	208,811,113	66,697,424
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of tangible assets		(39,803,781)	(9,391,037)
Acquisition of intangible assets		(1,325,000)	(1,060,001)
Net cash flow from Investing Activities		(41,128,781)	(10,451,038)
Net changes in Cash and Cash Equivalents		167,682,332	56,246,386
Cash & Cash Equivalents opening balance		285,753,258	229,506,872
Cash & Cash Equivalents closing balance		453,435,590	285,753,258

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Note	Original Budget Kshs	Actual on Comparable Basis KShs	Performance Difference KShs
Government Grants	2	410,000,000	414,200,000	-4,200,000
Rendering of services	3	7,000,000	8,926,448	-1,926,448
Finance Income	4	6,000,000	41,408,084	-35,408,084
Other income	5	0	836,301	-836,301
Revenue reserves	1	48,000,000	148,000,000	0
Total Revenue	5	71,000,000	613,370,833	-42,370,833
Expenses				
Employee Costs	6	282,000,000	170,049,631	111,950,369
Board Expenses	7	41,108,000	31,157,324	9,950,676
General Expenses	8	169,833,176	49,763,926	120,069,250
Repairs and Maintenance	9	6,500,000	1,176,489	5,323,511
Contracted Services	10	45,200,000	8,760,927	36,439,073
Finance Costs	11	1,458,824	5,198,096	-3,739,272
Depreciation and Amortization	12	1,000,000	21,421,460	-20,421,460
Purchase of Tangible Assets	16	13,300,000	39,803,781	-26,503,781
Purchase of Intangible Assets	17	10,600,000	1,325,000	9,275,000
Total Expenses		571,000,000	328,656,634	242,343,366
Difference for the year		0	284,714,199	

- a) **Finance Income:** The significant difference is due to a higher interest rates especially in the first half of the financial year and increase in cash available for cash management activities due to delays in getting approval to operationalize the staff loan scheme & implement job evaluation report, cash received for acquisition of office not enough to start the process and so not utilized and putting on hold of some of the planned activities due to change in mandate.
- b) **Employee Costs:** The budget had factored in funds to roll out the staff loan scheme and implement the job evaluation report. This was not due to delays in getting necessary approvals.
- c) **Board Expenses:** The term of the Advisory ended on 25.09.2015 and the year ended before appointment of a new Board as such the budget for the last 3 quarters of the year was not utilized.
- d) **General Expenses:** Funds allocated for acquisition of office space Ksh 50m could not be utilized as it was not enough to enable commencement of the procurement process. Several other activities scheduled for the 2nd half of the financial year were not implemented due to change in mandate with the coming into force of the New Act on 7th January 2016.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority adopted IPSAS in the year 2014 following the gazettelement of the Public Sector Accounting Standards Board (PSASB), which was established by the Public Financial Management Act (PFM) No. 18 of 24th July 2012. PSASB issued financial reporting standards and guidelines to be adopted by all state organs and public sector entities, which the Authority complies with.

(a) Basis of Preparation

The financial statements have been prepared on the basis of historical cost, unless stated otherwise. The cash flow statement is prepared using the direct method. The financial statements are prepared on accrual basis.

(b) Reporting Currency

The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest shilling. The accounting policies have been consistently applied to all the years presented.

(c) Foreign Currency Transactions

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

(d) Revenue Recognition

i. Revenue from non-exchange transactions

Transfers from other government entities

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

Grants from Donors

Revenues from donors are recognized when the event occurs and asset recognition criteria are met. To the extent that there is a related condition attached that would give rise

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

ii. Revenue from exchange transactions**Rendering of services**

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours.

Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are recoverable.

Interest income

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

(e) Budget Information

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

(f) Employee Benefits**i. Retirement Benefit Plans**

The Authority has a defined contribution plan "PPOA Pension Scheme" for its employees. The employees contribute 10% of their basic salary while the Authority contributes 20% of the basic pay to the scheme.

In addition, PPOA makes employer contribution in respect of bonafide employees to the National Social Security Fund (NSSF), a statutory defined contribution pension scheme at the prescribed rates.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

ii. Employee Entitlements

Employee entitlement to annual leave is recognized when they accrue to employees. An accrual is made for the liability for annual leave outstanding at the statement of financial position date.

