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PRIVATIZATION COMMISSION

Enhancing Kenya's Productive Capacity

REGULATORY AND OTHER NON-COMMERCIAL ENTITIES
PRIVATIZATION COMMISSION

ANNUAL REPORT AND FINANCIAL STATEMENTS



FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2016

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

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PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

PROFILE

I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

Privatization Commission is a state Corporation established under the, Privatization Act, 2005. The Commission is headed by non- executive Board of Directors and has an Executive Director/CEO who oversees the day to day operations of the Commission.

(b) Principal Activities

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

- Formulate, manage and implement the Privatization Programme;
- Make and implement specific proposals for privatization in accordance with the Privatization Programme;
- Carry out such other functions as are provided for under the Privatization Act; and
- Carry out such other functions as the Commission considers advisable to advance the Privatization Programme

The Commission began its operations in February 2008.

i) The Vision

A world class Privatization Agency, innovatively transforming public enterprises for accelerated economic growth.

ii) The Mission Statement

To unlock the potential of public enterprises through a well-designed Privatization Programme to meet desired national objectives.

iii) The CORE VALUES

To achieve the vision and mission, we are guided by the following core values:

Integrity

We employ the highest ethical standards, demonstrating honesty and fairness in every action that we take.

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Transparency

We are open in our decisions and actions.

Accountability

We take full responsibility for our actions that relate to our customers and fellow workers. We take responsibility for our performance in all our decisions and actions.

Professionalism

We uphold professional ethics in discharging our mandate.

Fairness

We act justly, respect people, respect privacy, minimize harm and keep our promises.

Inclusiveness

We involve stakeholders in decision making.

iv) Key Management

The Privatization Commission's day to day management is undertaken by the ED/CEO who is assisted by a team comprising of Chief Managers, Managers and Officers.

v) Fiduciary Management

The Board Members who held office during the financial year ended 30th June 2016 and who had direct fiduciary responsibility are listed in page v.

vi) Fiduciary Oversight Arrangements

The oversight role is vested in the following;

- Commission Board
- National Treasury
- National Assembly and
- Cabinet

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vii) Privatization Commission Office

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

viii) Privatization Commission Contacts

Tel: +254 20 221 23 46/7/8
+254 20 260 60 05
+254 731 758 970
+254 719 430 456
Fax: +254 20 221 22 37
Email: info@pc.go.ke
Website: www.pc.go.ke

ix) Privatization Commission Bankers

Kenya Commercial Bank
University Way Branch
NAIROBI, KENYA

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

x) Independent Auditors

Auditor General
Kenya National Audit Office
Anniversary Towers, University way
P O Box 30084
GPO 00100
NAIROBI, KENYA

xi) Principal Legal Advisor

The Attorney General
Office of the Attorney General & Department of Justice
Harambee Avenue
P O Box 40112
City Square 00200
NAIROBI, KENYA

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II. THE BOARD OF DIRECTORS

NAME, KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS AND WORK EXPERIENCE



HON. HENRY OBWOCHA, EGH – CHAIRMAN

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

U.K.

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

Hon. Obwocha has been involved in many company secretarial meetings, investment meetings within Treasury and has led Kenyan delegations to various international meetings and conferences.

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

Date of Birth: 28th June 1949

Date of Appointment: 27th April, 2015

Term of Office: 1st

Other Public institutions Directorship: none



MR. HENRY ROTICH

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

Prior to this appointment, Mr. Rotich was the Head of Macroeconomics at The Treasury, Ministry of Finance, since March 2006. Under this capacity he was involved in formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the area of fiscal and financial sector.

Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya since 1994. Between, 2001-2004, he was

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NAME, KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS AND WORK EXPERIENCE

attached to the International Monetary Fund (IMF) local office in Nairobi as an Economist.

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

DOB: 1969



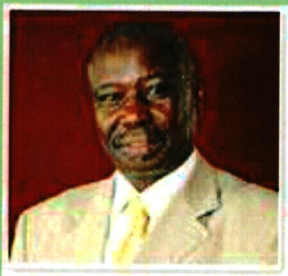
HON. PROF. GITHU MUIGAI

Prof. Githu Muigai was appointed as Attorney-General of the Republic of Kenya on 29th August, 2011, and is the principal legal adviser to the Government. He holds LL.B degree from the University of Nairobi and an LL.M degree from Columbia University School of Law, New York. He earned his Ph.D. from the University of Nairobi.

He is also a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. He was called to the bar in 1985. In addition to the practice of law, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He is also a specialist in Public Law and trans-national legal practice. He is a recognized authority on business regulatory matters and in international commercial arbitration.

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

DOB: 1960



MR. JOHN K. KENDUIWO

John Kenduiwo is a Senior Lecturer at the School of Business, Department of Management Science, University of Nairobi, and previously served as the Dean of the School for 10 years. He holds a Bachelor of Science (Mechanical Engineering) and Master of Business Administration (Operations Management) degrees from the University of Nairobi.

He is currently on secondment as the Managing Director, University of Nairobi Enterprises and Services Limited. He is a Member of the Board of Directors of Transnational Bank Limited and chairs the Board's Finance & Strategy Committee. At the Kenya Red Cross Society, he is a Council Member, Member of the National Executive Committee, and chairs the National Audit Committee. He has also previously served in other Boards, and is a Full Member of the Kenya Institute of Management (MKIM).

Date of Birth: 8th September 1956

Term of Office: 2nd from 19th September, 2012 to 18th Sept 2015.

Other Public Institution's Directorship: None

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NAME, KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS AND WORK EXPERIENCE



MRS. PATRICA ADALA

Mrs. Adala holds Bachelor of Arts (Economics), Bachelor of Philosophy (Economics) and Master of Arts (Economics) degrees from the University of Nairobi.

Mrs. Adala started her career in Government as a Planning Officer in the Ministry of Planning and Economic Development and thereafter held various senior positions in public institutions including the Kenya Tourist Development Corporation where she served as a Projects Manager and in Kenya Airways, as

General Manager Marketing. Mrs. Adala has previously served on the Board of the Kenya Revenue Authority. Currently she is the Executive Director of Raydoll Tours and Travel and a Member of the Advisory Board of the Women Enterprise Fund.

Date of Birth: 29th December 1950

Term of Office: 2nd from 19th September, 2012 to 18th Sept 2015.

Other Public Institution's Directorship: Women Enterprise Fund



MR. BENARD A. NANDIEKI

Mr Nandieki holds a Master of Business Administration (Strategic Management) degree from the Catholic University of Eastern Africa and a Bachelor of Commerce (Marketing) degree from Daystar University. He also has a PGD from the Chartered Institute of Marketing – UK.

Mr. Nandieki had previously worked as the Regional Sales Manager - Coast, Eastern and Mountain at GlaxoSmithKline

Consumer Division. Currently he is the Country Sales Manager, Del Monte Kenya.

Date of Birth: 6th December 1970

Term of Office: 1st from 19th September, 2012 to 18th Sept 2015.

Other Public Institution's Directorship: None



MR. NGURE MWANIKI

Mr. Mwaniki holds a Master in Public Administration (Economics & Public Policy) degree from Harvard University, Diploma in Economics from the University of Colorado and a Bachelor of Arts (Economics & Government) degree from the University of Nairobi.

Mr. Mwaniki is the Founder and Director of the M. A. Consulting Group, a regional professional firm specializing in economic development and management in Sub-Saharan Africa. In this capacity, he has been responsible for the design, methodology and directorship of numerous assignments in Kenya and the region for over thirty (30) years. He previously worked as a lecturer at the University of Nairobi and at the Ministry of Finance.

Date of Birth: 4th April 1950

Term of Office: 1st from 19th September, 2012 to 18th Sept 2015.

Other Public Institution's Directorship: None

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NAME, KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS AND WORK EXPERIENCE



MR. MUGAMBI NANDI

Mr. Nandi holds Bachelor of Laws and Master of Business Administration degrees, from the University of Nairobi, a Diploma in Law & Practice from the Kenya School of Law and a Diploma in financial management from the ACCA, Mr. Nandi was admitted to the Kenyan Bar in 1997. He has over fifteen (15) years' experience as an in-house counsel and Company Secretary. He previously served as the Head of Legal and Company Secretary for the CFC Stanbic Group, Legal Counsel for the East African Development Bank, Company Secretary for Uchumi Supermarkets Limited and an Associate at Hamilton

Harrison & Mathews Advocates.

He was named Company Secretary of the Year 2011 by the Institute of Certified Public Secretaries of Kenya.

He is the Managing partner at KN Associates LLP, Advocates, where he specializes in general corporate and Commercial, Mergers and acquisitions, and energy law.

Date of Birth: 15th October 1971

Term of office: 1st From 19th September, 2012 to 18th Sept 2015.

Other Public Institution's Directorship: None



MS. BEATRICE GATHIRWA

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

Ms. Gathirwa is the Director, National Assets and Liability Management at the National Treasury. She represents the Cabinet

Secretary, National Treasury on the Boards of various state Corporation.

Date of Birth: 10th June, 1956

Term of Office: 1st from 14th October 2015

Other Public Institution's Directorship: Several

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NAME, KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS AND WORK EXPERIENCE



MS. ROSELYN AMADI

Ms. Amadi holds a Bachelor of Laws degree from the University of Nairobi and a Diploma in Law from the Kenya School of Law. She also holds a Diploma in Corporate Governance from KCA University. Ms. Amadi is a lawyer by profession and also an Advocate of the High Court of Kenya. Before retirement, she was the acting Deputy Solicitor General in the Office of the Attorney General and Department of Justice. She was also the Head of the Treaties and Agreements Department in the

Office of the Attorney General and Department of Justice. She was a Member of the Joint Railway Commission which is steering railway infrastructure in East Africa. She was also a Board Member of Serve Africa, a voluntary Christian organization mentoring graduates in integrity and leadership in society.

Date of Birth: 17th October, 1955

Term of Office: 2nd from 2008 upto 16th October 2015.

Other Public Institution's Directorship: Several

MS. LUCY AMBASI

At the time of her appointment to replace Ms. Amadi as the AG's representative, Ms. Ambasi was the Head of Legal Advisory and Research Division in the Office of the Attorney General and Department of Justice. She has also represented the Attorney General on the Boards of various state corporations.

