

7th December 2015

Technical Assistance in the preparation of Individual and Consolidated Financial Statements for County Government Public Entities for the Financial Year 2014/2015

Key Highlights from the Consolidation

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Introduction

The objective of this assignment is to provide technical assistance to the County Government Accountants in the preparation of the financial statements for FY 2014/15.

The assignment broadly cover the following key activities:

Preparation and submission of individual financial statements for County Government public entities for FY 2014/2015;

Preparation and submission of County Consolidated Financial Statements and Management Letters for FY 2014/2015;

Provision of audit support and addressing audit issues for prior years;

Support in the in-year reporting for FY 2015/ 2016, and

Provision of training and capacity building to both the County Government Treasuries and the Financial Reporting Unit within the Directorate of Accounting Services at the National Treasury.

Overview of the Technical Assistance Assignment

The assignment has been divided into the following three phases:

Phase 1: Preparation and consolidation of financial statements- this was undertaken from the Month of August to October 2015

Phase 2: Support during the audit process and cleaning up the submitted reports- scheduled for November and December 2015.

Phase 3: In year reporting, training and continued support during the audit- January to June 2016.

Key Activities

The following activities were undertaken during the inception phase:

We participated the training at the KSG;

We mobilized a team of 22 consultants divided into 6 teams;

Kick off meeting was held at National Treasury with the DG and his technical team;

Technical meetings with PSASB Technical Advisors;

IFMIS induction of our field teams;

Review of the FY 2013/2014 financial statements from OAG;

Deployed teams to all the 47 Counties, one week after contract signing and

Preparation of consolidation and quality review templates.

Summary of Work Done

Phase 1 of the assignment has been completed and the following tasks have been accomplished:

- (i) Scoping and inception work;
- (ii) First round of the training at KSG- This was mainly done by AGD since PwC had not been contracted;
- (iii) Support in the preparation of individual financial statements for County Governments for submission to OAG by 30th September, 2015;
- (iv) Quality review of the submitted financial statements and
- (v) Consolidation of the Annual Consolidated Financial Statements for the County Governments that were submitted to OAG by 30th October 2015.

