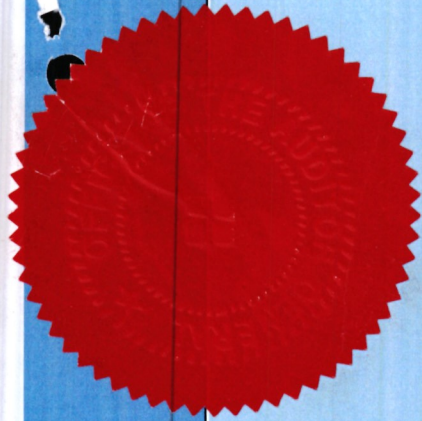



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 27 JUN 2019	DAY: <u>Thursday</u>
TABLED BY: <u>Hon. Washeli Jomo</u>	<b>REPORT</b>
CLERK-AT THE TABLE: <u>Lemne Moses</u>	

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OF

**THE AUDITOR-GENERAL**

ON

**THE FINANCIAL STATEMENTS OF  
FINANCIAL REPORTING CENTER**

**FOR THE YEAR ENDED  
30 JUNE 2018**





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**REGULATORY AND OTHER NON-COMMERCIAL ENTITIES**

*FINANCIAL REPORTING CENTRE*

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

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

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

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## **KEY ENTITY INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Financial Reporting centre (FRC) is established by an act of Parliament, The Proceeds of Crime and Anti-Money Laundering Act (No.9 of 2009) (POCAML). The Financial Reporting Centre (FRC), is Kenya's Financial Intelligence Unit and is established under section 21 of POCAML as a corporate body corporate, with perpetual succession and a common seal. The FRC is capable, in its corporate name, of —

- (a) suing and being sued;
- (b) taking, purchasing or otherwise acquiring, holding or disposing of movable and immovable property;
- (c) entering into contracts;
- (d) doing or performing such other things or acts necessary for the proper performance of its functions under this Act which may lawfully be done by a body corporate.

The FRC's principal objective is to assist in the identification of the proceeds of crime and combating money laundering and terrorism financing. The other objectives of the FRC are to:

- Make information collected by it available to investigating authorities and supervisory bodies to facilitate the administration and enforcement of the laws of Kenya;
- Exchange information on money laundering activities and related offences with similar bodies in other countries.
- Ensure compliance with international standards and best practice in anti-money laundering measures. In this regard the FRC has oversight over Reporting Institutions for anti-money laundering combating the financing of terrorism (AML/CFT) purposes. The FRC works closely with Supervisory bodies to implement and enforce compliance with POCAML.

The functions of the FRC include:

- Registration of Reporting Institutions;
- Receipt, analysis and interpretation of information as prescribed by POCAMLA;
- Dissemination of financial intelligence;
- Information sharing and exchange with relevant bodies;
- Creation and maintenance of a database of amongst others, reports of suspicious transactions and related Government information;
- Inspection of reporting entities;
- Setting anti money laundering policies and formulation of regulations;
- Designing and provision of AML related training;
- Public awareness;
- Compilation and analysis of data (records and statistics) including making recommendations arising out of any information received and issuing guidelines;

#### **(b) Key Management**

The FRC is an independent body for the time being responsible for combating matters related money laundering and terrorism financing. The FRC is administered through staff who carry out the day to day activities of Centre. The Centre's activities are executed through the Director General who is also the Centre's CEO assisted by heads of departments. The POCAMLA establishes the Anti-Money Laundering Advisory Board (AMLAB) under section and sets out its functions under section 50 which include, advising the Centre generally on its functions and the exercise of its powers under the Act.

#### **(c) Fiduciary Management**

During the financial year under focus, operations of the FRC were undertaken by the Centre's staff and administered by the Director General / Chief Executive Officer of the Centre. The Director General / Chief Executive Officer hereby submits the report of the Centre and the financial statements for the year ended 30<sup>th</sup> June, 2018 which show the

state of the Centre's affairs. The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Director General/CEO	- Saitoti K. Maika
2.	Head of Legal, Compliance & External Relations	- James Manyonge
3	Head Financial Analyst And Reporting	- Patrick Mugo

### **Fiduciary Oversight Arrangements**

The overall oversight role of the Centre lies with the Parliamentary Public Accounts Committee. Pursuant to section 18 of the Government Financial Management Act, 2004 and section 9 (e) of the legal notice no. 168 (Legislative Supplement No. 51) of 22<sup>nd</sup> December 2006, the Centre Auditors remains the Auditor General of the Government of Kenya.

#### **(a) Entity Headquarters**

CBK Pension Fund Building  
Harambee Avenue  
P.O. Box 60000-00200  
NAIROBI

#### **(b) Entity Contacts**

Telephone: (020) 2861600  
E-mail: [info@frc.go.ke](mailto:info@frc.go.ke)  
Website: [www.frc.go.ke](http://www.frc.go.ke)

#### **(c) Entity Bankers**

Kenya Commercial Bank Ltd,  
KICC Branch  
A/C No. 1211924076

P O Box 48400-00100  
NAIROBI

**(d) Independent Auditors**

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




**(e) Principal Legal Adviser**





The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
NAIROBI

**MEMBERS OF THE ANTI-MONEY LAUNDERING ADVISORY BOARD**

1. Rose K. Nkonge	Chairperson (private Sector Representative)
2. Prof.Githu Muigai	Member (Attorney General)
3. Dr. Kamau Thugge , CBS	Member (Principal Secretary , The National Treasury)
4. Dr. Patrick Njoroge	Member (Governor , Central Bank of Kenya)
5. Joseph K Boinett	Member (Inspector General of Police)
6. Maj. Gen. (Rtd) Philip W. Kameru	Director General, National Intelligence Service)
7. Muthoni Kimani	Member (Director, Asset Recovery Agency)
8. Lamin Kemba Manjang	Member (Chairman Kenya Bankers Association)
9. CPA Edwin Makori	Member (Institute of Certified Public Accountants of Kenya)
10. Dr. Freshia Wangari Mugo	Member (Private Sector Representative)
11. Saitoti Maika	Secretary / Chief Executive Officer/Director General, Financial Reporting Centre

**MANAGEMENT TEAM**

1.	 <p><b>Saitoti Maika</b> BA(Bachelor of Arts)</p>	<p><b>Director General/Chief Executive Officer</b></p>
2.	 <p><b>James Manyonge</b> EMBA; LLB; BSL; Dip. Law; C.P.S. (K).</p>	<p><b>Corporation Secretary and Head Compliance &amp; Regulation Legal Services &amp; External Relations</b></p>
3.	 <p><b>Patrick Thuo Mugo</b> BA(Bachelor of Arts)</p>	<p><b>Head Financial Analyst And Reporting</b></p>

