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KENYA INVESTMENT AUTHORITY

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2017

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

**Kenya Investment Authority
Reports and Financial Statements
For the year ended June 30, 2017**

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I. KEY AUTHORITY INFORMATION AND MANAGEMENT

(a) Background information

Kenya Investment Authority (KenInvest) is a statutory body established in 2004 through an Act of Parliament (Investment Promotion Act No. 6 of 2004) and mandated to promote and facilitate both domestic and foreign investments in Kenya. The Authority is domiciled in Kenya and has branches in Eldoret, Kisumu and Mombasa.

The Authority's day to day management is under the following key departments:

- i. Investment Promotion
- ii. Investor Services
- iii. Research, Policy Advocacy and Planning
- iv. Legal and Corporate Affairs
- v. Finance and Administration

(b) Principal Activities

The Authority is responsible for facilitating the implementation of new investment projects, providing after care services for new and existing investments, as well as organizing investment promotion activities both locally and internationally. It is also responsible for advocating for appropriate investment policies.

The Authority's vision is to be "a global leader in investment attraction" and the mission is "to promote and facilitate domestic and foreign investment in Kenya by advocating for a conducive investment climate, providing accurate information and offering quality services for a prosperous Nation."

The Authority's strategic focus is to be a key player in the realization of Kenya's Vision 2030, by ensuring strategic partnership and cooperation with national and county governments; as well as other relevant stakeholders. The key strategic areas of focus include:

1. Investment Generation and Investor Focus
2. Influence
3. Investment Climate
4. Institutional Strengthening & Capacity Development.
5. Partnership & Collaboration

(c) Key Management

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




- Board of Directors;
- Managing Director; and
- Senior Management.

(d) Fiduciary Management




The key management personnel who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Managing Director	Dr. Moses Ikiara, MBS
2.	General Manager-Investor Services	Mr. Mwalimu Musee
3.	General Manager-Investment Promotion	Mr. Pius Rotich




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<p>4. Mrs. Esther Bungei Private Sector Board Member</p>  <ul style="list-style-type: none"> • B. Ed – University of Nairobi • Leadership Courses 	<p>Date of Birth: 3rd October, 1953</p> <p>Chairperson - Aldai Technical Institute Member of Locational and SubCounty Development Committee, Aldai Girls Boarding and Kaploleo High School, Savani Secondary School and St. Paul Theological College. Treasurer St. Stephen's ACK Ibanja Parish County Taskforce on Agri. Institutions – Nandi</p>
<p>5. Dr. Gachao Kiuna Private Sector Board Member</p>  <ul style="list-style-type: none"> • PhD in Biotechnology • BSC degree (Hons) 	<p>Date of Birth: 22nd December, 1977</p> <p>Executive Director – Aqua Power</p> <p>Previously worked as:</p> <ul style="list-style-type: none"> • CEO of Trans-Century Group • Associate Principal in McKinsey's Sub-Saharan Africa office • Engagement Manager from McKinsey that led the development of the Vision 2030 strategy together with the Government of Kenya, private sector, local and international agencies and many other key stakeholders in the Country <p>Chairman, Finance, Human Resource and Administration Committee</p>
<p>6. Mr. Taib. A. Taib Private Sector Board Member</p>  <ul style="list-style-type: none"> • Advocate of the High Court of Kenya • Bachelor of Laws (LLB), Dip. Law, Law, Honors 	<p>Date of Birth - 2nd September 1964</p> <p>January 1993 to date - Managing Partner - Taib .A. Taib Advocates</p> <p>March 1993 to June 1996 - Mayor of Mombasa - City of Mombasa</p> <p>January 1989 – December 1992 Partner - Marende, Taib & Company, Advocates</p>




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<p>7. Mr. Peter Njoka Private Sector Board Member</p>  <ul style="list-style-type: none"> • Bachelor of Science (Hons.) • Private Equity Training Courses 	<p>Date of Birth: 16th June, 1970</p> <p>Currently a Partner at Rhone Partners LLP, Kenya.</p> <p>Private Equity specialist with over 20 years' private equity and corporate finance experience in East Africa.</p> <p>He is a Board Member of several companies including Brookside Africa Ltd, Deacons East Africa PLC, Kenya Clay Products Ltd and Tim sales Holdings</p> <p>Chairman, Innovation Committee</p>
<p>8. Principal Secretary, Ministry of Industry, Trade and Co-operatives (Alternate Member – Mr. Julius K. Kirima, HSC)</p>  <ul style="list-style-type: none"> • Master of Science in Entrepreneurship • Bachelor of Science (<i>Chemistry and Mathematics (Bsc.)</i>) 	<p>Date of Birth: 20th November, 1962</p> <p>Ag. Deputy Director Of Industries Department of Industrial Information and Research & Policy Development</p> <p>Member of Chemical Biological Radiological And Nuclear (CBRN) National Team</p> <p>Alternate to PS State Department for Investment & Industry in the Board of Pests Control Products Board (PCPB)</p> <p>Member of the Steering Committee for Kenya Institutional Development Fund and KEPTAP Programme in the Ministry</p>
<p>9. Principal Secretary, Ministry of Devolution & Planning (Alternate Member - Mr. Dominic Yegon Kiplangat)</p>  <ul style="list-style-type: none"> • Master of Arts Degree (Economics Policy Management) • Bachelor of Science Degree (Agricultural Economics) 	<p>Date of Birth: 15 February 1985</p> <p>2015 to date: Economist in the Ministry of Devolution and Planning (State Department for Devolution)</p> <p>2010 to 2013: Extensive training and experience in Economic Development, Policy Formulation and Analysis and Strategic Planning, National Development and Vision 2030.</p>

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<p>10. Principal Secretary, Ministry of Devolution and Planning (Alternate Member- Mr. Mutuku Muleli)</p>  <ul style="list-style-type: none"> • MSC in International Economics • MSC in Water Science Policy • BA Economics 	<p>Date of Birth: 08 November 1981</p> <p>2008 to date: Economist/Senior Economist, Ministry of Devolution and Planning</p>
<p>11. Principal Secretary, National Treasury (Alternate Member - Mr. Wanyambura Mwambia)</p>  <ul style="list-style-type: none"> • Master of Arts (Development Economics) 	<p>Date of Birth: 10th January, 1956</p> <p>2010 to date: Deputy Director Economic Affairs National Treasury</p>
<p>12. Principal Secretary, Office of the President (Alternate Member- Mr. William K. Mahinda)</p>  <ul style="list-style-type: none"> • Master of Arts (Economics) • B.A (Economics) 	<p>Date of Birth: - 22nd May 1960</p> <p>2005 to date – Secretary/ Policy Cabinet office.</p> <p>Director Commission of Higher Education, KIPPRA, KenInvest, LAPPSET</p> <p>2001-2005 – Provincial Coordinator – NACC</p> <p>1997 – 2001 Provincial Plan Office.</p>

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<p>13. Principal Secretary, Ministry of Lands and Physical Planning (Alternate Member- Mr. Augustine K. Masinde, EBS, MBS)</p>  <ul style="list-style-type: none"> • Master of Arts (Urban and Regional Planning) • Corporate Member of both the Kenya Institute of Planners and Architectural Association of Kenya (Town Planners Chapter) • Member of the International Society for City and Regional Planners (ISOCARP). • Registered Physical Planner 	<p>Date of Birth - 15th July, 1962</p> <p>Chief Government Adviser on Physical Planning</p> <p>Chairman of the Physical Planners Registration Board</p> <p>National Director of Physical Planning</p> <p>Chairman, Audit and Governance Committee</p>
<p>14. Principal Secretary, Ministry of Agriculture (Alternate Member - Mr. Samuel Gicheru)</p>  <ul style="list-style-type: none"> • Masters in Economics 	<p>Date of Birth: 26th January 1970</p> <p>Currently works at the Ministry of Agriculture</p>
<p>15. Mr. Fanuel Kidenda – Chief Executive, Export Processing Zones Authority (EPZA)</p>  <ul style="list-style-type: none"> • MBA (Strategic Management) • B. Com (Marketing) • Computer Programming 	<p>Date of Birth - 8th April 1974</p> <p>2015 – Chief Executive Officer, EPZA</p> <p>2013 to 2015 General Manager, Operations and Investor Support, EPZA</p> <p>2013 – Resource Mobilization Manager/ Personal Assistant to CEO</p> <p>2001 – 2012 Promotions Executive, EPZA</p>

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16. Mr. Peter K. Biwott - Chief Executive, Export Promotion Council (EPC)



- Master's Degree in International Development Studies majoring in Economics of Development and Quantitative Economic Policy Analysis.
- Professional qualifications in Macroeconomic Policy Analysis and Research
- Member of the Kenya Institute of Management (KIM).

