

# REGULATORY AND OTHER NON-COMMERCIAL ENTITIES PRIVATIZATION COMMISSION

## 2018 ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING JUNE 30, 2018



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



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### **PRIVATIZATION COMMISSION**

#### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

#### **FOR THE FINANCIAL YEAR ENDING JUNE 30, 2018**

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**Kenya Regulatory & Non - Commercial (Privatization Commission)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

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## KEY ENTITY INFORMATION AND MANAGEMENT

### (a) Background information

The Privatization Commission was established under the, Privatization Act, 2005. The entity is domiciled in Kenya and does not have branches.

### (b) Principal Activities

As stipulated in the Privatization Act, the principal activities of the Privatization Commission are to:

- formulate, manage and implement the Privatization Programme;
- make and implement specific proposals for privatization in accordance with the Privatization Programme;
- carry out such other functions as are provided for under this Act; and
- carry out such other functions as the Commission considers advisable to advance the Privatization Programme.

The Commission began its operations in February 2008.

#### **Vision**

A world class privatization agency, innovatively transforming public enterprises for accelerated economic growth.

#### **Mission**

To unlock the potential of public enterprises through a robust privatization to meet desired national objectives.

#### **Core Objectives**

- i. To finalize implementation of the current Privatization Programme by 2020
- ii. To achieve a harmonious legal framework for the Privatization Programme
- iii. To improve on existing infrastructure and foster innovation
- iv. To attract, develop and retain adequate capacity for efficient and effective implementation of the Privatization Programme
- v. To fully operationalize a functional Knowledge Resource Centre by 2020
- vi. To enhance public awareness, image and perception
- vii. To implement the Risk Management strategy
- viii. To enhance linkages and maintain working relationships with stakeholders and partners; and
- ix. To effectively lobby, utilize and account for financial resources

### (c) Key Management

The Privatization Commission's day-to-day management is under the following key organs:

- Commission Members;
- Executive Director/CEO; and
- Management.



#### (d) Fiduciary Management

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag. Executive Director/CEO	Jacqueline Muindi
2.	Chief Manager Finance and Admin	Robert Mbarani
3.	Ag. Chief Manager Transactions	Janerose Omondi
4.	Head of Procurement	Slyvester Kamau
5.	Head Risk and Compliance Manager	Flora Muthaura
6.	Head of Human Resources & Admin	Caroline Kittur
7.	Head of Corporate Affairs	Bessie Atieno
8.	Head of Finance	Virginiah Kariuki
9.	Head of Legal Affairs	Maureen Saina
10.	Head of ICT	Shadrack Oriaro

#### (e) Fiduciary Oversight Arrangements

The Commission has the following Committees which have specific terms to guide their operations.

**(i) Finance and Strategy Committee**

**(ii) Audit Committee**

**(iii) Human Resources and Risk Management Committee**

**(iv) Privatization Steering Committees:**

- Banking Privatization Steering Committee( extended to cover Kenya Wine Agencies offer of shares to staff);
- Tourism Finance Corporation Hotels;
- Approved Kenya Ports Authority Projects;
- Agro-Chemical and Food Company Limited;
- Kenya Pipeline Company Limited;
- Isolated Power Stations;
- Kenya Meat Commission;
- New Kenya Co-operative Creameries Limited;
- Numerical Machining Complex;
- Kenya Electricity Generating Company Limited and
- East African Portland Cement Company Limited.

#### f) Privatization Commission Offices

P O Box 34542 - 00100  
11<sup>th</sup> Floor Extelcoms House  
Haile Selassie Avenue  
Nairobi, KENYA

#### g) Privatization Commission Contacts

Tel: +254 20 221 23 46/7/8  
Email: [info@pc.go.ke](mailto:info@pc.go.ke)  
Website: [www.pc.go.ke](http://www.pc.go.ke)

**h) Privatization Commission Bankers**

Kenya Commercial Bank  
University Way Branch  
NAIROBI, KENYA

Kenya Commercial Bank  
KICC Branch  
NAIROBI, KENYA

Co-operative Bank of Kenya  
Co-operative Bank House  
Haile Selassie Avenue  
NAIROBI, KENYA

HFC Ltd.  
Gill House  
Tom Mboya Street  
NAIROBI, KENYA

**i) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084-00100  
NAIROBI, KENYA

**j) Principal Legal Advisor**

The Attorney General  
Office of the Attorney General and Department of Justice  
Harambee Avenue  
P O Box 40112-00200  
NAIROBI, KENYA

## THE BOARD OF DIRECTORS



### **Hon. Henry Obwocha, EGH – Chairman**

Hon. Obwocha is a Chartered Accountant by profession and holds a Bachelor of Commerce Degree from the University of Nairobi and Postgraduate Studies (Economics and Management) from Templeton College, Oxford University, UK. He is a Fellow of the Institute of Certified Public Accountants of Kenya and a member of the Institute of Certified Public Secretaries of Kenya (Company Secretary). He is also a Fellow of the Chartered Association of Certified Accountants of the U.K.

Hon. Obwocha is a founder member of KCA University (formerly Kenya College of Accountancy). He was a former Minister for Planning and National Development and Assistant Minister for Finance (Financial Services) and Member of Parliament for West Mugirango Constituency (1992-2007). He also acted as the Minister for Energy (February – November 2006). He was a Member of the National Economic and Social Council (NESC) which drafted Kenya's Vision 2030.

He is currently practicing as an Auditor at Obwocha and Associates Co.

D.O.B 1949



### **Mr. Henry Rotich: Cabinet Secretary - The National Treasury**

Mr. Rotich is the Cabinet Secretary, The National Treasury. He holds a Master's Degree in Economics and a Bachelor's Degree in Economics, both from the University of Nairobi. He also holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University.

Prior to his appointment as a Cabinet Secretary in 2013, Mr. Rotich had been the Head of Macroeconomics function at the National Treasury since March 2006. In this capacity he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities.

In addition, he was also involved in preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the area of fiscal and financial sector.

Prior to joining the Ministry of Finance, Mr. Rotich had earlier worked at the Research Department of the Central Bank of Kenya since 1994. In this capacity between 2001-2004, he had been attached to the International Monetary Fund local office in Nairobi as an economist.

Mr. Rotich has also been a Director on several Boards of State Corporations.



### **Hon. Prof. Githu Muigai - The Attorney General**

Prof. Githu was appointed Attorney-General of the Republic of Kenya on 29th August, 2011, and is the principal legal advisor to the Government. He holds LLB and Ph.D. degrees from the University of Nairobi and an LLM Degree from Columbia University School of Law, New York. He is also a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. He was called to the bar in 1985.

He is a member of the Law Society of Kenya, East African Law Society, Chartered Institute of Arbitrators, American Association of Trial Lawyers, Institute of Public Secretaries, Council of Legal Education, International Commission of Jurists International Bar and Association and Commonwealth Lawyers Association.



### **Ms. Beatrice Gathirwa - Alternate to CS, National Treasury**

Ms. Gathirwa holds Bachelor of Commerce (Accounting) and Master of Business Administration degrees from the University of Nairobi.

Ms. Gathirwa is the Director, National Assets and Liability Management at the National Treasury. She represents the Cabinet Secretary, National Treasury on the Boards of various State

Corporations.  
D.O.B 10.06.1956



### **Amb. Boaz Kidiga Mbaya, CBS, MBS**

Amb. Mbaya holds a Bachelor's degree in Political Science and Literature and a Post-Graduate Diploma in International Relations, both from the University of Nairobi.

He has served as Permanent Secretary, Ministry of Foreign Affairs of Kenya. He is a career diplomat with over thirty years' experience in International Relations. He is conversant with bilateral and multi-lateral diplomacy, the United Nations system, the Commonwealth, the African Union, the East African Community, COMESA and other sub-regional organisations. He also has wide experience in negotiations, conflict prevention, management, resolution and peace-making efforts, specifically mediation in the South Sudan/Sudan conflict, Somalia, Mozambique, and the Great Lakes Region.

He is the Executive Director, Centre for Policy Analysis, an independent think tank and consultancy firm specialising in public policy analysis, research, management and training. Amb. Mbaya is finalising a book on Kenya's Foreign Policy and Diplomacy since independence.

He is a member of various organizations

D.O.B 14/03/1951



### Mr. John Joseph Tito

John Joseph Tito holds a Bachelor of Laws degree from the University of Nairobi, a Post Graduate Diploma in Law from the Kenya School of Law, and Post Graduate Diplomas in Aviation Law, International Business and Transnational Law. He is a member of the Law Society of Kenya and the International Bar Association.

Mr. Tito is an accomplished Lawyer with a solid background of over 20 years in International, Financial and Commercial Law. He also has expertise in executive management, Governance and policy formulation and implementation.

He is currently a Managing Partner of Tito & Associates Advocates, a legal consultancy and advisory services firm based in Nairobi. He provides lectures at conferences and undertakes research on appropriate policy and legal framework on proposed legislative changes. He coaches executives on Aviation Law and on Public Sector - Private Sector partnerships for efficient and sustainable delivery of public services.

D.O.B 30.3.1967



### Ms. Zipporah Mukoruru

Ms. Mukoruru holds a Master's degree in Procurement and Logistics from Jomo Kenyatta University of Agriculture and Technology, a Bachelor's degree in Education from Kenyatta University and a Diploma in Purchasing and Supplies Management from the University of Nairobi. She is a member of Kenya Institute of Supplies Management.

She previously worked as a Senior Lecturer at the Meru Teachers Training College.

D.OB 23.10.1972



### Mr. John Boru Sosso Halake

Mr. Halake is a career civil servant and holds a Bachelor's degree from the University of Dar es Salaam. He has attended the University of Leeds in UK and the Harvard University in USA where he studied Financial Management and Budgeting in the public sector.

He has previously served as the Permanent Secretary in the Ministry of Culture and Social Services, Financial Secretary/Accounting Officer Ministry of Finance and Chairman of the National Council for Persons with Disabilities.

He has attended various courses on disability, both nationally and internationally having been disabled after a road accident.

D.O.B 16.04.1948





**Mr. Wilfred Kipkorir A. Sang**

Mr. Sang holds a BSc. in Agriculture from the University of Nairobi and an MBA (Financial Services Sector) from Sheffield Hallam University in the United Kingdom. He also holds a Banking Diploma (ACB) and Financial Studies Diploma (DipFS) professional qualifications from the Chartered Institute of Bankers – London where he is also a Fellow.

He has served with the Kenya Government and Kenya Commercial Bank Ltd. for a total of 29 years, rising through the ranks to directorship level for a period of 8 years at both Credit and Corporate functions. He is currently in private business. He is also the Non-Executive Chairman of Postal Corporation of Kenya.

D.O.B 28.09.1960



**Mr. Mohamed Suraw Issak**

Mr. Suraw holds a Masters of Business Administration (Strategic Management) degree from Jomo Kenyatta University of Agriculture and Technology and a Bachelor's degree in Human Resource Management from Kampala University.

He has previously served as a Mayor of the Municipal Council of Nakuru and Councillor for Rhoda Ward, Nakuru Municipality. He is currently the Director of Falcon Service Station in Nakuru County.

Mr. Mohamed is a full member of the Kenya Institute of Management (KIM).

D.O.B 02.04.1974



**Ms. Faith J. Bett-Boinet**

Ms. Boinet is a lawyer by profession. She holds a Bachelors of Law (LLB) Degree from Moi University and a Diploma in Law from the Kenya School of Law. She also holds a Diploma in Human Resource Management from the Kenya Institute of Management.

She has held directorship positions in Kenya Pipeline Company Ltd. and Nyayo Tea Zones Development Corporation. She is a certified Corporate Governance trainer and a life member of FIDA.