Date of Birth: 2nd July 1966

Term of office: 1st from 17th October 2015

Other Public institution's Directorship: Several



MR. SOLOMON A. M. K. KITUNGU

Mr. Kitungu is the Commission Executive Director/Chief Executive Officer. He holds a Bachelor of Arts (Economics) degree from the University of Nairobi and a Master of Arts (Economics) from the University of Manchester, United Kingdom. He has also undertaken the Advanced Management Programme (AMP) at the University of Navarra, Spain and Strathmore Business School, Kenya.

Mr. Kitungu also has extensive training and experience in Public Sector, Parastatal and Infrastructure Reforms, PPPs, Investments and Privatization. Prior to being appointed the Executive Director/CEO in 2009, Mr. Kitungu worked in various capacities at the Ministry of Finance rising to the position of Investments Director (Reforms) in the Department of Government Investments and Public Enterprises in 2003. While working at the National Treasury, Mr. Kitungu represented the Permanent Secretary, Treasury in a number of Boards of Directors of State Corporations.

Date of Birth: 25th Sept 1961

Term of Office: 3rd from 1st April 2009 (1st appointment)




Other Public Institution's Directorship: None

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III. MANAGEMENT TEAM

NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Solomon A. M. K. Kitungu Bachelor of Arts (Economics) Master of Arts (Economics) Advanced Management Programme (AMP)- University of Navarra, Spain and Strathmore Business school, Kenya. Various management, financial, infrastructure, privatization and PPPs and investment trainings. Member, Institute of Economic Affairs</p>	<p>EXECUTIVE DIRECTOR/ CEO: Provision of leadership in the development and implementation of appropriate strategies to enhance the mission, vision and values of the Commission on all matters relating to implementation of the Commission's strategies</p>
 <p>Jacqueline Mbithe Muindi Bachelor of Laws, Master of Laws Dip. Legal Education, CPS (K) Various Professional and Management courses Member, ICPSK, Law Society of Kenya</p>	<p>LEGAL AFFAIRS Provision of sound legal advice to the Management and the Commission</p>
 <p>Virginiah Njeri Kariuki Bachelor of Science in Business Administration (Management & Accounting) Master of Business Administration (Strategic Management), CPA (K), CPS Finalist, Senior Leadership Programme (SLP), Certified Balanced Score Card Professional (BSP). Various professional and management courses. Member, ICPAK and AWAK</p>	<p>FINANCE & ACCOUNTS Provision of Finance and Accounting services to the Commission. In charge of Performance Contract Reporting at the Commission</p>

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NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Gideon Kyalo Muinde Bachelor of Arts (Sociology) Master of Business Administration (Strategic Management) Higher Dip. HR Management, Post Graduate Programme for Management Development (PMD) professional Qualification, Certified Balanced Score Card Professional (BSP). Various professional and management courses Member, Institute of Human Resource Management</p>	<p>HUMAN RESOURCES & ADMINISTRATION Responsible for overall management of Human Resource and Administrative services in the Commission</p>
 <p>Rosemary Nduku Ndiritu Bachelor of Commerce (Accounting) Master of Business Administration CPA (K), Corporate Finance UK qualification (CF) Various Management and professional courses. Member, ICPAK, Association of Financial Analysts (AFA), Institute of Investment Professional EA (IIP-EA)</p>	<p>TRANSACTIONS Assist the CEO/Chief Manager, Transaction in managing a number of privatization transactions</p>
 <p>Charles Odhiambo Ochola Bachelor of Arts (Economics) Master of Business Administration (Finance), Diploma Marketing Management, CFA1. Various Professional and Management courses</p>	<p>TRANSACTIONS Assist the CEO/Chief Manager, Transaction in managing a number of privatization transactions</p>

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NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Bessie Valerie Atieno Bachelor of Arts (Language and Literary Studies) Master of Arts (Communication Studies-Corporate Communication), Post Graduate Diploma in Mass Communication. Various professional and Management courses. Member, Public Relations Society of Kenya; Association of Media Women in Kenya</p>	<p>CORPORATE AFFAIRS Assists the CEO in the formulation and execution of a sound communication strategy for the Commission</p>
 <p>Douglas Mutuku Mutua Douglas holds a Bachelor of Arts degree in Economics and Sociology from the University of Nairobi and CIPS Level 6 qualifications. He is a registered member of the Kenya Institute of Supplies Management and the Chartered Institute of Procurement and Supply. He is currently pursuing a Master of Science degree in Procurement and Logistics</p>	<p>PROCUREMENT Responsible for ensuring quality, effective and proactive procurement support services for the Commission</p>

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

IV. CHAIRMAN'S STATEMENT

Background Information

Pursuant to the provisions of Sections 15 and 16 of the Privatization Act, 2005, I am happy and honoured to present the Privatization Commission's Annual Report for the period ended 30th June 2016.

Economic Environment

Kenya's GDP growth rate for 2015 was 5.6 percent and is projected to rise to 5.9 percent in 2016 and 6.1 percent in 2017. The positive outlook is largely predicated on infrastructure investments.

Sound monetary policy restored stability in the currency markets and contained the 12-month average overall inflation at 6.6 percent in December 2015. The Central Bank effectively managed currency volatility by running down Forex reserves to cushion the shilling. This intervention stabilized the Kenya shilling, reducing the depreciation of shillings to a moderated level compared with other regional currencies. However, driven by the cost of food Kenya's inflation year-on-year increased by 5.8 percent in June 2016, accelerating from a 5 percent rise a month earlier.

Strategy

While an earlier Cabinet decision to hold implementation of privatization transactions in abeyance in line with the Report by the Presidential Task Force on Parastatal Reforms remained in place, the year started with significantly high level of activity following approval of the privatization of five public sector owned /controlled sugar companies.

Overview of the Results

During the first months of the year and before end of the term of the Commission Members, the Commission completed updating of due diligence work undertaken earlier and also completed a detailed review of the legal status of the land in view of a condition set out in the parliamentary approval that all ancestral land should remain under ownership of the local community. Thereafter while the Commission Members were still in place, the Commission conducted stakeholders consultations that involved meetings with all the key stakeholders including Ministries and Institutions considered critical in implementation of the approved transactions; Governors, Members of Parliament and Senators from the Sugar Factories and Cane Catchment Counties; farmers, employees and other key stakeholders at each factory; Senate Standing Committee on Agriculture, Livestock and Fisheries; Farmers organizations such as the Kenya Federations of Cane Growers and many other

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organizations. After presentations the Commissions also finalized a Stakeholders consultations report which it submitted to the National Treasury together with proposals on the next steps. In addition, the Commission also completed and published Frequently Asked Questions, summarizing all issues raised at the Stakeholders' workshops and their responses.

Following consultations, on 5th and 8th December 2015, the Commission advertised for Expressions of Interest for sale of the five public sector owned/controlled sugar companies to a Strategic Partner. The process was however initially interrupted by an application for a Judicial review by the Transition Authority which was withdrawn following intervention by the Attorney General. Thereafter, following re-advertisement for EOI the process was interrupted again by Judicial applications which remained in court at the end of the financial year. At the end of the year the issues with regard to devolvement of sugar companies had been referred to and were pending discussion by the National and County Governments Coordination Summit. Other transactions that were available for privatization during the year include three Tourism Finance Corporation Hotels approved by Parliament that had failed to attract an acceptable offer to meet the reserve price determined taking into account normal trading year hotel occupancy and financial results.

Corporate Governance

The term for the Commission members who were in place at the beginning of the year ended on 18th September 2015. This was followed by a nine months period, creating a major corporate governance gap, as there was no board nor board committees. The board was finally reconstituted with effect from 29th June 2016 when Parliament approved the names nominated for approval. Prior to the end of the Members term, the Commission had reviewed the board charter aligning it with the Mwongozo Code of Governance and also signed the code as a commitment to good governance. In addition Members had also undertaken board evaluation for the period ending 30th June 2015 and transmitted the results to the designated oversight bodies.

Emerging Issues

The Commission's ability to deliver on its vision strongly depends on finalization of approvals, continued presences of a duly constituted Board, a business environment that guarantees realization of a fair price for the Investments under the Programme and unfettered mandate and related processes with regard to the implementation of the approved Programme. Accordingly, the stalled State Owned Enterprises (SOEs) rationalization and time spent without a duly constituted board which led to one of the applications currently in the court stands out as one of exogenous factors adversely affecting implementation of the Programme.

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Way Forward

Going forward, as part its Strategic Plan formulation, the Board has identified key strategic objectives and a detailed Work Plan that seeks to enhance implementation of the Programme. The main focus in this regard includes:

- Building and retaining adequate capacity for an efficient and effective implementation of the Privatization Programme;
- Strengthening the Risk Management and Business Continuity practices at the Commission;
- Achieving an enhanced enabling legal framework in the privatization process;
- Improving on existing infrastructure, fostering innovation and preserving knowledge;
- Enhancing linkages and maintaining working relationships with stakeholders and partners; and
- Enhancing public awareness, image and perception.

As part of this strategy, the Commission has reviewed the Privatization Programme and submitted recommendations to the National Treasury some of which include review of the decision to hold all privatization transactions in abeyance, in view of the delayed implementations of the SOEs rationalization.

As per the requirement of the Privatization Act, during this period, there were no privatizations and as a result, the financial statements for the year do not carry a statement of the assets and liabilities and the proceeds from privatization of State Corporations.

I would like to thank the Commission members whose term ended in Sept 2015 for their dedication to work in the Commission, and also at the same time, extend a warm welcome to the new Team. We look forward to an accelerated implementation of the Programme as soon as the cases in court are determined and once authority is granted to proceed with implementation of the privatization of more enterprises.



**HON. HENRY OBWOCHA, EGH
CHAIRMAN**

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V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Overview

Following approval of the privatization of the five public sector owned /controlled sugar companies, the 2015/2016 financial year started with heightened focus on implementation of a number of transactions during the year. Management initiated several activities and ensured that preparatory activities were undertaken before the end of the term of the Commission including updating of due diligence work, review of the legal status of land and the organization and holding of meetings to consult key stakeholders. Management also implemented all agreed targets that were within the Commission's control and continued providing technical and administration support to the National Treasury on enterprises under the Programme.

Implementation of Privatization Programme

Most of the transactions having been affected by the decision to hold transactions in abeyance, the transaction work during the year mainly included the sugar companies and review of the feasibility of merging the public owned /controlled banks. In the absence of the Board and therefore an operational Steering Committee, the review on the banks merger stalled and was subsequently undertaken at the National Treasury. As regards the sugar companies privatization, following advertisement and re-advertisement, the transaction stalled following court applications awaiting determination with regard to reconstitution of the Commission, devolvement of sugar companies and adequacy of consultations.

