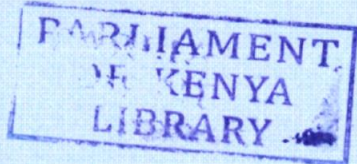


REPUBLIC OF KENYA



KENYA NATIONAL AUDIT OFFICE



Paper laid
By Hon. A. Duake (Com)
on Wed. 05.08.2015 (pm)
MMW

REPORT
OF
THE AUDITOR-GENERAL
ON
THE FINANCIAL STATEMENTS OF
PRIVATIZATION COMMISSION

FOR THE YEAR ENDED
30 JUNE 2014





REGULATORY AND OTHER NON-COMMERCIAL ENTITIES

PRIVATIZATION COMMISSION

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED

JUNE 30, 2014

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

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Back ground information

Privatization Commission was formed through an Act of Parliament, Privatization Act, 2005.

(b) Principal Activities.

The principal activities of the Privatization Commission are to –

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

(c) Key Management

Privatization Commission day to day management is under the following management team;

Executive Director/CEO	Mr. Solomon Kitungu
Chief Manager, Finance and Admin	Mr. Wycliffe Temesi
Chief Manager, Legal Affairs	Ms. Jacqueline Muindi
Transaction Manager (up to 30 th Sept 2013)	Ms. Bahati Morara
Transaction Manager (up to July 2013)	Mr. David Ngarama
HR and Administration Manager	Mr. Gideon Muinde
Finance Manager	Ms. Virginiah Kariuki
Procurement Manager	Mr. Joseph Njagi
Transaction Manager (from Oct 2013)	Ms. Rosemary Ndiritu
Transaction Manager (from Oct 2013)	Mr. Charles Ochola

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Risk & compliance Manager (from Oct 2013)	Mr. Sospeter Thiga
Corporate Affairs Officer	Ms. Bessie Atieno and
ICT Officer	Mr. Julius Gichohi

(d) Fiduciary Management

The Board Members who held office during the financial year ended 30th June 2014 and who had direct fiduciary responsibility were:

Prof. Peter K. Kimuyu, MBS, Mr. Henry K Rotich	Chairman (upto May 2014) Cabinet Secretary, the National Treasury
Hon. Prof. Githu Muigai, FCI Arb, EGH, SC	Attorney General
Mr. John Kiplangat Kenduiwo	Member
Mr. Ngure Crispus Mwaniki	Member
Mr. Benard Aruasi Nandieki	Member
Ms. Patricia A. O. Adala	Member
Mr. Mugambi Nandi	Member
Mrs. Esther Koimett, CBS	Member (Alternate to the Cabinet Secretary, the National Treasury)
Ms. Roselyn Amadi	Member (Alternate to the Attorney General)
Mr. Solomon Kitungu	Executive Director/CEO

(e) Fiduciary Oversight Arrangements

The Commission has the following Board Committees:

- (i) Finance and Strategy Committee**
- (ii) Audit Committee**
- (iii) Human Resources & Risk Management Committee**
- (iv) Privatization Steering Committees:**
 - ✓ Development Bank of Kenya Limited
 - ✓ National Bank of Kenya Limited

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- ✓ Public Sector Owned Sugar Companies
- ✓ Kenya Tourist Development 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, operational performance, procurement, performance contracting and organizational health.

The Committee comprises six (6) members of the Board (including the Executive Director/CEO). The quorum for the FSC is four (4) members or such number as may be determined by the Board from time to time. The Committee meets every quarter and on any other dates that may be determined by the nature of the organization's operations.

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The functions of the Committee are:

- Design and Implementation 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 (HRMC)

The HRMC 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 HRMC comprises six (6) members of the Board (including the ED/CEO) and the quorum is four (4) members or such number as may be determined by the Board from time to time. The Committee meets 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;

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- 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;
- 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 Management and Business Continuity Committee (MRMBCC) 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 MRMBCC 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 five (5) 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 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;

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- Reviewing audit issues raised by both Internal and External auditors;
- Resolving unsettled and unimplemented Public Investments Committee (PIC) recommendations; and
- Enhancing communication between Management, Internal and External audit and fostering an effective internal audit function.

iv) Privatization Steering Committees (PSCs)

The PSCs comprise of the members stipulated in Section 27 of the 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.

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;
- Approval of allotment of shares for public offers;
- Providing general guidance to the Management on the implementation of the privatization transactions.