(g) Property and Equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

The Assets are depreciated as and when they are available for use by the Authority. Depreciation charge is calculated on a straight line basis for the various categories of assets as follows:

Motor vehicles	25.0%
Equipment and computers	33.3%
Furniture and fittings	12.5%
Office partitions	12.5%
Intangible assets	33.3%

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held in the Authority's bank account and short term deposits at the end of the financial year.

(j) Other Assets

Other assets have been recognized and carried at original invoice amount less an allowance for any un-collectable amounts.

An estimate for doubtful debts is made when collection of full amount is no longer probable. Bad debts are written off as incurred.

(k) Liabilities

Financial liabilities are classified at initial recognition and carried at fair value through surplus or deficit or loans and borrowings, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(l) Provisions

Provisions are recognized when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

i. Contingent liabilities

PPOA does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

ii. Contingent assets

PPOA does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Authority in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

(m) Nature and purpose of reserves

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

(n) Changes in accounting policies and estimates

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

(o) Taxation

The Authority is a non-commercial state corporation and is therefore not subject to the corporate tax regime. No corporation tax is therefore provided in these accounts. The Authority remits all other applicable taxes as and when due.

(p) Critical Judgments in Applying the Authority's Accounting Policies

The preparation of the entity's financial statements in conformity with IPSAS requires the use of estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Authority's policies and procedures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Authority's accounting policies, management has not made any estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year.

(q) Consumable Stores

All consumable stores procured for use in operations are expensed on purchase through the Statement of Financial Performance. Proper records of receipts and issues of stores items are maintained to avoid abuse.

(r) Comparative figures

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

(s) Subsequent Events

Events after year end with a significant impact on the financial statements and decisions made by third parties are disclosed in line with IPSAS 14.

2. Unconditional Government Grants

Unconditional Government grants represent Exchequer receipts from the National Treasury during the financial year.

Unconditional Government Grants

	2016	2015
Description	Ksh	Ksh
Operational grants received from Exchequer	<u>414,200,000</u>	<u>386,947,903</u>

3. Rendering Services

Income from appeals: Relates to fees paid by parties seeking administrative review of public procurement disputes.

	2016	2015
Description	Ksh	Ksh
Income from appeals	<u>8,926,448</u>	<u>7,009,307</u>

4. Finance Income

This relates to interest earned from short term deposits during the financial year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2016	2015
	Ksh	Ksh
Gross Interest Income	41,408,084	14,630,630
Net Interest Income	<u>41,408,084</u>	<u>14,630,630</u>

5. Other Income

This includes income from the sources listed below:

Description	2016 Ksh	2015 Ksh
Medical Insurance re-imburement	-	256,833
7th EAPF Sponsorship	-	750,000
Sale of tender	-	26,000
Disposal Income	835,301	23,206
Insurance Compensation	-	25,860
Other Income	1,000	0
Total	<u>836,301</u>	<u>1,081,899</u>

Disposal income includes Ksh 7,200 from disposal of waste paper and Ksh 828,101 from disposal of motor vehicles.

6. Employee Costs

This comprises of the wage bill, subsistence allowance paid to employees going out for field assignments and other employee related costs. The Authority's activities are mainly field based. A breakdown of the employee costs is as shown below:

Description	2016 Ksh	2015 Ksh
Salaries and wage	80,070,165	81,701,380
Contributions to pensions	15,029,726	15,303,110
Housing benefits & allowances	39,573,95	41,892,889
Car Park expenses	4,844,160	4,704,960
Club membership	294,500	488,400
Staff welfare	1,934,882	3,359,906
Medical & Personal Accident	6,306,009	12,545,941
Staff recruitment and induction	97,336	247,780
Staff uniform	-	265,197
Training	4,947,809	4,684,980
Travel, accommodation & subsistence	16,951,091	11,720,144
Total	<u>170,049,631</u>	<u>176,914,687</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. Board Expenses

This comprises of all costs related to the Public Procurement Oversight Advisory Board and Public Procurement Administrative Review Board.

	2016 Ksh	2015 Ksh
Administrative Review Board expenses	5,329,913	6,784,178
Administrative Review Board Emoluments	19,378,880	14,857,000
Car park expenses	2,394,240	2,394,240
Advisory Board expenses	1,181,942	4,429,318
Advisory Board Emoluments	2,872,349	6,440,000
Total	<u>31,157,324</u>	<u>34,904,736</u>

8. General Expenses

Below are the general expenses of the Authority.