Meanwhile Management redirected a lot of effort to the cases and spent a lot of time facilitating adequately informed responses.

Strategic Plan

After a successful implementation of 2013/2016 Strategic Plan, during the period under review, Privatization Commission developed a new five year Strategy for the period 2016 – 2021, whose implementation started in July 2016.

ISO Certification

During the year, the Commission continued to improve on its Quality Management System. The Commission received a positive recommendation for continued ISO 9001:2008 certification for the next three years after a successful recertification audit by the Kenya Bureau of Standards. This was in keeping with conformity to the ISO Standards and the Commission's own quality manual and

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respective departmental and sectional ISO procedures. In the financial year 2016/2017 the Commission will be migrating to ISO 9001:2015.

Performance Contracting

The Commission signed a Performance Contract with the Government of Kenya through the National Treasury. As in the other years when the Commission has consistently maintained a "very good" achievement the Commission met all the targets that were within its control.

Compliance with the Constitution and other Legislation

The Commission carried out a Legal Audit exercise using internal resources and a Governance Audit using the contracted internal audit firm. The exercises confirmed that the Commission is in full compliance with the applicable legislations.

Policies and Procedures

The Commission had in place various policies and procedures which provide guidance on the implementation of its mandate and general provision of services. Some of these policies and procedures include:

- Board Charter
- Quality manual policies and procedures
- Information Communication Technology Policy
- Service Delivery Charter
- Anti-Corruption Policy
- Human Resources Management policies
- Risk and Governance Policy
- Procurement policies and procedures manual
- Finance Management policies
- Legal policies and procedures
- Corporate Affairs policies and procedures

Challenges and Recommendations

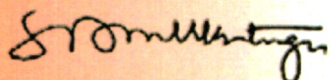
Due to the continued delay of the completion of the SOEs rationalization and related restrictions and uncertainties the Commission has continued to lose staff. This is worsened by inability to fill vacancies as necessary to ensure effective succession management and retention of the skills required to maintain continued integrity of the Commission's processes. The directive which put implementation of the transactions on hold and the related delay of the transaction and contractual outputs has resulted in low utilization of the budgeted resources.

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The Commission will continue with necessary consultations with key stakeholders to explore options that can minimize the negative impact on the Programme. In this respect, following review of the Privatization Programme, the Commission has submitted its recommendations to the National Treasury. In addition, amendments to the Privatization Act which had earlier been proposed and submitted to the National Treasury to shorten the approval process are under consideration by the National Assembly.

Conclusion

We are very grateful to the Commission Members for the continued guidance and commitment to the Commission's work and the National Treasury for its financial and administrative support. We are also grateful to the other stakeholders who contributed significantly to the Commission's work and the Commission's staff for the continued commitment and loyalty to the Commission in spite of a number of reform related uncertainties that continued during the period.



SOLOMON KITUNGU
EXECUTIVE DIRECTOR/CEO

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

VI. CORPORATE GOVERNANCE STATEMENT

1. Policy on Corporate Governance

The Commission's policy on corporate Governance is enshrined in the Revised Board Charter.

The Privatization Commission has adopted high standards and applies strict rules of conduct, based on the best corporate practices. As part of this commitment, the Commission adheres to good corporate governance by embracing the following principles:

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

The Commission's corporate governance structure aims at ensuring that the Commission's internal systems, which include policies, procedures, processes and people, serve the interests of the stakeholders and the communities within which we operate. The Commission Board is committed to ensuring that the organization's operations are run in a professional, transparent, just and equitable manner for the benefit of its stakeholders including the Kenyan public. The position of the Chairman and Chief Executive are held by different persons. The Executive Director/CEO is the Secretary to the Board and works closely with the Board to ensure that the Board discharges its mandate.

2. Board Charter

The Board Charter defines the governance guidelines within which the Board exist and operates. The Charter has been adopted by the Commission, acting in accordance with *Mwongozo, Code of Governance for State Corporations* ('the Code'), and is complementary to the requirements regarding the Commission and Members of the Commission contained in applicable Kenyan laws and regulations. In particular, the principles and policies contained in the Charter are in addition to and are not intended to change or interpret any statute, law or regulation.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

3. Appointment of the Board

Appointments to the Board are carried out pursuant to the Privatization Act. The Chairperson is appointed by the President of the Republic of Kenya while the Members of the Commission are appointed by the Cabinet Secretary National Treasury following approval by the National Assembly.

4. Composition of the Commission Board

The Commission Board comprises of eleven (11) members, including the Chairman, two ex-officio members and the Executive Director/CEO. The Board Members possess a broad range of skills, expertise, experience and knowledge essential to undertake the Commission's mandate.

5. Board Committees:

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

(i) Finance and Strategy Committee

(ii) Audit Committee

(iii) Human Resources and Risk Management Committee

(iv) Privatization Steering Committees:

- ✓ Development Bank of Kenya Limited
- ✓ National Bank of Kenya Limited
- ✓ Public Sector Owned /Controlled Sugar Companies
- ✓ Tourism Finance Corporation hotels
- ✓ Kenya Wine Agencies Limited
- ✓ Approved Kenya Ports Authority Projects
- ✓ Agro-Chemical and Food Company Limited
- ✓ Consolidated Bank of Kenya
- ✓ Kenya Pipeline Company Limited
- ✓ Isolated Power Stations
- ✓ Kenya Meat Commission
- ✓ New Kenya Co-operative Creameries Limited
- ✓ Numerical Machining Complex
- ✓ Kenya Electricity Generating Company Limited
- ✓ East African Portland Cement Company Limited

The terms of reference of the various committees are as follows:

i) Finance and Strategy Committee (FSC)

The FSC is mandated to assist the Commission Board in discharging its oversight duties with respect to the financial matters of the organization, overall strategic direction of the organization,

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

operational performance, procurement, performance contracting and organizational health.

The Committee comprises four (4) members of the Board (including the Executive Director/CEO). The quorum for the FSC is three (3) members or such number as may be determined by the Board from time to time. The Committee meets at least once every quarter and on any other dates that may be determined by the nature of the organization's operations.

The functions of the Committee are:

- Design and formulation of the Privatization Programme
- Designing and reviewing of the Commission's Corporate Strategy;
- Reviewing the Privatization Commission's financial policies and making appropriate recommendations to the Commission on issues that require strategy adjustment;
- Reviewing and recommending policies that maintain and improve the financial health, integrity and procedures to the Commission for approval;
- Reviewing and recommending a medium-term financial plan for approval by the Commission;
- Reviewing and recommending an annual operating budget and annual capital budget consistent with the medium-term financial plan and financial policies for approval by the Commission;
- Reviewing recommendations for banking and authorized signatories;
- Reviewing and recommending the performance targets under the Privatization Commission's Performance Contract for approval by the Commission;
- Reviewing and recommending the Privatization Commission's annual procurement plan for approval by the Commission;
- Reviewing the Commission's Board Charter to enhance corporate governance, ethics and achievement of the corporate objectives;

ii) Human Resources and Risk Management Committee (HRRMC)

The HRRMC is appointed by the Board primarily to consider all matters associated with the policies and practices of the Privatization Commission in relation to its Human Resources and Risk Management matters.

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The HRRMC comprises four (4) members of the Board (including the ED/CEO) and the quorum is three (3) members or such number as may be determined by the Board from time to time. The Committee meets at least once every quarter and at such other times as may be determined by the nature of the organization's operations.

The **Human Resources** functions of the Committee are:

- Examining policies and procedures on employment, extension, development and staff promotion;
- Continually examining the organization structure, core functions and staff establishment, and if necessary, making proposals for harmonization and rationalization in order to eliminate possible wastage arising from redundancy, overlaps and duplications;
- Examining the procedures for the assessment of needs for employment and staff development and procedures for staff training for operational efficiency and capacity enhancement for further development and consultancy services;
- Examining and reviewing the terms and conditions of service;
- Examining the adequacy of performance and reward system;
- Examining and reviewing staff welfare policies; and
- Proposing innovative ideas to enable the Privatization Commission to achieve its Mission, Vision and Strategic objectives.

The **Risk Management** functions of the Committee are:

- Reviewing and recommending for approval the Commission's Risk Management policies, processes and practices and assisting in ensuring that policies and processes are in place to manage the significant risks to which the Commission is exposed;
- Reviewing and recommending for approval the Commission's risk appetite and tolerances;
- Periodically reviewing enterprise-wide risk appetite and risk thresholds for validity and recommending changes as necessary;
- Assessing the results and effectiveness of the Commission's control self-assessment process;
- Overseeing the development of Risk Management key performance indicators, reporting systems and reports to help provide assurance that significant risks are being monitored, assessed and appropriately escalated;

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- Assessing risks impacting key business activities of Commission;
- Developing appropriate responses to unacceptable risks that arise on an emergency basis, either as reported by the Management's Risk and Business Continuity Committee (MRBCC) through an early warning process or when a risk indicator reaches an unacceptable level;
- Reviewing and recommending for approval, the Charter of the MRMBCC; and
- Receiving reports from the MRBCC regarding its activities and discussing matters relating to such activities including any material regulatory issues and material emerging risks to the Commission.

iii) Audit Committee

This Committee consists of four (4) Members and the quorum is three (3) members or such number as may be determined by the Commission from time to time. The Secretary of the Committee is the outsourced Internal Auditor.

The Committee meets at least once every quarter and at such other times as may be determined by the nature of the organization's operations.

The functions of the Committee are:

- Assisting the Executive Director/CEO in enhancing internal controls in order to improve efficiency, transparency and accountability;
- Reviewing audit issues raised by both Internal and External auditors;
- Resolving unsettled and unimplemented Public Investments Committee (PIC) recommendations;
- Enhancing communication between Management, Internal and External audit and fostering an effective internal audit function;
- Meeting with external auditors at least once a year;
- Deliberating on and proposing solutions for any material findings in any audit report; and
- Reviewing the quality and effectiveness of the external audit process.

iv) Privatization Steering Committees (PSCs)

The PSCs comprise of the members stipulated in Section 27 of the Privatization Act. The quorum is four (4) members or such number as may be determined by the Board from time to time. Each Steering Committee meets at such times as the business of a PSC will require.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Each PSC implements the assigned privatization on behalf of the Commission subject to any directions of the Commission.