She is currently the Managing Partner, Boinett & Bet Co. Advocates.

D.O.B 24.09.1979



**Sharon Irungu Asiyo - Alternate to the AG**

Mrs. Asiyo is the alternate to the Attorney-Genera I. She is an Advocate of the High Court of Kenya with a Bachelor of Laws (LL.B) Degree from Kampala International University - Uganda, a Post-Graduate Diploma in Legal Studies from the Kenya School of Law and a member of the Law Society of Kenya (LSK).

Sharon is a State Counsel at the Office of the Attorney-General and Department of Justice currently. She is currently working in the Government Transactions Division.

DOB 27.06.1981



**Mr. Solomon Kitungu- Executive Director/CEO up to 30<sup>th</sup> Sept 2017**

Mr. Kitungu is the Commission's Executive Director/Chief Executive Officer. He holds a Bachelor of Arts (Economics) degree from the University of Nairobi and a Master of Arts (Economics) degree from the University of Manchester, United Kingdom. He also holds an Advanced Management Programme certificate from the Strathmore Business School and University of Navara, Barcelona.

Mr. Kitungu has extensive training and experience in public sector, Parastatal and infrastructure reforms and privatization. Prior to being appointed the Executive Director/CEO in 2009, Mr. Kitungu worked in various capacities at the Ministry of Finance rising to the position of Investments Director (Reforms) in the Department of Government Investments and Public Enterprises in 2003.

He was the Commission's Executive Director up to 30<sup>th</sup> Sept 2017. However, he proceeded on terminal leave with effect from 11<sup>th</sup> Sept 2017

D.O.B 25.09.1961



**Jacqueline Mbithe Muindi Ag. Executive Director/CEO effective 11<sup>th</sup> Sept 2017**

CS Jacqueline holds a Global Executive Master of Business Administration degree from the United States International University Africa, a Master of Law (LL.M) degree in International Trade and Investment Law and a Bachelor of Law (LL.B) degree both from the University of Nairobi. She also has a Post-Graduate Diploma in Legal Education from the Kenya School of Law.

Jacqueline has over ten years' experience in negotiating, drafting, vetting and interpreting legal documents, agreements, treaties and conventions on behalf of the Government of Kenya in various capacities at the Office of the Attorney General and Department of Justice. She also possesses extensive experience in Government policy formulation and drafting of lay bills and the operations of state corporations by virtue of having been an alternate director to the Hon. Attorney General on various Boards of Directors; prior to joining the Commission.




She is a member of the Law Society of Kenya (LSK) and the Institute of Certified Public Secretaries of Kenya (ICPSK).


D.O.B 07.01.1975



## MANAGEMENT TEAM

NAME OF STAFF	RESPONSIBILITY
 <p><b>Mr. Solomon Kitungu-</b> Mr. Kitungu is the Executive Director/Chief Executive Officer. He holds a Bachelor of Arts (Economics) degree from the University of Nairobi and a Master of Arts (Economics) degree from the University of Manchester, United Kingdom. He also holds an Advanced Management Programme certificate from the Strathmore Business School and University of Navara, Barcelona. Prior to being appointed the Executive Director/CEO in 2009, Mr. Kitungu worked in various capacities at the Ministry of Finance rising to the position of Investments Director (Reforms) in the Department of Government Investments and Public Enterprises in 2003.</p>	<p><b>Executive Director/CEO up to 30<sup>th</sup> Sept 2017</b></p> <p>Provision of leadership in the development and implementation of appropriate strategies to enhance the mission, vision and values of the Commission on all matters relating to implementation of the Commission's strategies.</p> <p>He was the Commission ED/CEO upto 30<sup>th</sup> Sept 2017. However, he proceeded on terminal leave with effect from 11<sup>th</sup> Sept 2017.</p> <p>D.O.B 25.09.1961</p>
 <p><b>Jacqueline Mbithe Muindi</b> CS Jacqueline holds a Global Executive Master of Business Administration degree from the United States International University – Africa, a Master of Law (LL.M) degree in international Trade and Investment Law and a Bachelor of Law (LL.B) degree both from the University of Nairobi. She also has a Post-Graduate Diploma in Legal Education from the Kenya School of Law.</p>	<p><b>Ag. Executive Director/CEO effective 11<sup>th</sup> Sept 2017</b></p> <p>Provision of leadership in the development and implementation of appropriate strategies to enhance the mission, vision and values of the Commission on all matters relating to implementation of the Commission's strategies</p>

NAME OF STAFF	RESPONSIBILITY
 <p><b>Robert Mbarani Ingasira</b> Robert has a vast experience in Finance, Accounting and Management drawn from over 15 years of work experience in various public sector organizations. He holds an MBA in Finance from Moi University and a Bachelor of Arts degree in Mathematics and Economics from the University of Nairobi.</p> <p>Mr. Robert also holds a Higher Diploma in Human Resource Management and is a member of the Institute of Certified Accountants of Kenya (ICPAK).</p>	<p><b>CHIEF MANAGER, FINANCE AND ADMINISTRATION</b></p> <p>In charge of Human Resources and Administration, ICT and Finance functions.</p>
 <p><b>Janerose Omondi</b> Janerose is a holder of Master of Business Administration degree (Strategic Management) from the Kenya Methodist University, a Bachelor of Science degree in International Business Administration (Finance) from United States International University – Africa (USIU- A), and a CPA Finalist.</p> <p>Janerose has over 20 years' experience in banking, having previously worked with Barclays Bank of Kenya Limited.</p> <p>She also has experience in Compliance and Risk Management gained from the same bank.</p>	<p><b>Ag. CHIEF MANAGER TRANSACTIONS</b></p> <p>Assist the ED/CEO in managing privatization transactions</p>
 <p><b>Caroline Jepchumba Kittur</b> Caroline is responsible for the management of the Human Resource and Administration functions.</p>	<p><b>HUMAN RESOURCE AND ADMINISTRATION</b></p> <p>Responsible for Human Resources and Administration function at the Commission.</p>

NAME OF STAFF	RESPONSIBILITY
<p>Caroline is a seasoned HR practitioner and has worked with reputable employers for more than twenty years in administration, Human Resources and Strategy functions.</p> <p>She has a Master's Degree in Business Administration (Strategic Management) and Bachelor of Arts degree in Sociology from Moi University; a Higher National Diploma (IHRM); and an Executive Diploma in Industrial Relations from USIU-A.</p> <p>She is a Certified HR Professional by the IHRM and a Certified Conflict Mediator.</p>	
 <p><b>Sylvester Wambugu Kamau</b></p> <p>Sylvester holds a Master of Science (MSc) degree in Procurement and Logistics from the Jomo Kenyatta University of Agriculture and Technology and a CIPS post graduate professional diploma in Procurement and Supplies. He also holds a Bachelor of Arts degree in Government and Public Administration from Moi University. He is a registered and licensed member of the Kenya Institute of Supplies Management.</p>	<p><b>PROCUREMENT</b></p> <p>Responsible for ensuring quality, effective and proactive procurement support services for the Commission</p>
 <p><b>Florah Naitore Muthaura</b></p> <p>Florah is the Risk and Compliance Manager at the Commission. She was previously within the Old Mutual Group as a Risk and Compliance Specialist before moving to Standard Chartered Bank as a Finance Operational Risk Manager. During this time, Florah has gained practical experience in financial management, enterprise risk management and compliance in the financial services sector with dynamic variables.</p> <p>She has gained exposure in designing, evaluating and implementing risk management processes through integration of controls, audit and process management capacity building.</p> <p>Florah holds a Bachelor of Commerce Degree (Actuarial Science) and an MBA in Strategic Management from University of Nairobi; in addition to being a Certified Public Accountant (K).</p>	<p><b>RISK &amp; COMPLIANCE</b></p> <p>Responsible for Risk and Compliance at the Commission</p>

NAME OF STAFF	RESPONSIBILITY
 <p><b>Virginiah Njeri Kariuki</b></p> <p>CPA Virginiah holds a Master of Business Administration (Strategic Management) and a Bachelor of Science degree in Business Administration (Accounting and Management) both from USIU-A.</p> <p>She is a CPA (K) and CPS finalist. She is a member of Institute of Certified Public Accountants of Kenya (ICPAK) and Association of Women Accountants of Kenya (AWAK).</p> <p>Virginiah has over 22 years experience in the Public Sector with a vast knowledge and experience in Financial Accounting and Reporting, Financial Management, QMS, Strategic Management and Performance Contracting.</p>	<p><b>FINANCE &amp; ACCOUNTS</b></p> <p>Responsible for provision of Finance and Accounting services</p>
 <p><b>Bessie Valerie Atieno</b></p> <p>Bessie has a Master of Arts degree in Communication from Daystar University. She also holds a Professional Public Relations Diploma from the Chartered Institute of Public Relations (CIPR-UK) and a Bachelor of Arts degree in Language and Literary Studies (English Major) from Moi University. She is a member of the Public Relations Society of Kenya.</p> <p>Bessie has considerable experience in Communication and Public Relations. At the Commission, she is charged with developing and implementing strategies to provide information, education and communication support to the Privatization Programme.</p>	<p><b>CORPORATE AFFAIRS</b></p> <p>Responsible for formulation and execution of a sound communication strategy for the Commission</p>

NAME OF STAFF	RESPONSIBILITY
 <p><b>Shadrack Onyango Oriaro</b></p> <p>Shadrack is a Management Information Systems Expert and CISCO Certified Network professional with over 10 years' experience gained within NGOs, Banking and Public sectors. He holds a BSc. (Information Technology) from JKUAT and is currently pursuing a Master's Degree in Applied IT at Africa Nazarene University. He possesses various professional certifications including CompTIA Project+, CCNP, CCDP, CCDA, CCNA and ITIL. He is a member of the Computer Society of Kenya.</p>	<p><b>ICT</b></p> <p>Responsible for Information Communication Technology at the Commission.</p>
 <p><b>Maureen Chebet Saina</b></p> <p>Maureen is an advocate of the High Court of Kenya holding a Masters Degree in Public Policy from the University of Strathclyde, Scotland, UK, a postgraduate diploma in Legal Studies from Kenya School of Law and a Bachelor of Laws Degree from Catholic University of Eastern Africa.</p> <p>Maureen has vast knowledge and experience in corporate and commercial law practice particularly in the public sector. She is an expert in policy analysis, legal drafting and negotiation with sound research capability.</p> <p>She is a certified corporate governance professional CPS (K) and a member of the Law Society of Kenya.</p>	<p><b>LEGAL AFFAIRS</b></p> <p>Provision of sound legal advice to the Management and the Commission and provision of leadership in the development and implementation of appropriate strategies to enhance the mission, vision and values of the Commission on all matters relating to implementation of the Commission's strategies.</p>

## CHAIRMAN'S STATEMENT

Pursuant to the provisions of Sections 15 and 16 of the Privatization Act, 2005, I am happy and honoured to present the Privatization Commission's Annual Report for the period ended 30<sup>th</sup> June 2018.

During this period, there were no privatizations and as a result, the financial statements for the year do not carry a statement of the assets and liabilities and the proceeds from privatization of any state corporation.

As you may be aware, privatization transactions have been held in abeyance with the Commission receiving approval to implement the Programme on a case-by-case basis. The privatization of the five public sector owned/controlled sugar companies was one of those which the Commission had been granted approval to implement.

During the year, the Commission's business slowed down considerably due to a Judicial Review application and Constitutional petitions against the Commission and the Attorney General with respect to various issues, including constitution of the Commission Board and devolution of the assets to the counties where the sugar companies are situated. These cases were heard and judgment delivered on 10<sup>th</sup> November 2017.

