

20 ANNUAL 17 REPORT AND FINANCIAL STATEMENTS

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PRIVATIZATION COMMISSION



Enhancing Kenya's Productive Capacity

REGULATORY AND OTHER NON-COMMERCIAL ENTITIES PRIVATIZATION COMMISSION

ANNUAL REPORT & FINANCIAL STATEMENTS FOR YEAR ENDED JUNE 30TH, 2017

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PRIVATIZATION COMMISSION
Enhancing Kenya's Productive Capacity

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 4 JUN 2019	DAY: TUESDAY
TABLED BY:	MAJORITY LEADER
CLERK AT THE TABLE:	

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



PRIVATIZATION COMMISSION

(National Privatization Agency)

PART 1
ANNUAL REPORT
2016/2017

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I. KEY ENTITY INFORMATION AND MANAGEMENT

(a) **Background Information**

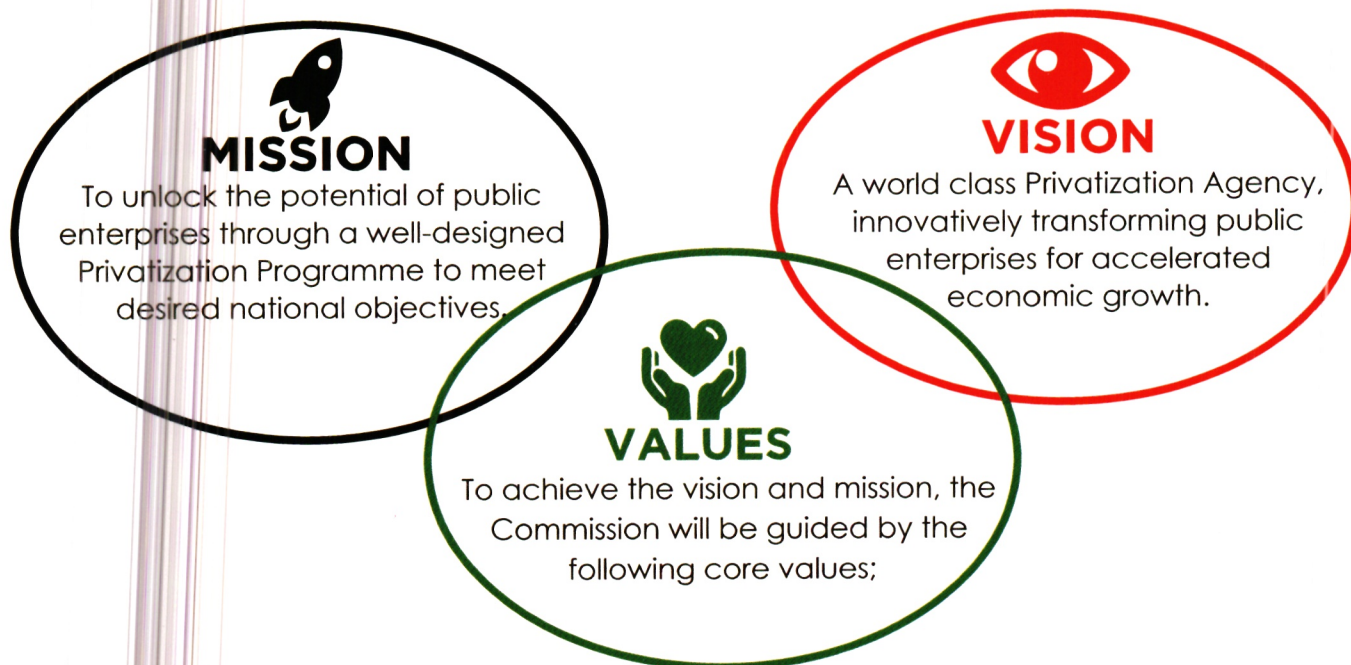
Privatization Commission is a state Corporation established under the, Privatization Act 2005. The Commission is headed by non- executive Board of Directors and has an Executive Director/CEO who oversees the day to day operations of the Commission.

(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 this Act; and
- Carry out such other functions as the Commission considers advisable to advance the Privatization Programme.

The Commission began its operations in February 2008.



Integrity

The Commission shall employ the highest ethical standards, demonstrating honesty and fairness in every action that it takes.

Transparency

The Commission shall be open in its decisions and actions.

Accountability

The Commission shall take full responsibility for our actions that relate to its customers and fellow workers. The Commission takes responsibility for its performance in all its decisions and actions.

Professionalism

The Commission shall uphold professional ethics in discharging its mandate.

Fairness

The Commission shall act justly, respect people, respect privacy, minimize harm and keep its promises.

Inclusiveness

The Commission shall involve stakeholders in decision making.

i) Key Management

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

ii) Fiduciary Management

The Board Members who held office during the financial year ended 30th June 2017 and who had direct fiduciary responsibility are listed in pg Vii.

iii) Fiduciary Oversight Arrangements

The oversight role is vested in the following:

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

iv) Privatization Commission Office

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

v) Privatization Commission Contacts

Tel: +254 20 221 23 46/7/8
+254 20 260 60 05
+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

II. THE BOARD OF DIRECTORS



Hon. Henry Obwocha, EGH
- Chairman

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 (NESC) 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.

D.O.B 28.06.1949

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

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

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

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

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

D.O.B 1969



Hon. Henry Rotich:
Cabinet Secretary
- The National Treasury



Hon. Prof. Githu Muigai

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. He holds LLB and Ph.D. degrees from the University of Nairobi and an LLM Degree from Columbia University School of Law, New York. He is also a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. He was called to the bar in 1985. 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.

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

D.O.B 31.01.1960

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

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

D.O.B 10.06.1956



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



Amb. Boaz Kidiga Mbaya, CBS, MBS

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

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

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

D.O.B 14.03.1951

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

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

He is currently a Managing Partner of Tito & Associates Advocates, a legal consultancy and advisory services firm based in Nairobi. The services provided include, Investment and Commercial Law, Aviation Law, Public Private Partnerships, Energy, Real Estate and advising communities on their proprietary rights over land, training legal practitioners on management issues, negotiations and International law. He provides lectures at conferences and undertakes research on appropriate policy and legal framework on proposed legislative changes. He coaches executives on Aviation Law and on Public Sector - Private sector partnerships for efficient and sustainable delivery of public services.