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(f) Privatization Commission Office

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

(g) 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

(h) 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

(i) Independent Auditors

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

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(j) Principal Legal Advisor

The Attorney General
Office of the Attorney General
Harambee Avenue
P O Box 40112
City Square 00200
Nairobi, Kenya

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II. THE BOARD OF DIRECTORS

NAME AND KEY ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
 <p>PROF. PETER K. KIMUYU, MBS – Chairman</p> <p>Holds a Master of Arts (Economics) degree from the University of Nairobi, a Master of Science degree in Energy Economics from the University of Surrey, England and a Doctor of Philosophy degree in Energy Economics.</p>	<p>Prof. Kimuyu is a professor of Economics at the University of Nairobi, where he also served as Director of Economics, at the School of Economics. Prof. Kimuyu, a member of the New York Academy of Sciences has held several Board positions, including Export Promotion Council, where he was the Chairman, the Kenya Commercial Bank and Inoorero University, the latter two of which he still serves on.</p> <p>DOB: January 17, 1950</p>
 <p>MR. HENRY ROTICH</p> <p>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.</p>	<p>Mr. Rotich is the Cabinet Secretary, The National Treasury.</p> <p>Prior to this appointment, 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</p>


PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

NAME AND KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
	<p>financial sector.</p> <p>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 attached to the International Monetary Fund (IMF) local office in Nairobi as an economist.</p> <p>Mr. Rotich has also been a Director on several Boards of State Corporations</p>
 <p>HON. PROF. GITHU MUIGAI</p> <p>Holds LL.B and Ph.D. degrees from the University of Nairobi and an LL.M Degree from Columbia University School of Law, New York.</p>	<p>Professor 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.</p> <p>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 a specialist in Public Law and trans-national legal practice. He is a recognized authority on business regulatory matters and in international commercial arbitration.</p> <p>He is a member of the Law Society of Kenya, East African Law Society, Chartered Institute of Arbitrators, American Association of Trial Lawyers,</p>



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NAME AND KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
	<p>Institute of Public Secretaries, Council of Legal Education, International Commission of Jurists, International Bar Association and Commonwealth Lawyers Association.</p> <p>DOB: 1960</p>
<div data-bbox="122 771 413 1052" data-label="Image"> </div> <p data-bbox="451 771 827 849">MR. JOHN K. KENDUIWO</p> <p data-bbox="122 888 827 1194">Holds Bachelor of Science (Mechanical Engineering) and Master of Business Administration (Operations Management) degrees from the University of Nairobi.</p>	<p>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 is currently on secondment as the Deputy 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 (MKIM) of the Kenya Institute of Management.</p> <p>DOB: September 8, 1956</p>



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NAME AND KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
 <p>MRS. PATRICA ADALA</p> <p>Holds Bachelor of Arts (Economics), Bachelor of Philosophy (Economics) and Master of Arts (Economics) degrees from the University of Nairobi.</p>	<p>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.</p> <p>DOB: December 29, 1950</p>
 <p>MR. BENARD A. NANDIEKI</p> <p>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.</p>	<p>Mr. Nandieki had previously worked as the Regional Sales Manager - Coast, Eastern and Mountain at GlaxoSmithKline Consumer Division.</p> <p>Currently he is the Country Sales Manager, Del Monte Kenya.</p> <p>DOB: December 6, 1970</p>


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NAME AND KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
 <p>MR. NGURE MWANIKI</p> <p>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.</p>	<p>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 years.</p> <p>DOB: April 4, 1950</p>
 <p>MR. MUGAMBI NANDI</p> <p>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.</p>	<p>Mr. Nandi was admitted to the Kenyan Bar in 1997. He has over fifteen years' experience as in-house counsel and Company Secretary. He has 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 Associate at Hamilton Harrison & Mathews, Advocates. He was named Company Secretary of the Year 2011 by the Institute of Certified Public Secretaries of Kenya.</p> <p>He is the Managing Partner at KN Associates LLP, Advocates, where he specializes in General Corporate and Commercial, Mergers & Acquisitions, and Energy Law.</p>

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NAME AND KEY QUALIFICATIONS, ACADEMIC QUALIFICATIONS	KEY QUALIFICATIONS AND WORK EXPERIENCE
 <p>MRS. ESTHER KOIMETT, CBS</p> <p>Holds Bachelor of Commerce (Accounting) and Master of Business Administration degrees from the University of Nairobi.</p>	<p>DOB: October 15, 1971</p> <p>Mrs. Koimett has held various senior positions in Government and the Parastatal sector, including being the Permanent Secretary, Ministry of Tourism. She is currently the Investment Secretary, National Treasury. Mrs. Koimett represents the Principal Secretary, National Treasury on the Boards of various state corporations.</p> <p>DOB: September 14, 1956</p>
 <p>MS. ROSELYN AMADI</p> <p>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.</p>	<p>Ms. Amadi is a lawyer by profession and also an Advocate of the High Court of Kenya. She is a Senior Deputy Chief State Counsel at the State Law Office. She is currently the Deputy Head of the Treaties and Agreements Department at the Attorney General's office. She is a Member of the Joint Railway Commission which is steering railway infrastructure in East Africa. She is also a Board Member of Serve Africa, a voluntary Christian organization mentoring graduates in integrity and leadership in society.</p> <p>DOB: October 17, 1955</p>

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NAME AND KEY ACADEMIC QUALIFICATIONS,	KEY QUALIFICATIONS AND WORK EXPERIENCE
 <p>Solomon A. M. K. Kitungu Bachelor of Arts (Economics) Master of Arts (Economics) Advanced Management Programme (AMP) 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>