In the ruling, the High Court of Kenya in Nairobi dismissed the petition thereby granting the Commission the go ahead to continue with the sale of the five government owned/controlled sugar companies. The High Court additionally directed that further consultative engagements be held between the National Government and the County governments under the Intergovernmental Relations Act, 2012.

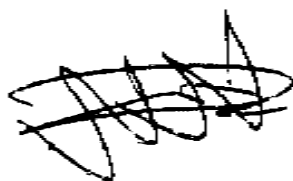
To achieve this, the Commission initiated structured engagements with all primary stakeholders in the sugar industry with a view to co-operatively identify sustainable solutions to the bottle necks facing the operations of the state-owned sugar milling companies.

The Commission will now work with speed on the privatization of the three Tourism Finance Corporation (TFC) associated Hotels, whose approval had been granted earlier. The associated hotel companies include International Hotels Kenya which owns Intercontinental Nairobi, Kenya Hotel Properties Ltd. which owns the Hilton Hotel, Nairobi and Mountain Lodge.

Additionally, the Commission at its meeting held on Tuesday, 29<sup>th</sup> May 2018 adopted the strategy to unlock the transaction by re-starting the pre-emptive share sale process. The Commission commenced the procurement process for the Transaction Advisory Services for the privatization of Public Sector Owned Hotels by placing advertisements inviting all eligible consultants on 8<sup>th</sup> May 2018. However the procurement was terminated on 18<sup>th</sup> June 2018 due to non-responsiveness and the tender was re-advertised on 5<sup>th</sup> June 2018.

The Commission also worked on the Human Resources instruments which were submitted to the State Corporations Advisory Committee through the National Treasury.

I would like to thank the Commission members and Management for their dedication to work in the implementation of the Privatization Programme. We look forward to doing even better for the benefit of the country, with the continued support of the National Government, its agencies and all our stakeholders.

A handwritten signature in black ink, appearing to be 'M. SURAW', written in a cursive style.

**MR. MOHAMED SURAW**  
**FOR: CHAIRMAN**



## REPORT OF THE EXECUTIVE DIRECTOR

The 2017/2018 was challenging but we look back at it with pride because we managed to achieve a lot in fulfilment of our vision and mission.

Management finalized extensive stakeholder consultations in the implementation of the privatization of the Public Sector Owned/Controlled Sugar Companies.

Despite the challenges faced in and out of the Courts during the implementation of this particular transaction, the Commission is optimistic that the process will be concluded successfully.

Tied to this, the Commission welcomed on board new staff members across various job groups who joined from both the private and public sectors. The Commission endeavours to attract and retain good talent therefore after a rigorous and competitive recruitment process, we were pleased to have their calibre of employees joining us.

Additionally, Privatization Commission developed a new Performance Management System for the period 2017 – 2018, based on the Balanced Score Card, and whose implementation commenced in August 2017.

The Commission also commenced the process of transitioning to the ISO 9001:2015 certification and we hope to conclude the process by 15<sup>th</sup> September 2018, before the lapsing of the deadline issued by the Kenya Bureau of Standards.

Management continued to provide technical and administrative support to the National Treasury on general privatization issues and specific issues that relate to transactions pending approval at various stages; and continually undertook sensitization on the privatization process through various articles in print and electronic media and the website.



**JANEROSE OMONDI**

**AG. EXECUTIVE DIRECTOR/CEO**

## CORPORATE GOVERNANCE STATEMENT

### Policy on Corporate Governance

The Commission's policy on corporate Governance is enshrined in the Commission Charter . The corporate governance structure aims at ensuring that the Commission's internal systems; which include policies, procedures, processes and people, serve the interests of the stakeholders and the communities within which we operate. The Commission Board is committed to ensuring that the organization's operations are run in a professional, transparent, just and equitable manner for the benefit of its stakeholders including the Kenyan public.

### Commission Charter

The Commission Charter defines the governance guidelines within which the Board exists and operates. The Charter has been adopted by the Commission, acting in accordance with the *Mwongozo Code of Governance for State Corporations* ('the Code'), and is complementary to the requirements regarding the Commission and Members of the Commission contained in applicable Kenyan laws and regulations. In particular, the principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation. The Charter clearly stipulates the role of the Board, the Executive Director/ Chief Executive Officer and Management. The Charter further outlines the how three arms of the Commission shall perform their roles interdependently on the basis of consultation and mutual respect.

### Composition of the Commission Board

In compliance with regulation 1.1(5), the Commission's Board comprises of eleven (11) members possessing a balanced mix of skills, knowledge and experience to enable the commission achieve its mandate. Owing to the nature of the Commission's work there was need of incorporating additional 3 board members to enhance a proper mix of skill and expertise in line with internationally accepted best practice on Corporate Governance. The Board is headed by a distinguished Chartered Accountant. Hon. Henry Obwocha (Chairman) who has over 10 years' experience in matters relating to finance and public management, and he is assisted by the following members Amb. Boaz Kidiga Mbaya, Ms. Faith Bett-Boinet, Mr. John Joseph Tito, Ms. Zipporah Mukoruru, Mr. Mohamed Suraw Issak, Mr. John Boru Sosso Halake, Mr. Wilfred Kipkorir A. Sang, Mrs. Beatrice Gathirwa (Alt. CS, National Treasury), Mrs. Sharon Irungu - Asiyo (Alt. to the Attorney General) and the Executive Director/CEO.

Appointments to the Board are carried out pursuant to the Privatization Act. The Chairperson is appointed by the President of the Republic of Kenya while the Members of the Commission are appointed by the Cabinet Secretary, National Treasury following approval by the National Assembly. The Commission Chairman was appointed on **17th April 2015** and subsequently re-appointment on **17th April, 2018**. The Commission members were appointed on **29th June 2016**. In order to ensure business continuity and avoid operational gaps, it is recommended that the appointment of Board members be staggered.

Out of the 11 position in the Board there are 4 women who are appointed in the Board, namely Ms. Beatrice Gathirwa, Ms. Zipporah Mukoruru, Ms. Sharon Irungu and Ms. Faith Boinet. This is in compliance with Article 27 of the Constitution and the Mwongozo Code the with the two thirds gender rule.

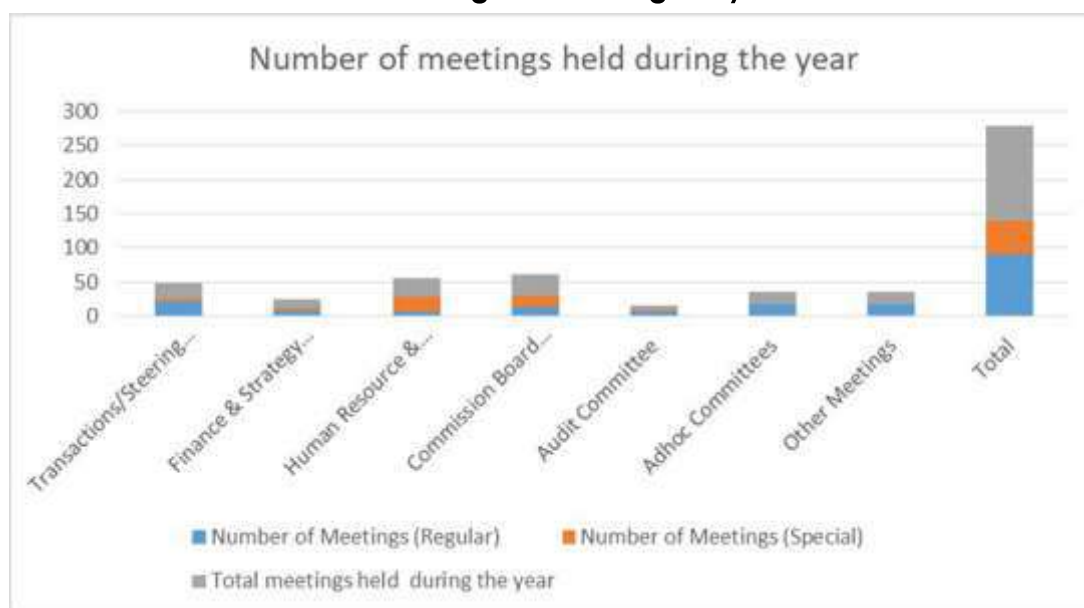
The Commission comprises the following Board Committees with specific terms of reference and operations to guide their operations:

- I. The Finance and Strategy Committee** assists the Commission Board in discharging its oversight duties with respect to the financial matters of the organization, overall strategic direction of the organization, procurement, performance contracting and organizational health. It comprises five (5) Commission members including Mr. John Tito (Chairman), Amb. Boaz Mbaya, Mr. Wilfred Sang, Ms. Beatrice Gathirwa and the ED/CEO.
- II. The Audit Committee** assists in enhancing internal controls in order to improve efficiency, transparency and accountability. It comprises five (5) Commission members including Mr. Mohamed Suraw (Chairman), Mr. John Boru Halake, Ms. Sharon Irungu, Ms. Beatrice Gathirwa and Ms. Faith Bett - Boinett.
- III. The Human Resources and Risk Management Committee (HRRMC)** considers all matters associated with the policies and practices of the Privatization Commission in relation to its Human Resources and Risk Management matters. It comprises five (5) Commission members including Ms. Zipporah Mukoruru (Chairperson), Amb. Boaz Mbaya, Ms. Sharon Irungu, Ms. Beatrice Gathirwa and the ED/CEO.
- IV. Privatization Steering Committees (PSCs)** monitor transactions to ensure their integrity. They include Public Sector Owned/Controlled Sugar Companies, Public Sector Owned/Controlled Hotels, Banks (Consolidated Bank of Kenya Limited, Development Bank of Kenya Limited and National Bank of Kenya Limited), New Kenya Cooperative Creameries Limited, Agro Chemical & Food Company Limited, Kenya Ports Authority, Kenya Pipeline, Kenya Meat Commission and East Africa Portland Cement Limited Privatization Steering Committees. Membership of the Steering committees consists of 7-8 members in each steering committee.

## Meetings

The meetings of the Commission Board are held quarterly and as necessary. Commission business is also transacted through Steering Committee meetings as necessary. The Commission Board from time to time holds consultative meetings with the National Government, the Board and Management of the entities being privatized and other stakeholders in order to seek views on matters in relation to the various privatization transactions. The Board work plan and calendar of meetings is prepared in advance. Adequate notice is given for meetings. The agenda and board papers are circulated in good time.

**Number of Commission Board Meetings held during the year were:**



**Number of Commission Board and Committees meetings attended by each member**

S/No.	NAME	TYPE OF MEETING						TOTAL
		PSC	F&SC	HRRMC	AC	ADHOC	BOARD	
1	Hon. Henry Obwocha	2	1	10	0	17	31	61
2	Amb. Boaz Kidiga Mbaya	12	10	28	0	15	31	96
3	Ms. Faith J. Bett-Boinet	0	0	0	0	0	4	4
4	Mr. John Joseph Tito	13	12	9	0	11	24	68
5	Ms. Zipporah Mukoruru	17	2	28	0	18	30	95
6	Mr. Mohamed Suraw Issak	13	0	7	7	0	24	51
7	Mr. John Boru Sosso Halake	13	1	10	6	0	30	60
8	Mr. Wilfred Kipkorir A. Sang	16	12	6	0	0	21	55
9	Mrs. Beatrice Gathirwa (Alt. CS, National Treasury)	11	9	25	8	14	22	89
10	Mrs. Sharon Irungu - Asiyu (Alt. to the Attorney General)	10	0	21	3	0	21	55
11	Mr. Ashley Toywa (Rep Attorney General)	6	0	6	4	0	4	20
12	Mr. Festus King'ori (Rep. CS, NT)	0	0	3	0	0	0	3
13	Mr. Solomon Kitungu (Executive Director/CEO)	1	1	3	0	0	2	7
14	Ms. Jacqueline Muindi (Ag. Executive Director/CEO)	13	8	18	1	0	15	55

**N.B:** Ashley Toywa and Festus King'ori substituted the substantive alternate members of the respective ministries in the meetings set out above.