The functions of the Committees are:

- Liaising with the Management and agreeing on the necessary work and timetable to implement the privatization project;
- Continually examining the transaction to ensure its integrity. This involves approvals including but not limited to:
 - Approval of Terms of Reference for hiring of transaction advisory services;
 - Approval of detailed privatization proposals and recommendation of the same to the Board for approval and submission to Cabinet Secretary for National Treasury for submission to the Cabinet;
 - Approval of bid documents for transaction advisory service;
 - Approval of prospectus for public offers;
 - Approval of transaction bids and recommendation to the Board for award;
 - Negotiations; and
 - Approval of allotment of shares for public offers;
- Providing general guidance to the Management on the implementation of the privatization transactions.

6. Meetings

The meetings of the Commission Board are held quarterly. Commission business is also transacted through Steering Committees' meetings as necessary. The Commission Board from time to time holds consultative meetings with the National Government, the Board and Management of the entities being privatized and other stakeholders in order to seek views on matters in relation to the various privatization transactions.

In view of the end of the term of the Board and delay in reconstituting the Commission, meetings of the Commission Board, Board Committees and Privatization Steering Committees were only held during the first quarter of the year.

Number of Commission Board Committees meetings held during the year were:

	Type of meeting	Number of Meetings (Regular)	Number of Meetings (Special)	Total meetings held during the year
1	Transactions/Steering Committee meetings	5	6	11
2	Finance and Strategy	3	2	5

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

	Type of meeting	Number of Meetings (Regular)	Number of Meetings (Special)	Total meetings held during the year
	Committee			
3	Human Resource and Risk Management	1	-	1
4	Commission Board Meeting	4	6	10
5	Audit Committee	2	-	2
6	Adhoc Committees	3	-	3
	Total	18	14	32

Number of Commission Board and Committees meetings attended by each Member:

S/No.	NAME	TYPE OF MEETING						TOTAL
		PSC	F&SC	HRRMC	AC	ADHOC	BOARD	
1.	Hon. Henry Obwocha	8	2	1	1	3	10	25
2.	Mr. John Kenduiwo	7	5	-	-	1	9	22
3.	Mr. Ngure Mwaniki	8	3	-	-	-	8	19
4.	Mrs. Patricia Adala	9	-	-	2	2	9	22
5.	Mr. Mugambi Nandi	11	-	1	-	-	10	22
6.	Mr. Benard Nandieki	10	-	1	1	-	10	22
7.	Ms. Roselyn Amadi (Rep. Attorney General)	3	2	-	1	-	7	13
8.	Mr. Ashley Toywa (Rep. Attorney General)	6	1	-	-	-	1	8
9.	Mr. Festus King'ori (Rep. CS, National Treasury)	6	3	1	2	-	3	15
10.	Mr. Joseph Kariuki (Rep. CS, National Treasury)	3	1	-	-	1	1	5
11.	Mr. Solomon Kitungu-ED/CEO(secretary to the Board)	11	5	1	2	2	10	31

7. Commission Board's Responsibilities

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

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

The Commission Board's responsibilities include amongst others:

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

8. Details about Board Members and Management Team

These have been disclosed under Section II (Board of Directors) and III (Management Team).

9. Board Performance and Remuneration

Remuneration

The remuneration of directors, individually and collectively is disclosed in Section XVI (Notes to the financial statements) Note 7.

The salaries and remuneration of the Chief Executive Officer and the Senior Management is disclosed in section XVI (Notes to the financial statements) Note 6.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Board Evaluation Results

The term of the Board ended on 19th September 2015 and new appointments were made on 29th June 2016 hence it was not possible to carry out a full Board evaluation for the period under review.

10. Code of Ethics and Conduct and Whistle-Blowing Policy

The Commission reviewed its Code of Conduct and also developed a Whistle-Blowing Policy both of which were reviewed by the EACC and approved by the Commission Board. The Whistle-Blowing Policy encourages persons who have reason to believe that a Board Member or employee has not acted in accordance with the Code of Conduct and normal integrity standards to bring the matter to the relevant authority or the appropriate government agency without risking retaliation. The Code of Conduct was signed by all members of staff. The policies are available on the Commissions' website www.pc.go.ke

11. Conflict of Interest, Disclosure and Purchase of Shares

The Commission Board is cognizant of the prevalence of instances in which conflict of interest could arise, least, not being in matters of purchase of shares of companies or entities being privatized. The Commission Board has thus put in place measures to avoid such instances. These are:

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

The Board Charter which sets out the requirements is available on the Commissions' website www.pc.go.ke

11. Separation of Roles and Responsibilities

The roles of the Chairman and the Executive Director/CEO are separate and their responsibilities clearly defined. The Chairman provides overall leadership to the Commission without limiting the principles of collective responsibility for

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Commission decisions. The Commission Board's authority for conduct of day to day business has been delegated to the Executive Director/CEO by the Privatization Act, 2005.

12. Key Stakeholder Groups

The Commission identifies stakeholders as individuals, groups or institutions that may be affected by the strategic choices made by the Commission or those who can affect the outcome of the proposed strategies. Based on the Commission's mandate, all our stakeholders can expect good governance, transparency, accountability and efficient management of the Privatization Programme.

The Commission's main stakeholders are summarized in the table below:

- Parliament
- National Treasury
- County governments
- Ministry responsible for Investments identified for Privatization
- Investing public
- Government investments Identified for Privatization
- Regulatory Agencies
- Kenyan Public
- Kenya National Audit Office
- Media

The outcome of stakeholder engagements conducted during the period under review is as follows:

Stakeholder	Nature of stakeholder engagement	Outcome
Parliament	<ul style="list-style-type: none"> • Stakeholders consultations at a meeting held with Governors, Senators and Members of Parliament from the factory and Cane catchment Counties. • Presentation to Senate Committee on Agriculture , Livestock and Fisheries • Sharing of report on stakeholders consultations • Appearance before the Implementation Committee of Parliament. • Submission of required information • Participation in review of reports and preparation of detailed proposals • Presentation of report on privatization of public sector owned/controlled sugar companies 	<ul style="list-style-type: none"> • Continued support for the programme
National Treasury	<ul style="list-style-type: none"> • Meetings to make information and seek guidance • Request for statutory and other approvals. 	<ul style="list-style-type: none"> • Opening of stakeholders workshops • Appearance at

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Stakeholder	Nature of stakeholder engagement	Outcome
	<ul style="list-style-type: none"> Submission of statutory and other reports 	National Assembly <ul style="list-style-type: none"> Submission of report to the National Assembly Approval of annual budget Appointment of Commission Members in June 2016
Ministry responsible for Investments identified for Privatization	<ul style="list-style-type: none"> Attendance and participation in Steering Committee meetings Presentations to Cabinet Secretaries and Principal Secretaries 	<ul style="list-style-type: none"> Participation in stakeholders meetings Submission of required information Participation in review of reports and preparation of detailed proposals
Government investments Identified for Privatization	<ul style="list-style-type: none"> Attendance of Steering Committee meetings Sensitization and other Stakeholders forums 	<ul style="list-style-type: none"> Participation in stakeholders meetings Submission of required information Participation in review of reports and preparation of detailed proposals
Regulatory Agencies	<ul style="list-style-type: none"> Meeting with consultants and Management. Attendance of technical and Steering Committee meetings when invited 	<ul style="list-style-type: none"> Guidance and Authorization
Kenyan Public	<ul style="list-style-type: none"> Meeting with identified stakeholders. Sharing of information through the media 	<ul style="list-style-type: none"> Consensus building Eliminating negative reports
Kenya National Audit Office	<ul style="list-style-type: none"> Statutory audit of Commission's books of accounts 	<ul style="list-style-type: none"> Timely audits
Media	<ul style="list-style-type: none"> Information sharing 	<ul style="list-style-type: none"> Fair and objective coverage

13. Key Organizational Risks

Key risks to which the Commission is exposed to is disclosed in section XVI (Notes to the financial statements) Note 2S.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

14. Management Discussion and Analysis

These are disclosed in the Chairman's and Executive Director's Statements. The ongoing delay in completion of the State Owned Enterprises rationalization has a material negative effect on the implementation of the Programme and financial condition and results of operations of the enterprises identified to be privatized.

15. Compliance with and Applicable Reporting Standards

The financial statements have been prepared in compliance with the applicable reporting standards. There is no deviation from the applicable financial policy. This is disclosed in Section XVI Note 1 .

16. Related Party Transaction

This is disclosed in Section XVI note 2(k) and 25.

17. Corporate Citizenship

The goal of CSR at Privatization Commission is to embrace responsibility for the Commission's actions and encourage a positive impact through its activities on the environment, customers, employees, suppliers and all other members of the public.

The Commission is firmly committed to the view that good corporate responsibility practice and responsible behaviour are integral parts of developing a growing and sustainable organization. The Commission is therefore committed to conducting its business responsibly and in the best interests of our customers, employees, the society and the environment.

CSR activities undertaken during the year are disclosed in section VII corporate Social Responsibility statement.

18. Procurement Policy

All procurements at the Commission were undertaken in accordance with

- The Public Procurement and Asset Disposal Act, 2015(from 8th January 2016);
- The Public Procurement and Disposal Act, 2005 (upto 7th January2016);
- The Public Procurement and Disposal Regulations, 2006
- Relevant Legal notices issued by the Treasury Cabinet Secretary; and
- Relevant guidance issued by the Public Procurement and Regulatory Authority (PPRA).

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

19. Top Ten Contracts of the Organization in terms of Value

The following are the top ten contracts awarded by the organization during the period:

FIRM AWARDED	AMOUNT - KES	ITEM DESCRIPTION
M/s Engage Communications	32,190,000	Provision of Public Relations consultancy services
M/S Dyer and Blair	14,732,630	Transaction advisory services of privatization of the public sector owned sugar companies
M/S Telkoms Kenya Ltd	6,383,026	Annual office rent
M/s KPMG Advisory Services Ltd	4,000,000	Provision of Enterprise Risk Management Consultancy services
M/s Mazars	2,094,960	Provisions of consultancy services for internal audit services
M/s Kenya Airways	1,963,297	Provision of return air tickets
M/s Jubilee Insurance Company Limited	1,525,828	Provision of staff medical insurance policy for 12 months upto 30 th October 2016
M/s Extreme Computing Solutions	1,092,996	Supply and delivery of calling cards
M/s Kenya Railways Corporation	864,000	Provision of parking space for commission staff
M/s Kleansley Hygiene Plus Limited	732,192	Provision of comprehensive cleaning, fumigation and sanitary bins services for 12 months

20. Number of Legal Challenges to Procurement

There were no legal challenges to procurement during the financial year 2015/16.