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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) 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>Wycliffe Fredrick Temesi Bachelor of commerce (Accounting) CPA (K), Various professional courses Senior Management & Leadership Programme Fellow and a member of ICPAK, Member, IIA, Member of IFA (EA),</p>	<p>FINANCE, HUMAN RESOURCES & ADMINISTRATION Ensure that all financial resources of the Commission are fully accounted for and reported efficiently. In addition, to assisting the CEO in ensuring smooth administrative operations of the Commission and Providing oversight to the Finance, Human Resource, Information Technology, Procurement and Administrative functions of the Commission</p>



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NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Jacqueline Mbithe Muindi Bachelor of Laws (LLM) Master of Laws Dip. Legal Education, CPS (K)</p> <p>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>Gideon Muinde Kyalo 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>

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NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Virginiah Njeri Kariuki Bachelor of Science in Business Administration (Management & Accounting) Master of Business Administration (Strategic Management) CPA (K), CPS (K), Senior Leadership Programme Certified Balanced Score Card Professional (BSP), Various professional and management courses, Member. ICPAK, ICPSK</p>	<p>FINANCE & ACCOUNTS Provision of finance and Accounting services to the Commission In charge of Performance contract reporting at the Commission</p>
 <p>Joseph Antony Njagi Bachelor of Arts (Economics) Master in Science in procurement & Logistics (on going) Diploma CIPS, CPA III, Various professional and management courses- Member, Kenya Institute Supplier Management</p>	<p>PROCUREMENT Responsible for ensuring quality, effective and proactive procurement support services for the Commission</p>


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NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Rosemary 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), Dip-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>Sospeter Macharia Thiga Bachelor of Arts (Economics and Sociology) Master of Business Administration (Strategic Management) CPA (K), Certified Risk Auditor professional, Various professional and Management courses Member, Information Systems Audit Control Association (ISACA)</p>	<p>RISK & COMPLIANCE Managing enterprise – wide risks as well as ensuring compliance of the organisation with various statutory and operational requirements</p>
 <p>Julius Gachingiri Gichohi Bachelor of Science- Mathematics & Statistics Master of Science (Information Systems) Post Graduate Diploma in Management Cert. in Computer networking, , various professional and management courses Member, Computer Society of Kenya</p>	<p>INFORMATION TECHNOLOGY COMMUNICATIONS Responsible for information communication technology systems (ICT) within the Commission</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)-On going 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>

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

IV. CHAIRMAN'S STATEMENT

I am pleased to present the annual report for the Privatization Commission for the year ended 30th June 2014. As per the requirements of Section 15 and 16 of the Privatization Act, the Commission's Annual Report should, as a minimum, include the Annual Financial Statements for the year and where a corporation was privatized during the year, a statement of the assets and liabilities of the State Corporation and the proceeds from privatization. During the year no privatizations were completed hence the report limits itself to the Commission's Annual Financial Statement.

The Privatization Commission is one of the entities whose operations will be affected by the implementation of the report by the Presidential Task Force on Parastatal Reforms. The report provides that the functions of the Privatization Commission will be transferred to the Government Investment Corporation (GIC). In December 2013, the Commission received a circular that required State Corporations identified for reforms to put on hold activities relating to restructuring, recruitment of staff, filling vacancies in boards, review of terms and conditions of service for staff; and disposal, transfer, lease/acquisition of new assets. This was followed by presentations and consultations and a letter from the State Corporations Advisory Committee (SCAC), who are secretaries to the reforms implementation committee, communicating a further decision that all privatization undertakings in State Corporations remain suspended pending finalization of the parastatal reforms. A further decision made by the Cabinet at its meeting held on 10th July 2014 was communicated to the Commission on 18th July 2014 requiring that all proposed/intended privatizations be held in abeyance pending the report on rationalization of State Owned Enterprises.

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While the above decisions slowed down the on-going work and finally stalled most of the transactions work, it is noted that following extensive discussions and consultations, the Commission completed work on Kenya Wine Agencies Holdings East African Limited (KHEAL). Notice of completion was gazetted on 18th June 2014. The related agreements were then concluded on 29th July 2014.

I am pleased that in spite of the time spent in consultations, the Commission was able to progress many other transactions significantly. Among other transactions, this includes the transaction for the three hotels approved by Parliament in January 2013. While offers received were deemed not successful under the applicable processes, significant progress was made in price discovery, which should assist in concluding the transaction once clearance is granted to proceed and conclude. In addition the Commission was able to conclude a number of detailed proposals among them proposals for the Consolidated Bank of Kenya, Kenya Electricity Generating Company, Kenya Pipeline and the Development Bank of Kenya. At the end of the year, the consolidated Bank proposal had been submitted to the National Treasury while the others were awaiting clearance in view of the on-going State Owned Enterprises and rationalization. The Commission had also finalized due diligence work and options analysis on a number of enterprises in addition to engaging the National Treasury to agree on the next steps on proposals submitted to Cabinet.