**Mr. John Joseph
Tito**

D.O.B 30.03.1967



Ms. Mukoruru holds a Masters degree in Procurement and Logistics from Jomo Kenyatta University of Agriculture and Technology, a Bachelors degree in Education from Kenyatta University and a Diploma in Purchasing and Supplies Management from the University of Nairobi. She is a member of Kenya Institute of Supplies Management. She previously worked as a Senior Lecturer at the Meru Teachers Training College.

D.OB 23.10.1972

**Ms. Zipporah
Mukoruru**

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

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

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



**Mr. John Boru
Sosso Halake**

D.O.B 16.04.1948



Mr. Wilfred Kipkorir A. Sang

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

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

D.O.B 28.09.1960

Mohamed Suraw Issak holds a Masters of Business Administration (Strategic Management) degree from Jomo Kenyatta University of Agriculture and Technology and a Bachelors degree in Human Resource Management from Kampala University.

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

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

D.O.B 02.04.1974



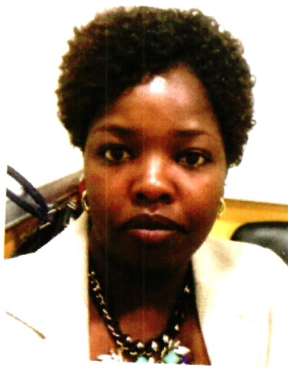
Mr. Mohamed Suraw Issak

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

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

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

D.O.B 24.09.1979



Ms. Faith J. Bett-Boinet

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

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

DOB 27.06.1981



Ms. Sharon Irungu Asiyo



Mr. Solomon Kitungu

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

Mr. Kitungu also has extensive training and experience in public sector, parastatal and infrastructure reforms and privatization.

Prior to being appointed the Executive Director/CEO in 2009, Mr. Kitungu worked in various capacities at the Ministry of Finance rising to the position of Investments Director (Reforms) in the Department of Government Investments and Public Enterprises in 2003.

While working at the National Treasury, Mr. Kitungu represented the Permanent Secretary, National Treasury in a number of Boards of Directors of State Corporations.

D.O.B 25.09.1961



<p>NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS</p>	<p>MAIN AREA OF RESPONSIBILITY</p>
<div data-bbox="188 376 443 660" data-label="Image"> </div> <div data-bbox="459 392 877 672" data-label="Text"> <p>Solomon A. M. K. Kitungu Master of Arts (Economics), Bachelor of Arts (Economics), Advanced Management Programme (AMP)- University of Navarra, Spain and Strathmore Business school, Kenya.</p> </div> <div data-bbox="188 676 877 784" data-label="Text"> <p>Various management, financial, infrastructure, privatization and PPPs and investment trainings. Member, Institute of Economic Affairs.</p> </div>	<div data-bbox="933 421 1324 459" data-label="Section-Header"> <p>EXECUTIVE DIRECTOR/ CEO:</p> </div> <div data-bbox="933 459 1500 716" data-label="Text"> <p>Provision of leadership in the development and implementation of appropriate strategies to enhance the mission, vision and values of the Commission on all matters relating to implementation of the Commission's strategies</p> </div>
<div data-bbox="188 840 434 1124" data-label="Image"> </div> <div data-bbox="459 851 877 1097" data-label="Text"> <p>Jacqueline Mbithe Muindi Master of Laws, Bachelor of Laws, Dip. Legal Education, CPS(K). Various professional and management courses Member, ICPSK, Law Society of Kenya</p> </div>	<div data-bbox="933 900 1141 936" data-label="Section-Header"> <p>LEGAL AFFAIRS</p> </div> <div data-bbox="933 936 1500 1012" data-label="Text"> <p>Provision of sound legal advice to the management and the Commission</p> </div>
<div data-bbox="188 1182 430 1422" data-label="Image"> </div> <div data-bbox="459 1160 877 1438" data-label="Text"> <p>Virginiah Njeri Kariuki Master of Business Administration (Strategic Management), Bachelor of Science in Business Administration (Management & Accounting), CPA (K), CPS finalist, Senior Leadership</p> </div> <div data-bbox="188 1438 877 1579" data-label="Text"> <p>Development Programme (SLDP), Certified Balanced Score Card Professional (BSP), Various professional and management courses. Member ICPAK and AWAK</p> </div>	<div data-bbox="933 1236 1252 1272" data-label="Section-Header"> <p>FINANCE & ACCOUNTS</p> </div> <div data-bbox="933 1272 1500 1415" data-label="Text"> <p>Provision of finance and Accounting services to the Commission In charge of Performance contract reporting at the Commission</p> </div>
<div data-bbox="194 1617 434 1854" data-label="Image"> </div> <div data-bbox="443 1608 845 1886" data-label="Text"> <p>Gideon Kyalo Muinde Master of Business Administration (Strategic Management), Bachelor of Arts (Sociology), Higher Dip. HR Management, Post Graduate Programme for Management</p> </div> <div data-bbox="178 1886 845 2065" data-label="Text"> <p>Development (PMD) professional qualification, Certified Balanced Score Card Professional (BSP), various professional and management courses. Member Institute of Human Resource Management.</p> </div>	<div data-bbox="933 1684 1492 1720" data-label="Section-Header"> <p>HUMAN RESOURCES & ADMINISTRATION</p> </div> <div data-bbox="933 1720 1500 1832" data-label="Text"> <p>Responsible for overall management of human resource and administrative services in the Commission</p> </div> <div data-bbox="933 1863 1197 1899" data-label="Text"> <p>Upto 14th May 2017</p> </div>



NAME OF KEY MANAGER, ACADEMIC/EDUCATIONAL QUALIFICATION, AND KEY PROFESSIONAL QUALIFICATIONS	MAIN AREA OF RESPONSIBILITY
 <p>Rosemary Nduku Ndiritu Master of Business Administration, Bachelor of Commerce (Accounting), (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 Upto 6th June 2017</p>
 <p>Charles Odhiambo Ochola Master of Business Administration (Finance), Bachelor of Arts (Economics), 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>
 <p>Bessie Valerie Atieno Master of Arts (Communication Studies-Corporate Communication), Bachelor of Arts (Language and Literary Studies), Post Graduate Diploma in Mass Communication. Various professional and management courses. Member, Public Relations Society of 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 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>

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 2017.