21. Compliance with Laws, Regulations and Standards

The Commission conducted two (2) internal audits to monitor compliance with laws and regulations.

In addition under its quality standards, the Commission conducted two (2) internal quality audits and invited the Kenya Bureau of Standards to conduct one surveillance audit to establish level of compliance with ISO 9001:2008 quality standard.

All the audits established that the Commission was complying with laws, regulations and standards.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

22. Sustainability Reporting

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

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VII. CORPORATE SOCIAL RESPONSIBILITY & SUSTAINABILITY STATEMENT

A. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

As an organization, we acknowledge our responsibility to the environment and to all the stakeholders with whom we work and do business. The Commission actively encourages our staff to recognize those responsibilities and behave in a responsible manner toward the society in which we function.

In the 2015 - 2016 financial year, the Commission participated in the following:

Kenya Community Centre For Learning (KCCL) Annual Charity Walk

KCCL is a non-profit community school providing alternative education for students aged between 6 and 21 years with diverse learning challenges. The School was borne out of a desperate need by parents of special needs children who needed to do something different for their children's education.

KCCL organized their Annual Charity Walk on 17th October 2015 to raise funds and create awareness about learning disabilities which is listed as a disability by the National Council for People with Disabilities. The Commission was a Bronze Sponsor with a donation of **Ksh.100,000.00**

Lions Sight-First Eye Clinic – Sponsorship For Eye Check-Up At City Primary School, Ngara

The Lions Sight First Eye Clinic is a hospital that offers solutions for individuals with vision problems. It is run on a charitable basis and has an outreach team that visits schools and screens students for eye ailments. Poor vision affects academic performance and is a major contributor to the drop-out rate from school due to the fact that over 60% of learning is visually based.

Lions Clinic requested us to sponsor an eye screening camp aimed at restoring sight to needy children in a low income public school of our choice. The Commission approved and allocated a sponsorship amount of **Ksh.300,000.00** to the Lions SightFirst Eye Clinic in an event that combined CSR, Environmental Sustainability and Disability Mainstreaming activities.

The Commission selected City Primary School in Ngara and on 30th March 2016, participated in CSR activities which combined screening of the pupils for eye ailments, Environmental Sustainability through planting of trees and Disability Mainstreaming as the School has integrated a mental health unit.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Our staff were taken through the various activities the pupils in the unit engage in, which include poultry keeping, beadwork and rabbit keeping.

Kenya Freedom From Hunger Council

The Kenya Freedom from Hunger Council (KFFHC) was established with the main function of supplementing the Government's efforts in the fight against hunger and malnutrition. KFFHC organizes the Annual Freedom from Hunger Walk (AFFHW) since 1970 to raise funds to facilitate community-based food security projects. This year's walk was held on Saturday, 28th May, 2016 and PC was a part of the event as a sponsor with a donation of **Ksh.200,000.00**.

Parliament of Kenya – National Prayer Breakfast

The Commission sponsored the National Prayer Breakfast Committee with a donation of **Ksh.200,000.00** that went towards the National Prayer Breakfast that was held on 26th May 2016.

Wells Of Hope Centre

Wells of Hope Centre started its operations as a Community Based Organization in October 2011 and was registered by the Ministry of Gender, Culture and Social Services in July 2012. It runs its operations in Westlands Constituency and currently has branches in Kangemi and Kibagare. Wells of Hope Centre mission is to bring hope and transform lives of children in disenfranchised communities by empowering them and equipping them to meet spiritual, social, emotional and education needs in a sustainable way. The Commission donated books and playground equipment worth **Ksh.119,052.00**.

Mater Heart Run

The Mater Heart Run is an annual event organized by the Mater Hospital to raise funds towards treatment of heart ailments affecting children. The 2016 Heart Run took place on 21st May 2016. The Commission was a Gold Sponsor up to a tune of **Ksh.250,000.00**.

2015 Standard Chartered Nairobi Marathon

The 13th edition of the Standard Chartered Nairobi Marathon was held on Sunday, 25th October 2015. The proceeds from the race go towards the *Seeing is Believing* initiative, where funds are raised for the eradication of avoidable blindness in children below the age of nine years. The Commission was represented at the event by a number of staff members.

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Apprenticeship/Internship Programme

The Commission engaged three interns and three industrial attaches under the Corporate Social Responsibility education pillar. The interns were engaged in ICT, Procurement, Finance and Accounts sections.

B. SUSTAINABILITY STATEMENT

The Commission endeavours to be a sustainable entity. Sustainability is about ensuring long term business success while contributing towards economic and social development, a healthy environment and a stable society.

Sustainability is anchored on the 3Ps i.e. Planet, People and Profit and is a creation of value for a wide range of stakeholders, including employees, customers, suppliers, communities and the Government, with particular consideration for the needs of future generation.

The global importance of sustainability is reflected in changing customer expectations and emerging national and international legislation.

Sustainability at the Commission encompasses three dimensions:

- i. **Profit:** Financial stability of the Commission and creating value for its clients. In the case of the Commission, this would involve ensuring individual and institutional investors get value for their money when they take part in privatization transactions, and the realization of the desired benefits of privatization;
- ii. **Planet:** Environmental sustainability through protection of natural resources as encompassed in the Commission's Environmental Sustainability Policy; and
- iii. **People:** Social sustainability through welfare of communities as well as employees. The Commission ensures that it remains a noble corporate citizen by carrying out quarterly CSR activities pegged on health, education, humanitarian intervention and health.

The following environmental activities were undertaken during the year:

Environmental Sustainability Planning

The Environmental Sustainability Audit Report for 2014/15 was submitted to NEMA during the first quarter.

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Pollution Control

The Commission procured and installed 3 waste segregation bins and developed an e-Waste Management Policy.

Environmental Ecological Enhancement

The Commission supported City Primary School to plant 20 trees around the school compound.

Environmental Education and Awareness

The following was implemented:

- The planting of 20 trees around the City Primary School compound on 30th March 2016;
- 17 staff members were sensitized on Environmental Conservation measures on 23rd March 2016; and
- The Commission recognized Ms. Jane Gicharu as the 2015/2016 Environmental Champion on 29th June 2016.

Promoting Environmental Protection and Conservation through partnerships with stakeholders

The Commission renewed its partnership with Nature Kenya from February 2016 for one year.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

VIII. REPORT OF THE DIRECTORS

The Board of Directors hereby submit this report together with the audited financial statements for the period ending 30th June, 2016 which shows the state of the Commission's affairs.

Principal Activities

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

Results

The results of the Commission for the year ended June 30, 2016 are set out on Page 1.

Board Members

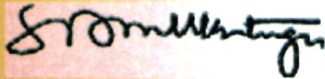
The Board Members who remained in office during the year are as follows:

- | | | |
|-------|-----------------------------|--|
| i. | Hon. Henry Obwocha, EGH | Chairman |
| ii. | Mr. Henry K Rotich | Cabinet Secretary, The National Treasury |
| iii. | Hon. Prof. Githu Muigai, | Attorney General FCI Arb, EGH, SC |
| iv. | Mr. John Kiplangat Kenduiwo | Member (upto 18 th Sept, 2015) |
| v. | Mr. Ngure Crispus Mwaniki | Member(upto 18 th Sept, 2015) |
| vi. | Mr. Benard Aruasi Nandieki | Member(upto 18 th Sept, 2015) |
| vii. | Mrs. Patricia A. O. Adala | Member(upto 18 th Sept, 2015) |
| viii. | Mr. Mugambi Nandi | Member(upto 18 th Sept, 2015) |
| ix. | Mr. Festus Kingori | Member (Rep. the Cabinet Secretary, The National Treasury) |
| x. | Ms. Roselyn Amadi | Member (Alternate to the Attorney General) |
| xi. | Mr. Solomon Kitungu | Executive Director/CEO |

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Auditors

The Auditor General is responsible for the statutory audit of Commission's books of accounts in accordance with the Section 81 of the Public Finance Management (PFM) Act, 2012.



SOLOMON KITUNGU
EXECUTIVE DIRECTOR/CEO

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

IX. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and section 15 of the State Corporations Act, require the Board Members to prepare financial Statements in respect of that entity which give a true and fair view of the state of affairs of the Privatization Commission at the end of the financial year and the operating results of Privatization Commission for that year. The Directors are also required to ensure that the Privatization Commission keeps proper accounting records which disclose with reasonable accuracy the financial position of the Privatization Commission. The Board Members are also responsible for safeguarding the assets of the privatization Commission. The Board Members are responsible for the preparation and presentation of the Commission's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on June 30 2016.

This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensure that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Board Members accept responsibility for the Commission's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates in conformity with International Public Sector Accounting Standards (IPSAS), and in a manner required by the PFM Act and the State Corporation Act. The Board Members are of the opinion that the entity's financial statements give a true and fair view of the state of Commission's transactions during the financial year ended June 30, 2016, and of its financial position as at that date. The Board Members further confirm the completeness of the accounting records maintained for the privatization commission's financial statements as well as the adequacy of the systems of internal financial control.

Going Concern

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

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

the on-going rationalization of the State Owned Enterprises may result in the mandate and operation of the Privatization Commission being taken over by the proposed Government Investment Corporation.

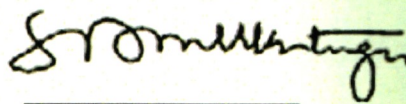
Approval of the financial statements and submission of the annual report and the financial statement

The Privatization Commission's financial statements were approved and signed by the Board Members on 29th September, 2016 and signed on its behalf by the undersigned.

The annual report and financial statements for the year 2015/16 were submitted to the Auditor General and copies sent to the National Treasury, the Controller of the Budget and Commission of Revenue Allocation on 29^h September 2016.