I am also pleased that during the year, the Commission was also able to complete review of the Privatization legal framework. This exercise, which was extensively informed by the experiences of countries that have implemented their national privatization programmes effectively. The recommendations submitted to the National Treasury following the review offer an opportunity to

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

streamline the privatization processes to take a reasonably short period without compromising any necessary disclosure, transparency and accountability required of similar programmes.

Finally, I salute the Government for the financing and support granted during the year and the other key stakeholders including the Parent Ministries and State Corporations under the Programme for their cooperation which made it possible to achieve planned targets during the year.



JOHN KENDUIWO

FOR CHAIRMAN PRIVATIZATION COMMISSION

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

V. REPORT OF THE CHIEF EXECUTIVE OFFICER

Following reconstitution of the Board in September 2012, approval of four transactions by Parliament in January 2013 and work undertaken to revive transactions that had stalled in the absence of a duly constituted Commission, the year started with remarkably high hopes of completing several transactions.

In line with these expectations, the Commission was able to undertake several activities that include:

- (i) Commencement and conclusion of negotiations for the sale of 26% of KHEAL shares held by ICDC in KWAL;
- (ii) Completion of preparatory work that was necessary to offer KTDC shares to other shareholders in the approved hotels;
- (iii) Completion of due diligence and options analysis work for a number of institutions including:
 - Consolidated Bank of Kenya Limited (CBKL);
 - Development Bank of Kenya (DBK);
 - Kenya Electricity Generating Company (KenGen);
 - Kenya Pipeline Company; and
 - New Kenya Co-operative Creameries (NKCC);
- (iv) Updating of due diligence and validation of recommended options for sugar companies to facilitate engagement of key stakeholders and implementation as soon as approvals are granted;
- (v) Engagement of consultants to undertake due diligence analysis for National Bank and Development Bank of Kenya. Consultants were also engaged for Numerical Machining Complex work;
- (vi) Preparation of detailed privatization proposals for Consolidated Bank, DBK, KenGen, KPC and papers on KPA Projects, KTDC controlled hotels proposing next steps;
- (vii) Engagement of the Treasury to agree on the next steps on a number of Transactions on which detailed proposal had been submitted including Consolidated Bank, Agro Chemical, East African Portland Cement Company Limited and Kenya Meat Commission. Following the engagement a number of agreed actions were initiated;

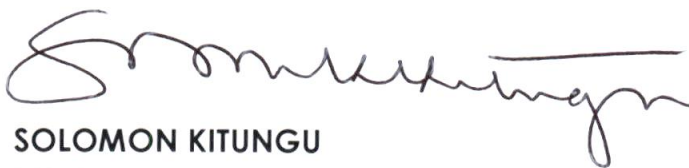
PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

- (viii) Commencement and undertaking of due diligence work on Numerical Machining Complex. By the end of the year the work had been progressed to draft reports stage;
- (ix) Capacity building initiatives for the Commission members and staff that among other trainings included training on privatization, strategy execution, balanced score card, fundamentals for leading and managing state owned enterprises among many others; and
- (x) Completion of review of the Privatization Legal Framework on basis of which the Commission made recommendations to the National Treasury to streamline/shorten the Privatization processes.

The above activities were in addition to the other activities outlined in the performance contract and normal institutional activities that were carried out in the year.

Cumulatively, the activities undertaken by the Commission during the year add to existing preparatory work that makes it possible to proceed with implementation of Privatization work on each of the institutions under the programme, without any further delay.

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 arose during the period.



SOLOMON KITUNGU
EXECUTIVE DIRECTOR/CEO

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

VI. CORPORATE GOVERNANCE STATEMENT

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.

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.

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.

Meetings of the Commission Board, Board Committees and Privatization Steering Committees were held during the first, second, third and fourth Quarters.

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

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Committees and members collectively as well as certain roles and responsibilities incumbent upon directors as individuals.

The Commission Board's responsibilities include amongst others:

- i) Defining the purpose of the organization, its strategic intent, objectives, and its values and setting and reviewing the strategic direction and adopting the organization's business plans and providing oversight of performance against targets and objectives;
- ii) Providing stewardship of the organization and in discharge of its obligations, assuming the following responsibilities:
 - Retaining full and effective control over the organization, and monitoring Management's implementation of the organization's plans and strategies;
 - Ensuring ethical 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.

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

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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.

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 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.

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No. of 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	111	-	111
2	Finance & Strategy Committee	10	3	13
3	Human Resource & Risk Management	9	-	9
4	Commission Board Meeting	12	11	23
5	Audit Committee	2	1	3
6	Adhoc Committees	-	4	4
	Total	144	19	163

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

VII. CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Being aware that good corporate responsibility practice and responsible behavior are integral parts of sustainable development, the Commission is fully committed to conducting its work responsibly and in the best interests of its customers, employees and other stakeholders that it interacts with that are affected by its activities.