Economic Environment

The economic growth in Kenya was solid in 2016, coming in at an estimated 5.9%—a five-year high. This was been supported by a stable macroeconomic environment, low oil prices, earlier favorable harvest, rebound in tourism, strong remittance inflows, and an ambitious public investment drive.

Nonetheless, Kenya is currently facing headwinds that are likely to dampen GDP growth in 2017.

Strategy

During the year the sugar Companies transactions implementation remained on hold on account of judicial and constitutional applications in court. Following hearing of the consolidated cases in December 2016 judgement was still awaited. The matter was also waiting for discussion by the Intergovernmental Budget and Economic Council (IBEC).

Also during the year, three hotels transactions remained on hold awaiting finalization of consultations within Government, requested for by Cabinet Secretary for Tourism. The Commission made presentation to the sector to assist to expedite decision process on the hotel transactions.

Overview of the Results

Following completion of the study on feasibility of merging the Government owned/controlled banks, the Commission updated and resubmitted detailed proposal for NBK, DBK and the Consolidated Bank of Kenya. While waiting for the Cabinet's approval, The National Treasury received a takeover proposal from KCB on NBK which is under consideration. In addition the National Treasury requested the Commission to provide to the Consolidated Bank technical support on structuring a rights issue, with respect to which the Commission sought approval from the Public Procurement Authority to retain PWC to undertake the work in view of the continuing privatization transaction assignment.

Corporate Governance

The board was reconstituted with effect from 29th June 2016 when Parliament approved the names nominated for approval. The Commission 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 have also undertaken board evaluation for the period ending 30th June 2017 and transmitted the results to the designated oversight bodies.

Emerging Issues

The stalled State Owned Enterprises (SOEs) of rationalization and current court cases stand out as exogenous factors affecting implementation on the sugar companies privatization of the programme adversely.

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 SOE's 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 Corporation.

I would like to thank the staff and Commission members for their dedication to work during the year.



HON. HENRY OBWOCHA, EGH
CHAIRMAN

Overview

During the year the Privatization Commission was able to update and submit to National Treasury detailed Privatization proposal for the National Bank, the Development Bank and the Consolidated Bank in addition to other work that was on-going. However judgement on judicial and constitutional cases pending in court with respect to devolution of Sugar Companies was not delivered continuing to delay their privatization. Implementation of the Programme also continued to be affected adversely by the delayed implementation of the Rationalization of the State Owned Enterprises on account of which most of the privatization had been stopped.

Management implemented all agreed targets under the performance contract, that were within the Commission's control and continued providing technical support to the National Treasury on some of the enterprises under the programme.

Implementation of Privatization Programme

Most of the transactions having been affected by the decision to hold transactions in abeyance, the cases in court and on-going consultations the transaction work during the year was limited to induction of new members, restarting of allowed transactions and updating of the due diligence report for the Development Bank, the Consolidated Bank and the National Bank which were submitted to the National Treasury. The Commission also held a number of stakeholders meetings. Meanwhile Management redirected a lot of effort to the resolve the matters currently in court.

Strategic Plan

The Commission reviewed and approved the new five year Strategic Plan for the period 2016 – 2021, which had been prepared under the leadership of the Commission team that was place up to September 2015 but had not been approved. The Implementation of the plan started in October 2016.

ISO Certification

The Commission continued to improve its Quality Management Systems. The Commission received a recertification for ISO 9001:2008 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 respective departmental and sectional ISO procedures. In the financial year 2017/2018 the Commission plans to migrate to ISO 9001:2015.

Performance Contracting

The Commission signed a performance contract with the Government of Kenya through the National Treasury. The Commission met all the targets that were within its control.

Compliance with the Constitution and other Legislations

The Commission carried out legal audit exercise using legal affairs department. The exercise confirmed that the Commission is in full compliance with the applicable legislations.

Policies and Procedures

During the year the Commission revised its Human Resources polices to align them with the revised policies and guidelines released recently by the Public Service Commission. In addition the Commission also reviewed other policies to update them to capture recent changes in laws, practices and guidelines form the Government. The following HR policies were reviewed:

- Staff scheme of service
- Staff development
- Discipline Procedure
- Records Management
- National Values Internship and
- Induction policy.

Challenges and Recommendations

Due to the continued delay of the completion of the SOE's rationalization and related restrictions and devolvement related cases in court, there are still many uncertainties which continue to slow down the Privatization work.
Utilization of the budgeted resources also remains low.

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 were approved by the National Assembly with amendments. While the amendments clarified the approval process at the National Assembly through submission of a sessional paper, approval by the National Assembly was retained.

Conclusion

We remain 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 have continued contributing significantly to the Commission's work and the Commission's staff continued commitment dedication of work.



JACQUELINE MUINDI
Ag. EXECUTIVE DIRECTOR/CEO



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.

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 & Risk Management Committee**
- (iv) **Privatization Steering Committees:**
 - * Banking Privatization Steering Committee (extended to cover Kenya Wine Agencies offer of shares to staff)
 - * Tourism Finance Corporation Hotels
 - * Approved Kenya Ports Authority Projects
 - * Agro-Chemical and Food Company Limited
 - * Kenya Pipeline Company Limited
 - * Isolated Power Stations
 - * Kenya Meat Commission
 - * New Kenya Co-operative Creameries Limited
 - * Numerical Machining Complex
 - * Kenya Electricity Generating Company Limited
 - * 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 five (5) 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:

- i) Design and formulation of the Privatization Programme
- ii) Designing and reviewing of the Commission's Corporate Strategy;
- iii) Reviewing the Privatization Commission's financial policies and making appropriate recommendations to the Commission on issues that require strategy adjustment;
- iv) Reviewing and recommending policies that maintain and improve the financial health, integrity and procedures to the Commission for approval;
- v) Reviewing and recommending a medium-term financial plan for approval by the Commission;
- vi) 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;
- vii) Reviewing recommendations for banking and authorized signatories;
- viii) Reviewing and recommending the performance targets under the Privatization Commission's Performance Contract for approval by the Commission;

- ix) Reviewing and recommending the Privatization Commission's annual procurement plan for approval by the Commission;
- x) 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.

The HRRMC comprises five (5) 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:

- i) Examining policies and procedures on employment, extension, development and staff promotion;
- ii) 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;
- iii) 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;
- iv) Examining and reviewing the terms and conditions of service;
- v) Examining the adequacy of performance and reward system;
- vi) Examining and reviewing staff welfare policies; and
- vii) Proposing innovative ideas to enable the Privatization Commission to achieve its Mission, Vision and Strategic objectives.