4.	 <p>Jared A. Chiama MSc Computer Science</p>	<p><b>Manager Information Communication Technology</b></p>
5.	 <p>CPA Ruth Bosibori Momanyi B'COM, MBA in Finance, CPA(K)</p>	<p><b>Manager, Finance and Accounts</b></p>
6.	 <p>Fredrick O. Adeka B.Arts, CPS (K), Higher Dip. In HRM, Dip. in Labour Mgt.</p>	<p><b>Manager Human Resource Management and Administration</b></p>
7.	 <p>George N. Mwaura B'COM; Dip. In Supplies Management</p>	<p><b>Manager, Supply Chain Management:-</b></p>

## **CHAIRPERSON'S STATEMENT**

On behalf of the Anti-Money Laundering Board (AMLAB) and the staff of the Financial Reporting Centre (FRC), I present the annual report for the year ended 30<sup>th</sup> June 2018.

Since commencing operations in April 2012, the FRC operated under the stewardship of an interim Director with staff seconded from relevant government agencies. During this reporting period, the FRC was able to take several key steps toward more independent and efficient operations, building a stronger Centre to deliver the Objectives of the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) and in line with International Standards. Among the key milestones achieved this year, driven by the AMLAB, was the approval of the Center's Organization Structure in May 2017 by the relevant government authorities. This approval enabled the hiring of a substantive Director - General who is currently steering the organization. Interviews for key positions that are critical for full operations of the Centre were also conducted and suitable candidates identified, they are expected to join the Centre in early 2019.

The Centre has also taken keen focus in development of its physical and technological infrastructure, and during the reporting period commenced installation of an Information Technology (IT) System that will support more effective data analysis and swifter dissemination of information to relevant law enforcement agencies. To support the full and effective operations of the Centre, the FRC is expected to relocate to premises that will comfortably accommodate the full staff complement in the first quarter of 2019.

The FRC is a part of a network of government and law enforcement agencies, including the National Police Service, National Security Intelligence Service, Attorney General's Office, Central Bank of Kenya, Office of the Director Public Prosecutions, Asset Recovery Agency, Ethics and Anti-Corruption Commission tasked with combating Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) in Kenya. A major challenge that FRC continues to face is the increasing levels of Financial Crimes in the Country; and for Kenya to achieve better results in AML/CFT efforts, greater attention will need to be accorded to the disseminations provided by FRC to its partners.

On behalf of the Anti-Money Laundering Advisory Board (AMLAB) and the staff of FRC, I would like to acknowledge the support from the government and all our partners who supported us during the year. We are particularly grateful to the National Treasury and Planning, the Central Bank of Kenya and SCAC for providing the FRC with the much-needed support in its foundational years.



**ROSE K. NKONGE**

**CHAIRPERSON, ANTI-MONEY LAUNDERING ADVISORY BOARD**

## **REPORT OF THE CHIEF EXECUTIVE OFFICER**

The FRC's core mandate of assisting in the identification of proceeds of crime and combating money laundering and terrorism financing is an integral component of national security and is critical for the stability and integrity of the financial sector. FRC support to investigative and law enforcement agencies is equally critical hence the need for adequate funding.

Previously, Kenya was sanctioned by the Financial Action Task Force (FATF) for being a high risk jurisdiction due to strategic deficiencies in its Anti-Money Laundering and Terrorist Financing (AML/CFT) regime which included non-operationalization of the Financial Reporting Centre. Full operationalization of the FRC is key in having a robust AML/CFT regime, more so as Kenya prepares to undergo an AML/CFT assessment by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in 2020.

This calls for full implementation of all national AML/CFT and FRC programmes which are components of the FRC budgeted activities. The FRC effectiveness supports growth of the private sector investment not only in pursuit of new economic opportunities but also in ensuring integrity of investment funding to support the **'Big 4' Agenda** in particular investment in **housing**. It's imperative to note that the Estate Agents Registration Board is categorized as a supervisory body under the Proceeds of Crime and Money Laundering Act which mandates the FRC to regulate the real estate sector for purposes of AML/CFT.

In the Financial Year 2018/2019, the following are the key targets:

(a) **Staff Recruitment**

FRC shall continue to implement its organizational structure and terms of service as approved by the National Treasury.

(b) **Securing new Office Premises**

The Centre has already secured new offices premises to accommodate additional staff that are expected to join the FRC in the current financial year.

**(c) ICT infrastructure**

In order to derive the benefits of an automated system and increase efficiency in Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) matters, the Centre will enhance its ICT infrastructure as well as acquire the necessary software.

**(d) Strategic Planning Process**

FRC is in the process of developing a strategic 5-year plan in line with vision 2030 and other relevant policies from the Government.

**(e) Source of Revenue**

The Financial Reporting Centre (FRC) is not a revenue generating institution. Section 40 of the Proceeds of Crime and Anti-money Laundering Act, 2009 stipulates that the funds of the Centre shall consist of money appropriated by the Parliament and any other Government grants made to it. The FRC will therefore draw its expenditure from the Consolidated Fund. Where possible, development partners may assist in meeting some of the FRC's expenditures. Nothing has come to the attention of the Director General to indicate that the *Centre* will not remain a going concern for at least the next twelve months from the date of this statement.



**SAITOTI KIMEREI MAIKA**

**DIRECTOR GENERAL/CHIEF EXECUTIVE OFFICER**

## **CORPORATE GOVERNANCE STATEMENT**

The Anti-Money Laundering Advisory Board (AMLAB) is established under section 49 of the Proceeds of Crime and Anti-Money Laundering Act, 2009 (POCAMLA). The membership of the AMLAB comprises eight other ex-officio members, two private sector representatives who are independent members and Director General / Chief Executive Officer of the FRC who is also the Secretary.

The functions of the AMLAB as set out in section 50 of POCAMLA are to, on the request of the Cabinet Secretary of the National Treasury or at its own initiative, advise the Cabinet Secretary on policies, best practices and related activities to identify proceeds of crime or proceeds of unlawful activities and to combat money laundering activities; or the exercise of the powers conferred to the Cabinet Secretary under the Act. The AMLAB also advises the Centre generally on its functions and the exercise of its powers under the POCAMLA; and acts as a forum in which the Financial Reporting Centre, associations representing categories of reporting institutions, state organs and supervisory bodies can consult one another on anti-money laundering developments, concerns and initiatives. The AMLAB may also perform any other duty as may be prescribed under the POCAMLA.