PC's strategy focuses on the following areas:

i. Health

Privatization Commission works with other partners to support initiatives that cater for the health and well-being of Kenyans.

ii. Education

Subject to availability of sitting space, the Privatization Commission provides training opportunities for final year university students through a paid internship at our Offices, as per the Internship Policy. In addition, the Commission supports research in areas relating to privatization.

iii. Environmental Sustainability

The Commission remains committed to environmental protection and sustainability. In this regard, the Commission participates in several activities as a contribution towards the conservation of the ecosystem. Such activities include but are not limited to tree planting activities initiatives; donation of tree seedlings; environmental clean-ups; and beautification and landscaping in select locations.

iv. Humanitarian Intervention

The Commission continues to support different charitable initiatives under the thematic areas discussed in the policy both by corporate and individual staff contributions in terms of time and donations in cash and kind.

Corporate social responsibility initiatives during the financial year

i. The Kenya Medical Association Cancer Awareness Campaign

Privatization Commission supported the Kenya Medical Association Cancer Awareness Campaign as a Bronze Corporate Sponsor. The sponsorship was for **Ksh.250,000.00**.

ii. Kenya Freedom From Hunger Council

For three years now, the Commission has been a sponsor of the Kenya Freedom from Hunger Council (KFFHC). This year the Commission donated **Ksh.100,000.00** and sent staff members to participate in the Food for All Walk that took place on 17th May 2014.

iii. Mater Heart Run

The Commission supported this initiative by a sponsorship of **Ksh.100,000.00** and sent staff members to participate in the Mater Heart Run that took place on 24th May 2014. This is the first time that the Commission was supporting this initiative.

iv. St. John's High School, Pumwani

The Commission donated assorted text books worth Ksh.50,000 to the school to help them build up a more updated library.

v. 2013 Standard Chartered Nairobi Marathon

The Commission was represented in this Marathon by 10 staff members.

vi. Parliament Of Kenya – National Prayer Breakfast

The Commission donated money for logistical support towards the National Prayer Breakfast that was held on 29th May 2014, with a section of the Commission Members attending this function.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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 2014 which shows the state of 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, 2014 are set out on page 1

Board Members

The Board Members who remained in office during the year are shown on page ix

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.



EXECUTIVE DIRECTOR / CEO

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

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 2014.

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, 2014, and of its financial position as at that date. The Board Members further confirm the completeness of the

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

accounting records maintained for the privatization commission's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the 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 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 Company.

Approval of the financial statements

The Privatization Commission's financial statements were approved and signed by the Board Members on 19th September 2014 and signed on its behalf by:



Mr. John Kenduiwo
Commission Member



Mr. Solomon Kitungu
Executive Director/CEO



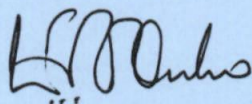
Mr. Benard Nandieki
Commission Member

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 Commission as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards and comply with the Privatization Act, 2005 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

18 May 2015

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE PRIVATIZATION COMMISSION FOR THE YEAR ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Privatization Commission set out on pages 1 to 23, which comprise the statement of financial position as at 30 June 2014, and the statement of financial performance, statement of changes in net assets, statement of comparison of budget and actual amounts and the 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 14 of the Public Audit Act, 2003. 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 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 directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

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 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the

XI. STATEMENT OF FINANCIAL PERFORMANCE
For The Year Ended 30th June, 2014

		2013/14	2012/13
	Note	Kshs'000	Kshs'000
Revenue from non-exchange transactions			
Government Grants	3	229,122	245,000
Revenue from exchange transactions			
Other revenue	4	54,655	44,917
Total Revenue		283,777	289,917
Expenses			
Employee costs	5	110,530	79,477
Board expenses	6	18,623	20,998
Transaction advisory costs	7	55,122	39,408
Depreciation & Amortization expenses	8	12,550	13,905
Repairs and maintenance	9	2,376	2,592
General Expenses	10	38,987	29,203
Total Expenses		238,188	185,583
Surplus/(Deficit) for the year		45,589	104,334

The notes set out on page 6 to 18 form an integral part of the financial statements.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

XII. STATEMENT OF FINANCIAL POSITION

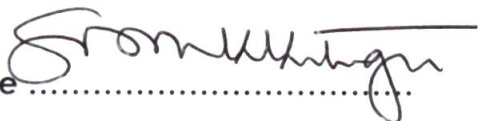
As at 30th June 2014

		2013/14	2012/13
	Note	Kshs'000	Kshs'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	11	573,004	530,724
Receivables	12	268	1,461
Inventories	13	1,047	1,433
		574,319	533,618
Non- Current assets			
Property, Plant and Equipment	14	23,638	33,526
Intangible Assets	15	256	564
		23,894	34,090
Total Assets		598,213	567,708
LIABILITIES			
Current Liabilities			
Trade and other payables	16	6,878	29,238
Provisions	17	39,370	32,094
		46,248	61,332
Net Assets/Equity			
Revenue reserve	19	538,791	493,202
Capital Grants	20	3,276	3,276
Revaluation Reserve	21	9,898	9,898
		551,965	506,376
Total net assets and liabilities		598,213	567,708