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

- i) 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;
- ii) Reviewing and recommending for approval the Commission's risk appetite and tolerances;
- iii) Periodically reviewing enterprise-wide risk appetite and risk thresholds for validity and recommending changes as necessary;
- iv) Assessing the results and effectiveness of the Commission's control self-assessment process;
- v) 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;
- vi) Assessing risks impacting key business activities of Commission;

- vii) 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;
- viii) Reviewing and recommending for approval, the charter of the MRMBCC; and
- ix) 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 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 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:

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

The Composition of the Committees is as follows:

Name of the Committee	Members
Audit Committee	<ol style="list-style-type: none"> 1. Mr. Mohamed S. Issak (Chairman) 2. Mr. John J. B. Halake 3. Ms. Faith J. B. Boinet 4. Attorney General 5. CS, National Treasury
Finance and Strategy Committee	<ol style="list-style-type: none"> 1. Mr. John J. Tito (Chairman) 2. Mr. Wilfred K. Sang 3. Amb. Boaz K. Mbaya 4. CS, National Treasury 5. Executive Director/CEO
Human Resources and Risk Management Committee	<ol style="list-style-type: none"> 1. Ms. Zipporah Mukoruru (Chairperson) 2. Amb. Boaz K. Mbaya 3. CS, National Treasury 4. Attorney General 5. Executive Director/CEO
Public Sector Owned/Controlled Sugar Companies Privatization Steering Committee	<ol style="list-style-type: none"> 1. Amb. Boaz K. Mbaya (Chairman) 2. Mr. Wilfred K. Sang 3. Ms. Zipporah Mukoruru 4. Mr. John J. Tito 5. Mr. Mohamed S. Issak 6. CS, National Treasury 7. Attorney General 8. Executive Director/CEO

Name of the Committee	Members
Public Sector Owned/Controlled Hotels Privatization Steering Committee	<ol style="list-style-type: none"> 1. Ms. Faith J. B. Boinet (Chairperson) 2. Mr. Mohamed S. Issak 3. Mr. John J. B. Halake 4. Mr. Wilfred K. Sang 5. Amb. Boaz K. Mbaya 6. CS, National Treasury 7. Attorney General 8. Executive Director/CEO
Banks (Consolidated Bank of Kenya Limited, Development Bank of Kenya Limited and National Bank of Kenya Limited) Privatization Steering Committee	<ol style="list-style-type: none"> 1. Mr. Wilfred K. Sang (Chairman) 2. Ms. Faith J. B. Boinet 3. Ms. Zipporah Mukoruru 4. Mr. John J. Tito 5. Mr. John J. B. Halake 6. CS, National Treasury 7. Attorney General 8. Executive Director/CEO
New Kenya Cooperative Creameries Limited Privatization Steering Committee	<ol style="list-style-type: none"> 1. Mr. John J. B. Halake (Chairman) 2. Ms. Faith J. B. Boinet 3. Mr. Mohamed S. Issak 4. Mr. John J. Tito 5. CS, National Treasury 6. Attorney General 7. Executive Director/CEO

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.


No. 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
Transactions/Streering Committee meetings	12	2	14
Finance & Strategy Committee	7	6	13
Human Resource & Risk Management	14	27	41
Commission Board Meeting	12	27	39
Audit Committee	6	5	11
Adhoc Committees	0	7	7
Total	51	74	125

No. of Commission Board and Committees meetings attended by each Member

NAME	TYPE OF MEETING						TOTAL
	PSC	F&SC	HRRMC	AC	ADHOC	BOARD	
Hon. Henry Obwocha	9	2	3	0	0	36	50
Amb. Boaz Kidiga Mbaya	12	6	40	0	3	39	100
Ms. Faith J. Bett-Boinet	0	0	0	1	1	6	8
Mr. John Joseph Tito	9	12	3	0	4	35	72
Ms. Zipporah Mukoruru	13	2	41	0	3	39	98
Mr. Mohamed Suraw Issak	10	1	2	10	3	34	60
Mr. John Boru Sosso Halake	13	2	1	11	2	37	66
Mr. Wilfred Kipkorir A. Sang	12	10	3	0	1	29	55
Mrs. Beatrice Gathirwa (Alt. CS, National Treasury)	9	8	34	7	2	29	89
Mrs. Sharon Irungu- Asiyo (Alt. to the Attorney General)	7	2	31	4	7	22	73
Kenneth Gathuma (Rep. Attorney General)	0	0	4	0	0	9	13
Mr. Ashley Toywa (Rep Attorney General)	2	0	3	0	0	2	7
Mr. Humphrey Muhu (Rep. CS, NT)	0	2	2	2	0	1	7
Mr. Festus King'ori (Rep. CS, NT)	1	0	0	0	0	0	1
Mr. Solomon Kitungu (Executive Director/CEO)	14	13	41	8	1	38	115



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.

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 6.

The salaries and remuneration of the Chief Executive Officer and the Senior Management is disclosed in section XVI (Notes to the financial statements) note 5.

Board Evaluation Results

The evaluation for the year was carried out in August 2017.

10. Leadership and Integrity Code and Whistle-Blowing Policy

The Commission reviewed its leadership and integrity code. The Commission has a Whistle-blowing policy which encourages persons who have reason to believe that a Board Member or employee has not acted in accordance with the leadership and integrity code and normal integrity standards to bring the matter to the relevant authority or the appropriate government agency without risking retaliation.

The policies are available in 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 conflict of interest policy together with the Board Charter which sets out the requirements are available in the Commissions' website www.pc.go.ke

12. 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

13. 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. During the year, the Commission developed an engagement strategy and it also updated its stakeholders database.

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"> i) Stakeholders consultations at a meeting held with Governors, Senator and Members of Parliament from the factory and Cane catchment Counties. ii) Presentation to Senate Committee on Agriculture Livestock and Fisheries iii) Sharing of report on stakeholders consultations iv) Appearance before the Implementation Committee of Parliament. v) Submission of required information vi) Participation in review of reports and preparation of detailed proposals vii) 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"> i) Meetings to make information and seek guidance ii) Request for statutory and other approvals. iii) Submission of statutory and other reports 	<ul style="list-style-type: none"> • Opening of stakeholders workshops • Appearance at National Assembly • 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"> i) Attendance and participation in Steering Committee meetings ii) 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



Stakeholder	Nature of Stakeholder Engagement	Outcome
Government investments Identified for Privatization	<ul style="list-style-type: none"> i) Attendance of Steering Committee meetings ii) 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

14. Key Organizational Risks

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

15. 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 Enterprise 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.