Date of Birth – 21st July, 1976

Appointed CEO of the Export Promotion Council in April, 2017.

Previously held senior positions in trade, policy analysis and advocacy, research and development with leading institutions that include Kenya Association of Manufacturers (KAM), Kenya National Chamber of Commerce and Industry (KNCCI), Commission on Revenue Allocation (CRA), Kerio Valley Development Authority (KVDA), Kenya Institute of Public Policy Research and Analysis (KIPPRA) and the Ministry of State for Planning, National Development and Vision 2030.

17. Dr. Moses Ikiara - Managing Director, Kenya Investment Authority



- PhD (Environmental and Natural Resource Economics)
- Master of Arts (Economics)
- B. Sc (Agriculture)

Date of Birth – 3rd September, 1965

2013 to date - Managing Director, KenInvest

2006 to 2012 - Executive Director, (KIPPRA)

2005 to 2006 - Ag. Executive Director, KIPPRA


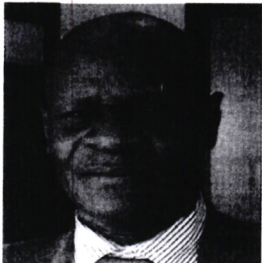

2003 to 2005 - Senior Analyst & Programme Coordinator, KIPPRA



2000 to 2003 - Policy Analyst, KIPPRA

1998 to 2000 – School of Environmental Studies, Moi University.

Secretary to the Board.

III. MANAGEMENT TEAM

<p>1. Dr. Moses Ikiara</p>  <ul style="list-style-type: none"> • PhD (Environmental and Natural Resource Economics) • Master of Arts (Economics) • Bachelor of Science (Agriculture) 	<p>Managing Director</p>
<p>2. Mr. Mwalimu Musee</p>  <ul style="list-style-type: none"> • Bachelor of Arts (3.1.1) (Economics) 	<p>General Manager, Investor Services</p>
<p>3. Mr. Pius Rotich</p>  <ul style="list-style-type: none"> • Master of Business Administration (International Marketing) • Bachelor of Education • Marketing Society of Kenya (MSK) member 	<p>General Manager-Investment Promotion and Business Development Services.</p>

<p>4. Mr. Robert Bwire</p>  <ul style="list-style-type: none">• Master of Industrial Relations and Personnel Management• B. Com (Accounting)• Member of Institute of Economic Affairs• Diploma in PC Programming	<p>General Manager- Research, Policy Advocacy and Planning</p>
<p>5. Ms. Donna Atieno</p>  <ul style="list-style-type: none">• Master of Business Administration (Finance)• Certified Public Accountant of Kenya• Bachelor of Business Management (Accounting)• Institute of Certified Public Accountants of Kenya (ICPAK) Member No. 7332	<p>General Manager, Finance and Administration.</p>

IV. CHAIRPERSON'S STATEMENT

On behalf of the KenInvest Board of Directors, I am pleased to present to you KenInvest's annual report for the financial year 2016-2017.

KenInvest continued to pursue her strategic objectives as spelt out in the strategic plan 2013-17. I note with appreciation that in spite of significant challenges, the Authority managed to attract new investment projects worth over KShs 159 billion. Moreover, the Authority participated in various high-profile events including the 14th United Nations Conference on Trade and Development Meeting (UNCTAD14), the 6th Tokyo International Conference on African Development (TICAD VI); 2nd High Level Meeting in collaboration with the National Treasury among others. These events gave Kenya and KenInvest high visibility.

During the review period, the Authority made significant progress towards the establishment of the One Stop Centre (OSC) for Investors with partitioning and renovations at the new KenInvest Headquarters at UAP Old Mutual Towers 14th and 15th Floor. The Authority will relocate and fully operationalize the OSC in Quarter 1, July- September, 2017. The Cabinet Secretary Ministry of Industry, Trade and Cooperatives signed request letters for secondment of staff to the OSC by various MDAs, Kenya Revenue Authority, National Social Security Fund and Business Registration Services have already seconded their staff. Follow up on other institutions is ongoing. In addition, the KenInvest and OSC seconded staff received training from International Development Ireland (IDI), with the generous support of Irish Embassy in Nairobi.

Under my leadership, the Board will continue addressing organisational needs that require intervention to make the Authority more competitive and an enviable place to work in.

My message to fellow Board members and KenInvest staff is to remain committed to the execution of our mandate of promoting and facilitating investments in Kenya, in order to propel this country to new heights of socio-economic development as per the Kenya Vision 2030.

Mrs. Anne W. Kirima – Muchoki
CHAIRPERSON
BOARD OF DIRECTORS

V. REPORT OF THE MANAGING DIRECTOR

The overarching vision of the Kenya Investment Authority strategic plan 2013- 2017 is to make Kenya a global leader in investment attraction. The Authority's strategic focus is to be a key player in the realization of Kenya's Vision 2030, by ensuring strategic partnership and cooperation with national and county governments; as well as other relevant stakeholders. The key strategic areas of focus include:

- Investment Generation and Investor Focus;
- Influence;
- Investment Climate;
- Institutional Strengthening & Capacity Development; and
- Partnership & Collaboration

Some of the areas of achievement include:

Investment Generation

In FY 2016/17, the final year of implementation of the Strategic Plan (SP) 2013-2017, the Authority registered projects worth KShs 159.2 billion in terms of both new investment and re-investment. This was below target for the year due to increasing political activity in the run up to elections set for August 2017. Of the total investments received, KShs 129.7 billion was Foreign Direct Investment (FDI). The new investments created employment opportunities to about 26,000 Kenyans.

Investment Promotion

As part of continued effort to encourage more investors to choose Kenya, the Authority organised and/or participated in Investment promotion forums and missions to present opportunities to investors. Key among them included the 14th UNCTAD meeting in July 2016, TICAD VI in August 2016 and 2nd High Level Meeting in November 2016.

Other forums included:

- Belt and Road Forum on International cooperation;
- Bangladesh/India investment & trade promotion mission;
- Investor Targeting and Partnership Development, Egyptian Export Expo, 2017;
- Seminar on Investment Promotion to Ethiopia, Kenya, Mozambique and Zambia under PIGA initiative;
- Business Mission by China International Exhibition Center Group Corporation; and
- China Trade Week.

In addition, KenInvest received high profile delegations composed of prominent business persons. These included delegations from EU, Japan, India, China, Qatar and South Africa.

One Stop Centre (OSC)

KenInvest continued implementing the OSC. During FY 2016/2017, KenInvest identified UAP Old Mutual Tower as the preferred venue for the establishment of the One Stop Centre after the lease at the Tourism Fund Building was cancelled by the landlord. As at the end of June, 2017 partitioning works for the new offices were ongoing. Officers from the following institutions had been nominated to the OSC and training had commenced: KRA, NEMA, NSSF, NHIF, EPZA, Business Registration Services, Kenya Power, Department of Immigration and Nairobi County Government.

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Enhancing Regional Integration

The Authority was involved in key regional integration activities in COMESA and EAC that support the growth of trade and investment. The main rationale for KenInvest participation in regional integration meetings is because the size of market an investor located in a country can access in that country and beyond is an important determinant of how suitable that country is as an investment destination. The meetings held to discuss how (and track progress) to deepen and accelerate regional integration, which provides more preferential market, are thus important for growth of private investment and thus employment and wealth creation.

KenInvest received funding from COMESA through the National Treasury amounting to KShs 13 million to support activities and programmes that contribute to deepening of trade and investment in the region.

Investor Facilitation

The Authority undertook post-establishment services to 263 investors through visits, email and telephone. The major policy and/or administrative issues raised were escalated to the relevant Ministries, Departments and Agencies (MDAs) for resolution. Investor sentiment about business facilitation continued to improve.