Description	2016 Ksh	2015 Ksh
Advertising	4,774,762	9,483,015
Branding PPOA	379,600	1,240,000
Corporate Car park expenses	445,440	445,440
Catering	1,185,061	2,171,845
Conference and delegations	7,861,915	33,594,284
Consumables	158,000	587,997
Corporate Social Responsibility	2,377,500	591,493
Corruption Prevention & Awareness	-	23,200
Fuel and Oil	1,090,730	1,331,620
Insurance Costs	2,674,758	3,033,617
ISO	456,600	11,600
Legal expenses	154,412	128,630
Newspapers/Journals	196,028	226,340
Office Expenses	1,757,113	1,505,908
Printing & stationery	598,945	1,766,252
Rental	15,499,920	9,841,440
Software upgrades and licences	133,000	3,135,410
Strategic Plan	-	90,000
Telecommunication	4,594,775	5,482,386
Trade shows and exhibitions	938,742	104,470
Travel Costs	4,486,625	3,846,334

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Description	2016 Ksh	2015 Ksh
Total	<u>49,763,926</u>	<u>78,641,281</u>

9. Repairs and Maintenance

The Authority spent Ksh 1,176,489 on maintenance of vehicles, equipment, computers and general maintenance. A breakdown of the expenditure is shown below:

	2016 Ksh	2015 Ksh
Vehicles	369,018	350,103
Equipment	762,588	1,663,021
Property	44,883	572,397
Total	<u>1,176,489</u>	<u>2,585,521</u>

10. Contracted Services

	2016 Ksh	2015 Ksh
Audit fees	672,800	765,600
Cleaning Services Fees	1,808,176	1,756,820
Security Costs	2,010,151	2,340,874
Consultancy Fees	4,269,800	17,074,199
Total	<u>8,760,927</u>	<u>21,937,493</u>

11. Finance Costs

	2016 Ksh	2015 Ksh
Withholding Tax on Interest Income	4,953,664	2,007,321
Bank charges	244,432	207,452
Total	<u>5,198,096</u>	<u>2,214,773</u>

12. Depreciation and Amortization

	2016 Ksh	2015 Ksh
Property and equipment	20,630,806	12,260,875
Intangible assets	790,654	4,815,524
Total	<u>21,421,460</u>	<u>17,076,399</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. Cash and cash equivalents

	2016	2015
	Ksh	Ksh
Bank	53,434,434	19,753,258
Cash on hand and in transit	1,156	0
Short-term deposits	400,000,000	266,000,000
Total	<u>453,435,590</u>	<u>285,753,258</u>

14. Receivables from exchange transactions

	2016	2015
	Ksh	Ksh
Prepaid car park expense	-	7,683,840
Prepaid Insurance	7,463,487	-
Accrued Interest Income (National Bank of Kenya)	353,972	-
Prepaid Motor vehicles	-	18,288,123
Guarding & Receptionist Services	9,048	-
Air Ticketing Services	39,411	-
Prepaid fuel	183,883	334,414
Reimbursements due (Staff seconded to The National Treasury)	3,822,503	-
Rent Deposit - Mombasa Office	364,000	364,000
Total	<u>12,236,304</u>	<u>26,670,377</u>

15. Receivables from non-exchange transactions

	2016	2015
	Ksh	Ksh
Imprest advance	497,500	488,388
Salary advance	382,505	42,905
Total	<u>880,005</u>	<u>531,293</u>

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17. Intangible assets

Intangible assets comprises ICT Systems and software used by the Authority in its operations.