16. 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.

17. Related Party Transaction

This is disclosed in Section XVI note 2(r) and 22.

18. 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 behavior 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.

19. Procurement Policy

All procurement at the Commission were undertaken in accordance with

- The Public Procurement and Asset Disposal Act, 2015
- The Public Procurement and Disposal Regulations, 2006
- Relevant Legal notices issued by the Treasury Cabinet Secretary
- Relevant guidance issued by the Public Procurement and Regulatory Authority (PPRA)



20. Top Ten Contracts of the Organization in Terms of Value

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

	ITEM DESCRIPTION	AMOUNT - KES	FIRM AWARDED
1	Lease of office accommodation for the Commission at Extelcoms House 11 th Floor	6,702,177.76	M/s Telkom Kenya Limited
2	Provision of staff recruitment consultancy	4,636,732.00	M/s Hawkins Associates
3	Supply and Delivery of Laptop computers	1,622,516.00	M/s Seltak Computers
4	Supply and Delivery of I PADS and Detachable laptops	1,430,036.00	M/s Intermass Technologies East African Limited
5	Provision of Staff Medical Insurance Cover.	1,120,887.00	M/s Saham Assurance
6	Supply and delivery of telephone calling cards for commission's staff	1,092,996.00	M/s Extreme Computing Solutions
7	Provision of internet wiring, installation & configuration connectivity.	994,620.00	M/s Telkom Kenya Limited
8	Provision of Group Medical Insurance cover for the commission board members.	991,499.00	M/s CIC Insurance Company Limited
9	Provision of staff parking facilities at Kenya Railways Corporation HQs	864,000.00	M/s Kenya Railways Corporation
10	Provision of transportation services to the commission for visit of NKCC factory for six days.	823,200.00	M/s Jumeirah Safaris Limited

21. Number of Legal Challenges to Procurement

There were no legal challenges to procurement during the financial year 2016/17.

22. Compliance with Laws, Regulations and Standards

As per the requirements of quality Management 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.

23. 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)



A. CORPORATE SOCIAL RESPONSIBILITY

Introduction

The goal of CSR at the Privatization Commission is to embrace responsibility for its actions and encourage a positive impact through its activities on the environment, customers, employees, suppliers and all other members of the public. In the period under review, the Commission participated in the following CSR initiatives:

2016 Standard Chartered Nairobi Marathon

The 14th edition of the Standard Chartered Nairobi Marathon was held on Sunday, 30th October 2016. 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.

Kenya Red Cross Society #Tree Challenge

The Tree Challenge is an initiative of Sustainable Environment Restoration Programme (SERP), championed by the Kenya Red Cross and other partners, whose overall goal is to contribute to the achievement of a sustainable natural environment in the country. The programme envisions a multifaceted approach that includes tree planting and nurturing, waste management, effective climate information and environment education.

The Tree Challenge was to take the format of a tree planting marathon to plant **5 million trees in one hour** to raise awareness on environment restoration and sustainability.

To achieve this, Kenya Red Cross required tree seedlings and human capacity to plant the trees. The Commission donated Ksh. 100,000.00 to go towards the purchase of tree seedlings for the Tree Challenge.

Riruta Shade For Orphans And Vulnerable Children

This was established in 1986 and currently caters for 40 children aged between three to eighteen years. The home is located in Riruta. The Commission visited the Children's Home on 31st March 2017 and donated dry foods, sanitary items and planted trees.

Kenya Red Cross Society (KRCS) #WeAreAllKenyans Drought Appeal

This is an initiative where KRCS is targeting to reach 340,786 people in 13 drought-stricken counties at the cost of Ksh. 1 billion. The money will enable intervention in the following areas: cash transfers, food vouchers, health and nutrition, food distribution, water and sanitation and livestock destocking.

The long and short rains were inadequate in 2016. It is expected that some counties may slide into the emergency phase in March 2017 and push the number of affected people to four million if it doesn't rain in the coming month. 23 out of 47 counties have been hard hit by the drought.

The Commission donated Ksh. 100,000.00 towards the Kenya Red Cross Society (KRCS) #WeAreAllKenyans Drought Appeal.



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
PRIVATIZATION COMMISSION**

**FOR THE YEAR ENDED
30 JUNE 2017**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

**REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF
PRIVATIZATION COMMISSION FOR THE YEAR ENDED 30 JUNE 2017**

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Privatization Commission set out on pages 1 to 33, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Privatization Commission as at 30 June, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (accrual basis) and comply with the Privatization Act, 2005 of the Laws of Kenya.

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

Basis for Qualified Opinion

1. Board Expenses

The Commission's internal controls on board expenditure were noted to be weak. Included in the board expenditure of kshs.40,303,906 is an expenditure of kshs.1,060,000 lacking either confirmation of the chairperson, minutes signed by outsiders, minutes provided not in agreement with the attendance register or no minutes were provided at all. In the circumstances, it was not possible to confirm fully that value for money was received from the board expenditure of Kshs.40, 303,906 for the year under review.

2. Variance in Inventory

The inventory closing balance reflected in the financial statement of kshs.1,225,217 differ with physical stock count balances of kshs.878,042 by kshs.347, 174 which has not been

Report of the Auditor-General on the Financial Statements of Privatization Commission for the year ended 30 June 2017

reconciled or explained by management. Therefore the inventory closing figure of kshs.1,225,217 cannot be confirmed correct.

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

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. Except for the matter described in the Basis for Qualified Opinion, I have determined that there are no key audit matters to communicate in my report.