The e-regulations electronic system for streamlining investment application and facilitation procedures continued being strengthened with more procedures being added and those already in the portal being revised. The portal can be accessed at <https://kenya.eregulations.org/>. By the end of 2016/17 in June 2017, Kenya's e-regulations portal had become the most visited in Africa receiving more than 40,524 sessions, 30,179 users and 108,629 page views per quarter.

This platform is useful because it helps to attract more investors and thereby create employment for our people and a market for their products.

Global Competitiveness Index Survey

KenInvest, in partnership with Institute of Development Studies (IDS) of University of Nairobi and working with the other agencies in the public and private sectors facilitated the above survey. The process involved creating awareness about the progress Kenya has made on competitiveness by developing and distributing a fact sheet, meeting various stakeholders, and also helping in the survey itself.

The findings of GCI survey are used to develop an index upon which 138 countries are ranked. The rank a country attains is a signal to investors around the world how competitive the country is and helps them to choose which countries to invest in. In 2016, Kenya was ranked 96 which was a slight improvement from 99 the previous year.

KenInvest was requested by the Parent Ministry to spearhead efforts aimed at improvement of the country's ranking. It was realized that often the respondents to the survey were ignorant of the progress/ reforms the country had made and thus ended up scoring the country poorly. For this reason, a fact sheet on reforms was developed and distributed to over 300 stakeholders for information before the 2017 survey was conducted. A better ranking of Kenya in the next release is thus expected which will boost the country's investment promotion effort.

Kenya Investment Policy

Working with partners and various stakeholders, KenInvest coordinated the completion of the Kenya Investment Policy, one of the deliverables under MTP II. The policy will be forwarded to the Ministry of Industry, Trade and Cooperatives for the remaining steps.

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The KIP addresses private investments at the national and county levels. It is a comprehensive and harmonized policy to guide attraction, facilitation, retention, monitoring and evaluation of private investment. The KIP further recognizes the central role of Kenya's Constitution (2010) which clearly delineates the complementary roles that national and county governments play in investment promotion. The KIP also creates an institutional framework that fosters coordination for efficient investment attraction, facilitation, and a favourable investment climate.

The policy actions proposed in the KIP are designed to support and stimulate private sector development and improve the overall ease of doing business and competitiveness in the economy, with the ambition that Kenya becomes the premier destination for at least 50% of multinationals establishing their continental headquarters in Africa. The KIP addresses some of the fundamental requirements for establishing a well-coordinated investment environment that will attract high-quality FDI into the country while upscaling local SME capacity. The policy seeks to ensure investment oversight through the operationalization of the National Investment Council, which will be responsible for formulating the country's overall investment strategy and implementing the KIP to ensure that investment contributes to the country's development goals, and approving Bilateral Investment Treaties and investment related chapters in treaties. It also ensured recognition of regional initiatives and harmonization of local laws to meet regional requirements.

County Investment Handbook

Preparation of the handbook, aimed at capacity building for county governments on investment promotion and facilitation, started in 2013/14 FY. After going through various reviews and with support of the World Bank Group, the handbook was completed in FY 2016/17 and is awaiting publication.

Since all investment projects are located in one county or the other, it is critical for the county governments to have the knowhow on how to promote their countries to investors and how to provide pre and post- establishment facilitation services. It is also important for them to know which agencies they can approach for equity or debt financing. The handbook is aimed at building the capacity of county government officials in these areas.

Financial Performance

Implementation of activities was hampered by budget constraints, with several activities in the departmental work plan affected. Most activities conducted benefitted from Regional Integration Implementation Programme (RIIP) fund. In addition, KenInvest received substantial support from Embassy of Ireland for OSC activities; UNDP, UNCTAD and World Bank Group for the KIP development process; and various other partners who partly or fully funded various investment promotion activities.

Despite the delay in disbursement of funds from the Parent Ministry, the Authority was able to undertake its planned activities. This was done within the budget and the Authority will ensure compliance with Public Financial Management requirements.

Challenges

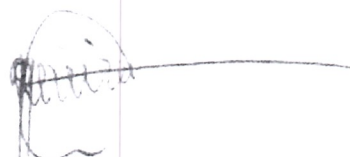
Some of the obstacles that stood in the way of better performance for the Authority, and which continue to pose challenges in the new financial year include:

- i. HR challenges such as high staff turnover, inadequate staffing, lack of training and capacity building opportunities due to low funding, and uncertainty associated with parastatal reforms. These challenges are being resolved through resource mobilization, efforts to improve work environment, seeking training support from our partners and pushing for resolution of merger issue;

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- ii. Inadequate ICT capacity to implement management information system. The Board's Innovation Committee is prioritizing this matter;
- iii. Inadequate clout which hampers effective facilitation of investors. This remains a key focus in our Strategic Plan;
- iv. Large information and data gap including challenges in capturing and processing the information and absence of a knowledge management system. This is being addressed through MoUs with sector regulators and other agencies with the data;
- v. Inadequate marketing efforts of investment opportunities due to their insufficient packaging, and inadequate budgetary resources. KenInvest has proposed establishment of an investment fund for this purpose and continues to seek more funds from GoK and is identifying revenue generating activities; and
- vi. Low budgetary allocation by the exchequer and weak internal capacity to fundraise. This is being resolved via efforts to secure more funds from exchequer. Research by Oxford University shows that \$1 investment in investment promotion can earn \$189 in FDI.

We look forward to continued support by our cherished Partners and stakeholders as we implement our mandate of attracting and facilitating investments in Kenya.



**Dr. Moses Ikiara, MBS
Managing Director**

VI. CORPORATE GOVERNANCE STATEMENT

Introduction

KenInvest has adopted high standards and applies strict standards of conduct, based on the best corporate practices and the Mwongozo code. As part of this commitment, the Board adheres to good corporate governance by embracing the following principles:

- i. To observe high standard of ethical and moral behaviour;
- ii. To act in the best interests of the organization;
- iii. To remunerate and promote fairly and responsibly;
- iv. To recognize the legitimate interests of all stakeholders; and
- v. To ensure that the organization acts as a good corporate citizen.

In general, Board members act in the best interest of the organization and uphold their fiduciary responsibilities and duty of care. This involves not disclosing confidential information, avoiding real and perceived conflicts of interest, and favouring the interests of the organization over other interests. They act honestly and in good faith so as to create a culture built on principles of integrity, accountability and transparency.

In line with Section 13 of the Leadership and Integrity Act No. 19 of 2012 of the Laws of Kenya, the Board of Directors respect the values, principles and the requirements of the Constitution including:

- i. The national values provided for under Article 10 of the Constitution;
- ii. The rights and fundamental freedoms provided for under Chapter four of the Constitution;
- iii. The responsibilities of leadership provided for under Article 73 of the Constitution;
- iv. The principles governing the conduct of State officers provided for under Article 75 of the Constitution;
- v. The educational, ethical and moral requirements in accordance with Article 99 (1) (b) and 193 (1) (b) of the Constitution; and
- vi. The values and principles of Public Service provided for under Article 232 of the Constitution.

The Board of Directors

The members of the Board of Directors are published in this report.

The Investment Promotion Act, 2004 Section 16 (i) gives the Board of Directors the overall responsibility over the Authority with the Chairman being a Presidential appointee for a period of three years. Other members are drawn from the private sector, representatives of the Government in their various capacities and the Managing Director who is the Secretary to the Board. The current status of the KenInvest Board is 16 members.

Appointment and Removal of Directors

In accordance, to the Board Charter the relevant appointing authority shall select and appoint Board members. Every appointment shall be by name and by notice in the Kenya Gazette and shall cease if the Board member:

- i. Serves the appointing authority with a written notice of resignation; or
- ii. Is absent, without the permission of the respective Cabinet Secretary, from three consecutive meetings; or
- iii. Is convicted of an offence and sentenced to imprisonment for a term exceeding six months or to a fine exceeding twenty thousand shillings; or
- iv. Is incapacitated by prolonged physical or mental illness from performing his or her duties as a member of the Board; or

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- v. Conducts himself/herself in a manner deemed by the appointing authority to be inconsistent with membership of the Board.