## Commission Board's Responsibilities

The Commission's responsibilities are set out in the Commission's Board Charter. The Board Charter, which incorporates internationally accepted best practices in corporate governance, defines the governance parameters within which the Commission exists and operates and sets out specific responsibilities to be discharged by the Commission, its Committees and members collectively as well as certain roles and responsibilities incumbent upon directors as individuals.

The Commission Board's responsibilities include amongst others:

- i) Defining the purpose of the organization, its strategic intent, objectives, and its values and setting and reviewing the strategic direction and adopting the organization's business plans and providing oversight of performance against targets and objectives;
- ii) Providing stewardship of the organization and in discharge of its obligations, assuming the following responsibilities:
  - Retaining full and effective control over the organization, and monitoring Management's implementation of the organization's plans and strategies;
  - Ensuring ethical behavior and compliance with relevant laws and regulations, audit and accounting principles and corporate policies and procedures;
  - Defining levels of materiality, reserving specific powers to the Commission, delegating other matters through written authority and instituting effective mechanisms that monitor the performance of the management team;
  - Determining the provisions to be made for capital and recurrent expenditure and reserves;
  - Receiving any grants, gifts, donations or endowments and making legitimate disbursements there from;
  - Acting responsibly towards the organization's stakeholders, overseeing the reporting to stakeholders on the direction, governance and performance of the organization; and
  - Being committed to the principles of good corporate governance.

Further, to enable the Board discharge its obligation effectively, the Commission engages the services of external experts to advise the Board on various issues. The Commission has a panel of lawyers who on need basis advise the Board. The Commission also relies on the State Law Office to offer legal advice on sensitive issues relating to the Commission's operations. Through the Steering Committee established under Section 27 of the Privatization Act, the Board is able to obtain advise from experts in relation to privatization projects.

## Code of Ethics

The Commission take cognizance that good corporate governance is a key contributor to the Commissions overall success. This is achieved by instilling the culture of adhering to high standard of ethics in the organization. The Commission has a code of ethics that applies to the Board, Management and all other employees. In ensuring compliance, the code is distributed to each Board member, manager and all the employees.



## **Whistle Blowing Policy**

The Commission has a whistle blowing portal that helps management to be informed at an early stage about suspected fraudulent, immoral, unethical or malicious activities or misconduct and take appropriate actions that will deter and prevent such activities. Further, the Commission has a whistle blowing policy that is accessible on its website and a hotline number specifically for forwarding complaints relating to unethical conduct.

## **Board Remuneration**

Members are entitled to a monthly retainer, sitting allowance for every meeting attended, lunch allowance (in lieu of lunch being provided), accommodation allowance and mileage reimbursement where applicable. This is done within the limits set by the Government for State Corporations. In addition, the Chairman is paid a monthly honorarium.

## **Board Induction**

Upon appointment to the Board, new Directors embark on a detailed programme to familiarize themselves with the Commission's mandate and operating environment. Corporate literature and key laws and regulations are provided to the Board members and meetings arranged with the senior management team.

## **Board Evaluation**

Board evaluation is key in assessing the performance, efficiency and effectiveness of an organization. The Commission undertakes regular annual performance evaluation of its Board to enable it to review its strategies to ensure continuous growth and sustainability. The evaluation exercise is conducted by the State Corporations Advisory Committee (SCAC). In the previous review, the Board obtained an average score of 90.6%. To enhance skill matrix of the Board, the Commission facilitates training of Board members to positively contribute to their performance as Board members.

## **Statutory Compliance Audit**

Internal Statutory Compliance is usually carried out on a quarterly basis. The Board is always informed of Commission's position in complying with various laws and regulations. The Board also approves the quarterly report which is submitted to the State Corporation Advisory Committee and the National Treasury. Over and above these, the Commission also engages an external Auditor who conducts Statutory Compliance Audit which is also disclosed to the Board. For the financial year 2017 /2018 the Commission engaged the services of Kenya School of Law to carry out statutory compliance audit which will be handed over in due course.

## **Conflict of Interest, Disclosure and Purchase of Shares**

The Commission Board is cognizant of the prevalence of instances in which conflict of interest could arise, least, not being in matters of purchase of shares of companies or entities being privatized.

The Commission Board has thus put in place measures to avoid such instances. These are:

- (i) Each Commission member undertakes to fully disclose to the Board any real or potential conflict of interest, especially in matters relating to the Privatization Programme, which comes to his or her attention, whether direct or indirect;
- (ii) A Commission member with such a conflict shall not participate in discussion of any such topic or vote on it unless the Board or Board Committee otherwise directs; and
- (iii) With regard to a privatization of an entity through an Initial Public Offer (IPO) and/or sale of shares, Board Members or their spouses, or children under the age of 18 should not participate in that IPO. They can however, purchase the shares, six (6) months after the shares start trading on the market. In the case of shares held by Board Members in Companies prior to the commencement of privatization, members will disclose interest.

The conflict of interest policy together with the Board Charter which sets out the requirements are available in the Commissions' website [www.pc.go.ke](http://www.pc.go.ke)

### **Sustainability Reporting**

The Commission embraces policies that meet the needs of the present without compromising its ability to sustain its future development needs and objectives in order to ensure long term sustainability of the organization. Some of the sustainability initiatives involving the Commission are disclosed in the CSR Statement.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Current Privatization Programme has 26 entities, out of which 7 are earmarked for removal. Of the remaining 19, eight have the authorization to proceed with the privatization process, with 7 being in the implementation stage and one in the preparatory state. This is because by the time the Cabinet Directive of July 2014 that Privatization Transactions be held in abeyance awaiting finalization of the work on rationalization of State Owned Enterprises was given, the work on these was at an advanced stage. These include the five public Sector Owned/Controlled Sugar Companies; TFC (then, KTDC) Associated Companies: International Hotels Kenya Limited – Hilton, (ii) Kenya Hotels Properties Limited – Intercontinental (iii) Mountain Lodge Limited and Ark Limited; Kenya Wine Agencies Limited and the New Kenya Co-operative Creameries (NKCC) Limited respectively.

In the Financial Year 2017/2018, the Privatization Commission planned to finalize the privatization of six entities, namely South Nyanza Sugar, Miwani, Chemelil, Muhoroni and Nzoia Sugar Companies (Public Sector Owned/Controlled Sugar Companies); and the New Kenya Co-operative Creameries (NKCC). The privatization of the five public sector sugar companies faced resistance that culminated in a court case. This case was only ruled by the High Court on 10<sup>th</sup> November, 2017. In its ruling, the Court directed the Commission to conduct further stakeholder consultations before proceeding with the privatization.

As a result, this saw a prolonged stakeholders' engagement program conducted as follows:

- 4<sup>th</sup> January 2018 - A Technical Level Consultative Meeting involving the Commission, the Ministry of Agriculture, Livestock and Fisheries, Council of Governors, factory employees, farmers and farmers' representative groups, the County Executive Committee Members in Charge of Agriculture, Chairs of Agriculture Committees of County Assemblies and Members of Parliament and Senate from the Factory and cane catchment counties;
- 19<sup>th</sup> January 2018 – High Level Stakeholders' Consultative meeting involving the team invited to the meeting of 4<sup>th</sup> January 2018, the National Treasury, National Land Commission, Intergovernmental Technical Relations Committee, Lake Region Economic Block, County Speakers, Governors from the factory and cane catchment counties;
- 12<sup>th</sup> and 13<sup>th</sup> March 2018 – on the feedback received from the meeting of 19<sup>th</sup> January 2018 and on advice of the Intergovernmental Budget and Economic Council, held meetings with the stakeholders of each public sector sugar factory separately to get their buy in and pave way for factory level meetings; and
- 19<sup>th</sup> to 23<sup>rd</sup> March 2018 – Held factory by factory meetings to bring in more farmers and employees to give their views on the privatization of the sugar companies.

At the meetings, the stakeholders raised several issues that they wanted dealt with before they would allow the privatization process to proceed. Key among the issues are:

- Land – the land on which the factories stand was acquired from the local people and should be returned to them;
- Debts – the Public Sector Sugar Companies owed the government, farmers, employees and other suppliers money that needs to be paid/written off;
- Sugar Regulations – These needed to be gazetted to make the sector competitive and bring about a level playing field for any investor;

- Devolution of Agriculture – that Agriculture was a devolved function and the sugar mills should be passed over to the counties; and
- 24% Stake proposed for farmers – that this stake was too small and needed to be increased.
- Sugar Development Levy – This be re-introduced to help the sugar companies with quick loans for working capital and research in the sub-sector.

As a result of these issues, the stakeholders rejected the privatization of all the sugar companies, save for Miwani. Accordingly, the Commission has had to re-think her plan before re-starting the process with the privatization of Miwani Sugar Company. The resolution of the issues raised requires a multi-agency team and to this end, the Commission is in the process of teaming up with these agencies.

In the same financial year, the Commission engaged the services of transaction advisors to carry out the work of updating the due diligence work that would help in reviewing the detailed Privatization Proposal submitted to the National Treasury in June 2015. The work was completed in April 2018, and a presentation made to the CS, Ministry of Trade, Industry and Co-operatives, who advised that stakeholders' consultations be delayed to allow for more consultations within government. Following the recent changes in Cabinet, the Commission plans to meet the new CS, Ministry of Trade, Industry and Co-operatives jointly with that for National Treasury to reach an agreement on the process going forward.

Further, the Cabinet Directive of July 2014 that directed that Privatization Transactions be held in abeyance awaiting finalization of the work on rationalization of State Owned Enterprises has hindered the Commission from proceeding with privatization of the other entities in the programme other than those that were authorized to proceed. The Commission requested for a review of this directive and it was hoped that this would happen in the year but this was not realized. These factors led to a low absorption of budgeted funds as privatization transactions did not progress as had been planned.

**The following corrective measures have been proposed;**

- Follow up on the recommendations made to the National Treasury to request the Cabinet to review the Directive of July 2014 that Privatization work be put on hold;
- Fast track the resolution of the issues of contention in the privatization of the public sector owned/controlled sugar companies;
- Fast track the meeting with the Cabinet Secretaries on the privatization of New Kenya Co-operative Creameries; and
- Restart the privatization of the Tourism Finance Corporation Associated Hotels, whose privatization failed due to the low bids received at a time when the tourism sector in the country was at its lowest, as the sector has now improved.

**Other Achievements**

- i. The ESOP for KWAL was finalized in January 2018
- ii. Quarterly risk reviews were held with HODs and identified risks documented with mitigating actions. High risks were escalated for Boards attention
- iii. Corruption Risk assessment was carried out
- iv. The Commission complied with the applicable statutory and legal requirements

## Reasons For Non Achievement

Privatization of the sugar companies was delayed by stakeholder resistance that culminated in court cases. The cases were merged into one and a ruling given in November 2017. The ruling directed that further stakeholder engagements, with all stakeholders, be undertaken afresh.

These are currently on going. This led to loss of time and therefore under-absorption of budgeted funds.

For NKCC, after consultations, the CS, Trade, Industry and Co-operatives requested that Stakeholders' Consultations be held in abeyance to allow for more consultations within Government. Here too, part of the budget for stakeholder consultations and that for the implementation phase remained unutilized for the financial year under review.