During the period under review, the AMLAB held four ordinary meetings and three special meetings.

### **COMPOSITION OF THE AMLAB**

During the period under review, the AMLAB was composed as follows:

#### **1. Mrs. Rose Nkonge**

Mrs. Rose Nkonge joined the Anti-Money Laundering Advisory Board in March 2016. She is the Chairperson of the Board and a representative of the Private sector. She holds a Bachelor of Arts degree (Education) from the University of Nairobi. She is a career Banker who has worked in the banking industry for over 30 years with specialty in Financial Markets, Balance Sheet management and Audit.

## **2. Hon. Prof Githu Muigai, EGH, SC - Attorney General**

Professor Muigai was the Attorney General of the Republic of Kenya from 2011 until March 28, 2018. He holds a Bachelor's Degree in Law and was called to the bar in 1985. He also holds a Master's Degree in International Law from Columbia University School of Law, New York and a PhD in Constitutional Law from the University of Nairobi. He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers. In addition to Law practice, he is an Associate Professor of Public Law in the School of Law of the University of Nairobi. He specializes in Public Law, Human Rights and trans-national legal practice.

## **3. Justice Paul Kihara Kariuki - Attorney General**

Justice Paul Kihara Kariuki was appointed as the Attorney General of the Republic of Kenya on 28<sup>th</sup> March 2018. In 2012, Justice Kariuki was appointed as a Judge of the Court of Appeal and later appointed as President of the Court of Appeal. In 2009, he was appointed to head the newly established Judicial Training Institute (JTI). In October 2003, Justice Kariuki was appointed as a judge of the High Court. Between 1977 and 1980 Kariuki was a legal assistant at Hamilton, Harrison, and Matthews in Nairobi and a then a partner from 1981 to 1986. In 1986 he moved to Ndungu Njoroge and Kwach as a partner where he practiced until 2000, then was appointed the Director of Kenya School of Law. He is a law graduate of the University of Nairobi.

## **4. Alternate to The Attorney General: Ms. Christine Agimba**

Ms. Christine Agimba is a Deputy Solicitor General at the Office of the Attorney General and Department of Justice. She is an Advocate of the High Court of Kenya. She is a law graduate of the University of Nairobi, and also holds a Master's degree in law from the University of Warwick, England. She has wide-ranging professional experience gained through working in various senior capacities in the public and private sectors. She has practised law as an associate and then a partner at the law firm of Hamilton, Harrison and Mathews between 1989 and 2002.

**5. Dr. Kamau Thugge, CBS – Principal Secretary / National Treasury**

Dr. Kamau Thugge is currently the Principal Secretary at The National Treasury. He has previously worked in the Ministry of Finance as the Economic Secretary / Director of Fiscal and Monetary Affairs Department as well as Senior Economic Advisor to the Deputy Prime Minister and Minister for Finance. Before joining the Ministry of Finance he worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief. Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics, also from Johns Hopkins.

**6. Alternate to Principal Secretary, The National Treasury: Mr. Barrack Amollo**

Mr. Amollo is a Deputy Secretary at the National Treasury and Planning. He joined the Government of Kenya in March, 1982 as an Assistant Secretary and was posted to the then Ministry of Finance in the Fiscal and Monetary Affairs Department. He has risen through the ranks to the level of Deputy Secretary. He holds a Bachelor of Arts (Honours) Degree in Economics and Government from the University of Nairobi. He Chairs the National Task Force on Anti-Money Laundering and Combating of Terrorism and also Chairs the Working Group on the implementation of the Foreign Account Tax Compliance Act (FATCA) of the U.S.A. and has actively participated in the financial and legal sector reform issues.

**7. Dr. Patrick Njoroge - Governor, Central Bank of Kenya**

Dr. Patrick Njoroge was appointed Governor of the Central Bank of Kenya (CBK) on June 19, 2015. In this capacity he is the Chief Executive Officer of the CBK and Chairman of the Monetary Policy Committee. Dr. Njoroge joined the CBK after a 20-year career at the International Monetary Fund (IMF) in Washington, DC. Prior to his appointment as Governor, Dr. Njoroge was Advisor to the IMF Deputy Managing Director from December 2012, where his responsibilities included assisting in overseeing the IMF's engagement with a large swath of IMF members. He also served as Deputy Division Chief in the IMF's Finance Department (2006-2012), IMF's Mission Chief for the Commonwealth of Dominica (2005-2006) and in other capacities since 1995. Prior to joining the IMF, Dr.

Njoroge worked as an Economist at the Ministry of Finance (1993-1994) and as a Planning Officer at the Ministry of Planning (1985-1987). He holds a PhD degree in Economics from Yale University (1993), a Master of Arts degree in Economics (1985) and a Bachelor of Arts degree in Economics (1983) from the University of Nairobi. Dr. Njoroge's professional and research interests lie in Macroeconomics, Economic Policy, International Finance, Development Economics, Econometrics and Monetary Policy.

**8. Mr. Joseph Kipchirchir Boinnet, M.G.H.,nsc (AU) - Inspector General, National Police Service**

Mr. Boinnet is the Inspector General of the National Police Service. He holds a Masters in National Security Policy from the Australian National University, a Masters of Arts Diplomatic studies from the University of Westminster, United Kingdom, a Bachelor of Arts International Studies and Diplomacy from the Washington International University and a Bachelors in International Studies from the University of Malta. He joined the police service in 1984 and rose through the ranks to become a Senior Superintendent of Police. He was then transferred to the National Intelligence Service in 1998. He served in the Kenyan missions in Harare and Rome as a desk officer & was later seconded to the Ministry of Foreign Affairs as Head of Protocol.

**9. Alternate to the Inspector General, National Police Service: Mr. Stanley Cheruiyot**

Mr. Cheruiyot is an Assistant Inspector General of Police and the Director of Legal Affairs at the National Police Service. He holds a Master of Science degree MSc. (Security and Risk Management) and a Bachelors of Law degree.

**10. Maj. Gen. (Rtd) Philip W. Kameru - Director General, National Intelligence Service**

Maj. Gen. (Rtd) Philip W. Kameru is the Director General, National Intelligence Services. He holds a Master of Science in Security Management (UK) and Master of Science in National Resources Strategy (USA). He also holds a Master of Science in International Relations from the University of Nairobi.