Role of Board Committees

In its governance, the Board established four Committees as per section 4(1) of the third Schedule of the Act. These Committees are described below:

- i. **Strategy and Investment Committee** - This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the overall mandate to ensure that all investment issues and the core function of KenInvest are maintained at all times. This includes investment promotion, investment facilitation, after-care services and Policy Advocacy. The Committee's important task is to ensure the relevance of the strategic plan, performance contract and work plan.
- ii. **Finance, Human Resource & Administration Committee** - This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the overall mandate to ensure that the budget is justified and adhered to, and that all expenditures are accounted for. It also has the mandate to ensure that all quarterly reports are presented in a timely fashion to the Board prior to the same being submitted to the Parent Ministry. All financial policies are discussed in this Committee.

This Committee is also tasked with ensuring that KenInvest maintains and attracts high calibre of human resources. The Committee handles recruitment, maintenance of the organization's practices, attitudes, and staff motivation.

- iii. **Audit & Governance Committee** - This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the responsibility of assisting the Board of Directors perform its oversight role in:
- Integrity of quarterly, half-yearly and year-end financial statements including reviewing the accounting policies and practices adopted in the preparation of financial information;
 - Effectiveness of the internal control environment; and
 - Compliance with applicable laws, regulations, accounting & auditing standards, good corporate governance principles and other ethical issues.
- iv. **Innovation Committee** - This Committee is chaired by a non-executive member and meets on a quarterly basis. The Committee has the responsibility of assisting the Board of Directors perform its oversight role in the Management of Information Technology to enhance investor access to services provided by the Authority.

Board Meetings

The Board is required to meet at least four times in every financial year to discuss the overall performance of KenInvest. Not more than four months should elapse between one meeting and the next meeting. All full board meetings are convened by the Secretary to the Board upon instructions from the Chairman (or as per approved work plan) or upon the requisition of at least five members of the Board. All decisions are passed by a majority of present members voting with the Chairperson having the decisive vote in the event of a tie.

During the Financial year ended 30 June 2017, the Board held four (4) scheduled meetings. Individual attendance at these meetings is set out in the table below. Additional three (3) special meetings were held on specific issues.

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The attendance by members is as below:

NO.	NAME OF DIRECTOR	23 rd Special Board Meeting 06.07.16	41 st Board Meeting 11-08.16	42 nd Board Meeting 26.10.16	24 th Special Board Meeting 04.11.16	43 rd Board Meeting 25.01.17	44 th Board Meeting 26.04.17	25 th Special Board Meeting 30.06.17	Total no. of meetings attended
1.	Anne Muchoki - Kirima	✓	✓	✓	✓	✓	✓	✓	7/7
2.	Esther Bungei	✓	✓	✓	✓	✓	✓	✓	7/7
3.	Peter Njoka	✓	✓	✓	✓	✓	✓	✓	7/7
4.	Dr. Gachao Kiuna	✓		✓	✓	✓	✓	✓	6/7
5.	Sanda Ojiambo	✓		✓	✓	✓	✓		5/7
6.	Judith Kibaki	✓		✓	✓	✓	✓		5/7
7.	Taib. A. Taib						✓		1/7
8.	William K. Mahinda	✓	✓	✓	✓	✓	✓		6/7
9.	Muleli Mutuku	✓	✓	✓	✓	✓	✓	✓	7/7
10.	Samuel K. Gicheru	✓	✓	✓		✓	✓	✓	6/7
11.	Augustine K. Masinde	✓	✓	✓	✓	✓	✓	✓	7/7
12.	Wanyambura Mwambia	✓	✓		✓		✓	✓	5/7
13.	Margaret Byama Julius Kirima	✓		✓	✓	✓	✓	✓	6/7
14.	Esther Nyaosi Yegon Kiplagat	✓	✓	✓		✓		✓	5/7
15.	Ruth Mwaniki James Munyi Peter Biwott	✓	✓	✓	✓	✓	✓	✓	7/7
16.	Fanuel Kidenda Benjamin Chesang	✓	✓	✓	✓		✓	✓	6/7

Board Charter

The Board is committed to a high level of integrity and ethical standards in the Authority's operations. Accordingly, the Board adopted a Board Charter that defines the Board's roles and responsibilities as well as functions and structures in a way that supports the members in carrying out their strategic oversight function. The Charter is in accordance with Mwongozo, Code of Governance for State Corporations ("the Code"), and is complementary to the requirements regarding the Board and the Board members contained in applicable Kenya laws and regulations.

Board of Directors Performance

The Authority is committed to carrying out periodic Board performance evaluations. The process includes an undertaking to liaise with the State Corporations Advisory Board (SCAC) to conduct an annual performance evaluation exercise of the Chairperson, Directors and the Managing Director.

Conflict of Interest

A conflict of interest register is maintained and is permanent agenda item during board meetings.

Induction and training

In accordance with the Board Charter, new Board members will be provided with an effective induction programme to familiarize them with their responsibilities as Directors, General Principles of Corporate Governance and Board Practices. The induction programme also provides the Board member with an orientation of the Authority's operations. The Board further will ensure that a competence needs assessments is carried out periodically and an annual development plan is prepared to address identified gaps. In this regard, Board members will be provided with access to, or notice of, continuing development programs that are designed to keep members abreast of the latest developments in sector best practice, corporate governance and critical issues relating to the operation of public sectors boards.

Succession planning

Moving forward, it is intended that the Board succession plan is staggered for continuity purposes. The Board's plan shall seek to:

- i. Consider the skills, backgrounds, knowledge and experience, and gender diversity necessary to allow it to meet the Authority's objectives;
- ii. Assess the skills, backgrounds, knowledge, experience and diversity currently represented; and
- iii. Identify any inadequate representation of the above attributes and recommend a skill necessary to ensure a candidate is selected appropriately.

Board Remuneration

Board members are remunerated for their services in accordance with the prevailing relevant legislative provisions and/or guidance from the relevant authority. This includes Honoraria of KShs 80,000 for the Chairman and KShs 20,000 per member as sitting allowance for attendance of Board meetings.

VII. MANAGEMENT DISCUSSION AND ANALYSIS

Compliance with statutory requirements	
Court Case	Status
Joseph Nathaniel Ng'ok vs. KenInvest	- Dr. Ngok passed away in February, 2017 and our lawyers are following up with the Courts on the termination procedures for the case.
Samuel Nyaachi vs KenInvest	- Matter was last in court on 8 th October 2015 and it was adjourned by the Plaintiffs and we are awaiting another hearing date
Wilson W. Khaemba t/a Sipeto Limited vs. KenInvest	- The matter was last fixed in court for hearing on 18 th June 2014 and our Advocates were ready to proceed but the Plaintiff sought an adjournment on account that he had just taken over the matter. Since then no date has been given by the court.
M. A. Consulting Group Ltd. vs KenInvest	- Management wrote to the Inspectorate of State Corporations to assist in recovering the lost funds. Inspectorate asked for additional documents which we forwarded and we are waiting for their guidance on the matter. - In addition, the lawyer (Miller and Associates) fees have reviewed downwards and we are awaiting on the legal opinion to conclude the matter.
Elizabeth M. Mwikali vs. KenInvest	- This matter was last fixed for hearing on 20 th April 2015 but the matter did not proceed for the reason that the Plaintiff was unwell. The matter was stood over generally and Plaintiff ordered to pay the court adjournment fees. - Awaiting a hearing date.