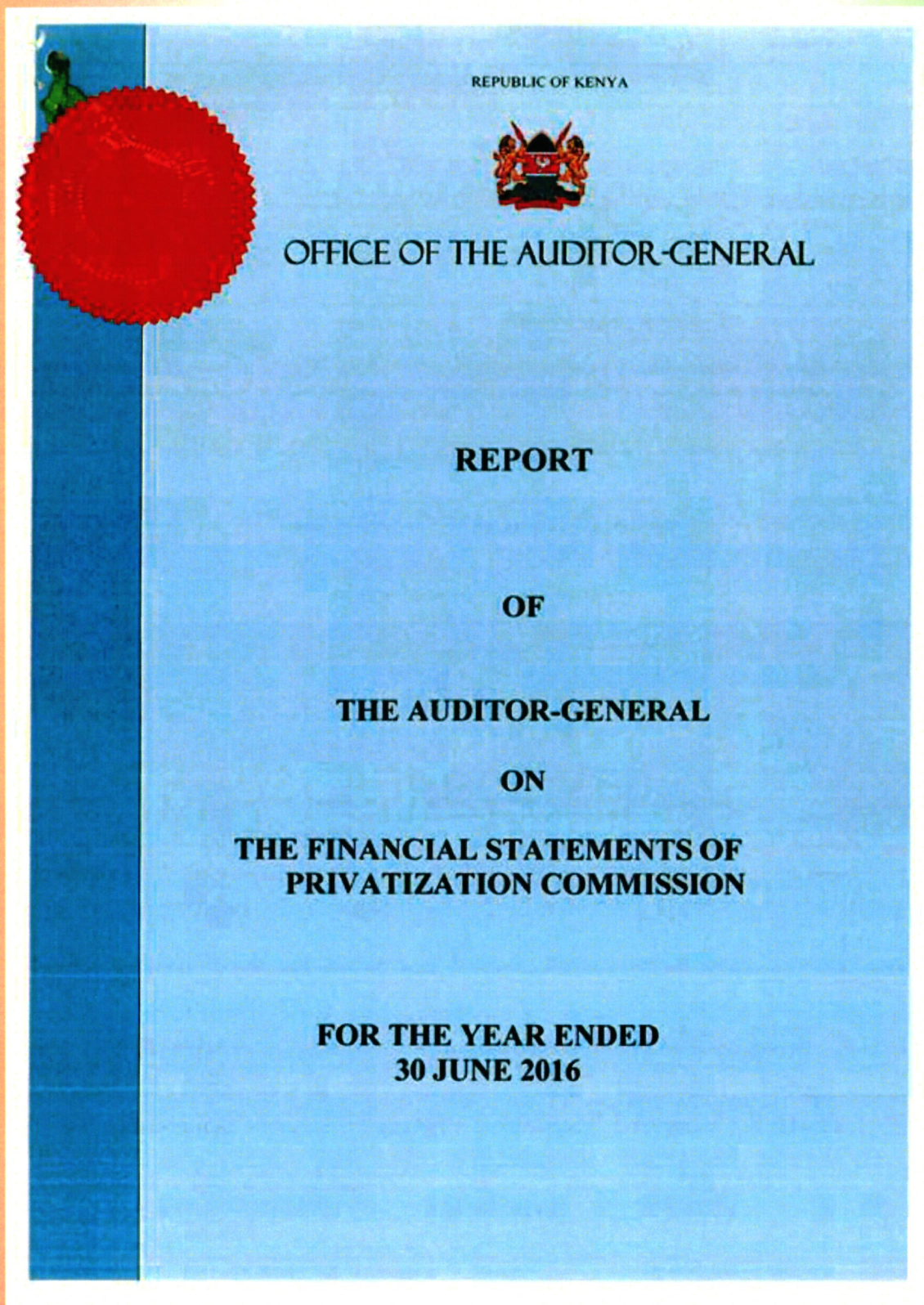
**Hon. Henry Obwocha, EGH
Chairman**



**Mr. Solomon Kitungu
Executive Director /CEO**

**PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016**

**X. REPORT OF THE INDEPENDENT AUDITORS ON THE PRIVATIZATION
COMMISSION**



REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON PRIVATIZATION COMMISSION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of Privatization Commission set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2016, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

Directors' Responsibility for the Financial Statements

The directors are 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 directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

Auditor-General's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the


Report of the Auditor-General on the Financial Statements of Privatization Commission for the year ended 30 June 2016

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Privatization Commission as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Sector Accounting Standards (Accrual Basis) and comply with the Privatization Act, 2005 of the Laws of Kenya.



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

Nairobi

17 May 2017

XI. STATEMENT OF FINANCIAL PERFORMANCE
For The Year Ended 30th June, 2016

		2015/16	2014/15
Revenue	Note	Kshs	Kshs
Revenue from non-exchange transactions			
Government Grants	3	220,000,000	220,000,000
Deferred Income	4		3,276,200
Revenue from exchange transactions			
Other revenue	5	87,350,205	65,414,050
Gain on disposal of assets	6		32,462
Total Revenue		307,350,205	288,722,712
Expenses			
Employee costs	7	104,670,140	118,802,950
Board expenses	8	11,337,202	16,513,181
Transaction advisory costs	9	44,153,476	37,714,181
Depreciation & Amortization expenses	10	11,100,295	11,835,462
Repairs and maintenance	11	2,732,445	2,471,490
General Expenses	12	57,070,861	33,013,605
Total Expenses		231,064,419	220,350,869
Surplus for the year		76,285,786	68,371,842
Other comprehensive income			
Revaluation reserve	20	1,194,000	
Total Comprehensive Income		77,479,786	68,371,842

The notes set out on page 7 to 22 form an integral part of the financial statements.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XII. STATEMENT OF FINANCIAL POSITION

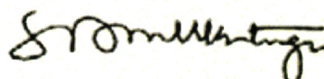
As at 30th June 2016

		2015/16	2014/15
	Note	Kshs	Kshs
ASSETS			
Current Assets			
Cash and Cash Equivalents	13	726,417,100	642,651,578
Receivables	14	375,754	48,180
Inventories	15	649,209	909,652
Total Current Assets		727,442,063	643,609,410
Non- Current assets			
Property, Plant and Equipment	16	2,346,755	12,152,233
Intangible Assets	17	100,000	200,000
Total Non- current Assets		2,446,755	12,352,233
Total Assets		729,888,818	655,961,643
LIABILITIES			
Current Liabilities			
Trade and other payables	18	6,282,039	991,350
Provisions	19	29,064,342	37,908,460
Total Current Liabilities		35,346,381	38,899,810
Net Assets/Equity			
Revenue reserve	20	683,449,939	607,164,153
Revaluation Reserve	21	11,092,498	9,897,680
Total Net assets/Equity		694,542,437	617,061,833
Total net assets and liabilities		729,888,818	655,961,643

The Financial Statements set out on pages 1 to 5 were signed on behalf of the Board of Directors by:



.....
Hon. Henry Obwocha ,EGH
Chairman Commission
 Date



.....
Mr. Solomon Kitungu
Executive Director/CEO
 Date

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June 2016

	Revenue Reserve	Capital Grants	Revaluation Reserve	Total
	Kshs	Kshs	Kshs	Kshs
Reserves as at 1 st July 2015	607,164,153		9,897,680	617,061,833
Surplus for the year	76,285,786			76,285,786
Revaluation reserve			1,194,818	1,194,818
30th June 2016	683,449,939		11,092,498	694,542,437
Reserves as at 1 st July 2014	538,792,311	3,276,200	9,897,680	551,966,191
Deferred Income		(3,276,200)		(3,276,200)
Surplus for the year	68,371,842			68,371,842
30th June 2015	607,164,153		9,897,680	617,061,833

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XIV. STATEMENT OF CASHFLOWS

For the year ended 30th June 2016

		2015/16	2014/15
	Note	Kshs	Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash flow from operating Activities			
Operating Surplus for the period		76,285,786	68,371,842
Adjustments for:			
Depreciation		11,000,295	11,372,318
Amortization		100,000	463,144
Gain on Disposal of fixed Asset			(32,461)
Deferred income			(3,276,200)
Operating Surplus before working capital changes		87,386,081	76,898,643
Changes in Working Capital			
Increase in receivables		(327,574)	219,880
Decrease in inventories		260,444	137,702
Decrease in payables		(3,553,429)	(7,345,329)
Net cash flow from changes in working Capital		(3,620,559)	(6,987,747)
Net Cash flow from operating Activities		83,765,522	69,910,896
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of software			(407,000)
Disposal of Assets			144,490
Net cash from investing activities			(262,510)
NET INCREASE IN CASH AND CASH EQUIVALENTS		83,765,522	69,648,386
Cash and Cash equivalents at the beginning of the year		642,651,578	573,003,192
Cash and Cash equivalents at the end of the year		726,417,100	642,651,578

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

For the year ended 30th June 2016

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance difference	Notes
	2015/16	2015/16	2015/16	2015/16	2015/16	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Government Grants	220,000,000		220,000,000	220,000,000		
Other revenue	25,000,000		25,000,000	87,350,205	62,350,205	a
Funds brought forward	642,652,577		642,652,577	642,652,577		
Total Income	887,652,577		887,652,577	950,002,782	62,350,205	
Expenses						
Employee costs	165,702,596		165,702,596	104,670,140	61,032,456	b
Board expenses	45,000,000		45,000,000	11,337,202	33,662,798	
Transaction advisory costs	533,704,481		533,704,481	44,153,476	489,551,005	
Repairs and maintenance	5,455,000		5,455,000	2,732,445	2,722,555	
General Expenses	85,940,500		85,940,500	57,070,861	28,869,639	
Purchase of Fixed assets	11,300,000		11,300,000		11,300,000	
Provisions & accruals	40,550,000		40,550,000	24,499,854	16,050,146	
Total Expenses	887,652,577		887,652,577	244,463,978	643,188,599	
Surplus for the period*				705,538,804		

Notes

- Variance in revenue is caused by increased investment in short-term call deposit due to low utilization of funds.
- The difference between the budgeted amount and the actual amounts spent is caused by low utilization of Transaction Advisory cost which refers to the cost of hiring Transaction Advisory Services. The funds were not fully utilized due to delay in the approval of detailed Privatization Proposals and suspension of transaction work pending implementation of the State Owned Enterprises reorganization, hence delay in the related deliverables and payments. The unutilized balance is reflected in the surplus for the year and is carried forward and held in the Cash and Bank balances.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

***Reconciliation of surplus as per budget to cash from operating expenses**

	Kshs
Surplus for the period	705,538,804
Adjustments for;	
2015/16 funds brought forward	(642,652,577)
Net changes in working capital	(3,620,559)
Payments of accruals & provisions	24,499,854
Cash generated from operating expenses	83,765,522

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Standards and interpretations affecting the reported results of financial

The Commission has complied with the IPSAS standards affecting the reported results of the financial.