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

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

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

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

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

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

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

Report of the Auditor-General on the Financial Statements of Privatization Commission for the year ended 30 June 2017

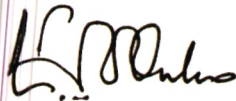
they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Commission to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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



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

Nairobi

04 May 2018

For The Year Ended 30th June, 2017

		2016/17	2015/16
Revenue	Note	Kshs	Kshs
Revenue from non-exchange transactions			
Government Grants	3	220,000,000	220,000,000
Revenue from exchange transactions			
Other revenue	4	59,765,934	87,350,205
Total Revenue		279,765,934	307,350,205
Expenses			
Employee costs	5	91,100,650	104,670,140
Board expenses	6	40,303,906	11,337,202
Transaction advisory costs	7	0	44,153,476
Depreciation & Amortization expenses	8	4,357,701	11,100,295
Repairs and maintenance	9	2,308,445	2,732,445
General Expenses	10	52,946,773	57,070,861
Total Expenses		191,017,475	231,064,419
Surplus for the year		88,748,459	76,285,786
Other comprehensive income			
Revaluation reserve	19	18,243,245	1,194,000
Total Comprehensive Income		106,991,704	77,479,786

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

XII. STATEMENT OF FINANCIAL POSITION

As at 30th June 2017


	Note	2016/17 Kshs	2015/16 Kshs
ASSETS			
Current Assets			
Cash and Cash Equivalents	11	799,572,273	726,417,100
Receivables	12	15,000	375,754
Inventories	13	1,225,217	649,209
Total Current Assets		800,812,490	727,442,063
Non- Current assets			
Property, Plant and Equipment	14	20,178,651	2,346,755
Intangible Assets	15		100,000
Total Non- current Assets		20,178,651	2,446,755
Total Assets		820,991,141	729,888,818
LIABILITIES			
Current Liabilities			
Trade and other payables	16	394,550	6,282,039
Provisions	17	19,062,450	29,064,342
Total Current Liabilities		19,457,000	35,346,381
Net Assets/Equity			
Revenue reserve	18	772,198,398	683,449,939
Revaluation Reserve	19	29,335,743	11,092,498
Total Net assets/Equity		801,534,141	694,542,437
Total net assets and liabilities		820,991,141	729,888,818

The Financial Statements set out on pages 1 to 6 were signed on behalf of the Board of Directors by:



.....
HON. HENRY OBWOCHA, EGH
CHAIRMAN COMMISSION

Date 27th September, 2017



.....
JACQUELINE MUINDI
AG. EXECUTIVE DIRECTOR/CEO

Date 27th September, 2017

XIII. STATEMENT OF CHANGES IN NET ASSETS

For the year ended 30th June 2017

	Revenue Reserve Kshs	Revaluation Reserve Kshs	Total Kshs
Reserves as at 1st July 2016	683,449,939	11,092,498	694,542,437
Surplus for the year	88,748,459		88,748,459
Revaluation reserve		18,243,245	18,243,245
30th June 2017	772,198,398	29,335,743	801,534,141
Reserves as at 1st 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



For the year ended 30th June 2017

	Note	2016/17 Kshs	2015/16 Kshs
CASH FLOW FROM OPERATING ACTIVITIES			
Net Cash flow from operating Activities			
Operating Surplus for the period		88,748,459	76,285,786
Adjustments for:			
Depreciation		4,257,701	11,000,295
Amortization		100,000	100,000
Operating Surplus before working capital changes		93,106,160	87,386,081
Changes in Working Capital			
Decrease in receivables		360,754	(327,574)
Increase in inventories		(576,008)	260,444
Decrease in payables		(15,889,381)	(3,553,429)
Net cash flow from changes in working capital		(16,104,635)	(3,620,559)
Net Cash flow from operating activities		77,001,525	83,765,522
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of assets		3,846,352	
Net cash from investing activities		3,846,352	
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		73,155,173	83,765,522
Cash and Cash equivalents at the beginning of the year		726,417,100	642,651,578
Cash and cash equivalents at the end of the year		799,572,273	726,417,100

For the year ended 30th June 2017

	Original Budget	Adjust ments	Final Budget	Actual on Comparable basis	Performance difference	N o t e s
	2016/17	2016/17	2016/17	2016/17	2016/17	
	Kshs	Kshs	Kshs	Kshs	Kshs	
Revenue						
Government Grants	220,000,000		220,000,000	220,000,000		
Other revenue	30,000,000		30,000,000	59,765,933	29,765,933	a
Funds brought forward	726,445,500		726,445,500	726,445,500		
Total Income	976,445,500		976,445,500	1,006,211,433	29,765,933	
Expenses						
Employee costs	169,486,596		169,486,596	91,100,650	78,385,946	b
Board expenses	53,200,000		53,200,000	40,303,906	12,896,094	
Transaction advisory costs	533,704,481		533,704,481	0	533,704,481	
Repairs and maintenance	10,800,000		10,800,000	2,308,445	8,491,555	
General Expenses	128,570,000		128,570,000	52,946,773	75,623,227	
Purchase of Fixed assets	11,300,000		11,300,000	3,846,352	7,453,648	
Provisions & accruals	41,121,529		41,121,529	20,673,472	20,448,057	
Total Expenses	948,182,606		948,182,606	211,179,598	737,003,008	
Surplus funds for the period*				795,031,835		

Notes

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

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

	Kshs
Surplus for the period	795,031,835
Adjustments for;	
2016/17 funds brought forward	(726,445,500)
Purchase of Fixed Assets	3,846,352
Provisions and accruals relating to 2015/16	20,673,472
Depreciation and amortization	(4,357,701)
Cash generated from operating activities	88,748,459

Reconciliation of Revenue

Revenue as per budget statement	Kshs. 1,006,211,433
Less Funds brought forward	Kshs. 726,445,500
Revenue as per the financial performance	Kshs . 279,765,934

Reconciliation of Expenditure

Expenditure as per budget statement	Kshs. 211,179,598
Less capital items, Provisions & accruals	Kshs. (24,519,824)
Add back depreciation & amortization	Kshs 4,357,701
Expenditure as per the financial performance	Kshs . 191,017,475



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

The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note (I).

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

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

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. Adoption of New and Revised Standards

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

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



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

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

Standard	Effective date and impact:
IPSAS 39: Employee Benefits	Applicable: 1st January 2018 The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.
IPSAS 40: Public Sector Combinations	Applicable: 1st January 2019: The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

iii. Early Adoption of Standards

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

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

e. Budget Information

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

f. 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.

g. 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.

h. 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.

i. 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 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.

j. 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%

k. 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.

l. 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.

m. 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.

n. 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

o. Nature and Purpose of Reserves

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

Revenue Reserves

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

Revaluation Reserves

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

p. 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.

q. 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.

r. 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

s. 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.

t. Comparative Figures

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

u. 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.

v. 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.

w. 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 2016/17 financial year.

x. Taxation

Privatization Commercial is a non-Commercial Parastatal, that perform direct policy actions for the government, and it's fully funded through budget transfers and therefor does not pay any corporation tax.

y. 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, 2017.

z. 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.