Key projects and investment decisions the entity is planning/implementing

a) One Stop Centre (OSC)

KenInvest continued implementing the OSC. During FY 2016/2017, KenInvest identified UAP Old Mutual Tower as the preferred venue for the establishment of the One Stop Centre after the lease at the Tourism Fund Building was cancelled by the landlord. As at the end of June, 2017 partitioning works for the new offices were ongoing. Officers from the following institutions had been nominated to the OSC and training had commenced: KRA, NEMA, NSSF, NHIF, EPZA, Business Registration Services, Kenya Power, Department of Immigration and Nairobi County Government.

b) Regional Integration Implementation Programme (RIIP)

KenInvest is among MDAs benefitting from the COMESA adjustment facility that supports member states to implement regional programmes with developmental impact, enhancing growth of trade and investment. The overall objective of the RIIP in accordance with Article 10 of the COMESA Adjustment Facility Protocol is to assist eligible Member States implement prioritized programmes that contribute to regional integration. These include the requisite policy reforms to improve the efficiency of the domestic market and competitiveness, capacity building in skills development, effective participation in regional integration negotiations and institutional strengthening.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Major risks facing the entity			
Functional Area	Risk Identified	Mitigation Measures proposed	Measures Undertaken
Financial Management	Lack of Segregation of Duties in the Department	Increase of adequate staff to encourage segregation of functions in the Department	Job Descriptions prepared
	Incurring expenses outside approved budget	Procurement of Accounting system	Expenditure control to ensure it is within the approved budget allocations
	Misuse of Public Funds	Proper imprest accounting through recovery of full amount from staff salary.	Discourage staff from holding of multiple imprest and strict adherence to surrender of imprest within 7 days
Human Resource & Administration Management	Skewed Training and Reward System	Appointment of Training Committee Members	Training Committee Established
	Lack of proper job matching and skill mapping. Use of fake certificates in application of jobs.	Minimum qualifications are set for each job. Certification of certificates for all newly employed and existing staff.	Recruitment and selection process are clearly outlined and transparent.
	Lack of proper filling of work-tickets and log books	Proper Management of Motor vehicle Administration	Proper use of vehicles
	Lack of Performance Appraisal Management	Introduction of Performance Evaluation Tool. All HODs to ensure targets are set by all staff below them in 2016/2017.	Performance Measurements tools in place.
Supply Chain Management	Lack of Declaration of Interest by staff involved in procurement.	Staff to be informed to declare their interest during procurement meetings.	Members of staff are informed during meetings.
	Failure to follow proper procurement process by staff involved in procurement.	Staff to be appraised on new procurement procedures as per PPAD Act 2015 to ensure compliance	Training to be undertaken
	Lack of Proper reporting of procurement above KShs. 500,000/-	Reporting to all tenders and contracts awarded which are above the threshold of KShs. 500, 000	Quarterly submission of report to EACC/PPOA

**Kenya Investment Authority
Reports and Financial Statements
For the year ended June 30, 2017**

Functional Area	Risk Identified	Mitigation Measures proposed	Measures Undertaken
Investment Promotion, Facilitation and Advocacy Management	Lack of proper mechanisms of performance reporting.	Performance reporting	Monitoring and Evaluation of Promotion, Facilitation and Advocacy activities through regular reports.
Information risk security Management	Loss of ICT assets through theft.	Introduction security pass to control movement of ICT hardware.	Coding of computer hardware done.
		Coding of all computer hardware for easier monitoring and control.	Inventory of ICT hardware done.
		Develop an inventory of all ICT hardware and respective allocations.	
	Unauthorized access to computer systems	Establish access control and user ID management. Develop an ICT Security policy	Logs of unauthorized access attempts/intrusions. ICT Security policy
Entry of malicious code (viruses, malware) to computer systems and network.	Control of malicious codes that may be used to corrupt data so as to perpetrate corruption. Update antivirus and firewall software.	Updated antivirus and firewall software done.	
Loss of information and data due to potential disaster. i.e. fire or asset theft.	Disaster recovery and business continuity planning.	Storage of key documents in Fire proof cabinets. Automation of organization processes to ensure automated Data back-up routines.	

VIII. REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended June 30, 2017 which show the state of the Authority's affairs.

Principal activities

The principal activities of the Authority continue to be attraction and facilitation of investments both locally and internationally.

Results

The results of the Authority for the year ended June 30, 2017 are set out on page 1 to 26.

Directors

The members of the Board of Directors who served during the year are shown on page iv to ix. During the year one director Ms. Judith Kibaki resigned.

Auditors

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

By Order of the Board



Dr. Moses Ikiara
Managing Director
Nairobi

Date:

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Investment Promotion Act, 2004 require the Directors to prepare financial statements in respect of the Authority, which give a true and fair view of the state of affairs of the Authority at the end of the financial year/period and the operating results of the Authority for that year/period. The Directors are also required to ensure that the Authority keeps proper accounting records which disclose with reasonable accuracy the financial position of the Authority. The Directors are also responsible for safeguarding the assets of the Authority.

The Directors are responsible for the preparation and presentation of the Authority's financial statements, which give a true and fair view of the state of affairs of the Authority for and as at the end of the financial year 2016/2017 ended on June 30, 2017. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Authority; (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 Authority; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Authority'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 Investment Promotion Act, 2004. The Directors are of the opinion that the Authority's financial statements give a true and fair view of the state of Authority's transactions during the financial year ended June 30, 2017, and of the Authority's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Authority, which have been relied upon in the preparation of the Authority's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Authority 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 Authority's financial statements were approved by the Board on _____ 2017 and signed on its behalf by:



Director



Director



Director

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA INVESTMENT AUTHORITY FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Investment Authority set out on pages 1 to 25, which comprise the statement of financial position as at 30 June 2017, 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 Kenya Investment Authority as at 30 June 2017, and of its financial performance and its cash flow for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual Basis) and comply with the Investment Promotion Act, No. 6 of 2004.

In addition, as required by Article 229(6) of the Constitution, except for the matter described in the Other Matter section of my report, based on the procedures performed, I confirm that nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Opinion

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

Key Audit Matters

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

Report of the Auditor-General on the Financial Statements of Kenya Investment Authority for the year ended 30 June 2017

Other Matter

1. Poor Budget Absorption

The Authority spent a total of Kshs.47,527,238 on program costs against an approved budget provision of Kshs.61,118,390 under the expense item resulting in an under-expenditure of Kshs.13,591,152 or 22% under-absorption. Failure by management to adhere to the budget and undertake planned activities may lead to a negative impact on service delivery and achievement of the Authority's mandate.

2. Expired Contract

The revenue from exchange transaction (other income) balance of Kshs.28,118,390 includes an amount of Kshs.489,789 received on 15 July 2016 in accordance with the memorandum of understanding between the United Nations Industrial Development Organization (UNIDO) and the Kenya Investment Authority dated 14 March 2013 for hosting within the Authority an Industrial Subcontracting and Partnership Exchange Centre (SPX) at its Kenya Railways Headquarters. However, according to Article 5 of the memorandum of understanding UNIDO was to provide capacity building to SPX staff, physical facilities and equipment as well as additional support inputs for hosting the SPX Center in Kenya for a period up to the end of March 2013. However, no plausible explanation has been provided for the receipt of funds outside the contract period.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue sustaining its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to have the Authority cease operations.

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

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

Auditor-General's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Authority'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 Authority's ability to continue to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Authority to cease to continue to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities 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

28 May 2018

Kenya Investment Authority
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XI. STATEMENT OF FINANCIAL PERFORMANCE
 FOR THE YEAR ENDED 30 JUNE 2017

	Note	2016-2017	2015-2016
		KShs	KShs
Revenue from non-exchange transactions			
Transfers from other governments – Regional Investment Integration Programme (RIIP)	1	13,000,000	13,800,000
GoK Grants	1 (b)	245,000,000	337,212,500
		258,000,000	351,012,500
Revenue from exchange transactions			
		28,118,390	10,390,114
Other income	2	28,118,390	10,390,114
		286,118,390	361,402,614
Total revenue			
Expenses			
Employee costs	3	163,163,426	155,177,902
Remuneration of directors	4	7,514,000	7,073,641
Depreciation and amortization expense	5	9,881,534	11,339,725
Repairs and maintenance	6	1,854,282	1,953,030
General expenses	7	54,249,052	121,833,726
Program Costs	8	47,527,238	46,735,447
Total expenses		284,189,532	344,113,471
Surplus/(deficit) for the period		1,928,858	17,289,143
Attributable to:			
Surplus attributable to owners of the controlling Authority		1,928,858	17,289,143

The notes set out on pages 6 to 26 form an integral part of these Financial Statements

Kenya Investment Authority
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XIV. STATEMENT OF CASH FLOWS
 AS AT 30 JUNE 2017