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

Executive Director/CEO
Mr. Solomon Kitungu

Date



Chairman Finance & Strategy Committee
Mr. John Kenduwo

Date 29/9/14

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June 2014

	Revenue Reserve	Capital Grants	Revaluation Reserve	Total
	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Reserves as at 1 st July, 2012	388,868	3,276		392,144
Surplus for the year	104,334		9,898	114,232
30th June 2013	493,202	3,276	9,898	506,376
Reserves as at 1 st July 2014	493,202	3,276	9,898	506,376
Surplus for the year	45,589			45,589
30th June 2014	538,791	3,276	9,898	551,965

**PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014**

XIV. STATEMENT OF CASHFLOWS

For the year ended 30th June 2014

		2013/14	2012/13
	Note	Kshs'000	Kshs'000
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Government Grants		229,122	245,000
Other revenue		54,655	44,917
Trade receivables		1,193	2
Payments			
Employee costs		(110,530)	(79,477)
Board expenses		(18,623)	(20,998)
Transaction advisory costs		(55,122)	(39,408)
Repairs and maintenance		(2,376)	(2,592)
General Expenses		(38,987)	(29,203)
Inventories		386	(778)
Trade payables		(15,084)	37,372
Net Cash flow from operating Activities	18	44,634	154,835
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Computers		(2,354)	(3,134)
Net cash from investing activities		(2,354)	(3,134)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and Cash equivalents at the beginning of the year		530,724	379,023
Cash and Cash equivalents at the end of the year		573,004	530,724

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the year ended 30th June 2014

	Original Budget	Adjustments	Final Budget	Actual on Comparable basis	Performance difference
	2013/14	2013/14	2013/14	2013/14	2013/14
	Ksh'000	Ksh'000	Ksh'000	Ksh'000	Ksh'000
Revenue					
Government Grants	230,000	(878)	229,122	229,122	
Other revenue	1,500		1,500	54,655	53,155
Funds brought forward	344,615		344,615	344,615	
Total Income	576,115	(878)	575,237	628,392	53,115
Expenses					
Employee costs	119,080		119,080	110,530	8,550
Board expenses	25,175		25,175	18,623	6,552
Transaction advisory costs	277,002		277,002	55,122	221,879
Repairs and maintenance	5,955		5,955	2,376	3,379
General Expenses	81,758		81,758	38,987	42,771
Total Expenses	508,970		508,970	225,638	283,332
Surplus for the period*				402,754	

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

Surplus for the period	Kshs.402,754
Adjustments for	
2013/14 funds brought forward	Kshs(344,615)
Net changes in working capital	Kshs. (13,505)
Cash generated from operating expenses	<u>Kshs 44,634</u>

XVI. NOTES TO THE FINANCIAL STATEMENTS

1. Statement of compliance and basis of preparations

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).

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the entity and all values are rounded to the nearest thousand (Kshs.000). The accounting policies have been consistently applied to all the years presented.

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

2. Summary of significant accounting policies

a) 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.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

b) Interest Income

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

c) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the 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	30%

d) Intangible assets

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in non-

exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

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

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

e) 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.

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

f) 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.

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

g) 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.

The Commission has a pending court case in which it has been sued by a former member of staff for wrongful termination of services. The case has been going on for the last two years. The estimated contingent amount is kshs.2Million.

h) Nature and purpose of reserves

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

Revenue Reserves.

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

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

Revaluation reserve relate to revaluation of motor vehicles which was carried out in 2012/13. The purpose of the reserve was to bring into the books the fair market value of the motor vehicles since they had been fully depreciated. There was an upward revaluation.

i) Changes in accounting policies and estimates

The Commission recognizes the effects of changes in accounting policies retrospectively. The effects of changes in

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

accounting policies are applied prospectively if retrospective application is impractical.

j) 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.

k) 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

l) 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.

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m) Comparative figures

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

n) 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.

o) 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

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The nature of the asset, its susceptibility and adaptability to changes in technology and processes

The nature of the processes in which the asset is deployed

Availability of funding to replace the asset

Changes in the market in relation to the asset

p) 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 2013/14 financial year.

q) Subsequent events

There have been no event subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2014.

r) Budget variance.

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.