2. Summary of significant accounting policies

a. Statement of Compliance and Basis of Preparations

The principle accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

The Public Finance Management (PFM) Act 2012 Section 192 provided the setting up of the Public Sector Accounting Standards Board (PSASB). The Cabinet Secretary National Treasury, gazetted members of the Board through Gazette Notice No. 1199 of 28 February, 2014. Following the Board's approval on the adoption of the International Financial Reporting Standards (IFRS) for State Organs operating as Commercial Business Entities and The International Public Sector Accounting Standards (IPSAS) for non-commercial entities, Privatization Commission has adopted the pronouncements made by the IPSAS Board in preparation of its current year financial statements. The Commission's financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) and Public Finance Management Act 2012.

b. Basis of Preparation

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

c. Presentation of the Financial Statements

The financial statement comprises of the statement of financial position, statement of financial performance and the statement of changes in net assets.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

The Commission classifies its expenditure by the nature of expenses methodology.

d. Budget Information

The Commission didn't exceed the budget allocated. Statement of comparison of budget and actual amount is disclosed on page 5.

e. Functional Currency

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the shilling.

f. Revenue Recognition

(i) Revenue from non-exchange transactions

The Commission operations are financed by Government grants. The grants are accounted for on cash basis.

(ii) Revenue from Exchange transactions

These is mainly revenue realized from A.I.A and donations.

g. Interest Income

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

h. Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Board provides money or services directly to a debtor with no intention of trading the receivable. Receivables mainly arise from non-exchange transactions which accrue in the ordinary course of business and there is no intention of trading the receivable.

Receivables are recognized initially at the fair value (transaction price/carrying value less any discounts). They are subsequently measured at amortized costs using the effective interest method less provision for impairment. A provision for impairment of receivables is made when there is objective evidence that the Board will not be able

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

to collect all amounts due according to the original terms of receivables. The carrying value less discounts and any impairment provision of impairment is assumed to approximate their fair values. For financial instruments such as short term receivables, no disclosure of fair value is required when the carrying amount is a reasonable approximation of fair value. Receivables are classified as current assets if payment is due within one year or less (or in the normal operating cycle of business, if longer). If not, they are presented as non-current assets.

i. 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 entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

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

The annual depreciation rates in use are:

Motor vehicles	25%
Furniture & fittings	12.5%
Office Equipment	12.5%
ICT equipment	33.3%

j. Intangible Assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in non-exchange transaction is their fair value at the date of the exchange.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful life of the intangible assets is assessed on finite basis. Computer software development costs recognized as assets are amortized using the straight line method over their useful lives, not exceeding a period of three years.

k. Inventories

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

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

l. Provisions

Provisions are recognized when the entity 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 services potential will be required to settle the obligation and a reliable estimate can be made to the amount of the obligation.

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

m. Contingent Liabilities

The Commission does not recognize a contingent liability, but discloses details of any contingencies unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

n. Nature and Purpose of Reserves

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

Revenue Reserves

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

Capital Grants

Capital grants relate to fixed assets donated to Privatization Commission during the year 2008/2009. The capital grants were not restrictive nor were they conditional.

Revaluation Reserves

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

o. Changes in Accounting Policies and Estimates

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

p. Employee Benefits -Retirement Benefit Plans

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

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

q. Related Party

The Entity regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Entity, or vice versa. Members of key management are regarded as related parties and comprise of the Board of Directors and the Management team

r. 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 authorized public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

s. Comparative Figures

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

t. Significant Judgments and Sources of Estimation Uncertainty

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

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

u. 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 Commission based its assumptions and estimates on parameters available when the 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 Commission. Such changes are reflected in the assumptions when they occur.

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 Commission;

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; and

Changes in the market in relation to the asset.

v. Provisions

The provisions were raised and Management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material. The provision amount relates to unpaid gratuity, salary, and ongoing contracts which relate to 2015/16 financial year.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

w. Subsequent Events

There has been no event subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2016.

x. Risk Management

The Commission's risk management strategy recognizes the various risks the Commission is exposed to including credit risk and liquidity risk. This is based on a clear understanding of the risks and continuous risk assessment, measurement and monitoring. The Commission's overall risk management programme focuses on the unpredictable changes in the business environment and seeks to minimize the potential adverse effects of such risks on its performance. The Board does not hedge any risks but has in place policies that ensure that any credit advanced is at minimum risk.

Credit Risk

Credit risk is the risk that a borrower is unable to meet his financial obligations to the lender. The Commission's credit risk is attributable to its cash and cash equivalents and trade receivables. The amounts presented in the financial statements are net of allowances for doubtful receivables, estimated by the Commission's management based on their assessment of the economic environment. Both bank balances and trade receivables are fully performing and no debt has been impaired.

Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash to meet company obligations. The ultimate responsibility for liquidity risk management rests with the management which has built an appropriate liquidity risk management framework for management of the Commission's short, medium and long term funding requirements. The Commission manages liquidity risk by maintaining adequate cash reserves to ensure liabilities are paid as they fall due and to cushion against any liquidity risk.

Capital Risk

The objective of the Commission's capital risk management is to safeguard the Commission's ability to continue as a going concern. The Commission's capital structure comprises of general fund and revaluation reserve.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

Operational Risk

This is a broad category of risks the Commission faces in its day to day operational life cycle. In particular the following operational risks include:

Staffing Risks: This is the risk of high attrition coupled with the inability to fill vacant positions owing to a freeze on recruitment placed on the Commission under the ongoing State Enterprise rationalization in order to pave way for the Parastatal reform initiative. Additionally short term contract of three years have posed risks of high staff attrition to the Commission with many staff leaving for more permanent positions.

Legal Risks: The risk of not being able to get quorum for the Board of Directors/ Commission meetings owing to the impending expiry of the terms of over 5 Commission later in the new financial year. This risk has far reaching effects as the technical work of the Commission including Steering Committees work which will not be able to proceed in the absence of the Board. Two positions in the Board remained vacant during the year while the position of the chairman was filled after one year.

Change in Government Policy towards Privatization: This is the risk of adversely affecting the Privatization Programme through policy changes and other directives such as the Parastatal Reform Initiative under which the functions of the Commission were to be taken over by Government Investment Company. This process initially led to the stoppage of implementing the Privatization Programme pending the completion of the reforms. To date the rationalization is yet to be completed though several transactions have been authorized to proceed.

Delays in obtaining approvals for Privatization Proposals: This is the risk of delays in obtaining approvals at various Government levels for the Privatization proposals. Past delays have happened at the various levels within the Government.

The Commission manages its staffing risks through ensuring continuous capacity building and a performance management

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

system that ensures reward to staff for good performance. While political and administrative risks are managed through proactive stakeholders' engagement on a continuous basis. The Commission has ensured that its steering committees have representation from all key stakeholders including parent ministries, CEO's of earmarked Corporations, the National Treasury and the Attorney General. The Commission is also in the process of reviewing the enabling Act to ensure continuity of the Commission Board.

3. GOVERNMENT GRANTS

	2015/16	2014/15
	Kshs	Kshs
Government Grants-recurrent expenditure	220,000,000	220,000,000
Total	220,000,000	220,000,000

4. DEFERRED INCOME

	2015/16	2014/15
	Kshs	Kshs
Deferred income		3,276,200
Total Deferred Income		3,276,200

2014/15 deferred income refers to capital grants donated in 2008. The amount has now been recognized as income to write down the capital fund.

5. OTHER REVENUE

	2015/16	2014/15
	kshs	Kshs
Interest income	86,306,733	65,234,055
Sale of tender documents	81,000	14,000
Miscellaneous revenue	962,472	165,995
Total Revenue	87,350,205	65,414,050

6. GAIN ON DISPOSAL

	2015/16	2014/15
	kshs	kshs
Cost		268,044
Accumulated depreciation		(156,015)
NBV		112,029
Cash received		(144,490)
Gain on disposal		32,461

In 2014/15 one of the tablet was stolen and the insurance company compensated for the loss.

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7. EMPLOYEE COSTS

	2015/16	2014/15
	kshs	kshs
Basic salaries	55,326,295	65,860,451
House allowance	9,403,387	10,979,706
Remunerative allowance	1,200,000	1,200,000
Responsibility /Acting/Special duty Allowance	1,612,614	504,677
Leave allowance	1,132,174	2,166,267
Gratuity	16,483,076	19,733,212
Commuter Allowance	2,795,516	3,278,753
Employer contribution to NSSF	65,800	67,000
Medical Scheme	4,288,396	4,310,326
Domestic travel & accommodation	1,593,525	374,364
Foreign Travel & accommodation	889,100	97,308
Training expenses including capacity building	8,618,315	8,887,024
Welfare expenses	1,086,410	1,139,660
Purchase of uniforms & clothing	175,532	204,202
Total	104,670,140	118,802,950

The salaries and remunerations of the Chief Executive Officer was Kshs.10,531,179.00 while the senior management staff earned Kshs.54,533,756.00

8. BOARD EXPENSES

	2015/16	2014/15
	kshs	kshs
Board Sitting allowance	4,400,000	7,700,000
Board Local travel and other related expenses	2,925,881	1,462,623
Chairman's expenses	1,044,000	214,599
Other Board Expenses	2,967,321	7,135,959
Total	11,337,202	16,513,181

Individually the remuneration to the directors was as follows

Commission Member	Amount earned (Kshs)
Hon Henry Obwocha, EGH	3,072,696
Mr. Benard Nandieki	586,024
Mr. Ngure Mwaniki	497,428
Mr. Mugambi Nandi	594,500
Mrs. Patricia Adala	572,576
Mr. John Kenduiwo	530,624

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Ms. Roselyn Amadi (Rep. Attorney General)	616,000
Mr. Ashley Toywa (Rep. Attorney General)	277,400
Mr. Festus King'ori (Rep. CS, National Treasury)	619,310
Mr. Joseph Kariuki (Rep. CS, National Treasury)	100,000
Total amount paid directly to the members	7,466,558

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

9. TRANSACTION ADVISORY SERVICE

	2015/16	2014/15
	kshs	kshs
Transaction Advisory services	44,153,476	37,714,181
Total	44,153,476	37,714,181

The Transaction Advisory cost refers to the cost of hiring Transaction Advisory Services. Part of the funds brought forward amounting to Kshs.533Million that were directly related to Transaction Advisory Services were not fully utilized due to delay in the approval of detailed Privatization Proposals hence the related deliverables and payments. The unutilized balance is reflected in the surplus for the year and is carried forward and held in the Cash and Bank balances.