		2016-2017	2015-2016
		Kshs	Kshs
Cash flows from operating activities			
Receipts			
Transfers from other governments – Regional Investment Integration Programme (RIIP)	1	13,000,000	13,800,000
GoK Grants	1 (b)	325,000,000	378,946,164
Other income	2	28,118,390	10,390,114
Total Receipts		366,118,390	403,436,278
Payments			
Employee costs	3	163,163,426	155,177,902
Remuneration of directors	4	7,514,000	7,073,641
Repairs and maintenance	6	1,854,282	1,953,030
General expenses	7	54,249,052	121,833,726
Program Costs	8	47,527,238	46,735,447
Total Payments		274,307,998	332,773,746
Net cash flows from operating activities	14	91,810,392	70,362,532
Cash flows from investing activities			
Purchase of property, plant, equipment and intangible assets		(17,790,142)	-
Net cash flows used in investing activities		(17,790,142)	-
Net increase/(decrease) in cash and cash equivalents		74,020,250	70,362,532
Cash and cash equivalents at 1 JULY	9	105,038,870	34,676,338
Cash and cash equivalents at 30 JUNE	9	179,059,120	105,038,870

Kenya Investment Authority
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XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
FOR THE PERIOD ENDED 30 JUNE 2017

	Original budget		Adjustments		Final budget		Actual on comparable basis		Performance difference		Note
	2016-2017	KShs	2016-2017	KShs	2016-2017	KShs	2016-2017	KShs	2016-2017	KShs	
Revenue											
GoK Grants	430,000,000		(105,000,000)		325,000,000		325,000,000		-	a)	
Transfers from other governments – Regional Investment Integration Programme (RIIP)	13,000,000		-		13,000,000		13,000,000		-		
Other Income	5,000,000		23,118,390		28,118,390		28,118,390		-	b)	
Total income	448,000,000		(81,881,610)		366,118,390		366,118,390				
Expenses											
Employee costs	162,500,000		(1,200,000)		161,300,000		163,163,426		(1,863,426)	c)	
Remuneration of directors	7,500,000		50,000		7,550,000		7,514,000		36,000		
Repairs and maintenance	2,200,000		(300,000)		1,900,000		1,854,282		45,718		
General expenses	57,800,000		(3,550,000)		54,250,000		54,249,052		948		
Program Costs	38,000,000		23,118,390		61,118,390		47,527,238		13,591,152	d)	
Transfer to Capital Fund	180,000,000		(100,000,000)		80,000,000		80,000,000		-		
Total expenditure	448,000,000		(81,881,610)		366,118,390		354,307,998		11,780,392	e)	
Surplus for the period							11,810,392				

Budget Notes

- The Authority's budget was reduced by KShs 105 million (KShs 5 million recurrent and KShs 100 million Development). This necessitated a reallocation to fit within the new budget lines.
- There is an addition in other income as the Authority received an Authority to incur expenditure (AIE) from the National Treasury of KShs 19 million. In addition, KenInvest was tasked to collect exhibition fees of KShs 5 million on behalf of the Ministry of Foreign Affairs. This necessitated the revision of the budget by KShs 23 million.
- The deficit is as a result of revenue recognition accounting policy (note 4 (a)). Some of the donor income for this activity was not received by the end of the financial year.
- The Authority was unable to launch its project before the end of the year hence the surplus. This has been planned for 2017/18 FY.
- Variations in amount is as a result of the provision for depreciation which is not included in this statement.

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

KenInvest is established by and derives its authority and accountability from the Investment Promotion Act. The Authority is wholly owned by the Government of Kenya and is domiciled in Kenya. The Authority's principal activity is facilitating the implementation of new investment projects, providing after care services for new and existing investments, as well as organizing investment promotion activities both locally and internationally. It is also responsible for advocating for appropriate investment policies.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The Authority's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS). The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the Authority. The accounting policies have been consistently applied to all the years presented.

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

3. ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

Standard	Impact
<p>IPSAS 33: First time adoption of Accrual Basis IPSAS</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 33, First-time Adoption of Accrual Basis IPSASs. IPSAS 33 grants transitional exemptions to entities adopting accrual basis IPSASs for the first time, providing a major tool to help entities along their journey to implement IPSASs. It allows first-time adopters three years to recognize specified assets and liabilities. This provision allows sufficient time to develop reliable models for recognizing and measuring assets and liabilities during the transition period. <i>KenInvest adopted IPSAS in the year ended 30 June 2014 and therefore provisions of first time adoption of accrual basis does not apply to the Authority.</i></p>
<p>IPSAS 34: Separate Financial Statements</p>	<p>(Effective for annual periods beginning on or January 1, 2017) In January 2015, the IPSASB published IPSAS 34, Separate Financial Statements. IPSAS 34 prescribes the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an Authority prepares separate financial statements. <i>KenInvest does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>

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Standard	Impact
<p>IPSAS 35: Consolidated Financial Statements</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 35, Consolidated Financial Statements. IPSAS 35 establishes principles for the preparation and disclosure of consolidated financial statements when an Authority controls one or more entities.</p> <p>It requires an Authority that controls one or more other entities to assess control over those entities based on the following:</p> <ul style="list-style-type: none"> - Its power over the other Authority - Its exposure or rights to variable benefits from involvement with the other Authority - Its ability to control the nature, timing and amount of benefits from the other Authority. <p>Once control is assessed the controlling Authority is supposed to prepare consolidated financial statements unless it meets all the criteria under section 5 of IPSAS 35.</p> <p><i>KenInvest does not have any subsidiaries, joint ventures or investments and therefore the standard does not apply.</i></p>
<p>IPSAS 36: Investments in Associates and Joint Ventures</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 36, Investments in Associates and Joint Ventures. The Standard prescribes for the accounting for investments in associates and joint ventures and to set out requirements for the application of the equity method when accounting for investments in associates and joint ventures. The standard shall be applied by all entities with significant influence over, or joint control of, an investee where the investment leads to the holding of a quantifiable ownership interest.</p> <p><i>KenInvest does not have investments in associates or joint ventures.</i></p>
<p>IPSAS 37: Joint Arrangements</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 37, Joint Arrangements. IPSAS 37 establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly</p> <p><i>KenInvest does not have an interest in a joint arrangement and therefore the standard does not apply</i></p>
<p>IPSAS 38: Disclosure of Interests in Other Entities</p>	<p>(Effective for annual periods beginning on or January 1, 2017)</p> <p>In January 2015, the IPSASB published IPSAS 38, Disclosure of Interests in Other Entities. IPSAS 38 requires an Authority to disclose information that enables users of its financial statements to evaluate the nature of and risks associated with, its interests in controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.</p> <p><i>KenInvest does not have any interests in other entities and therefore the standard does not apply.</i></p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 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.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: 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

The Authority did not early – adopt any new or amended standards in year 2017.

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 Authority and can be measured reliably.

ii) Revenue from exchange transactions

Rendering of services

The Authority recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably.

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

Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, usually on delivery of the goods and when the amount of revenue can be measured reliably and it is probable that the economic benefits or service potential associated with the transaction will flow to the Authority.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

b) Budget information

The original budget for FY 2016-2017 (KShs 230 million recurrent and KShs 200 million) was approved by the Parent Ministry in July and September, 2016 respectively. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities. The revised appropriations are adjusted from the original budget by the Authority upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Authority recorded revised appropriation of KShs 225 million on recurrent allocation and KShs 100 million on Development allocation following communication from the parent ministry in June, 2017.

The Authority'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 section XV of these financial statements.

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses). Cost 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 Authority 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.

The Authority uses the reducing balance method of depreciation at the following rates:

- Motor Vehicles – 25%
- Furniture & Fittings – 10%
- Computers and Office Equipment – 30%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

d) Provisions

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

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

e) Nature and purpose of reserves

The Authority creates and maintains reserves in terms of specific requirements. Authority to state the reserves maintained and appropriate policies adopted.

f) Changes in accounting policies and estimates

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

g) Employee benefits

Retirement benefit plans

The Authority provides retirement benefits for its employees and directors. Defined contribution plans are post-employment benefit plans under which an Authority pays fixed contributions into a separate Authority (a fund), and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

h) 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.

i) Related parties

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

j) 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.

k) Comparative figures

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

5. SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Authority'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.