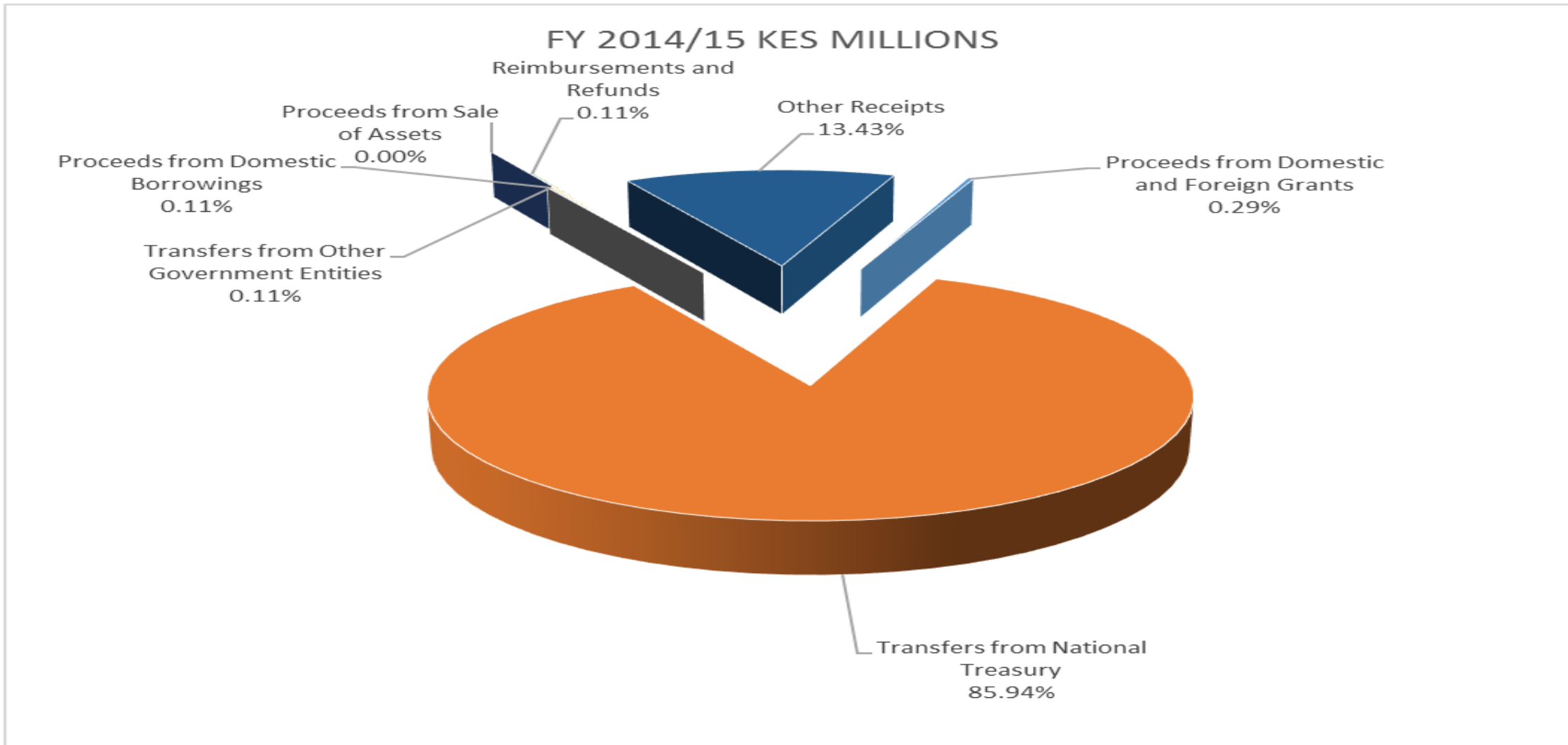
Key Highlights in the Consolidation

- a) We have incorporated 47 signed financial statements for FY 2014/15 in the draft consolidated financial statements;
- b) Opening balances were derived from 40 audited FY 2013/14 financial statements and 7 last submitted accounts to OAG;
- c) Total revenue amounted to KShs 266 billion for FY 2014/15 compared to KShs 222 billion for FY 2013/14 representing a 19 % increase;
- d) Transfers from the National Treasury informed revenue allocation to County Governments and accounted for 86% of County Government Revenues compared to 85% in the previous financial year;
- e) The expenditure for FY 2014/15 amounted to KShs 269 billion compared to KShs 186 billion in the previous financial year representing a 45% increase;
- f) A total of KShs 34.2 billion was held in form of bank balances, cash in hand and outstanding imprest by County Government as at 30th June 2015 compared to KShs 39.2 billion during the previous period representing a decrease of 13%

Consolidated County Governments Revenues

Item	FY 2014/2015	FY 2013/2014	Variance	% Variance
	KShs Million	KShs Million	KShs Million	
Proceeds from Domestic and Foreign Grants	866	8	857	10,239%
Transfers from National Treasury	228,603	187,239	41,364	22%
Transfers from Other Government Entities	291	3,137	(2,846)	(91)%
Proceeds from Domestic Borrowings	298	1,856	(1,558)	(84)%
Proceeds from Sale of Assets	6	7	(1)	(14)%
Reimbursements and Refunds	301	7	294	4,200%
Other Receipts	35,736	30,553	5,183	17%
TOTAL RECEIPTS	266,100	222,788	43,312	19%

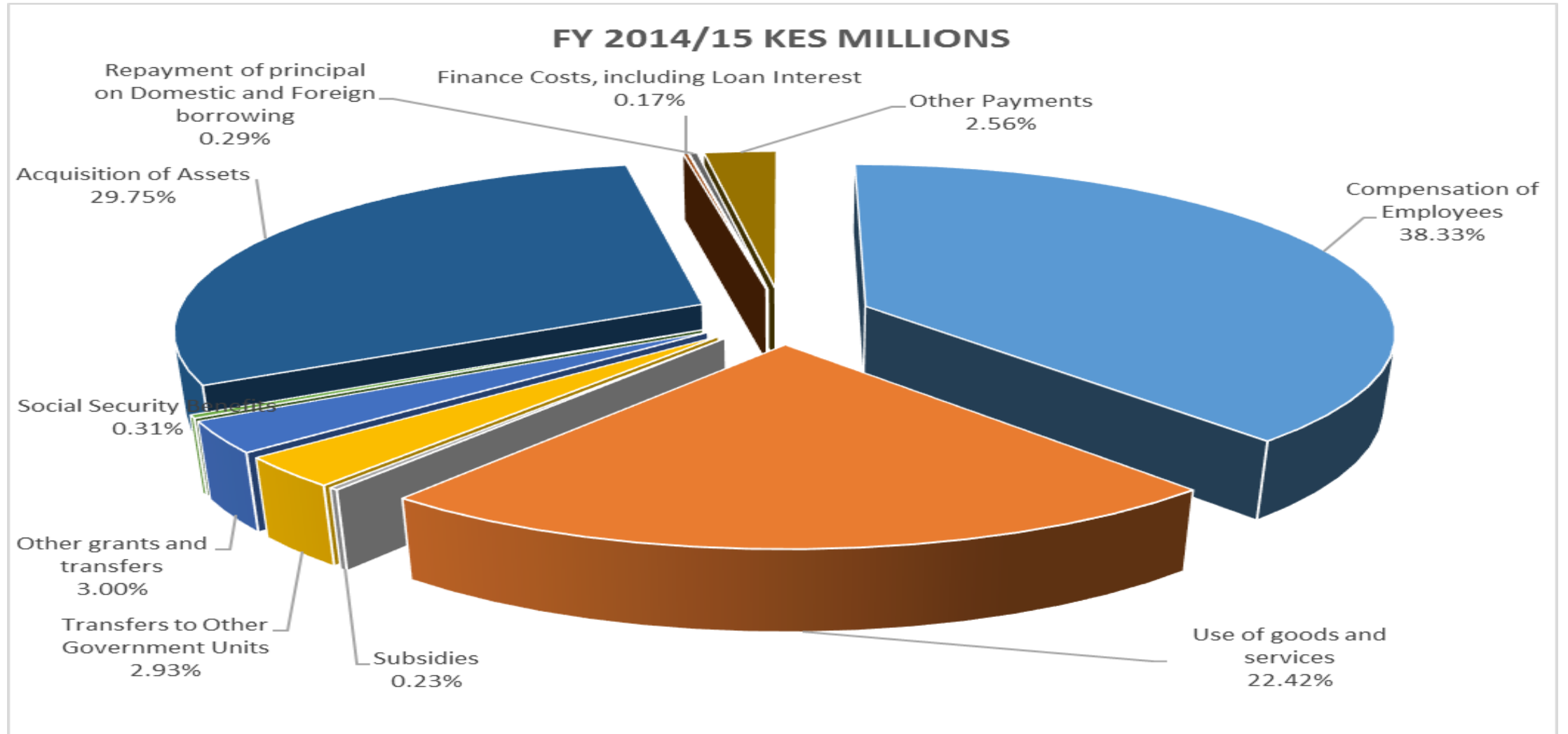
Figure 1: Consolidated Revenues by Category