Cost	Ksh
At 1st July 2014	32,095,513
Additions	1,060,000
Disposals	-
Transfers/adjustments	-
Cost as at 30th June 2015	<u>33,155,513</u>
Additions	1,325,000
Disposals	-
Transfers/adjustments	-
Cost as at 30th June 2016	<u>34,480,513</u>
Amortization	
At 1st July 2014	27,061,783
Amortization	4,815,524
Impairment loss	-
Transfers/adjustments	-
Accumulated amortization as at 30th June 2015	<u>31,877,307</u>
Amortization	790,654
Impairment loss	-
Transfers/adjustments	-
Accumulated amortization at 30th June 2016	<u>32,667,961</u>
Net book values	
As at 30th June 2016	<u>1,812,552</u>
As at 30th June 2015	<u>1,278,206</u>

18. Work In Progress

Implementation of the Human Resource Information System and Microsoft Navision 2015 was ongoing. The contractors had been paid 20% and 30% of the contract sum as at 30.06.2016. The intangible assets will be recognized once the projects are completed, commissioned and handed over to the Authority. There was no work in progress as at 30th June 2015.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. Property, Plant & Equipment

	Motor Vehicles Ksh	Equipment & Computers Ksh	Furniture & Fittings Ksh	Office Partitions Ksh	Total Ksh
Costs as at 1st July 2014	32,061,347	35,576,435	10,384,108	43,135,783	121,157,673
Additions	0	7,657,495	1,181,800	551,742	9,391,037
Revaluations	0	0	-	0	-
Disposals	0	0	-	0	0
Transfers/adjustments	0	0	-	0	0
Cost as at 30th June 2015	32,061,347	43,233,930	11,565,908	43,687,525	130,548,710
Additions	35,979,966	695,380	1,657,469	1,470,966	39,803,781
Revaluations	0	0	-	0	0
Disposals	0	0	-	0	0
Transfers/adjustments	0	0	-	0	0
Cost as at 30th June 2016	68,041,313	43,929,310	13,223,377	45,158,491	170,352,491
Depreciation					
Depreciation	3,489,109	1,982,472	1,328,353	5,460,941	12,260,875
Impairment	0	0	0	0	0
Transfers/adjustments	0	0	0	0	0
Accumulated Depreciation as at 30th June 2015	25,260,566	36,394,761	7,687,019	39,842,972	109,185,318
Depreciation	11,498,416	2,730,211	1,500,466	4,901,713	20,630,806
Disposals	1,658,899				1,658,899
Impairment	0	0	-	0	0
Transfers/adjustments	0	0	-	0	0
Accumulated Depreciation as at 30th June 2016	38,417,881	39,124,972	9,187,485	44,744,685	131,475,023
Net Book Value as at 30th June 2016	29,623,432	4,804,338	4,035,892	413,806	38,877,468
Net Book Value as at 30th June 2015	6,800,781	6,839,169	3,878,889	3,844,553	21,363,392

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Details	% Completion	2016 Ksh	2015 Ksh
Navision upgrade to 2015 - Attain Ent Solutions	30%	1,728,130	Nil
HRMIS - Netcom Information System	20%	925,332	Nil
Closing balance		2,653,462	Nil

19. Trade & Other Payables from exchange transactions

	2016 Ksh	2015 Ksh
Trade Payables	15,596,105	19,425,026
Other Payables	284,796	-
Total	<u>15,880,901</u>	<u>19,425,026</u>

20. Provisions

Provision made to cater for audit of FY 2015/16 books of accounts payable in FY 2016/17 after the actual is concluded.

	2016 Ksh	2015 Ksh
Audit fees	672,800	672,800
Total	<u>672,800</u>	<u>672,800</u>

21. Revaluation Reserve

The revaluation reserve relates to values assigned to motor vehicles on revaluation. The movement of the revaluation reserve is as shown below:

	2016 Ksh	2015 Ksh
Opening Revaluation Reserve Balance	4,473,217	6,709,826
Transfer to Revenue Reserve	(3,241,544)	(2,236,609)
Closing Revaluation Reserve Balance	<u>1,231,673</u>	<u>4,473,217</u>

22. Revenue Reserve

The movement in revenue reserves for the year ended 30th June 2016 is shown below:

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	2016 Ksh	2015 Ksh
Revenue Reserve balance as at 30th June 2015	311,025,483	233,234,943
Transfer from Revaluation Reserve	3,241,544	2,236,609
Reversal of Provision	-	150,081
Surplus for the year	177,842,980	75,394,850
Closing Balance	<u>492,110,007</u>	<u>311,025,483</u>

23. Cash generated from operations

A computation of the net cash flows generated from operating activities during the year under review of Ksh 208,811,113 is as below:

	2016 Ksh	2015 Ksh
Surplus / Deficit for the year	177,842,980	75,394,850
Adjusted for:		
Depreciation	20,630,806	12,260,875
Amortization of intangible assets	790,654	4,815,524
Reversal of Provision to Surplus	0	150,081
Revaluation Reserve conversion on disposal	1,658,899	0
Cash flows from operating activities before working capital changes	200,923,339	92,621,330
Working capital changes		
Increase/(Decrease) in Trade and other payables	3,544,125)	(9,034,596)
Decrease/(Increase) in receivables and prepayments	14,085,361	(16,772,110)
Decrease/(Increase) in Work In Progress	(2,653,462)	-
Increase/(Decrease) in provisions	-	(117,200)
Net Cash flows from Operating Activities	<u>208,811,113</u>	<u>66,697,424</u>

24. Financial Instruments

The Authority was not holding neither did it have issued financial instruments as at 30th June 2016.

25. Contingent Assets

The Authority had no contingent assets as at 30th June 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. Contingent Liabilities

Litigation Matters: As at 30th June 2016, there were some cases before the courts in which the Authority is a party that had not been concluded. The outcome of the cases and the likely costs of the suits (damages/other court awards) that the Authority may have to bear cannot be estimated with certainty. This disclosure has been provided in conformity with IPSAS 19.

27. Subsequent Events

There were no subsequent events after year end that affect the Authority and that would affect the decisions made by a third party.

28. Operating Lease Rentals

The Authority has two rental lease agreements under which it will pay Ksh. 54,091,104 over the next 4 years. The details are as below:

Lease with National Bank of Kenya:

Period	2016	2015
Not later than 1 year	16,208,448	13,920,000
Later than 1 year and not later than 5 years	32,416,896	41,760,000
Later than 5 years	0	0
Total	48,625,344	55,680,000

Lease with Mombasa Trade Centre:

Period	2016	2015
Not later than 1 year	1,310,400	1,266,720
Later than 1 year and not later than 5 years	4,155,360	6,688,280
Later than 5 years	0	0
Total	5,465,760	7,955,000

29. Progress on Follow Up of Auditor Recommendations

There were no audit queries arising from audit of FY 2014/2015 financial statements.

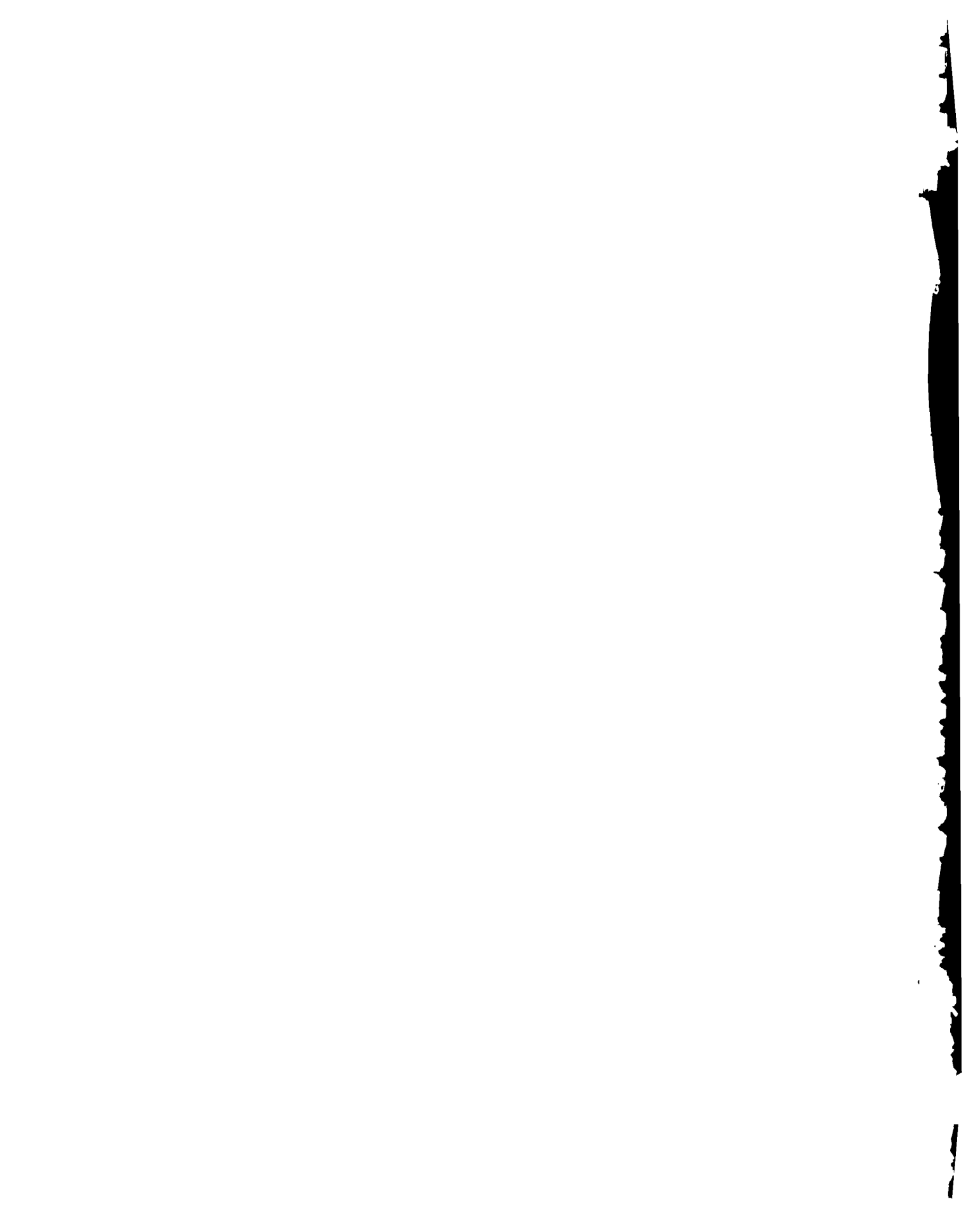
Ref No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
FY 2014/15 audit report	NONE	N/A	N/A	N/A	N/A