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 Authority 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 Authority. Such changes are reflected in the assumptions when they occur. IPSAS 1.140.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Authority
- 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

l) 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, 2017.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1. Transfers from other governments

Description	2016-2017	2015-2016
	KShs	KShs
Unconditional grants		
Regional Investment Integration Programme (RIIP)	13,000,000	13,800,000
Total grants	13,000,000	13,800,000

1 b) Transfers from Ministries, Departments and Agencies

Name of the Authority sending the grant	Amount recognized to Statement of Comprehensive Income	Amount deferred under deferred income	Amount recognised in capital fund.	Total grant income during the year	2015-2016
	KShs	KShs	KShs	KShs	KShs
State Department of Industry and Investment	225,000,000	-		225,000,000	248,512,500
State Department of Industry and Investment	20,000,000	-	80,000,000	100,000,000	23,700,000
Deferred Income					65,000,000
Total	245,000,000	-	80,000,000	325,000,000	337,212,500

2. Other income

Description	2016-2017	2015-2016
	KShs	KShs
KIICO Income	-	9,080,278
Miscellaneous Income	28,069,292	1,261,627
Commission Income	49,098	48,209
Total other income	28,118,390	10,390,114

3. Employee costs

	2016-2017	2015-2016
	KShs	KShs
Basic Salaries	81,873,670	79,583,724
House Allowances	28,721,097	28,694,000
Other Personal Emoluments	13,334,585	13,457,849
Leave Allowances	1,740,000	1,660,000
Other Cash Allowances	13,144,452	5,207,261
Pension Contributions	14,123,792	14,975,129
Medical Expenses	10,225,830	11,599,939
Employee costs	163,163,426	155,177,902

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. Remuneration of directors

Description	2016-2017	2015-2016
	KShs	KShs
Chairman's Honoraria	1,044,000	949,936
Sitting Allowances	3,436,000	3,180,000
Seminars and Workshops	1,543,505	1,081,256
Travel Costs and Subsistence Allowances	692,530	1,645,345
Other Costs	797,965	217,104
Total director emoluments	7,514,000	7,073,641

5. Depreciation and amortization expense

Description	2016-2017	2015-2016
	KShs	KShs
Motor Vehicle	831,197	1,108,262
Computer and Equipment	3,097,677	3,617,396
Furniture and Fittings	5,952,660	6,614,067
Total depreciation and amortization	9,881,534	11,339,725

6. Repairs and maintenance

Description	2016-2017	2015-2016
	KShs	KShs
Motor Vehicles	1,275,699	1,407,688
Other Assets	578,583	545,342
Total repairs and maintenance	1,854,282	1,953,030

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7. General expenses

Description	2016-2017	2015-2016
	KShs	KShs
Communication Supplies and Services	3,649,758	3,763,261
Domestic Travels	735,675	927,666
County Investment Programmes Support	993,456	1,960,618
Investor Tracking, Aftercare and Policy Advocacy	307,763	1,971,700
Travel - Foreign	1,968,424	5,000,023
Investment Promotion and Marketing	1,996,904	12,360,609
National Investment Policy	432,555	
Kenya International Investment Conference	-	44,964,055
Printing Expenses	508,350	904,298
Advertising	54,000	389,400
Newspaper Subscriptions	20,430	37,994
Corporate Branding	490,274	999,748
Rent Expenses	30,516,637	29,507,826
Utilities Expenses	1,030,854	1,279,545
Training Expenses	1,494,619	2,635,363
ISO Recertification	128,295	1,188,840
Hospitality Expenses	1,053,559	1,516,905
Staff Tea	770,960	793,648
Water Expenses	306,755	327,194
Insurance Expenses	1,003,320	727,363
Office and General Supplies and services	1,797,192	2,497,814
Cleaning Services	1,922,449	1,803,818
Security Services	744,000	743,736
Fuel, Oil and Lubricants Costs	1,236,723	1,781,790
Subscriptions Expenses	100,333	219,970
Bank Charges	113,767	131,283
Audit Fees	350,000	350,000
Legal Fees	522,000	3,049,259
Total general expenses	54,249,052	121,833,726

8. Programme Costs

Description	2016-2017	2015-2016
	KShs	KShs
One Stop Centre (OSC)	9,732,855	362,049
Regional Integration Investment Programme (RIIP)	12,960,909	19,820,399
International Conferences	24,833,474	26,552,999
Total Program costs	47,527,238	46,735,447

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. Cash and cash equivalents

Description	2016-2017	2015-2016
	KShs	KShs
Current account	178,928,160	104,975,935
Petty Cash -HQS	115,561	27,883
Petty Cash-Eldoret Office	5,487	3,502
Petty Cash- Mombasa Office	7,392	16,750
Petty Cash-Kisumu office	2,520	14,800
Total cash and cash equivalents	179,059,120	105,038,870

9 (a). Detailed analysis of the cash and cash equivalents

Financial institution	Account number	2016-2017	2015-2016
		KShs	KShs
a) Current account			
Co-operative Bank of Kenya	01120006651800	178,928,160	104,975,935
Sub- total		178,928,160	104,975,935
b) Others (Cash -in - Hand)			
Petty Cash -HQS		115,561	27,883
Petty Cash-Eldoret Office		5,487	3,502
Petty Cash- Mombasa Office		7,392	6,750
Petty Cash-Kisumu office		2,520	14,800
Sub- total		100,960	62,935
Grand total		179,059,120	105,038,870

10. Receivables from exchange transactions

Description	2016-2017	2015-2016
	KShs	KShs
Current receivables		
Staff Imprest	486,438	1,475,469
Prepayments	-	28,013
Total current receivables	486,438	1,503,482
Total receivables	486,438	1,503,482

11. Deposits

The deposits mentioned herein relate to fuel deposit held by National Oil Corporation of Kenya the providers of the Authority's fuel.

Description	2016-2017	2015-2016
	KShs	KShs
Deposits	400,000	400,000
Total Deposits	400,000	400,000

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

12. Property, plant and equipment

Cost	Motor vehicles	Furniture and fittings	Computers and Office Equipment	Capital Work in progress	Total
	KShs	KShs	KShs	KShs	KShs
At 1 July 2015	29,629,900	115,486,392	28,631,693	-	173,747,985
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Transfers/adjustments	-	-	-	-	-
At 30th June 2016	29,629,900	115,486,392	28,631,693	-	173,747,985
Additions	-	-	1,885,000	15,905,142	17,790,142
Disposals	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-
At 30th June 2017	29,629,900	115,486,392	30,516,693	15,905,142	191,538,127
Depreciation and impairment					
At 1 July 2015	25,196,851	49,345,722	16,573,704	-	91,116,277
Depreciation	1,108,262	6,614,067	3,617,396	-	11,339,725
At 30 June 2016	26,305,113	55,959,789	20,191,100	-	102,456,002
Depreciation	831,197	5,952,660	3,097,677	-	9,881,534
Disposals	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-
At 30th June 2017	27,136,310	61,912,449	23,288,777	-	112,337,536
Net book values					
At 30 th June 2017	2,493,590	53,573,942	7,227,916	15,905,142	79,200,590
At 30 th June 2016	3,324,787	59,526,603	8,440,593	-	71,291,982

The Authority operates the Pastel Evolution Accounting System whose value has been fully depreciated.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. Trade and other payables from exchange transactions

Description	2016-2017	2015-2016
	KShs	KShs
Trade payables	4,763,337	678,228
Audit Fees	350,000	350,000
Staff claims	58,600	4,250
Total trade and other payables	5,171,937	1,032,478

14. Cash generated from operations

	2016-2017	2015-2016
	KShs	KShs
Surplus for the year before tax	1,928,858	17,289,143
Adjusted for:		
Depreciation	9,881,534	11,339,725
Working Capital adjustments		
Decrease in receivables	983,579	115,851,701
Increase in deposits	-	160,000
Increase in payables	4,172,924	(74,278,037)
Increase in cash transferred to Capital fund	74,843,497	-
Net cash flow from operating activities	91,810,392	70,362,532

15. Financial Risk Management

The Authority's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company'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 company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The company's financial risk management objectives and policies are detailed below:

(i) Credit risk

The Authority 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 Authority's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

	Total amount KShs	Fully performing KShs	Past due KShs	Impaired KShs
At 30 June 2017				
Receivables from exchange transactions	486,438	486,438	-	-
Bank balances	178,928,160	178,928,160	-	-
Total	179,414,598	179,414,598	-	-
At 30 June 2016				
Receivables from exchange transactions	1,503,482	1,503,482	-	-
Bank balances	105,038,870	105,038,870	-	-
Total	106,542,352	106,542,352	-	-

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 Authority has significant concentration of credit risk on amounts due from its bank.