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3. GOVERNMENT GRANTS

	2013/14	2012/2013
	kshs'000	kshs'000
Government Grants-recurrent expenditure	229,122	195,000
Government Grants-transaction Advisory costs		50,000
Total	<u>229,122</u>	<u>245,000</u>

4. OTHER REVENUE

	2013/14	2012/13
	kshs'000	kshs'000
Interest income	54,503	44,157
Sale of tender documents	98	651
Miscellaneous revenue	54	109
Total Revenue	<u>54,655</u>	<u>44,917</u>

5. EMPLOYEE COSTS

	2013/14	2012/13
	kshs'000	kshs'000
Basic salaries	61,757	43,526
House allowance	10,559	7,520
Remunerative allowance	1,200	1,033
Responsibility Allowance	294	318
Acting allowance	6	72
Leave allowance	915	677
Gratuity	16,858	12,061
Commuter Allowance	3,203	2,340
Employer contribution to NSSF	67	60
Medical Scheme	4,830	3,799
Domestic travel & accommodation	588	84
Training expenses including capacity building	8,617	6,718
Welfare expenses	1,571	1,106
Purchase of uniforms & clothing	65	163
Total	<u>110,530</u>	<u>79,477</u>

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6. BOARD EXPENSES

	2013/14	2012/13
	kshs'000	kshs'000
Board Sitting allowance	13,880	8,630
Board Local travel and other related expenses	2,321	2,182
Chairman's expenses	957	1,044
Other Board Expenses	1,465	9,142
Total	18,623	20,998

7. TRANSACTION ADVISORY SERVICES

	2013/14	2012/13
	kshs'000	kshs'000
Transaction Advisory services	55,122	39,408
Total	<u>55,122</u>	<u>39,408</u>

The Transaction Advisory cost refers to the cost of hiring Transaction Advisory Services. The funds brought forward amounting to Kshs. 277Million 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.

8. DEPRECIATION AND AMORTIZATION EXPENSES

	2013/14	2012/13
	Kshs '000	Kshs' 000
Property , Plant & equipment	12,242	12,098
Intangible assets	308	374
Minor assets written off		1,433
Total	<u>12,550</u>	<u>13,095</u>

In 2012/2013 the Commission approved change of depreciation policy and increased the capitalization amount from kshs.3,000 to kshs.50,000. The change was recognized in the financial statements by adjusting the carrying amount of the related minor assets written off and charging to the statement of financial performance.

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9. REPAIRS & MAINTENANCE

	2013/ 14	2012/13
	Kshs'000	Kshs'000
Maintenance expenses- Motor vehicles	254	205
Maintenance expenses- Office equipment	134	998
Maintenance expenses- Office furniture & fittings	7	13
Maintenance expenses- buildings	220	46
Maintenance expenses- IT equip & computers	1,761	1,330
Total	2,376	2,592

10. GENERAL EXPENSES

	2013/14	2012/13
	kshs'000	kshs'000
Telephone expenses	1,162	978
Internet connections	781	470
Courier & postal services	23	25
Publishing & printing services	789	874
Subscription to newspapers and magazines	498	378
Advertising, awareness & publicity campaigns	785	5,173
Rent & rates- non residential	4,279	4,279
Official entertainment	1,127	1,090
Insurance costs	529	556
General office supplies	570	499
Supplies & accessories for computer & printers	413	121
Sanitary & cleaning materials	18	13
Refined fuels & lubricants	535	343
Bank service commission and charges	83	52
Subscription and donations	729	167
Contracted guard and cleaning services	813	632
General consultancy	14,159	3,729
Steering Committee/stakeholders workshop	2,638	2,602
Withholding tax	8,175	6,623
Minor assets	301	121
Audit fees	580	478

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Total	<u>38,987</u>	<u>29,203</u>
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11. CASH AND CASH EQUIVALENTS

	2013/14	2012/13
	kshs'000	kshs'000
Bank	572,926	530,672
Cash-on-hand and in transit	78	52
Total	<u>573,004</u>	<u>530,724</u>

12. TRADE AND OTHER RECEIVABLES

	2013/14	2012/13
	Kshs'000	Kshs'000
Staff loan/advances	5	140
Prepaid Expenses	263	
Interest receivable		1,321
Total	<u>268</u>	<u>1,461</u>

13. 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:

	2013/14	2012/13
	Kshs'000	Kshs'000
Stationery	634	701
Accessories for computers and printers	117	223
Detergents and cleaning materials	1	6
Publicity materials	295	503
Total	<u>1,047</u>	<u>1,433</u>

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14. PROPERTY, PLANT AND EQUIPMENT AS AT 30TH JUNE 2014

Cost/Valuation	Motor Vehicles Kshs'000	Furniture and fittings Kshs'000	Equipment Kshs'000	Computers Kshs'000	Totals Kshs'000
As at 1 st July 2013	11,350	55,620	4,555	13,641	85,166
Additions during the year				2,353	2,353
As at 30th June 2014	11,350	55,620	4,555	15,994	87,519
Depreciation and impairment					
As at 1 st July 2013	2,838	34,524	2,020	12,257	51,639
Charge for the Year	2,838	6,952	569	1,883	12,242
As at 30th June 2014	5,676	41,476	2,589	14,140	63,881
NBV as at 30th June 2014	5,675	14,144	1,966	1,854	23,639
Cost/ Valuation					
As at 1 st July 2012	12,807	58,075	3,272	12,889	87,043
Additions during the year			1,511	855	2,366
Minor assets written off		(2,455)	(228)	(102)	(2,785)
Accumulated depreciation	(11,355)				(11,355)
As at 30th June 2013	11,350	55,620	4,555	13,641	85,166
Depreciation					
As at 1 st July 2012	11,355	28,757	1,555	10,583	52,250
Depreciation on minor assets written off		(1,186)	(104)	(64)	(1,354)
Depreciation on Revaluation	(11,355)				(11,355)
Charge for the Year	2,838	6,952	569	1,739	12,098
As at 30th June 2013	2,838	34,524	2,020	12,257	51,639
NBV As at 30th June 2013	8,513	21,096	2,534	1,384	33,527

As at 30th June 2014, Property, Plant and Equipment worth Kshs. 12,786,755 had been fully depreciated. Although the items are still useful to the organization they were not revalued.