## Key Challenge(s)

Stakeholder resistance to privatization has been the key challenge that has made the privatization process to stall. This has led to the budgeted funds not being absorbed.

The Cabinet Directive of July 2014 that privatizations be held in abeyance awaiting finalization of the work on rationalization of State Owned Enterprises has meant that the Commission would not embark on the privatization of other entities in the programme.

## How the Key Challenges were Addressed

The Commission has since:

- Requested for a review of the Cabinet Directive of July 2014; and
- Engaged other agencies, including the Ministry of Agriculture, Livestock, Fisheries and Irrigation (MALFI); the Intergovernmental Budget and Economic Committee (IBEC); the Intergovernmental Technical Relations Committee (IGTRC); the National Land Commission (NLC) and others, to help deal with the issues of contradiction, especially regarding the privatization of the five sugar companies.

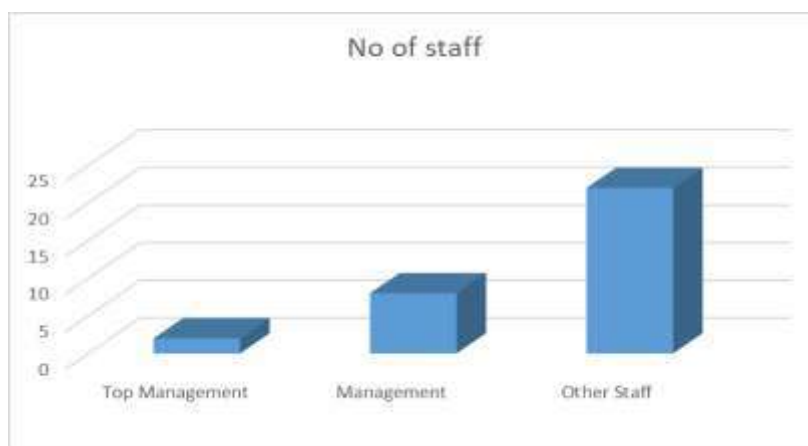
## Way Forward / Recommendations

- i. The privatization of the Public Sector Sugar Companies will be pursued through a Multi-Agency Committee constituted through a stakeholders' forum held on 28th and 29th June 2018;
- ii. The Commission will brief both the CS, National Treasury and the new CS, Ministry of Trade, Industrialization and Co-operatives, with a view to get their go ahead on the privatization of NKCC; and
- iii. A second attempt at privatizing the TFC Associated Hotels (Intercontinental, Hilton and Mountain Lodge) after a previous one failed due to low bids being received at a time when the tourism sector in the country was not doing well.

## Talent Management

The Human Resource and Administration function supports the achievement of the Commission's mandate by attracting, training and retaining highly qualified, skilled and motivated staff.

## Number of staff at the Commission



During the year, Human Resource interventions were geared towards managing existing talent and recruiting new talent. This resulted in changes in senior management positions that included the appointment of Executive Director/CEO and Internal Auditor.

The Commission's effort to transform its talent management saw it review its HR instruments and the same were approved by the Board awaiting implementation. In line with the mandate of the Commission, staff were exposed to various workshops and conferences with the aim of learning best practices in their various disciplines.

The Commission actualized the Presidential directive for Internship and attachment programmes with the aim of building capacity of youth in the labour market. Towards this, the Commission recruited six (6) young professionals, who are holders of Degrees with a bias in IT, Accounts, Procurement, HR and Administration and Law and below the age of twenty-five (25) years.

Regarding enhancing capacity and managing succession, the Commission reviewed her Organizational Structure to introduce the Directorate of Research and Planning, and Directorate of Institutional Assessment among other positions and policies to support succession management and career progression. This review also involved an expansion of the functional areas that did not have a clear provision for upward mobility. Based on the foregoing, the optimal staff establishment has been revised to sixty-three (63) up from forty-two (42).

In its effort to enhance employees' welfare, the Commission promotes employee well-being at the workplace by providing services and benefits that not only motivate them but also enhance their productivity. These include the provision of a staff medical scheme, Group Personal Accident, and Group Life, an Annual employee wellness program and a Mortgage and Car loan scheme. Additionally, it operates a gratuity scheme for its employees on contract terms of employment, the amounts which are accumulated and given in lump sum at the end of each contract period.

In compliance with statutory requirements and enhancing employee welfare, the Commission maintained operations of the various statutory committees including Occupational, Health and Safety, Alcohol and Drug abuse, HIV and Aids, Disability Mainstreaming, Gender Mainstreaming and Environmental Sustainability.

## CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

### a. Sustainability Strategy

We are committed to providing a quality service in a manner that ensures a safe and healthy workplace for our employees and minimizes our potential impact on the environment. We operate in compliance with all relevant environmental legislations and we strive to use environmental best practices in all we do. To realize this, the Commission has put in place the following measures:

- Integrated environmental concerns and impacts into all of our decision making and activities. Due diligence reports for all our transactions include an Environmental Due Diligence;
- Promoted environmental awareness among our employees and encourage them to work in an environmentally responsible manner;
- Trained our employees about environmental issues that may affect their work;
- Reduced waste through re-using and recycling and by purchasing recycled, recyclable or refurbished products and materials where these were available, economical and suitable;
- Promoted efficient use of materials and resources throughout our offices including water, electricity and other resources, particularly those that are non-renewable;
- Avoided unnecessary use of hazardous materials and products;
- Purchased and used environmentally friendly products;
- Communicated our environmental commitment to clients, customers and the public; and
- Continually sought to improve environmental performance.

### b. Environmental Performance

- i. **World Environment Day (WED):** this is an annual event celebrated every June 5th to create awareness and action for protection of the environment. The 2018 event was held in Kwale County on 5<sup>th</sup> June 2018 and was presided over by the Deputy President, H.E. William Ruto. Participation in WED 2018 was in the approved 2017/2018 CSR Work Plan, with an objective of fulfilling the Environmental Sustainability obligations in the CSR Policy.

The Commission's sponsorship was Ksh.100,000.00 and this was channeled through the National Environment Management Authority (NEMA) which is the implementing agency for the World Environment Day celebrations in Kenya. The sponsorship was for the production of publicity items used during the event.

- ii. **Environmental Clean-Up and Tree Planting at Athi-River:** the Commission, in conjunction with Athi-River Child Education Programme (ACEP) conducted an environmental clean-up and tree planting activity in Athi River on 9<sup>th</sup> June 2018.

ACEP is a registered community based organization Registration No. ATHI/SD/CBO/2015/7/21/19 and Certificate No. 34462. It was in line with the strategy to carry out CSR activities in the areas where entities to be privatized are located in order to enhance the Commission's visibility and image.

Commission staff planted trees at Kanaani Girls High School and St. Paul's ACK Church. Monitoring to ensure survival of the tree seedlings was guaranteed in this set-up because each student was assigned a tree to take care of. Additionally, members of ACEP were to take care of the trees planted in the church compound. The team also cleaned the area around Slota and Njoguini.



**e. Community Engagement**

- i. **Mater Heart Run 2018:** the Commission sponsored the 2018 Mater Heart Run under the Gold category of sponsorship which was worth Ksh.250,000.00. The Mater Heart Run is an annual event organized by the Mater Hospital to raise funds towards treatment of heart ailments affecting children. The 2018 Heart Run took place on 26<sup>th</sup> May 2018 at the KICC.
- ii. **Medical Camp at AMREF Clinic in Kibera Laini Saba:** the Commission sponsored a medical camp at the AMREF Clinic in Kibera Laini Saba. Due to budgetary constraints, an in-reach, (where the clients came to the facility) was considered to be more appropriate than an outreach (where those in need would have been helped or reached where they are located) approach. AMREF provided the facility and workforce/personnel. Community health volunteers did community sensitization and mobilization for the services to be offered. The Commission purchased drugs in the essential drugs list, laboratory supplies and non-pharmaceutical consumables as indicated below:

The initial projection was 250 but the total clients served were 754 as seen in the table below:

DEPARTMENT	NUMBER OF CLIENTS SEEN	REFERRALS/LINKAGES
Outpatient	306	2
Paediatric	63	2
Nutrition/CWC	47	0
Family Planning	18	0
Ante-natal Clinic	4	0
Laboratory	70	0
HIV Testing Services	230	4
Youth Friendly Services	11	0
Infection/Dressing	5	0
<b>TOTAL</b>		<b>754</b>

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of the Privatization Commission's affairs.

### **Principal Activities**

The principal activities of the Commission are to formulate, manage and implement the Government's Privatization Programme.

### **Results**

The results of the entity for the year ended June 30, 2018 are set out on page 1

### **Directors**

The members of the Board of Directors who served during the year are shown on page vi.

### **Dividends/Surplus Remission**

The entity did not make any surplus during the year 2016-17 and hence no remittance to the Consolidated Fund.

### **Auditors**

The Auditor General is responsible for the statutory audit of the Privatization Commission in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.



**JANEROSE OMONDI**  
**Ag. EXECUTIVE DIRECTOR/CEO**



## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012, Section 14 of the State Corporations Act, require the Directors to prepare financial statements in respect of that entity, which give a true and fair view of the state of affairs of the Privatization Commission at the end of the financial year/period and the operating results of the Privatization Commission for that year/period. The Directors are also required to ensure that the Privatization Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Privatization Commission. The Directors are also responsible for safeguarding the assets of the Privatization Commission.

The Directors are responsible for the preparation and presentation of the Privatization Commission's financial statements, which give a true and fair view of the state of affairs of the Privatization Commission for and as at the end of the financial year (period) ended on June 30, 2018. These responsibility includes:

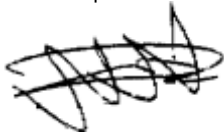
- i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
- ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
- iii) designing, implementing 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 the Privatization Commission;
- v) selecting and applying appropriate accounting policies; and
- vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the *entity's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the State Corporations Act. The Directors are of the opinion that the Privatization Commission's financial statements give a true and fair view of the state of Privatization Commission's transactions during the financial year ended June 30, 2018, and of the Privatization Commission's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Privatization Commission, which have been relied upon in the preparation of the Privatization Commission's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Privatization Commission will not remain a going concern for at least the next twelve months from the date of this statement.

### Approval of the financial statements

The Privatization Commission's financial statements were approved by the Board on 27<sup>th</sup> September 2018 and signed on its behalf by:



**Mohamed Suraw**  
For: Chairman Privatization Commission



**Janerose Omondi**  
Ag. Executive Director /CEO

REPUBLIC OF KENYA

14/AGALS/13

F



OFFICE OF THE AUDITOR-GENERAL



**REPORT**

**OF**

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF**

**PRIVATIZATION COMMISSION**

**FOR THE YEAR ENDED**

**30 JUNE 2018**



# REPUBLIC OF KENYA

47/AGA/SL3

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NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PRIVATIZATION COMMISSION FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### Opinion

I have audited the accompanying financial statements of Privatization Commission set out on pages 1 to 36, which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects the financial position of Privatization Commission as at 30 June, 2018, 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 Privatization Act, 2005 of the Laws of Kenya.

##### Basis for Opinion

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

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

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### Conclusion

As required by Article 229 (6) of the constitution, based on the audit procedures performed, except for the matter described below, I confirm that, nothing has come to my

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*Report of the Auditor-General on the Financial Statements of Privatization Commission for the year ended 30 June 2018*



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attention to cause me to believe that public money has not been applied lawfully and in an effective way.