**11. Alternate to Chairman, Kenya Bankers Association: Mr. Alexander Muteshi  
CBS, OGW, NDC (K)**

Mr. Alexander Muteshi was the Director, Counter Terrorism Coordination at the National Intelligence Service. He holds a Masters in Political Science.

**12. Ms. Muthoni Kimani - Director, Asset Recovery Agency**

Ms. Kimani is the Director, Asset Recovery Agency and a Senior Deputy Solicitor General at the Office of the Attorney General and Department of Justice. Ms. Kimani holds LLB degree from the University of Nairobi and a post graduate diploma from the Kenya School of Law having been called to the Bar in 1985. She is a member of the Chartered Institute of Arbitrators (UK), the International Bar Association and the Law Society of Kenya. She is also an active member of the IBA, Assets Recovery Sub Committee which was set up by the IBA under the Business Crimes Committee, which deals with fighting Business crimes and corruption. She has attended several international workshops and conferences including OECD, UNODC, WORLD Bank on crime prevention, criminal justice particularly on combating terrorism, money laundering, corruption, human and wildlife trafficking, cybercrime, and other white collar crimes.

**13. Lamin Manjang - Chairman, Kenya Bankers Association**

Lamin Manjang is the Chief Executive Officer Standard Chartered Bank Kenya and also the Regional Chief Executive for East Africa. Lamin has over 17 years banking experience with Standard Chartered Bank across Africa and the Middle East. Prior to his appointment as CEO Kenya, Lamin was the CEO of Standard Chartered Bank Oman. He has also been the CEO in Uganda and Sierra Leone and was responsible for the overall growth and development of the bank's business in those countries. Lamin holds a Bachelor's Degree in Business Administration (BBA), a Master's Degree in Business Administration (MBA) and is an Associate Member of the Chartered Institute of Management Accountants (ACMA). He was the Chairman of Kenya Bankers Association from June 2016 to June 2018.

**14. Alternate to Chairman, Kenya Bankers Association: Dr. Habil Olaka**

Dr. Olaka is the Chief Executive Officer, Kenya Bankers Association having been appointed as such in October 2010. He is responsible for the strategic direction of the Association under guidance from the KBA Governing Council. Previously he was the Director of Operations of the East African Development Bank (EADB) based in Kampala after serving as the Resident Manager in Kenya. He earlier served the bank as the Head of Risk Management and as the Chief Internal Auditor. Before joining the Bank, he had been with Banque Indosuez (now Bank of Africa) as the Internal Auditor. He started his career at the PricewaterhouseCoopers, Nairobi in the Audit and Business Advisory Services Division. He sits on a number of boards representing the KBA. These are the Kenya School of Monetary Studies, the Higher Education Loans Board, the Kenya Deposit Insurance Corporation, the National Research Fund, the Federation of Kenya Employers (FKE), and the National Task force on Anti Money Laundering and Countering Financing of Terrorism. He holds a Doctorate of Business Administration from USIU-Africa, a First Class Honours BSc degree in Electrical Engineering from the University of Nairobi, and an MBA in Finance from the Manchester Business School in the UK. He is a member of the Institute of the Certified Public Accountants of Kenya (ICPAK) and the CFA Institute. He is an alumnus of the Strathmore School of Accountancy and has a good command of the French language.

**15. CPA Edwin Makori - Chief Executive Officer, Institute of Certified Public Accountants of Kenya**

CPA Edwin Makori is the Chief Executive Officer, Institute of Certified Public Accountants of Kenya (ICPAK). CPA Makori holds a Master of Business Administration (M.B.A.), Accounting and Finance from the University of Nairobi and a Bachelor of Commerce Degree from the same institution. He is a Certified Public Accountant and a member of the Information Systems Audit and Control Association (ISACA) as well as a member of Institute of Leadership Management ILM (UK). CPA Makori, has over 14 years' corporate leadership and management experience, four of which are in the Professional Accountancy Institute. He was previously the Director of Professional Services at ICPAK, overseeing

technical matters including professional standards, member services, training and development, audit quality monitoring and review. He has also worked as a finance director in a number of public and private sector organizations in Kenya and has also served as a Lecturer in Finance and Accounting at the University of Nairobi and Egerton University.

**16. Private Sector Representative - Dr. Freshia Mugo-Waweru**

Dr. Waweru holds a Ph. D in International Finance (Derivatives Trading) from Sogang University in Seoul (South Korea), a Master's in Business Administration (MBA) and Bachelors of Commerce (Accounting) from Kenyatta University. She is also a Certified Public Accountant of Kenya (CPA-K). In 2012, she was appointed as part of a 16 member steering committee to come up with 10- year Master Plan of the Capital Markets Authority (CMA) of Kenya which was launched in November 2014. In January 2015, she was appointed as a member of the Capital Markets Master Plan Implementation Committee and the chairperson of the Financial Deepening Committee, especially on the introduction of derivatives market in Kenya. In April 2015, Dr. Waweru was appointed as a member of the Anti – Money Laundering Board where she served until April 2018. She was a member of the Finance Committee and the Chair of the Human Resources Committee. In October 2015, she was appointed as a member of the Nairobi Securities Exchange (NSE) Derivatives Risk Management Committee. Dr. Waweru has extensive training and consultancy experience in different areas like; Corporate Governance, Leadership, Finance for Non-Finance Directors & Managers, Derivatives Markets & Trading, Financial Management, and Investment Analysis and Portfolio Management. She is a senior lecturer at Strathmore University teaching Derivatives Markets, Advanced Investment Analysis and Portfolio Management, Managerial Finance, Corporate Finance, International Finance, Public Sector Financial Management, Financial and Management Accounting among others.

**AMLAB CHARTER:**

The AMLAB has developed draft Rules of Procedure which set out the AMLAB's corporate governance policy and also defines the respective roles, responsibilities, authorities, protocols, procedures, evaluation and culture of the Board and that of the Financial Reporting Centre. The Rules of Procedure are in addition to the Provisions as to the Conduct of Business and Affairs of the Board as set out in the fifth schedule of POCAMLA.

Newly appointed members are taken through an induction program to assist them in understanding the legislative framework, the governance, the nature and operations of the business of the AMLAB and the Centre. Board members undergo continuous development and education programmes to assist them to discharging their duties efficiently.