Consolidated County Governments Expenditures

Item	FY 2014/15	FY 2013/14	Variance	% Variance
	KShs Million	KShs Million	KShs Million	KShs Million
Compensation of Employees	103,432	85,777	17,655	21%
Use of goods and services	60,506	47,666	12,840	27%
Subsidies	629	229	400	175%
Transfers to Other Government Units	7,894	4,562	3,332	73%
Other grants and transfers	8,097	4,938	3,159	64%
Social Security Benefits	845	292	553	189%
Acquisition of Assets	80,275	37,959	42,316	111%
Finance Costs, including Loan Interest	464	131	333	254%
Repayment of principal on Domestic and Foreign Borrowing	783	753	30	4%
Other Payments	6,921	4,348	2,573	59%
TOTAL PAYMENTS	269,845	186,656	83,189	45%

Figure 2: Consolidated Expenditures by Category



Consolidated County Governments Financial Assets and Liabilities

Item	FY 2014/2015	FY 2013/2014	Variance	%Variance
	KShs Million	KShs Million	KShs Million	
Bank Balances	31,971	37,556	(5,585)	(15)%
Cash Balances	79	94	(15)	(16)%
Outstanding Imprests	2,158	1,590	567	36%
Deposits and Retention Funds	(1,150)	(5)	(1,145)	22900%
TOTAL	33,058	39,235	(6,178)	(16)%

Breakdown of Bank Balances

	FY 2014/2015	FY 2013/2014	Variance	% Variance
	KShs Million	KShs Million	KShs Million	
Central Bank of Kenya Accounts	28,957	33,628	(4,671)	(14)%
Other Commercial Bank Accounts	3,014	3,928	(914)	(23)%
Total	31,971	37,556	(5,585)	(15)%

Challenges noted in the provision of technical assistance to counties

We noted the following IFMIS related challenges that made it impossible to extract financial statements as had earlier been envisaged :

- a) The County Revenue Fund (CRF) account had not been created in the system. The Constitution of Kenya, 2010 recognizes the CRF as the main revenue collection account for the County Governments;
- b) Commercial bank accounts operated by County Governments had not been created in the system;
- c) Most counties had no access to the Accounts Receivables module where they are to capture all their revenues;
- d) The auto bank reconciliation was not enabled in IFMIS;
- e) Accounts in the system had not been mapped well for example in some counties the statement of financial position was picking total receipts and not the surplus; and
- f) Recording of opening balances had not been enabled in the system.

Next Steps

We are currently undertaking **phase 2** of the assignment, the key focus being on supporting the County Government entities during the audit process and cleaning up the reports.

This phase of the assignment will run till end of December, 2015 with the following key activities being undertaken;

Drafting and circulation of quality review/management letters to the Counties – By 30th November, 2015

Preparation of revised Consolidated Financial Statements for County Governments – By 22nd December, 2015

Undertaking a lessons learnt workshop – 7th to 11th December, 2015

Thank You!