The amount that best represents the entity's maximum exposure to credit risk is made up as follows;

	Total Amount (Kshs)	Fully Performing (Kshs)	Past Due (Kshs)	Impaired (Kshs)
At 30 June 2017				
Bank Balances	799,572,273	799,572,273	-	-
Receivables from Exchange Transactions	59,765,934	59,765,934	-	-
Receivables from Non-Exchange Transactions	220,000,000	220,000,000	-	-
At 30 June 2016				
Bank Balances	726,417,100	726,417,100	-	-
Receivables from Exchange Transactions	87,350,205	87,350,205	-	-
Receivables from Non-Exchange Transactions	220,000,000	220,000,000	-	-

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.

	Less than 1 month (Kshs)	Between 1 and 3 months (Kshs)	Over 3 months (Kshs)
At 30 June 2017			
Trade Payables	394,550	-	-
At 30 June 2016			
Trade Payables	6,282,039	-	-



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.

	2016/2017	2015/2016
	Kshs	Kshs
General Fund	772,198,398	683,449,939
Revaluation Reserve	29,335,743	11,092,498
Total	801,534,141	694,542,437

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 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

	2016/17 Kshs	2015/16 Kshs
Government Grants-recurrent expenditure	220,000,000	220,000,000
Total	<u>220,000,000</u>	<u>220,000,000</u>

4. OTHER REVENUE

	2016/17 Kshs	2015/16 Kshs
Interest income	59,470,685	86,306,733
Sale of bid documents	14,000	81,000
Miscellaneous revenue	281,249	962,472
Total Revenue	<u>59,765,934</u>	<u>87,350,205</u>

5. EMPLOYEE COSTS

	2016/17 Kshs	2015/16 Kshs
Basic salaries	51,514,300	55,326,295
House allowance	8,541,653	9,403,387
Remunerative allowance	1,200,000	1,200,000
Responsibility/Acting/Special duty Allowance	956,458	1,612,614
Leave allowance	1,693,405	1,132,174
Gratuity	10,465,281	16,483,076
Commuter Allowance	2,531,437	2,795,516
Employer contribution to NSSF	60,200	65,800
Medical Scheme	4,010,756	4,288,396
Domestic travel & accommodation	1,278,576	1,593,525
Foreign Travel & accommodation	0	889,100
Training expenses including capacity building	7,663,874	8,618,315
Welfare expenses	1,022,560	1,086,410
Purchase of uniforms & clothing	162,150	175,532
Total	<u>91,100,650</u>	<u>104,670,140</u>

The salaries and remunerations of the Chief Executive Officer was Kshs. 11,124,000 while the senior management staff earned Kshs. 42,308,320.

6. BOARD EXPENSES

	2016/17 Kshs	2015/16 Kshs
Board Sitting allowance	15,900,000	4,400,000
Board Local travel and other related expenses	11,007,133	2,925,881
Chairman's expenses	1,044,000	1,044,000
Other Board Expenses	12,352,773	2,967,321
Total	<u>40,303,906</u>	<u>11,337,202</u>

Individual payment to the Commission Members was as follows:

Commission Member

Commission Member	Amount earned (Kshs)
Hon. Henry Obwocha	3,664,780
John Tito	2,183,045
Amb. Boaz K. Mbayá	3,467,992
Zipporah Mukoruru	7,242,174
Mohamed Suraw	3,297,622
Wilfred Sang	1,876,174
Humphrey Muhu	484,100
John B.S.Halake	2,679,679
Faith Bett	727,145
Beatrice Gathirwa (Rep. PS National Treasury)	1,815,800
Festus Kingori (Rep.PS National Treasury)	20,000
Sharon Irungu Asiyo (Rep. Attorney General)	1,906,000
Kenneth Gathuma (Rep. Attorney General)	283,429
Ashleys Towya (Rep. Attorney General)	173,100
Anne Onyango (Rep. PS Min of Agriculture, Livestock & Fisheries)	60,000
Andrew Mbuwi (Rep PS Min of Industry, Trade & Cooperatives)	80,000
Total amount paid directly to the Commission Members	<u>29,961,040</u>

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.

7. TRANSACTION ADVISORY SERVICE

	2016/17 Kshs	2015/16 Kshs
Transaction Advisory services		44,153,476
Total		<u>44,153,476</u>

The Transaction Advisory cost refers to the cost of hiring Transaction Advisory Services. Part of the funds brought forward amounting to Kshs. 533 Million 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

	2016/17 Kshs	2015/16 Kshs
Property , Plant & equipment	4,257,701	11,000,295
Intangible assets	100,000	100,000
Total	<u>4,357,701</u>	<u>11,100,295</u>

9. REPAIRS & MAINTENANCE

	2016/17	2015/16
	Kshs	Kshs
Maintenance expenses- Motor vehicles	243,344	473,264
Maintenance expenses- Office equipment	31,494	547,324
Maintenance expenses- Office furniture & fittings	2,750	266,000
Maintenance expenses- Buildings	1,051,140	50,729
Maintenance expenses- IT equip & computers	979,717	1,395,128
Total	<u>2,308,445</u>	<u>2,732,445</u>

10. GENERAL EXPENSES

	2016/17	2015/16
	Kshs	Kshs
Telephone expenses	1,056,280	1,112,148
Internet connections	433,687	720,592
Courier & postal services	27,920	43,669
Publishing & printing services	145,269	790,220
Subscription to newspapers and magazines	220,077	137,793
Advertising, awareness & publicity campaigns	3,842,347	2,249,899
Rent & rates- non residential	7,400,000	6,000,962
Official entertainment	1,130,611	1,146,433
Insurance costs	409,303	399,233
General office supplies	277,442	548,567
Supplies & accessories for computer & printers	349,019	291,208
Sanitary & cleaning materials	0	1,085
Refined fuels & lubricants	296,686	280,515
Bank service commission and charges	107,774	99,409
CSR activities	927,000	1,945,855
Contracted guard and cleaning services	677,964	767,340
Legal fees	929,665	1,458,482
General consultancy	21,055,752	8,923,120
Steering/stakeholders Expenses	4,188,094	17,519,734
Withholding tax	8,891,883	12,054,597
Audit fees	580,000	580,000
Total	<u>52,946,773</u>	<u>57,070,861</u>