#### **Irregular Payments to Members of Parliament**

During the year under review, the Commission paid some Members of Parliament Kshs.5,024,500 while attending a stakeholders' consultative Conference organized by the Commission in Kisumu in January 2018. The payment of allowances to members of parliament is contrary to the Office of the President Circular Number OP-CAB-58-4A of 13th November 2015 which clearly states that "Daily Subsistence Allowance and other allowances payable to Members of Parliament, in instances where MPs are invited or involved by Ministries/Departments/Agencies will be fully catered for by Parliament. Although the Commission has indicated that the above payment was made after consultation with the clerk of the National Assembly, the payments to members of Parliament by the Commission was in breach of the Presidential Circular No. OP-CAB-58-4A of 13<sup>th</sup> November 2015 which provides, *inter alia*, "the Accounting Officers and Chief Executive Officers of State Corporations should be held accountable in the event this requirement is violated".

#### **Basis for conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

#### **REPORT ON INTERNAL CONTROLS, EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

##### **Conclusion**

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described below, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

##### **Variance in Inventory**

The statement of financial position as at 30 June 2018 reflects inventories balance of Kshs.1,674,354 while the physical stock taking sheets reflected a closing balance of Kshs.1,411,326.45 resulting to unexplained difference of Kshs.263,027.55. Further, there was a variance of Kshs.242,459.89 between the stock take value closing balance of Kshs.1,411,326.45 and the Micro Dynamics Navision System closing balance of Kshs.1,653,786.34. The three sets of records which ordinarily are supposed to agree, show different closing balances as at 30 June 2018. In the absence of any reconciliation,



the accuracy of the inventory as reflected in the financial statements could not be confirmed correct.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective process and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

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



### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229 (6) of the constitution and submit the audit report in compliance with Article 220 (7) of the constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance process and systems in accordance with the provisions of Section 7 (1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 (7) of the Constitution. My consideration of the Internal Control would not necessarily disclose all matters in the Internal Control that might be material weaknesses under ISSAIs. A material weakness is a condition in which the design or operation of one or more of the Internal Control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

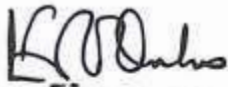


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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

**Nairobi**

**15 March 2019**

**Kenya Regulatory & Non - Commercial (Privatization Commission)**  
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**For the year ended June 30, 2018**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	2017-2018	2016-17
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Transfer from Ministries, Departments and Agencies	6	220,000,000	220,000,000
<b>Revenue from exchange transactions</b>			
Finance Income – external investments	7	74,381,459	59,470,685
Other Income	8	46,100	295,249
<b>Total Revenue</b>		<b>294,427,559</b>	<b>279,765,934</b>
<b>Expenses</b>			
Employee costs	9	118,126,803	80,973,490
Remuneration of directors	10	42,690,841	40,303,906
Transaction costs	11	47,176,301	30,161,127
Depreciation & Amortization expenses	12	5,662,701	4,357,701
Repairs and maintenance	13	1,540,604	2,308,445
General Expenses	14	74,144,842	32,912,806
<b>Total Expenses</b>		<b>289,342,092</b>	<b>191,017,475</b>
<b>Surplus for the year</b>		<b>5,085,467</b>	<b>88,748,459</b>
<b>Other comprehensive income</b>			
Revaluation reserve		5,620,000	18,243,245
<b>Total Comprehensive Income</b>		<b>10,705,467</b>	<b>106,991,704</b>

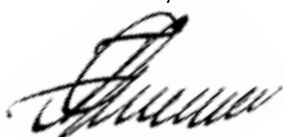
The notes set out on pages 1 to 30 form an integral part of these Financial Statements

*Kenya Regulatory & Non - Commercial (Privatization Commission)*  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2018**

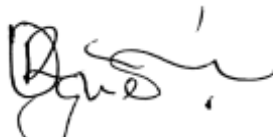
	Notes	2017-2018	2016-2017
		Kshs	Kshs
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	15	374,084,417	799,572,273
Receivables from Non exchange Transactions	16	874,985	15,000
Inventories	17	1,674,354	1,225,217
Investments	18	500,000,000	
<b>Total Current Assets</b>		<b>876,633,756</b>	<b>800,812,490</b>
<b>Non- Current assets</b>			
Property, Plant and Equipment	19	20,135,964	20,178,651
Intangible Assets	20		
<b>Total Non- current Assets</b>		<b>20,135,964</b>	<b>20,178,651</b>
<b>Total Assets</b>		<b>896,769,720</b>	<b>820,991,141</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange Transactions	21	25,205,356	394,550
Current Provisions	22	59,324,756	19,062,450
<b>Total Current Liabilities</b>		<b>84,530,112</b>	<b>19,457,000</b>
<b>Net Assets/Equity</b>			
Revenue reserve		777,283,865	772,198,398
Revaluation Reserve		34,955,743	29,335,743
<b>Total Net assets/Equity</b>		<b>812,239,608</b>	<b>801,534,141</b>
<b>Total net assets and liabilities</b>		<b>896,769,720</b>	<b>820,991,141</b>

The Financial Statements set out on pages 35 to 68 were signed on behalf of the Board of Directors by:



**Janerose Omondi**  
**Ag. Executive Director /CEO**

Date 27/09/2019



**Raphael Ogweno**  
**For: Head of Finance**  
**ICPAK Member No. 12069**

Date 27/09/2019



**Mohamed Suraw**  
**For: Chairman of the Board**

Date 27/09/2019

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**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	<b>Revenue Reserve</b>	<b>Revaluation Reserve</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
<b>Reserves as at 1<sup>st</sup> July 2016</b>	<b>683,449,939</b>	<b>11,092,498</b>	<b>694,542,437</b>
Surplus for the year	88,748,459		88,748,459
Revaluation reserve		18,243,245	18,243,245
<b>30<sup>th</sup> June 2017</b>	<b>772,198,398</b>	<b>29,335,743</b>	<b>801,534,141</b>
<b>Reserves as at 1<sup>st</sup> July 2017</b>	<b>772,198,398</b>	<b>29,335,743</b>	<b>801,534,141</b>
Surplus for the year	5,085,467	0	5,085,467
Revaluation gain	0	5,620,000	5,620,000
<b>30<sup>th</sup> June 2018</b>	<b>777,283,865</b>	<b>34,955,743</b>	<b>812,239,608</b>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2018**

		<b>2017-2018</b>	<b>2016-2017</b>
		<b>Kshs</b>	<b>Kshs</b>
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Government Grants		220,000,000	220,000,000
Other revenue		74,427,559	59,765,934
<b>Total Receipts</b>		<b>294,427,559</b>	<b>279,765,934</b>
<b>Payments</b>			
Employee costs		92,656,860	67,989,245
Board expenses		39,889,884	39,860,885
Transaction costs		30,606,113	28,297,937
Repairs and maintenance		1,522,740	2,308,445
General Expenses		55,239,818	64,307,897
<b>Total Payments</b>		<b>219,915,415</b>	<b>202,764,409</b>
<b>Net cash flows from operating activities</b>	23	<b>74,512,144</b>	<b>77,001,525</b>
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets			(3,846,352)
Increase in investments		(500,000,000)	0
<b>Net cash flows used in investing activities</b>		<b>(500,000,000)</b>	<b>(3,846,352)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(425,487,856)</b>	<b>73,155,173</b>
Cash and cash equivalents at 1 JULY		799,572,273	726,417,100
<b>Cash and cash equivalents at 30 June 2018</b>		<b>374,084,417</b>	<b>799,572,273</b>

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**Annual Reports and Financial Statements**  
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**STATEMENT OF COMPARISON OF  
BUDGET AND ACTUAL AMOUNTS FOR  
THE YEAR ENDED 30 JUNE 2018**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018
	Kshs	Kshs	Kshs	Kshs	Kshs
Government Grants	220,000,000		220,000,000	220,000,000	
Other revenue	30,000,000	20,000,000	50,000,000	74,427,559	24,427,559
Funds brought forward	799,575,273		799,575,273	799,575,273	
<b>Total income</b>	<b>1,049,575,273</b>	<b>40,000,000</b>	<b>1,089,575,273</b>	<b>1,094,002,832</b>	<b>24,427,559</b>
<b>Expenses</b>					
Employee costs	209,558,253		209,558,253	118,126,803	90,695,402
Board expenses	56,000,000		56,000,000	42,690,841	13,309,159
Transaction costs	625,232,404	(13,000,000)	612,232,404	47,176,301	565,056,103
General Expenses	80,431,223	13,000,000	93,431,223	74,144,842	19,286,381
Repairs and maintenance	11,250,000		11,250,000	1,540,604	9,709,396
<b>Total expenditure</b>	<b>982,471,880</b>		<b>982,471,880</b>	<b>283,679,391</b>	<b>698,056,441</b>
<b>Surplus for the period</b>	<b>67,103,393</b>		<b>67,103,393</b>	<b>810,323,441</b>	

**Budget notes**

- Variance in revenue is caused by increased investment in short-term call deposit due to low utilization of funds.
- The difference between the budgeted amount and the actual amounts spent is caused by low utilization of Transaction Advisory cost which refers to the cost of hiring Transaction Advisory Services. The funds were utilized due to delay in the approval of detailed Privatization Proposals and suspension of transaction work pending implementation of the State Owned Enterprises reorganization, hence delay in the related deliverables and payments.
- The unutilized balance is reflected in the surplus for the year and is carried forward and held in the Cash and Bank balances.

**Reconciliation of surplus funds as per budget to cash from operating activities**

	Kshs
Surplus for the period	810,323,441
Adjustments for;	
2017/18 funds brought forward	(799,575,273)
Depreciation and amortization	(5,662,701)
<b>Cash generated from operating activities</b>	<b>5,085,467</b>



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**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

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**Reconciliation of Revenue**

	<b>Kshs</b>
Revenue as per budget statement	1,094,002,832
Less Funds brought forward	(799,575,273)
Revenue as per the financial performance	<b>294,427,559</b>

**Reconciliation of Expenditure**

	<b>Kshs</b>
Expenditure as per budget statement	283,679,391
Add back depreciation & amortization	5,662,701
Expenditure as per the financial performance	<b>289,342,092</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

Privatization Commission is established by and derives its authority and accountability from the Privatization Act. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to formulate, manage and implement the Privatization Programme.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis except for the measurement at revalued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Privatization Commission's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Privatization Commission.

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act, Privatization Act 2005, and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

Standard	Impact
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPS and AS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach. <i>Privatization Commission does not operate a pension fund and therefore the standard does not apply.</i>

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40:</b> Public Sector Combinations	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non-exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**iii. Early adoption of standards**

Privatization Commission did not early – adopt any new or amended standards in year 2018.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) 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. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

**ii) Revenue from Exchange transactions 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.

**b) Budget Information**

The original budget for FY 2017-2018 was approved by the National Assembly on 23rd June 2017. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities.

**Kenya Regulatory & Non - Commercial (Privatization Commission)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

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The Privatization Commission's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under page 5 of these financial statements.

**c) Taxes**

**Current Income Tax**

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**d) Property, Plant and Equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The amount includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal

consideration the asset is initially measured at its fair value.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their useful lives.

The annual depreciation rates in use are:

Motor vehicles	25%
Furniture and fittings	12.5%
Office Equipment	12.5%
ICT Equipment	33.3%

#### **e) Intangible Assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful life of the intangible assets is assessed on finite basis.

Computer software development costs recognized as assets are amortized using the straight line method over their useful lives, not exceeding a period of three years.

#### **f) Inventories**

Inventory is measured at lower of cost or net replacement costs. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. After initial recognition, inventory is measured at the lower of cost and net realizable value.

Inventories are recognized as expenses when deployed for utilization or consumption in the ordinary course of operations of the entity.