10. DEPRECIATION AND AMORTIZATION EXPENSES

	2015/16	2014/15
	Kshs	Kshs
Property , Plant & equipment	11,000,295	11,372,318
Intangible assets	100,000	463,144
Total	11,100,295	11,835,462

11. REPAIRS AND MAINTENANCE

	2015/16	2014/15
	Kshs	Kshs
Maintenance expenses - Motor vehicles	473,264	339,525
Maintenance expenses - Office equipment	547,324	376,969
Maintenance expenses - Office furniture and fittings	266,000	102,140
Maintenance - buildings	50,729	225,682
Maintenance expenses - IT equip and computers	1,395,128	1,427,174
Total	2,732,445	2,471,490

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12. GENERAL EXPENSES

	2015/16	2014/15
	kshs	kshs
Telephone expenses	1,112,148	1,240,175
Internet connections	720,592	634,271
Courier & postal services	43,669	18,160
Publishing & printing services	790,220	263,880
Subscription to newspapers and magazines	137,793	422,335
Advertising, awareness & publicity campaigns	2,249,899	3,550,050
Rent & rates- non residential	6,000,962	5,262,416
Official entertainment	1,146,433	1,262,861
Insurance costs	399,233	411,989
General office supplies	548,567	458,060
Supplies & accessories for computer & printers	291,208	349,080
Sanitary & cleaning materials	1,085	17,455
Refined fuels & lubricants	280,515	356,900
Bank service commission and charges	99,409	95,792
Subscription to professional bodies and CSR activities	1,945,855	711,446
Contracted guard and cleaning services	767,340	835,200
Legal fees	1,458,482	
General consultancy	8,923,120	5,343,360
Steering/stakeholders Expenses	17,519,734	1,410,913
Withholding tax	12,054,597	9,785,107
Minor assets		4,155
Audit fees	580,000	580,000
Total	57,070,861	33,013,605

13. CASH AND CASH EQUIVALENTS

No.	Financial Institutions/Banks	Facility	2015/16 Kshs	2014/15 Kshs
1	Co-operative Bank Account No 0114118908900	Current Account	262,047,981	514,389,975
2	KCB Account No. 1104820730	Current Account	464,338,561	128,175,497
3	Cash-on-hand and in transit	Cashbox	30,558	86,106
	Total		726,417,100	642,651,578

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14. TRADE AND OTHER RECEIVABLES

	2015/16	2014/15
	Kshs	Kshs
Staff loan/advances	310,754	
Prepaid Expenses	65,000	48,180
Total	<u>375,754</u>	<u>48,180</u>

15. INVENTORIES

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

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

	2015/16	2014/15
	Kshs	Kshs
Stationery	463,004	525,088
Accessories for computers and printers	77,760	174,934
Detergents and cleaning materials	13,895	14,980
Publicity materials	94,550	194,650
Total	<u>649,209</u>	<u>909,652</u>

16. PROPERTY, PLANT AND EQUIPMENT AS AT 30TH JUNE 2016

Cost/Valuation	Motor Vehicles	Furniture and fittings	Equipment	Computers	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 st July 2015	11,350,000	55,619,621	4,554,732	15,725,827	87,250,180
Revaluations				(13,802,827)	(13,802,827)
Cost/Valuation As at 30th June 2016	11,350,000	55,619,621	4,554,732	1,923,000	73,447,353
Depreciation and impairment					
As at 1 st July 2015	8,512,500	48,428,806	3,156,997	14,997,643	75,095,946
Depreciation on revaluation				(14,997,643)	(14,999,643)
Charge for the Year	2,837,500	6,952,453	569,342	641,000	11,000,295
As at 30th June 2016	11,350,000	55,381,259	3,726,339	641,000	71,098,598
NBV as at 30th June 2016		238,362	826,393	1,282,000	2,346,755
Cost/ Valuation					
As at 1 st July 2014	11,350,000	55,619,621	4,554,732	15,993,871	87,518,224
Disposal during the year				(268,044)	(268,044)

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As at 30th June 2015	11,350,000	55,619,621	4,554,732	15,725,827	87,250,180
Depreciation and impairment					
As at 1 st July 2014	5,675,000	41,476,353	2,589,656	14,140,634	63,881,643
Depreciation on disposal				(156,015)	(156,015)
Charge for the Year	2,837,500	6,952,453	569,341	1,013,024	11,372,318
As at 30th June 2015	8,512,500	48,428,806	3,158,997	14,997,643	75,097,946
NBV as at 30th June 2015	2,837,500	7,190,815	1,395,734	728,184	12,152,233

After carrying out depreciation for the year, as at 30th June 2016, Property, Plant and Equipment worth Kshs.68,353,496 became fully depreciated. Since the items are still useful to the organization revaluation will be carried out in 2016/17 financial year.

17. INTANGIBLE ASSETS

	2015/2016	2014/15
COST/ VALUATION	Kshs	Kshs
Opening Balance	10,147,724	9,740,724
Additions during the year		407,000
Total	10,147,724	10,147,724
AMORTIZATION		
Opening Balance	9,947,724	9,484,594
Charge for the Year	100,000	463,117
Total	10,047,724	9,947,710
NET BOOK VALUE AT END OF THE YEAR	100,000	200,014

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

As at 30th June 2016, intangible assets worth Kshs.10,047,711 had been fully amortized for a period of three years. The Commission has initiated the process of upgrading the software systems.

18. TRADE AND OTHER PAYABLES

	2015/16	2014/15
	Kshs	Kshs
Trade creditors	6,192,331	991,350
Other payables	89,708	
Total	6,282,039	991,350

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19. CURRENT PROVISIONS

	2015/16	2014/15
	Kshs	Kshs
Balance at the beginning of the year	37,908,460	39,370,217
Additional provisions raised	15,655,736	25,759,008
Provisions Utilized	(24,499,854)	(27,220,765)
Closing Balance	29,064,342	37,908,460

Provisions relates to:

- Accumulated staff gratuity which is payable on expiry of the contract.
- Provisions for ongoing/uncompleted contracted services which related to 2015/16 financial year.

20. REVENUE RESERVE

	2015/16	2014/15
	Kshs	Kshs
Opening Balance	607,164,153	538,792,311
Surplus for the year	76,285,786	68,371,842
Closing Balance	683,449,939	607,164,153

21. REVALUATION RESERVE

	2015/16	2014/15
	Kshs	Kshs
Opening Balance	9,897,680	9,897,680
Addition during the year	1,194,818	
Closing Balance	11,092,498	9,897,680

Revaluation reserve relate to revaluation of motor vehicles and ICT equipment which was carried out in 2012/13 and 2015/16 respectively. The purpose of the revaluation was to bring into the books the fair market value of the motor vehicle and computer equipment. The computer equipment had been fully depreciated where most of them remained useful to the organization. There was an upward revaluation

22. CAPITAL COMMITMENTS

The following Capital commitments are expected to be incurred in the year 2016/17. They had been approved and/or contracted.

	2015/16	2014/15
	Kshs	Kshs
Approved and contracted		
Transaction Advisory Services	533,704,481	547,707,481
Approved and not contracted		
Acquisition of fixed assets	11,300,000	11,300,000
Total	545,004,481	559,007,481

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23. OPERATING LEASE COMMITMENTS (BUILDING)

	2015/16	2014/15
	Kshs	Kshs
Due within one year	6,702,177	6,383,026
Due within two-five years	22,185,044	28,887,221
Later than five years		
Total	28,887,221	35,270,247

Following expiry of the previous lease agreement in 2013/2014, the leased premises have been contracted for a further period of six years effective 2014/2015. In 2015/2016 the ICT assets which had been fully depreciated were revalued to determine if they would be retained or disposed off. However the disposal process had not been concluded at the closure of the financial year.

24. RELATED PARTY DISCLOSURE

The total remuneration of key personnel members (Management team) of the Privatization Commission is shown below. Expenses' relating to the Board of Directors is shown separately under note 6.

	2015/16	2014/15
Total remuneration	Kshs. 54M	Kshs. 67M
Number of persons	10	13

25. CURRENCY

The financial statements are presented in Kenya Shillings.

26. ULTIMATE AND HOLDING COMPANIES

Privatization Commission's immediate parent is the National Treasury. Its Ultimate parent is the Government of Kenya

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2016

XVII. EVENTS AFTER THE REPORTING DATE

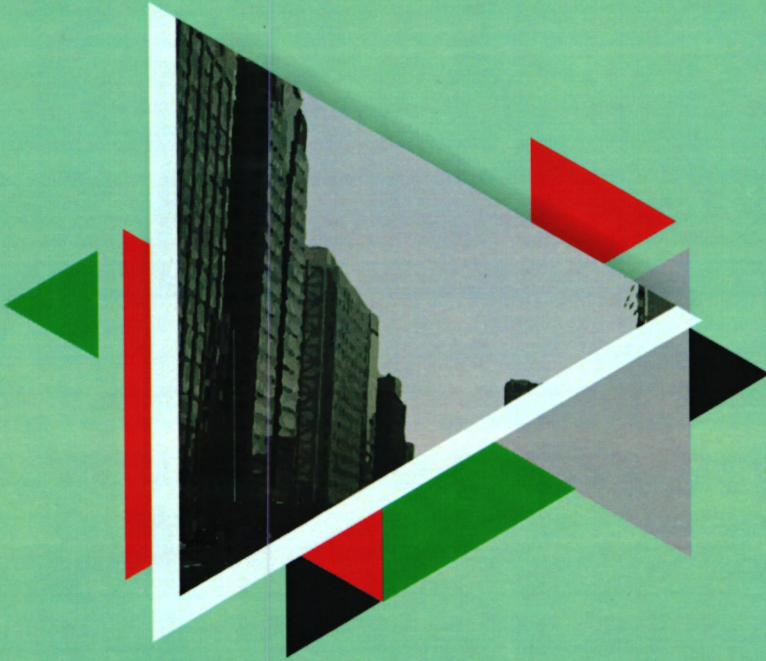
There are no material adjusting events after the reporting date.

XVIII. PROGRESS ON FOLLOW UP OF 2014/15 FINANCIAL YEAR AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue/observation from Auditor	Management Comments	Focal point Person to resolve the issue	Status	Time frame

XIX. STATEMENT OF ASSETS AND LIABILITIES OF PRIVATIZED ENTITIES

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



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