11. CASH AND CASH EQUIVALENTS

No.	Financial Institutions/Banks	Facility	2016/17 Kshs	2015/16 Kshs
1	Co-operative Bank Account No 0114118908900	Current Account	761,486,984	262,047,981
2	KCB Account No. 1104820730	Current Account	38,063,054	464,338,561
3	Cash-on-hand and in transit	Cashbox	22,235	30,558
Total			<u>799,572,273</u>	<u>726,417,100</u>

12. TRADE AND OTHER RECEIVABLES

	2016/17 Kshs	2015/16 Kshs
Staff loan/advances	15,000	310,754
Prepaid Expenses	0	65,000
Total	<u>15,000</u>	<u>375,754</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:

	2016/17 Kshs	2015/16 Kshs
Stationery	764,540	463,004
Accessories for computers and printers	454,077	77,760
Detergents and cleaning materials	0	13,895
Publicity materials	6,600	94,550
Total	<u>1,225,217</u>	<u>649,209</u>

14. PROPERTY, PLANT AND EQUIPMENT AS AT 30TH JUNE 2017

Cost/Valuation	Motor Vehicles	Furniture and fittings	Equipment	Computers	Totals
	Kshs	Kshs	Kshs	Kshs	Kshs
As at 1 st July 2016	11,350,000	55,619,621	4,554,732	1,923,000	73,447,353
Revaluations		(38,526,621)	(2,339,732)	0	(40,866,353)
Additions			378,800	3,467,552	3,846,352
Cost/Valuation As at 30th June 2017	11,350,000	17,093,000	2,593,800	5,390,552	36,427,352
Depreciation and impairment					
As at 1 st July 2016	11,350,000	55,381,259	3,728,339	641,000	71,098,598
Depreciation on revaluation		(55,381,259)	(3,728,339)	0	(59,109,598)
Charge for the Year		2,136,625	324,225	1,796,851	4,257,701
As at 30th June 2017	11,350,000	2,136,625	324,225	2,437,851	16,248,701
NBV as at 30th June 2017		14,956,375	2,269,575	2,952,701	20,178,651
Cost/ Valuation					
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

During the year revaluation was carried out in respect to furniture, fittings and equipment. Revaluation for motor vehicles will be carried out in 2017/18 financial year.

15. INTANGIBLE ASSETS

COST/ VALUATION

Opening Balance
Additions during the year

Total

AMORTIZATION

Opening Balance
Charge for the Year

Total

NET BOOK VALUE AT END OF THE YEAR

2016/2017

Kshs

10,147,724

10,147,724

10,047,724

100,000

10,147,724

0

2015/16

Kshs

10,147,724

10,147,724

9,947,724

100,000

10,047,724

100,000

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 2017, intangible assets worth Kshs. 10,147,711 had been fully amortized for a period of three years. The Commission has initiated the process of upgrading the software systems.

16. TRADE AND OTHER PAYABLES

Trade creditors
Other payables
Total

2016/17

Kshs

394,550

0

394,550

2015/16

Kshs

6,192,331

89,708

6,282,039

17. CURRENT PROVISIONS

Balance at the beginning of the year
Additional provisions raised
Provisions Utilized
Closing Balance

2016/17

Kshs

29,064,342

10,671,607

(20,673,499)

19,062,450

2015/16

Kshs

37,908,460

15,655,736

(24,499,854)

29,064,342

Provisions relates to:

- Accumulated staff gratuity which is payable on expiry of the contract.
- Provisions for ongoing/uncompleted contracted services which related to 2016/17 financial year.

18. REVENUE RESERVE

Opening Balance
Surplus for the year
Closing Balance

2016/17

Kshs

683,449,939

88,748,459

772,198,398

2015/16

Kshs

607,164,153

76,285,786

683,449,939

19. REVALUATION RESERVE

Opening Balance
Addition during the year
Closing Balance

2016/17

Kshs

11,092,498

18,243,245

29,335,743

2015/16

Kshs

9,897,680

1,194,818

11,092,498

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

20. CAPITAL COMMITMENTS

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

	2016/17 Kshs	2015/16 Kshs
Approved and contracted		
Transaction Advisory Services	533,704,481	533,704,481
Approved and not contracted		
Acquisition of fixed assets	18,000,000	11,300,000
Acquisition of intangible assets	19,000,000	
Total	<u>570,704,481</u>	<u>545,004,481</u>

21. OPERATING LEASE COMMITMENTS (BUILDING)

	2016/17 Kshs	2015/16 Kshs
Due within one year	7,066,608	6,702,177
Due within two-five years	13,885,446	22,185,044
Total	<u>20,952,054</u>	<u>28,887,221</u>

The current lease agreement with Telkom Kenya is expected to expire in May 2020.

22. 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.

	2016/17	2015/16
Total remuneration	Kshs. 54M	Kshs. 54M
Number of persons	10	10

23. CURRENCY

The financial statements are presented in Kenya Shillings.

24. ULTIMATE AND HOLDING COMPANIES

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

XVII. EVENTS AFTER THE REPORTING DATE

There are no material adjusting events after the reporting date.

XVIII. PROGRESS ON FOLLOW UP OF 2015/16 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 statement is not attached since no privatization took place during the year.

Projects

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

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

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

Status of Projects completion

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

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



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



			N/A	
		Total		
d.	Donor Receipts			
		<u>Bank Statement Date</u>	<u>Amount (Kshs.)</u>	<u>Indicate the FY to which the amounts relate</u>
			N/A	
		Total		

The Commission does not have any inter-entity transfers.

Appendix 3: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA or Donor Transferring the funds	Date received	Nature: Recurrent/Development/ Others	Total Amount - KES	Where Recorded/recognized					Total Transfers during the Year
	as per bank statement			Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
NATIONAL TREASURY	24/8/16	Recurrent	55,000,000	55,000,000					55,000,000
NATIONAL TREASURY	14/11/16	Recurrent	55,000,000	55,000,000					55,000,000
NATIONAL TREASURY	17/3/17	Recurrent	55,000,000	55,000,000					55,000,000
NATIONAL TREASURY	15/5/17	Recurrent	55,000,000	55,000,000					55,000,000
Total			220,000,000	220,000,000					220,000,000