#### **g) Provisions**

Provisions are recognized when Commission 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.

Where the Commission expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

### **Contingent Liabilities**

The Commission 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.

### **Contingent Assets**

The Commission 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 Entity 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.

## **h) Nature and Purpose of Reserves**

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

### **Revenue Reserves**

This is made up of all accumulated surplus for the year arising from non-utilization of allocated grants.

### **Revaluation Reserves**

Revaluations are performed with sufficient regularity such that the carrying amount do not differ materially from those that would be determined using fair values at the reporting date. The Commission carries out a revaluation once the asset have been fully depreciated and they are still useful to the Commission. Any increase arising on the revaluation is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in the profit or loss, in which case the increase is credited to the profit or loss to the extent of the decrease previously expensed.

## **i) Changes in Accounting Policies and Estimates**

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



**j) Employee Benefits**

The Commission does not have a retirement benefit plan. All Commission staff are on 3-5 years contract. Gratuity to the staff is payable to the staff after the end of contract period. Entitlements to gratuity are recognized when they accrue to employees. The provisions have been treated as a current liability.

**k) 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.

**l) Related Parties**

The Commission regards a related party as a person with the ability to exert control individually or jointly, or to exercise significant influence over the Commission, or vice versa. Members of key management are regarded as related parties and comprise the Commission members, the CEO and senior managers.

**m) 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 at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

**n) Comparative Figures**

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

**o) Subsequent Events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

## **5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Entity's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

### **a) Estimates and Assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

### **b) Useful Lives and Residual Values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

### **c) Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note xxx.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

The provision amount relates to unpaid gratuity, salary, and ongoing contracts which relate to 2017/18 financial year

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**6. TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES**

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund. KShs	Total grant income during the year KShs	2017-2018 KShs
The National	220,000,000	0	0	0	220,000,000
<b>Total</b>	<b>220,000,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>220,000,000</b>

**7. FINANCE INCOME - EXTERNAL INVESTMENTS**

Description	2017-2018 KShs	2016-2017 KShs
Interest income from Treasury Bills	74,381,459	59,470,685
<b>Total finance income - external investments</b>	<b>74,381,459</b>	<b>59,470,685</b>

**8. OTHER INCOME**

Description	2017-2018 KShs	2016-2017 KShs
Sale of bidding documents	30,000	14,000
Miscellaneous income	16,100	281,249
<b>Total other income</b>	<b>46,100</b>	<b>295,249</b>

**9. EMPLOYEE COSTS**

	2017-2018 Kshs	2016-2017 kshs
Basic salaries	67,232,845	51,514,300
Casuals/Temporary Employees	263,952	
House allowance	12,119,220	8,541,653
Remunerative allowance	300,000	1,200,000
Responsibility allowance	294,000	294,000
Acting/Special duty Allowance	956,082	662,458
Leave allowance	3,211,573	1,693,405
Gratuity	21,734,264	10,465,281
Commuter Allowance	3,448,754	2,531,437
Employer contribution to NSSF	78,200	60,200
Medical Scheme	8,487,913	4,010,756
<b>Total</b>	<b>118,126,803</b>	<b>80,973,490</b>

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**10. REMUNERATION OF DIRECTORS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>kshs</b>	<b>kshs</b>
Chairman's Honoraria	1,044,000	1,044,000
Directors Emoluments	22,900,000	15,900,000
Other Board expenses and allowances	18,746,841	23,359,906
<b>Total</b>	<b>42,690,841</b>	<b>40,303,906</b>

Individual payment to the Commission Members was as follows:

<b>Commission Member</b>	<b>Amount earned (Kshs)</b>
Hon. Henry Obwocha	4,187,608
John Tito	2,322,200
Amb. Boaz K. Mbaya	3,483,045
Zipporah Mukoruru	7,276,821
Mohamed Suraw	4,313,368
Wilfred Sang	2,164,200
John B.S. Halake	2,424,943
Faith Bett	925,600
Beatrice Gathirwa (Rep. PS National Treasury)	2,535,000
Felistas Kingori (Rep.PS National Treasury)	60,000
Jascath Kaunda (Rep.PS National Treasury)	160,000
Sharon Irungu-Asiyo ( Rep. Attorney General)	1,271,000
Ashleys Towya ( Rep. Attorney General)	911,200
Joyce Wesonga( Inspectorate of State Corporation)	20,000
Isaack Ondek ( Inspectorate of State Corporation)	40,000
Chris Ombeta ( SCAC)	20,000
<b>Total amount paid directly to the Commission Members</b>	<b>32,114,985</b>

The Board expenses includes cost for both the normal Board work and the transaction work which includes participating in transaction Steering Committee meetings as required by the Privatization Act.

**11. TRANSACTION COSTS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>kshs</b>	<b>kshs</b>
Transaction services	5,972,188	0
General consultancy	12,054,872	21,055,752
Steering/Stakeholders expenses	22,259,361	4,188,094
Legal Dues/Fees	0	929,665
Advertising & promotion	6,680,270	3,842,347
Publishing & Printing	209,610	145,269
<b>Total</b>	<b>47,176,301</b>	<b>30,161,127</b>

The Transaction expenses cost refers to the cost of hiring Transaction Advisory Services. Part of the funds brought forward amounting to Kshs799Million that were directly related to Transaction cost were not fully utilized due to delay in the approval of detailed Privatization Proposals hence the related deliverables and payments. The unutilized balance is reflected in the surplus for the year and is carried forward and held in the Cash and Bank balances.

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**12. DEPRECIATION AND AMORTIZATION EXPENSES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Property , Plant & equipment	5,662,701	4,257,701
Intangible assets		100,000
<b>Total</b>	<b><u>5,662,701</u></b>	<b><u>4,357,701</u></b>

**13. REPAIRS & MAINTENANCE**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Maintenance expenses- Motor vehicles	636,143	243,344
Maintenance expenses- Office equipment	175,856	31,494
Maintenance expenses- Office furniture & fittings	109,880	2,750
Maintenance expenses- buildings	175,848	1,051,140
Maintenance expenses- IT equip & computers	442,877	979,717
<b>Total</b>	<b><u>1,540,604</u></b>	<b><u>2,308,445</u></b>

**14. GENERAL EXPENSES**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>kshs</b>
Telephone	1,398,549	1,056,280
Internet connections	810,423	433,687
Courier & postal	34,885	27,920
Domestic travel & accommodation	5,437,406	1,278,576
Training expenses	17,254,009	7,663,874
Welfare	1,395,301	1,022,560
Uniforms	243,165	162,150
Newspapers and magazines	460,239	220,077
Rent & rates- non residential	7,445,222	7,400,000
Official entertainment	1,162,692	1,130,611
Insurance	337,076	409,303
General office supplies	551,010	277,442
Computer stationery	553,407	349,019
Refined fuels & lubricants	587,835	296,686
Bank service commission and charges	157,653	107,774
CSR	924,000	927,000
Contracted services	820,469	677,964
Withholding tax	31,207,220	8,891,883
Minor Assets W/O	2,784,281	0
Audit fees	580,000	580,000
<b>Total</b>	<b><u>74,144,842</u></b>	<b><u>32,912,806</u></b>

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**15. CASH AND CASH EQUIVALENTS**

Description	2017-2018	2016-2017
	KShs	Kshs
Current Account	259,617,970	799,550,038
Staff mortgage	80,572,993	0
Staff Gratuity	33,869,053	0
Petty cash	24,401	22,235
<b>Total</b>	<b>374,084,417</b>	<b>799,572,273</b>

**15. (a) CASH AND CASH EQUIVALENTS**

No.	Financial Institutions/Banks	Account No	2017-2018 Kshs	2016-2017 Kshs
<b>A)</b>	<b>Current Account</b>			
	Co-operative Bank	0114118908900	257,219,511	761,486,984
	KCB	1104820730	2,398,459	38,063,054
<b>B)</b>	<b>Staff Car Loan/Mortgage</b>			
	HFC	2299583401-0	80,572,993	
<b>C)</b>	<b>Savings Account</b>			
	KCB- KICC	1223199975	33,869,053	
<b>E)</b>	<b>Others</b>			
	Cash-on-hand and in transit	Cashbox	24,401	22,235
	<b>Total</b>		<b>374,084,417</b>	<b>799,572,273</b>

Components of Cash and cash equivalents are not restricted.

**16. RECEIVABLES FROM NON- EXCHANGE TRANSACTIONS**

	2017-18	2016-2017
	Kshs	Kshs
Staff imprests	841,379	15,000
Prepaid Expenses	33,606	0
<b>Total</b>	<b>874,985</b>	<b>15,000</b>

**17. INVENTORIES**

The item comprises of consumables whose turnover is very high. All unutilized stores consumables are accounted for at cost at the end of the financial year and are valued at FIFO basis.



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The inventories held at the end of the financial year were classified as follows:

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Stationery supplies	1,080,899	764,540
Computer accessories	530,223	454,077
Cleaning materials	61,712	0
Publicity materials	1,520	6,600
<b>Total</b>	<b><u>1,674,354</u></b>	<b><u>1,225,217</u></b>

**18. INVESTMENTS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Investment in Treasury bills and Bonds		
CBK	500,000,000	
<b>Total</b>	<b><u>500,000,000</u></b>	

**19. PROPERTY, PLANT AND EQUIPMENT**

<b>Cost/Valuation</b>	Motor Vehicles	Furniture and fittings	Equipment	Computers	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 <sup>st</sup> July 2016	11,350,000	55,619,621	4,554,732	1,923,000	73,447,353
Revaluations		(38,526,621)	(2,339,732)	0	(40,866,353)
Additions			378,800	3,467,552	3,846,352
<b>Cost/Valuation As at 30<sup>th</sup> June 2017</b>	<b>11,350,000</b>	<b>17,093,000</b>	<b>2,593,800</b>	<b>5,390,552</b>	<b>36,427,352</b>
<b>Depreciation and impairment</b>					
As at 1 <sup>st</sup> July 2016	11,350,000	55,381,259	3,728,339	641,000	71,098,598
Depreciation on revaluation		(55,381,259)	(3,728,339)	0	(59,109,598)
Charge for the Year		2,136,625	324,225	1,796,851	4,257,701
<b>As at 30<sup>th</sup> June 2017</b>	<b>11,350,000</b>	<b>2,136,625</b>	<b>324,225</b>	<b>2,437,851</b>	<b>16,248,701</b>

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<b>NBV as at 30<sup>th</sup> June 2017</b>		<b>14,956,375</b>	<b>2,269,575</b>	<b>2,952,701</b>	<b>20,178,651</b>
<b>Cost/ Valuation</b>					
As at 1 <sup>st</sup> July 2017	<b>11,350,000</b>	<b>17,093,000</b>	<b>2,593,800</b>	<b>5,390,552</b>	<b>36,427,352</b>
Revaluations	(5,730,000)				(5,730,000)
<b>Cost/Valuation As at 30<sup>th</sup> June 2018</b>	<b>5,620,000</b>	<b>17,093,000</b>	<b>2,593,800</b>	<b>5,390,552</b>	<b>30,697,352</b>
<b>Depreciation and impairment</b>					
As at 1 <sup>st</sup> July 2017	<b>11,350,000</b>	<b>2,136,625</b>	<b>324,225</b>	<b>2,437,851</b>	<b>16,248,701</b>
Depreciation on revaluation	(11,350,000)				(11,350,000)
Charge for the Year	1,405,000	2,136,625	324,225	1,796,851	5,662,701
<b>As at 30<sup>th</sup> June 2018</b>	<b>1,405,000</b>	<b>4,273,250</b>	<b>648,450</b>	<b>4,234,702</b>	<b>10,561,402</b>
<b>NBV as at 30<sup>th</sup> June 2018</b>	<b>4,215,000</b>	<b>12,819,750</b>	<b>1,945,350</b>	<b>1,155,864</b>	<b>20,135,964</b>

In 2016/17 revaluation was carried out in respect to furniture, fittings and equipment. While the Motor vehicles were revalued by AA Kenya in 2017/18. There are no restrictions on the assets.