**AMLAB SUB COMMITTEES:**

The AMLAB has a Human Resource Sub Committee which is responsible for human resource matters including recruitment amongst others. The AMLAB HR Sub Committee was chaired by Dr. Freshia Mugo-Waweru.

The AMLAB also has a Finance Sub Committee which is responsible for financial matters including review of the budget of the Centre among others. The Finance Sub Committee was chaired by CPA Edwin Makori.

## **CORPORATE SOCIAL RESPONSIBILITY STATEMENT**

The Centre recognizes the importance of being a responsible corporate citizen. It is developing a framework which will guide its corporate social responsibility (CSR). The Centre did not undertake any CSR activities in the year under review.

### **AMLAB Allowances for the Period July 2018 to June 2018**

<b>Name</b>	<b>Institution</b>	<b>Position</b>	<b>Chairman's Honoraria</b>	<b>Board Retainer Allowance</b>	<b>Sitting Allowance</b>	<b>Total</b>
Rose K. Nkonge	Private Sector Representative	Chairperson	1,032,000.00	840,000.00	234,000.00	2,106,000.00
Dr. Freshia	Private Sector Representative	Member	-	665,000.00	352,000.00	1,017,000.00
Dr. Patrick Njoroge	Governor, Central Bank of Kenya	Member	-	-	154,000.00	154,000.00
Ms. Muthoni Kimani	Director, Asset Recovery Agency	Member	-	-	132,000.00	132,000.00
CPA Edwin Makori	Chief Executive Officer, ICPAK	Member	-	-	308,000.00	308,000.00
Mr. Lamin Manjang	Chairman, Kenya Bankers Association	Member	-	-	-	-*
Mr. Stanley Cheruiyot	Alternate to the Inspector General of Police	Alternate	-	-	154,000.00	154,000.00
Mr. Alexander Muteshi	Alternate to the Director General, National Intelligence Service	Alternate	-	-	132,000.00	132,000.00
Mr. Barrack Amollo	Alternate to the Principal Secretary of the National Treasury	Alternate	-	-	132,000.00	132,000.00
Ms. Christine Agimba	Alternate to the Attorney General	Alternate	-	-	88,000.00	88,000.00
Mr. Habil Olaka	Alternate to the Chairman, Kenya Bankers Association	Alternate	-	-	22,000.00	22,000.00
Mr. Dennis Mkuu	Representing Governor, Central Bank of Kenya	Co-opted	-	-	44,000.00	44,000.00
Ms. Mary Njuya	Representing the Attorney General	Co-opted	-	-	44,000.00	44,000.00

\* Mr. Lamin Manjang opted not to take his sitting allowance

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Financial Reporting Centre started its financial operations independently in F/Y 2017/2018 as mandated by the National Government Strategic Objectives and Policies. The Centre registers and maintains a register of reporting institutions, receives reports on Suspicious activities or transactions from reporting institutions, receives cash transaction reports that meet a given threshold from reporting institutions, and receives reports on cross-border conveyancing of monetary instruments. The Centre analyses the reports and disseminates financial intelligence to law enforcement agencies.

The Centre also receives annual compliance reports from the registered institutions and works with respective industry regulators to ensure compliance by reporting institutions with the provisions of the POCAMLA. The Centre collaborates with, and exchanges intelligence relating to money laundering or terrorist financing with Financial Intelligence Units (FIUs) in other jurisdictions.

FRC complies with Section 13 of the Public Finance Management Act, 2012 and section 83(6) of the State Corporations Act, that requires the Director General to prepare financial statements in respect of that *Centre*, which give a true and fair view of the state of affairs of the *Centre* at the end of the financial year/period and the operating results of the *Centre* for the year/period. The Director General is also required to ensure that the *Centre* keeps proper accounting records which disclose with reasonable accuracy the financial position of the *Centre*. The Director General is also responsible for safeguarding the assets of the *Centre*.

The entity's overview of performance includes the following key performance indicators and observations with respect to the financial statements, profits, earnings, cash flows that may be indicative of future results.

### ***1. Expenses vs. Budget***

Comparison assisted the institution to understand where and how some budgeted spending went off track, so as to budget more effectively going forward. Expenses vs. Budget was

a primary factor of the Budget Variance that helped the institution in its business operations and finances.

## ***2. Operating Cash Flow***

Monitoring and analyzing of Operating Cash Flow enabled the entity to ensure there is ability to pay for deliveries and routine operating expenses. The analysis revealed whether or not institution operations were generating sufficient cash for support of capital investments. The analysis also assisted the institution ratio of operating cash flow compared to institution total capital employed that gave a deeper insight institution's financial health, allowing it to look beyond just profits, when making capital investment decisions.

## **3. Working capital**

Cash that is immediately available was "working capital "is calculated by summing- up institution Working Capital by subtracting our institution existing liabilities from its existing assets. Cash on hand, accounts receivable, short-term investments as well are included. This informed the institution in terms of its available operating funds, by showing the extent of available assets that can cover short-term financial liabilities.

## ***4. Current Ratio***

While the Working Capital KPI discussed above subtracts liabilities from assets, the Current Ratio KPI divides total assets by liabilities it gave the institution an understanding the solvency-i.e., how well the institution was positioned to meet its financial obligations consistently on time and to maintain a level of credit rating that is required to order to grow and expand your business.

FRC's core mandate of identifying the proceeds of crime and money laundering is an integral component of national security and is critical for the stability and integrity of the financial sector. As pertaining to growth, below are the key strategies in place:

### **(a) Staff Recruitment**

FRC shall continue to implement its organizational structure and terms of service approved by the National Treasury and the completion of the second phase of staff recruitment.

### **Expansion of Office Premises**

The Centre expects to expand its office premises to accommodate the approved staff establishment of 105 No of staff.

#### **(b) ICT infrastructure**

In order to derive the benefits of an automated system and increase efficiency in Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) matters, the Centre will enhance its ICT infrastructure as well as acquire the necessary software. Previously, Kenya was sanctioned by the Financial Action Task Force (FATF) for being a high risk jurisdiction due to strategic deficiencies in its Anti-Money Laundering and Terrorist Financing (AML/CFT) regime which included non-operationalization of the Financial Reporting Centre. Full operationalization of the FRC is key in having a robust AML/CFT regime more so as Kenya prepares to undergo an AML/CFT assessment by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) in 2020. This calls for full implementation of all national AML/CFT and FRC programmes which are components of the FRC budgeted activities. There are no major risks facing the organisation and material arrears in statutory and other financial obligations.