ANNEXES

ANNEX 1: PEs Appearance before the Review Board

S/No.	PROCURING ENTITY	FREQUENCY
1.	Ministry of Defence	4
2.	Athi Water Services Board	3
3.	Kenya Electricity Generating Co. Ltd (Kengen)	3
4.	Marsabit County Government	3
5.	Coast Water Services Board	2
6.	Communication Authority of Kenya	2
7.	County Government of Kitui	2
8.	Geothermal Development Company Ltd.	2
9.	County Government of Makueni	2
10.	KEMSA	2
11.	Kenya Broad Casting Corporation	2
12.	Kenya Pipeline Company Ltd	2
13.	Kenya Ports Authority	2
14.	Kenya Power	2
15.	Kiirua Technical Training Institute	2
16.	Masinde Muliro University Science & Technology	2
17.	Ministry of Devolution	2
18.	Ministry of Education Science & Technology (MOEST)	2
19.	Ministry of Interior and Coordination of National Government	2
20.	National Industrial Training Authority	2
21.	National Social Security Fund	2
22.	National Transport & Safety Authority	2
23.	Central Bank of Kenya	1
24.	Eldoret Water & Sanitation company limited	1
25.	Jomo Kenyatta University of Agriculture & Technology	1
26.	Judicial Programme Improvement Project	1
27.	Kenya Airport Authority	1
28.	Kenya Civil Aviation Authority	1
29.	Kenya Maritime Authority	1
30.	Kenya Medical Training College	1

S/No.	PROCURING ENTITY	FREQUENCY
31.	Kenya Reinsurance Corporation limited	1
32.	Kenya Rural Roads Authority	1
33.	Kenya Wildlife Services	1
34.	Kenyatta National Hospital	1
35.	Kerio Valley Development Authority	1
36.	Laikipia West Technical TRAINING INSTITUTE	1
37.	Meru University of Science & Technology	1
38.	Ministry of Agriculture, livestock & Fisheries State Department of livestock	1
39.	Nakuru County Government	1
40.	National Construction Authority	1
41.	National Oil Corporation of Kenya	1
42.	National police service	1
43.	Numerical Machining Complex Ltd	1
44.	National Services Security Fund	1
45.	Parliamentary Service Commission	1
46.	Salaries & Remuneration Commission	1
47.	St Francis Girls High School	1
48.	The National Treasury	1
49.	The University of Nairobi	1
50.	Tourism Finance Corporation	1
51.	Unaitas Sacco Society Ltd	1
52.	University of Eldoret	1
53.	Wajir County Government	1





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