**20. INTANGIBLE ASSETS -SOFTWARE**

	<b>2017-2018</b>	<b>2016-2017</b>
<b>COST/ VALUATION</b>	<b>Kshs</b>	<b>Kshs</b>
Opening Balance	10,147,724	10,147,724
Additions during the year		
<b>Total</b>	<b>10,147,724</b>	<b>10,147,724</b>
<b>AMORTIZATION</b>		
Opening Balance	10,147,724	10,047,724
Charge for the Year		100,000
<b>Total</b>	<b>10,147,724</b>	<b>10,147,724</b>
<b>NET BOOK VALUE AT END OF THE YEAR</b>	<b>0</b>	<b>0</b>

Intangible assets relate to acquisition of Microsoft Navision Integrated Financial Management Information System, Microsoft Office 2007, Windows XP, Corel Draw Graphics suite and Acrobat readers licenses.

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As at 30<sup>th</sup> June 2018, intangible assets worth Kshs.10,147,711 had been fully amortized for a period of three years. The Commission has initiated the process of upgrading/replacing the software systems.

**21. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Trade creditors	20,642,052	394,550
Other payables	4,563,304	0
<b>Total</b>	<b>25,205,356</b>	<b>394,550</b>

**22. CURRENT PROVISIONS**

	<b>Leave Provision</b>	<b>Staff Gratuity</b>	<b>Other provision</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Balance at the beginning of the year	0	15,377,195	3,685,225	<b>19,062,450</b>
Additional provisions raised	1,832,889	20,530,119	24,073,320	<b>46,436,328</b>
Provisions Utilized	0	(2,571,655)	(3,602,337)	<b>(6,173,992)</b>
<b>Closing Balance</b>	<b>1,832,889</b>	<b>33,335,659</b>	<b>24,156,208</b>	<b>59,324,756</b>

Provisions relates to:

- Accumulated staff gratuity which is payable on expiry of the contract.
- Provisions for ongoing/uncompleted contracted services which related to 2017/18 financial year.

**23. CASH GENERATED FROM OPERATIONS**

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Surplus for the year before tax	5,085,467	88,748,459
Adjusted for;		
Depreciation	5,662,701	4,357,701
Working Capital Adjustments		
Increase in Inventory	(449,137)	(576,008)
Increase in receivables	(859,985)	360,754
Increase in payables	65,073,112	(15,889,381)
<b>Net cash flow from operating activities</b>	<b>74,512,144</b>	<b>77,001,525</b>

## 24. FINANCIAL RISK MANAGEMENT

Privatization Commission's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Organisation's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Commission does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

Privatization Commission's financial risk management objectives and policies are detailed below:

### a) Credit Risk

Privatization Commission has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Privatization Commission's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Total Amount (Kshs)</b>	<b>Fully Performing (Kshs)</b>	<b>Past Due (Kshs)</b>	<b>Impaired (Kshs)</b>
<b>At 30 June 2018</b>				
Bank Balances	874,084,417	874,084,417	-	-
Receivables from Exchange Transactions	74,427,559	74,427,559	-	-
Receivables from Non-Exchange Transactions	220,000,000	220,000,000	-	-
<b>At 30 June 2017</b>				
Bank Balances	799,572,273	799,572,273	-	-
Receivables from Exchange Transactions	59,765,934	59,765,934	-	-
Receivables from Non-Exchange Transactions	220,000,000	220,000,000	-	-

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The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from non-exchange transaction.

The board of directors sets the organisation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**b) Liquidity Risk Management**

Ultimate responsibility for liquidity risk management rests with the organisation's directors, who have built an appropriate liquidity risk management framework for the management of the entity's short, medium and long-term funding and liquidity management requirements. The Commission manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The table below represents cash flows payable by the organisation under non-derivative financial liabilities by their remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 month	Between 1-3 months	Over 3 months	Total
	Kshs	Kshs	Kshs	Kshs
<b>At 30 June 2018</b>				
Trade payables	3,969,593	11,624,765	5,047,694	20,642,052
Provisions	82,888	5,856,481	20,049,551	25,988,920
Payroll deductions	4,563,304	0	0	4,563,304
Employee benefit obligation	1,702,024	3,430,402	28,203,410	33,335,836
<b>Total</b>	<b>10,317,809</b>	<b>20,911,648</b>	<b>53,300,655</b>	<b>84,530,112</b>
<b>At 30 June 2017</b>				
Trade payables	394,550			394,550
Provisions	3,685,255			3,685,255
Employee benefit obligation	1,281,430	2,562,864	11,532,901	15,377,195
<b>Total</b>	<b>5,361,235</b>	<b>2,562,864</b>	<b>11,532,901</b>	<b>19,457,000</b>



**c) Market Risk**

The Commission Members has put in place an internal audit function to assist it in assessing the risk faced by the Commission on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Human Resources and Risk Management Committee.

Privatization Commission's Risk and Compliance Department is responsible for the development of detailed risk management policies (subject to review and approval by Human Resources and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the Privatization Commission's exposure to market risks or the manner in which it manages and measures the risk.

**d) Foreign Currency Risk**

The Commission has transactional currency exposures. Such exposure arises through purchases services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid within 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

**e) Interest Rate Risk**

Interest rate risk is the risk that the Privatization Commission's financial condition may be adversely affected as a result of changes in interest rate levels. The Privatization Commission's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the company's deposits.

**Management of Interest Rate Risk**

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

**f) Capital Risk Management**

The objective of the Privatization Commission's capital risk management is to safeguard the Board's ability to continue as a going concern. The entity capital structure comprises of the following funds:

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	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Revaluation reserve	34,955,743	29,335,743
Retained earnings	777,283,865	772,198,398
<b>Total funds</b>	<b>812,239,608</b>	<b>801,534,141</b>

**25. RELATED PARTY BALANCES**

**Nature of Related Party Relationships**

Entities and other parties related to the Privatization Commission include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the Privatization Commission holding 100% of the *entity's* equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the entity, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The Parent Ministry;
- iii) Key management
- iv) Board of Directors

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transactions with related parties</b>		
<b>a) Grants from the Government</b>		
Grants from National Govt	220,000,000	220,000,000
<b>Total</b>	<b>220,000,000</b>	<b>220,000,000</b>
<b>b) Expenses incurred on behalf of related party</b>		
Payments of salaries and wages for employees	118,126,803	80,973,490
<b>Total</b>	<b>118,126,803</b>	<b>80,973,490</b>
<b>c) Key management compensation</b>		
Directors' emoluments	42,690,841	40,303,906
Compensation to the CEO	9,544,974	11,124,000
Compensation to key management	74,852,758	42,308,320
<b>Total</b>	<b>127,088,573</b>	<b>93,736,226</b>

There were no payments to close family members of the key management personnel.

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**26 CAPITAL COMMITMENTS**

The following Capital commitments are expected to be incurred in the year 2018/19. They had been approved and/or contracted.

	<b>2017-18</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Approved and contracted</b>		
Transaction costs	641,159,950	533,704,481
<b>Approved and not contracted</b>		
Acquisition of fixed assets	15,000,000	18,000,000
Acquisition of intangible assets	42,000,000	19,000,000
Staff Mortgage and car loan	80,000,000	
<b>Total</b>	<b>137,000,000</b>	<b>570,704,481</b>

**27 DIVIDENDS/SURPLUS REMISSION**

The entity did not submit any surplus during the year 2017.

**28 TAXATION**

During the year the Commission didn't pay Corporation tax.

**29 EVENTS AFTER THE REPORTING PERIOD**

There were no material adjusting and non- adjusting events after the reporting period.

**30 ULTIMATE AND HOLDING ENTITY**

Privatization Commission is a State Corporation under the National Treasury. Its ultimate parent is the Government of Kenya.

**31 CURRENCY**

The financial statements are presented in Kenya Shillings (Kshs).

**32 STATEMENT OF ASSETS AND LIABILITIES OF PRIVATIZED ENTITIES**

Under section 16(2) of the Privatization Act, 2005, the Commission shall cause an annual report to be prepared for each financial year, a statement of the assets and liabilities of the State Corporation being privatized in the year and also disclose any proceeds from the privatization. In this respect a statement is not attached since no privatization took place during the year.

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**APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

Reference 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)
1.Board expenses	The Commission's internal controls on board expenditure were noted to be weak. Included in the board expenditure of ksh. 40,303,906 is an expenditure of kshs1,060,000 lacking either confirmation of the chairperson, minutes signed by outsiders, minutes provided not in agreement with the attendance register or no minutes were provided at all. In the circumstances, it was not possible to confirm fully that value for money was received from the board expenditure of kshs.40,303,906 for the year under review.	The Management wishes to state that all Board expenses are in line with the approved budget, SCAC / Mwongozo guidelines and other relevant circulars. Board and committee meetings are as the approved annual calendar while all adhoc meetings are as per the approved annual calendar while all adhoc meetings are approved based on approved based on the Agenda. It is therefore the Commission's position that the total kshs.40,303,906 Board expenditure for 2016/17 is authentic and incurred against approved Board activities whose value is evident in resultant resolutions, including filling of critical vacant positions and has fully been accounted for. All relevant supporting information has also been provided	Maureen Saina Ag. Legal Affairs Manager	Not resolved	2018/19

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Reference 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)
2.Variance in inventory	The inventory closing balance reflected in the financial statement of kshs. 1,225,217 differ with physical stock count balances of kshs878,042 by Kshs. 347,174 which has not been reconciled or explained by Management. Therefore the inventory closing figure of Kshs. 1,225,217 cannot be confirmed correct.	The Commission notes the variance cited.The variance/ is mainly due to system postings. To mitigate this the Commission will upgrade the system. The Management has budgeted for and obtained approval form the National Treasury to upgrade the Navision System with a view to addressing weakness identified in the current version. This will ensure the entire supply chain operations are automated.	Slyvester Kamau Procurement Manager	Not resolved	2018/19



Ag. Executive Director/CEO



Chairman of the Board

Date.....27/09/2019.....

Date.....27/09/2019.....



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**APPENDIX II: PROJECTS IMPLEMENTED BY THE PRIVATIZATION COMMISSION**

**Projects**

Projects implemented by the State Corporation/ SAGA Funded by development partners

Project title	Project Number	Donor	Period/ duration	Donor commitment	Separate donor reporting required as per the donor agreement (Yes/No)	Consolidated in these financial statements (Yes/No)
	N/A	N/A	N/A	N/A	N/A	N/A

Privatization Commission didn't implement any project funded by development partners.

**Status of Projects completion**

Project	Total project Cost	Total expended to date	Completion % to date	Budget	Actual	Sources of funds
N/A	N/A	N/A	N/A	N/A	N/A	N/A

Privatization Commission didn't implement any project during the year.

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**APPENDIX III: INTER-ENTITY TRANSFERS**

ENTITY NAME:				
Break down of Transfers from the State Department of the entity				
FY				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
b.	Development Grants		N/A	
		<u>Bank Statement Date</u>	<u>Amount (Khs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>	N/A	
c.	Direct Payments			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>	N/A	
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (Kshs.)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>	N/A	

The Commission does not have any inter-entity transfers.





## **PRIVATIZATION COMMISSION**

Enhancing Kenya's Productive Capacity

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