## **REPORT OF ANTI-MONEY LAUNDERING ADVISORY BOARD MEMBERS (AMLAB)**

The members of the Board who served during the year are shown on page V. In accordance with section 43 of the Proceeds of Crime and Anti-Money Laundering Act 2009 (POCAMLA) the Director General of the Centre is required to prepare financial statements for each financial year/period, which give a true and fair view of the state of affairs of the Centre as at the end of the financial year and of its operating results for that year. The Director General is also required to safeguard the assets of the Centre.

The Director General of the Centre accepts responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with the Centre's financial regulations and generally accepted accounting principles.

### **Principal activities**

- a) The Institution shall receive and analyse reports of unusual or suspicious transactions made by reporting institution pursuant to section 11 and all reports made pursuant to section 44 and shall make information collected by it available to investigating authorities, supervisory bodies and any other bodies relevant to facilitate the administration and enforcement of the laws of Kenya;
- b) Exchange information with similar bodies in other countries regarding money laundering activities and related offences;
- c) Ensure compliance with international standards and best practice in anti-money laundering measures.

**Results**

The results of the entity for the year ended June 30, 2018 are set out on page 1-4

**Auditors**

The Auditor General is responsible for the statutory audit of the *Financial Reporting Centre* in accordance with the Section 13 of the Public Finance Management (PFM) Act, 2012, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board



James Manyonge

Corporation Secretary

Nairobi

Date-----

28<sup>th</sup> September 2018

## **STATEMENT OF THE AML ADVISORY BOARD MEMBER RESPONSIBILITIES**

The Director General is responsible for the preparation and presentation of the *Centre's* financial statements, which give a true and fair view of the state of affairs of the *Centre* for and as at the end of the financial year (period) ended on June 30, 2018. This responsibility includes: (i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) Safeguarding the assets of the *Centre*; (v) Selecting and applying appropriate accounting policies; and (vi) Making accounting estimates that are reasonable in the circumstances. The Director General accepts responsibility for the *Centre's* financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Director General is of the opinion that the *Centre's* financial statements give a true and fair view of the state of the *Centre's* transactions during the financial year/period ended June 30, 2018, and of the *Centre's* financial position as at that date. The Director General further confirms the completeness of the accounting records maintained for the *Centre*, which have been relied upon in the preparation of the *Centre's* financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Director General to indicate that the *Centre* will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The *Centre's* financial statements were approved by the Director General on 28<sup>th</sup> Sep 2018 and signed on its behalf by:

  
\_\_\_\_\_

Director General/CEO

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NAIROBI



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON FINANCIAL REPORTING CENTRE FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

I have audited the accompanying financial statements of Financial Reporting Centre set out on pages 1 to 17 which comprise the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Financial Reporting Centre as at 30 June 2018, and 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 Proceeds of Crime and Anti Money Laundering Act 9 of 2009 of the Laws of Kenya

##### **Basis for Opinion**

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

##### **Key Audit Matters**

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

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

##### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

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

## **Basis of Conclusion**

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

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

### **Conclusion**

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

### **Basis for Conclusion**

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standard (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 Centre's ability to continue as a going concern disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends to cease operations of the Centre, 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 provisions of Section 47 of the Public Audit Act, 2015.

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

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

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISSAIs, I exercise professional 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 Centre'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 Centre's ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Centre to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Centre 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**

**01 April 2019**

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

	Note	2017-2018	2016-2017
		Kshs	Kshs
<b>Revenue from non-exchange transactions</b>			
Internally Generated Revenue		00	00
Government Grants for Recurrent	5	300,324,602.00	00
Grants, Dev't Partner for Recurrent		00	00
Other Income for Recurrent		00	00
<b>Total revenue from non-exchange transactions</b>		<b>300,324,602.00</b>	<b>00</b>
<b>Expenses</b>			
Personal Emoluments	6	37,149,526.05	00
Board Members Expenses	7	4,846,582.00	00
Operative & Administrative	8	55,098,635.40	00
Depreciation and amortization expense	9	2,159,525.00	00
Repairs & Maintenance	10	814,512.00	00
<b>Total Expenses</b>		<b>100,068,780.45</b>	<b>00</b>
<b>Surplus before tax</b>		<b>200,255,821.55</b>	<b>00</b>
<b>Surplus for the period</b>		<b>200,255,821.55</b>	<b>00</b>

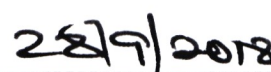
The notes set out on pages 5 to 17 forms an integral part of the Financial Statements

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

	Note	2017-2018 Kshs	2016-2017 Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	129,990,359.55	00
<b>Total Current Assets</b>		<b>129,990,359.55</b>	<b>00</b>
<b>Non-current assets</b>			
Net property, plant and equipment	14	3,052,875.00	00
Net intangible assets	15	67,212,587.00	
<b>Total Non-Current Assets</b>		<b>70,265,462.00</b>	<b>00</b>
<b>Total Assets</b>		<b>200,255,821.00</b>	<b>00</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Employee benefit obligation		00	00
Payments received in advance		00	00
<b>Non-current liabilities</b>			
Non-current employee benefit obligation		00	00
<b>Total liabilities</b>		<b>00</b>	<b>00</b>
<b>Net assets</b>		<b>200,255,821.00</b>	<b>00</b>
<b>Reserves</b>			
Accumulated Surplus		00	00
Reserves for the year		200,255,821.55	00
Capital Reserve		00	00
<b>Total net assets and liabilities</b>		<b>200,255,821.55</b>	<b>00</b>

The Financial Statements set out on pages 1 to 4 were signed on behalf of the AML Advisory Board by  
 Director General/C.E.O (Financial Reporting Centre)

Signature..........

Date..........