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15. INTANGIBLE ASSETS

2013/2014	
COST/ VALUATION	Kshs'000
As at 1 st July 2013	9,741
Additions during the year	-
As at 30th June 2014	9,741
AMORTIZATION	
As at 1 st July 2013	9,177
Charge for the Year	308
As at 30th June 2014	9,485
NET BOOK VALUE AS AT 30TH JUNE 2014	256
2012/2013	
COST/VALUATION	
As at 1st July 2012	8,972
Additions during the year	768
As at 30th June 2013	9,740
AMORTIZATION	
As at 1 st July 2012	8,802
Charge for the Year	374
As at 30th June 2012	9,177
NET BOOK VALUE AS AT 30TH JUNE 2013	564

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 2014, intangible assets worth Kshs. 8,972,361 had been fully amortized for a period of three years.

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16. TRADE AND OTHER PAYABLES

	2013/14	2012/13
	kshs'000	kshs'000
Trade creditors	6,878	29,238
Total	6,878	29,238

17. CURRENT PROVISIONS

	2013/14	2012/13
	Kshs '000	Kshs' 000
Balance at the beginning of the year	32,094	22,512
Additional provisions raised	26,260	28,740
Provisions Utilized	(18,984)	(19,158)
Closing Balance	39,370	32,094

Provisions relates to:

- Accumulated staff gratuity which is payable on expiry of the contract.
- Directors' retainer fee for the year 2013/14.
- Provisions for ongoing/uncompleted contracted services which related to 2013/14 financial year.

18. Cash generated from operations

	2013/14	2012/13
	Kshs '000	Kshs' 000
Surplus for the Year	45,589	104,336
Adjusted for:		
Depreciation & amortization	12,550	13,903
Decrease in receivables	1,193	2
Decrease in inventories	386	(778)
Decrease in payables	(15,084)	37,372
Net cash flow from operating expenses	44,634	154,835

19. REVENUE RESERVE

	2013/14	2012/13
	Kshs'000	Kshs'000
Opening Balance	493,202	388,868
Surplus for the year	45,589	104,334

PRIVATIZATION COMMISSION ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

Closing Balance	538,791	493,202
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20. CAPITAL GRANTS

	2013/14	2012/13
	Kshs'000	Kshs'000
Capital Grants	3,276	3,276
Total	3,276	3,276

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.

21. REVALUATION RESERVE

	2013/14	2012/13
	Kshs'000	Kshs'000
Revaluation Reserve	9,898	9,898
Total	9,898	9,898

Revaluation reserve relate to revaluation of motor vehicles which was carried out in 2012/13. The purpose of the reserve was to bring into the books the fair market value of the motor vehicles since they had been fully depreciated. There was an upward revaluation

22. Capital commitments

The following Capital commitments are expected to be incurred in the year 2014/15. They had been approved and contracted.

	2014/15	2013/14
	Kshs'000	Kshs'000
Acquisition of fixed assets	7,700	7,900
Transaction Advisory Services	385,395	277,002
Total	393,095	284,902

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23. Operating lease Commitments (Building)

	2013/14	2012/13
	Kshs'000	Kshs'000
Due within one year	6,078	4,279
Due within two-five years	27,511	
Later than five years	7,759	
Total	41,348	4,279

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

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.

	2013/14	2012/13
Total remuneration	Kshs. 52M	Kshs.40M
Number of persons	13	10

25. Currency

The financial statements are presented in Kenya Shillings (Kshs'000)

26. Ultimate and holding Companies

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

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XVII. EVENTS AFTER THE REPORTING DATE

There are no material adjusting events after the reporting date.

XVIII. PROGRESS ON FOLLOW UP OF 2012/13 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
Pc/308/2011-2012(5)	The directors were appointed into office on 24 th September 2012 and Board inaugural meeting was on 2 nd November 2012. Management had made a provision of directors fees of kshs933,334 for two months before the board had been inaugurated	The provision amount was adjusted downwards	Mr. Wycliffe Temesi	Resolved	
	Revaluation amount of the motor vehicles was recorded as kshs 7.2M instead of Kshs11.350M	The amount was adjusted to reflect the correct revaluation amount	Mr W Temesi	Resolved	

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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 no, no State Corporation was privatized during the financial year