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

(ii) Liquidity risk management

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

The table below represents cash flows payable by the company 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 Kshs	Between 1-3 months Kshs	Over 5 months Kshs	Total Kshs
At 30 June 2017				
Trade payables	-	5,171,937	-	5,171,937
Total	-	5,171,937	-	5,171,937
At 30 June 2016				
Trade payables	-	1,032,478	-	1,032,478
Total	-	1,032,478	-	1,032,478

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Financial Risk Management (Continued)

(iii) Capital Risk Management

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

	2016-2017		2015-2016
	Kshs		Kshs
Accumulated Surplus	106,524,838		177,201,856.00
Capital reserve	147,843,497		-
Total funds	254,368,335		177,201,856.00
Less: cash and bank balances	(179,029,120)		(105,038,870.00)
Net debt/(excess cash and cash equivalents)	75,339,215		72,162,986.00
Gearing	30%		41%

16. Related Party Balances

a) Nature of related party relationships

Entities and other parties related to the Authority 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.

The Authority is related to:

- i) The National Government;
- ii) The Parent Ministry;
- iii) The Board of Directors;
- iv) The Managing Director; and
- v) The General Managers (Senior Management).

b) Related party transactions

Description	2016-2017	2015-2016
	KShs	KShs
Transfers from related parties'	325,000,000	272,212,500
Transfers to related parties	-	-
Total	325,000,000	272,212,500

c) Key management remuneration

Description	2016-2017	2015-2016
	KShs	KShs
Managing Director (1)	15,782,400	8,640,000
General Managers (4)	18,182,196	14,910,028
Total	33,964,596	25,550,028

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17. Contingent liabilities

Kenya Investment Authority Staff Pension Scheme previously referred to as Investment Promotion Centre Pension the Kenya Investment Authority (sponsor) of the Kenya Investment Authority Pension Scheme has an outstanding pension remittance issue for the period August 1992 to July 1994. The remittance gap was discovered in 2012 after an audit that was sanctioned by the Board of Trustees. Since then, Trustees have engaged relevant government departments including Kenya National Archives to determine whether the sponsor had remitted pension deductions for the period in question but records cannot be traced from the institution. The scheme was non-contributory at the time. The outstanding principal amount is KShs 1,744,213.20 that has so far accumulated interest to the tune of KShs. 14, 519,066.31 as at December 2016.

18. Capital Commitments

Capital commitments	2016-2017	2015-2016
	KShs	KShs
Authorised and contracted for	144,427,766	-
Total	144,427,766	-

19. Events after the reporting period

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

20. Ultimate and Holding Authority

The Authority is a State Corporation under the Ministry of Industry, Trade and Co-operatives. Its ultimate parent is the Government of Kenya.

21. Currency

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

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XVII. 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.	<p>During the year under review, the Authority paid a total of KShs 6,671,718 being accrued interest and legal fees on an invoice of KShs 217,152 for a consultancy service for the development of an investment policy framework by a local consultancy firm. The amount was due on 8 January 2011 failure to which interest was charges at the rate of 3% per month on the outstanding balance according to the signed contract. The supplier took the matter to court and was awarded an amount of KShs 6,316,581 which attracted an interest of KShs 55,137 on 10th May 2015, KShs 300,000 billed in respect of auctioneers and further KShs 2,884,259 paid as final settlement of the case all totaling KShs 9,200,840 which excludes KShs 696,000 Legal fees by the Authority's contracted lawyers (which is still in dispute).</p> <p>Further, there was delay on the part of the Authority in issuing instructions to its lawyers on the next cause of action even after being reminded that the interest was accruing hence total bill escalated to KShs 10,251,977. The Authority also failed to heed the advice of its lawyers that an appeal on the case was bound to fail on 28 June 2013 and a further advice from Attorney General Office on 11th October 2013 that the Authority should seek an out of court settlement since the chances of getting a favourable judgement was next to nil. From the foregoing, the Authority was negligent in signing a contract that had a detrimental clause to it.</p> <p>Consequently, due to failure to properly manage the contract, the Authority lost KShs 10,251,977 excluding undetermined legal fees to the Authority's lawyers as at 30 June 2015.</p>	<p>a) Management took action, following the Attorney General's office advise, towards out of Court settlement but our lawyers indicated that the consulting firm's lawyers were dithering on it;</p> <p>b) While the contract signed was admittedly lopsided, Management has initiated the process of recovering the lost public funds through the Inspectorate of State Corporations; and</p> <p>c) The Legal fees were settled after the lawyers agreed to lower their costs from KShs 696,000 to KShs 363,000.</p> <p>d) Report received from Inspectorate of State Corporations recommended that the former Managing Director be surcharged for the amount.</p>	<p>Dr. Moses Ikiara Managing Director Inspector General (Corporations)</p>	Not Resolved	Still Pending awaiting legal advice.

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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.	<p>Budget Performance The following expenses were noted to have exceeded the budget without adequate explanations and/or necessary approvals:</p> <ul style="list-style-type: none"> Kenya International Investment Conference (KIICO) (Variance of KShs 25,964,055 - 137%) ISO Recertification (Variance of KShs 238,840 – 25%). <p>Although the Authority explained that the over-expenditure for KIICO was sourced from reserves, there is no evidence of movement in reserves and further no supporting documents were presented for Audit to confirm the assertion. Therefore, the Authority contravened the Public Finance Management Act, 2012, section 86(a) which provides that all expenses should be planned for, voted and included in an entity's budget before any expense is incurred. Consequently, it has not been possible to confirm how the expense items were paid and accounted for without requisite budgetary provisions.</p>	<p>KenInvest undertook the 2nd Kenya International Investment Conference upon confirmation from the Parent Ministry that they would receive funding under the Tourism Recovering kitty after several meetings held. It was expected that the funds would cater for the cost of hosting the conference at Kenya International Convention Centre. However, the communication of lack of funding was received later in the financial year (June 2016 while conference was held in November 2015) which resulted in a budget deficit. This deficit was because of factors beyond our control.</p> <p>ISO Certification The expense of KShs 238,840 which had not been factored as part of the budget of 2015/2016 was taken as a pending bill and formed the first charge in the budget for 2016/2017 in accordance with PFM Act, 2012.</p>	<p>Dr. Moses Ikiara Managing Director</p>	Not Resolved	December, 2017


Managing Director

Date: 27/09/2018


Chairperson of the Board

Date: 27/09/2018

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XVIII. Appendix 1: INTER-AUTHORITY TRANSFERS

AUTHORITY NAME:		KENYA INVESTMENT AUTHORITY		
Break down of Transfers from the State Department of Industry and Investment				
FY 16/17				
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		23-09-2016	57,500,000	2016/17
		14-11-2016	57,500,000	
		07-03-2017	55,000,000	
		10-05-2017	55,000,000	
		Total	225,000,000	
b.	Development Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		07-10-2016	50,000,000	2016/17
		22-02-2017	50,000,000	
		Total	100,000,000.00	

The above amounts have been communicated to and reconciled with the parent Ministry

Finance Manager
KenInvest

Head of Accounting Unit
Ministry of Industry Trade and Cooperatives

Sign _____

Sign _____

Kenya Investment Authority
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XIX. Appendix 2: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Total Transfers during the Year
UNIDO	06-07-2016	Other Income	489,769	489,769	-	-	489,769
UNCTAD	07-11-2016	Other Income	2,370,000	2,370,000	-	--	2,370,000
The National Treasury-Regional Investment Integration Programme	08-11-2016	Other Income	6,500,000	6,500,000	-	-	6,500,000
The National Treasury-High Level Meeting 2	28-12-2016	Other Income	18,986,950	18,986,950	-	-	18,986,950
UNCTAD	09-05-2017	Other Income	599,100	599,100	-	-	599,100
The National Treasury-Regional Investment Integration Programme	29-05-2017	Other Income	6,500,000	6,500,000	-	-	6,500,000
Total			35,445,819	35,445,819	-	-	35,445,819