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

	<b>Revenue Reserve</b>	<b>Capital Reserve</b>	<b>Total</b>
	<b>Kshs</b>	<b>Kshs</b>	<b>Kshs</b>
Balance as at 30 June 2016	<b>00</b>	<b>00</b>	<b>00</b>
Surplus/(deficit) for the period	00	00	00
Transfers to/from accumulated surplus	00	00	00
Balance as at 30 June 2017	<b>00</b>	<b>00</b>	<b>00</b>
Surplus for the period	200,255,821.55	00	200,255,821.55
Transfers to/from accumulated surplus	0.00	0.00	0.00
Balance as at 31 March, 2018	<b>200,255,821.55</b>	<b>00</b>	<b>200,255,821.55</b>

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

		2017-2018 Kshs	2016-2017 Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Internally Generated Revenue		00	00
Government Grants for Recurrent		300,324,602.00	00
Grants ,Dev't Partner for Recurrent		00	00
Other Income for Recurrent		00	00
<b>Total Recurrent Revenue</b>		<b>300,324,602.00</b>	<b>00</b>
<b>Payments</b>			
Personal Emoluments		37,149,526.05	00
Board Members Expenses		4,846,582.00	00
Operative & Administrative		55,098,635.40	00
Repair & maintenance		814,512.00	00
<b>Net cash flows from operating activities</b>	45	<b>202,415,346.55</b>	<b>00</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment and intangible assets		(72,424,987.00)	(00)
Proceeds from sale property, plant, equipment and ntangible assets		00	00
<b>Net cash flows used in investing activities</b>		<b>(72,424,987.00)</b>	<b>(00)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		00	00
Repayment of borrowings		(00)	(00)
<b>Net cash flows used in financing activities</b>		<b>(00)</b>	<b>(00)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>129,990,359.55</b>	
<b>Cash and cash equivalents at 1 JULY</b>	26	<b>00</b>	<b>00</b>
<b>Cash and cash equivalents at 30Th June,2018</b>	26	<b>129,990,359.55</b>	<b>00</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. GENERAL INFORMATION**

Financial Reporting Centre is established by and derives its authority and accountability from section 21 of Crime and Anti-Money Laundering Act (No.9 of 2009). The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is to provide for the offence of money laundering and to introduce measures for combating the offence, to provide for the identification, tracing, freezing, seizure and confiscation of the proceeds of crime.

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

The financial statements have been prepared in accordance with the PFM Act, the State Corporations Act (*include any other applicable legislation*), and International Public Sector Accounting Standards (IPSAS). The financial statements have been prepared on the basis of historical cost, unless stated otherwise. 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, impaired assets at their estimated recoverable amounts. The cash flow statement is prepared using the direct method and the financial statements are prepared on accrual basis. The financial statements are presented in Kenya shillings, which is the functional and reporting currency of the entity and the accounting policies adopted have been consistently applied to all the years presented.

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

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

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 39:</b> Employee Benefits	<b>Applicable: 1<sup>st</sup> January 2018</b> The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of 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.

**ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

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

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

**iii. Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2018.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Transfers from other government entities**

Revenues is from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) the transfer is free from conditions from other government and it is the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably.

##### **b) Budget information – IPSAS 24**

The annual budget is prepared on the accrual basis, that is, all planned costs and income are presented in a single statement to determine the needs of the entity. As a result of the adoption of the accrual basis for budgeting purposes, there are no basis, timing or entity differences that would require reconciliation between the actual comparable amounts and the amounts presented as a separate additional financial statement in the statement of comparison of budget and actual amounts.

##### **d) Investment property – IPSAS 16**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the replacement cost of components of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day maintenance of an investment property. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequent to initial recognition, investment properties are measured using the cost model and are depreciated over a 40-year period at rate of 2.5% on a reducing balance method.

##### **e) Property, plant and equipment – IPSAS 17**

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. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. 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. 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 on reducing balance method as below.

Computer & Other related Equipment	33.33%
Motor Vehicles	25.00%
Office Equipment	12.50%
Furniture, partitions & Fitting	12.50%

**g) Intangible assets – IPSAS 31**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a 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. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred amortised at 20% on reducing balance method.

The useful life of the intangible assets shall be assessed as either finite or indefinite.

**i) Research and development costs**

The Entity expenses research costs as incurred. Development costs on an individual project are recognized as intangible assets when the Entity can demonstrate:

Following initial recognition of an asset, the asset is carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually with any impairment losses recognized immediately in surplus or deficit.

**i) Inventories – IPSAS 12**

Inventory is measured at cost upon initial recognition. 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.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

After initial recognition, inventory is measured at the lower of cost and net realizable value. However, to the extent that a class of inventory is distributed or deployed at no charge or for a nominal charge, that class of inventory is measured at the lower of cost and current replacement cost.

Net realizable value is the estimated selling price in the ordinary course of operations, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange, or distribution. Inventories are recognized as an expense when deployed for utilization or consumption in the ordinary course of operations of the Entity.

**j) Provisions – IPSAS 19**

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 service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Entity expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

***Contingent liabilities***

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

***Contingent assets***

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

**k) Nature and purpose of reserves**

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

**l) Changes in accounting policies and estimates – IPSAS 3**

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

**m) Employee benefits – IPSAS 25**

**Retirement benefit plans**

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

Defined benefit plans are post-employment benefit plans other than defined-contribution plans. The defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on proportional basis to all participating employers. The contributions and lump sum payments reduce the post-employment benefit obligation.

**n) Foreign currency transactions – IPSAS 4**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**o) Borrowing costs – IPSAS 5**

Borrowing costs are capitalized against qualifying assets as part of property, plant and equipment.

Such borrowing costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction of the asset is complete. Further borrowing costs are charged to the statement of financial performance.

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

**q) Comparative figures**

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation to be disclosed as events after reporting period.

**r) Significant judgments and sources of estimation uncertainty – IPSAS 1**

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. State all judgements, estimates and assumptions made: e.g.

***Estimates and assumptions***

***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:

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

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The increase in the rehabilitation provision due to passage of time is recognized as finance cost in the statement of financial performance. The cost of ongoing programs to prevent and control pollution and rehabilitate the environment is recognized as an expense when incurred.

**s) Subsequent events – IPSAS 14**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June30, 2018. However assets acquired from Central Bank of Kenya in a non-exchange transaction for Nil or nominal consideration shall be valued using a recognition criteria and its carrying amount shall be capitalised in FRC books of accounts.

**5. Transfers from other governments gifts and service –in-kind**

	<b>2018</b> <b>KShs</b>	<b>2017</b> <b>KShs</b>
<b>Unconditional grants</b>		
Operational grant	300,324,602.00	00
<b>Total government grants and subsidies</b>	<b>300,324,602.00</b>	<b>00</b>

**6. Employee costs**

	<b>2018</b> <b>KShs</b>	<b>2017</b> <b>KShs</b>
Salaries & wages ,Housing benefits and allowances	37,149,526.05	00
Employee related costs - contributions to pensions	00	00
Gratuities for Contract staff	00	00
Duty & Special Allowance	00	00
NSSF Contributions	00	00
Car Tax ,Utilities Benefits ,Fringe &Top-up	00	00
Retirement Benefits Expense	00	00
<b>Employee costs</b>	<b>37,149,526.05</b>	<b>00</b>

**7. Remuneration of Board Members**

	<b>2018</b> <b>KShs</b>	<b>2017</b> <b>KShs</b>
Directors Fees & Allowances	3,624,200.00	00
Directors Travelling Expenses	247,600.00	00
Directors Training & Workshops	974,782.00	00
Directors Medical Expenses	00	00
<b>Total Boards' remuneration</b>	<b>4,846,582.00</b>	<b>00</b>

**8. Operative & Administration Expenses**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Medical Benefit Scheme/Insurance	1,753,948.85	00
Workshops, Local Courses & Seminars	8,714,158.00	00
Traing Levy	00	00
Overseas Courses, Study Tours ,Seminars Etc	12,423,483.00	00
Staff Retreat Expenses, Sports & Recreations	1,850,425.00	00
Industry Training	00	00
Travelling & Accommodation on Duty Expenses	1,277,000.00	00
Collecting Additional Information & Intelligence	00	00
Running & Maintenance of Motor Vehicles	3,706,243.35	00
Hire of Transport	177,000.00	00
Hire of Office Equipment	00	00
Office General Supplies	9,262,663.25	00
Rent of Office Premises	00	00
Computer Stationery	00	00
Official Entertainment	211,685.95	00
Quarterly Reviews & Annual Reports	00	00
Office Forms & Printing Documents	39,300.00	00
Postal & Courier Services & Telephone , Facsimile-Fax ,Internet Etc	876,154.00	00
Library , Newspaper & Periodicals	410,400.00	00
Books & Binding Expenses	5,570.00	00
Corporate Social Responsibility	00	00
Consultancy & Recruitment Expenses	13,745,255.00	00
Subscriptions & Contributions to Professional Institution	60,060.00	00
Subscription to Monitoring Services (Reuters/Bloomberg Etc)	00	00
Uniform & other Protective Gear	00	00
Laundry Expenses	00	00
Banking Expenses	79,289.00	00
FRC (Petty Cash)	500,000.00	00
<b>Total Operative &amp; Administration Expenses</b>	<b>55,098,635.40</b>	<b>00</b>

**9. Depreciation and amortization expense**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Property, plant and equipment	436,125.00	00
Intangible assets	1,723,400.00	00
<b>Total depreciation and amortization</b>	<b>2,159,525.00</b>	<b>00</b>

**10. Repairs and maintenance**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Water conservancy and Electricity	00	00
Upkeep of Property & Cleaning Service	687,168.00	00
Property Renovation/Partitioning	00	00
Security of Premises	127,344.00	00
Insurance of Property & Vehicles	00	00
Software ,Plant and Equipment Maintenance	00	00
<b>Total repairs and maintenance</b>	<b>814,512.00</b>	<b>00</b>

**11. Gain on sale of assets**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Property, plant and equipment	00	00
Other assets	00	00
<b>Total gain on sale of assets</b>	<b>00</b>	<b>00</b>

**12. Impairment loss**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Property, plant and equipment	00	00
Intangible assets	00	00
<b>Total impairment loss</b>	<b>00</b>	<b>00</b>

**13. Cash and cash equivalents**

	<b>2018</b>	<b>2017</b>
	<b>KShs</b>	<b>KShs</b>
Current account	129,724,302.30	00
Short-term deposits on call	00	00
Fixed deposits account	00	00
Staff car loan/ mortgage	00	00
Imprests	266,057.25	00
Advances	00	00
<b>Total cash and cash equivalents</b>	<b>129,990,359.55</b>	<b>00</b>

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**14. Property, Plant and Equipment**

Cost	Computers & other Equipment			Motor-vehicles	Furniture and Fittings	Total
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 July 2017	00	00	00	00	00	00
Additions	00	-	-	3,489,000.00	72,424,987.00	
Disposals	-	-	-	-	-	-
Transfer/adjustments	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>3,489,000.00</b>	<b>72,424,987.00</b>	
<b>Depreciation and impairment</b>						
At 1 July 2017	00	00	00	00	00	00
Depreciation	00	-	-	-436,125.00	-2,159,525.00	
Disposals	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Transfer/adjustment	-	-	-	-	-	-
<b>At 30 June 2018</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>436,125.00</b>	<b>2,159,525.00</b>	
<b>Net book values</b>						
<b>At 30 June 2018</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>3,052,875.00</b>	<b>70,265,462.00</b>	
<b>At 30 June 2017</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>	<b>00</b>

**15. Intangible assets - software**

	<b>Shs</b>
<b>Cost</b>	<b>00</b>
<b>At 30 June 2017</b>	<b>00</b>
Additions – internal development	68,935,987.00
<b>At 30 June 2018</b>	<b><u>68,935,987.00</u></b>
<b>Amortization and impairment</b>	
<b>At 30 June 2017</b>	<b>(00)</b>
Amortization	(1,723,400.00)
Impairment loss	(00)
<b>At 30 June 2018</b>	<b><u>(1,723,400.00)</u></b>
<b>Net book values</b>	
<b>At 30 June 2018</b>	<b>67,212,587.00</b>
<b>At 30 June 2017</b>	<b>00</b>

**14. Events after the reporting period**

There are no material non-adjusting events after the reporting date. However assets acquired from Central Bank of Kenya in a non-exchange transaction for Nil or nominal consideration shall be valued using a recognition criteria and its carrying amount shall be capitalised in FRC books of accounts.

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

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

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your entity responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Director General/C.E.O/M.D (enter title of head of entity)  
 Chairman of the Board

Date.....

APPENDIX II: PROJECTS IMPLEMENTED BY THE ENTITY

There are currently no projects implemented during the period.

APPENDIX III: INTER-ENTITY TRANSFERS

<b>ENTITY NAME:</b>				
<b>Break down of Transfers from the State Department of Financial Reporting Centre</b>				
<b>FY 17/18</b>				
<b>a. Recurrent Grants</b>				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
1	The National Treasury	29/08/17	75,014,636.00	2017/2018
2	The National Treasury	16/01/18	75,000,000.00	2017/2018
3	The National Treasury	16/03/18	75,029,272.75	2017/2018
4	The National Treasury	24/05/18	75,014,636.00	2017/2018
		<b>Total</b>	<b>300,058,544.75</b>	
<b>b. Development Grants</b>				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		
<b>c. Direct Payments</b>				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		
<b>d. Donor Receipts</b>				
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		<b>Total</b>		