


REPUBLIC OF KENYA

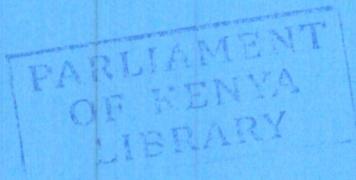


*Enhancing Accountability*

**REPORT**

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| <br>THE NATIONAL ASSEMBLY<br>PAPERS LAID |                          |
| DATE: 02 MAR 2021   | DAY:<br>TUESDAY          |
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**THE AUDITOR-GENERAL**



**ON**

**INTELLIGENCE SERVICE DEVELOPMENT  
FUND**

**FOR THE YEAR ENDED  
30 JUNE, 2020**



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OFFICE OF THE AUDITOR GENERAL  
P. O. Box 301 34 - 00100, NAIROBI  
REGISTRY

09 FEB 2021

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NATIONAL ASSEMBLY  
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DATE: 02 MAR 2021

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**INTELLIGENCE SERVICE DEVELOPMENT FUND**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDING  
JUNE 30, 2020**

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

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

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| Table of Contents  | Page |
|--|------|
| KEY ENTITY INFORMATION AND MANAGEMENT .....  | 2    |
| STATEMENT OF DIRECTOR GENERAL .....  | 5    |
| CORPORATE GOVERNANCE STATEMENT .....   | 6    |
| MANAGEMENT DISCUSSION AND ANALYSIS.....  | 7    |
| REPORT OF THE MANAGEMENT COMMITTEE .....   | 9    |
| STATEMENT OF DIRECTORS' RESPONSIBILITIES .....   | 10   |
| REPORT OF THE INDEPENDENT AUDITORS ON THE INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF) ..... | 11   |
| STATEMENT OF FINANCIAL PERFORMANCE .....   | 12   |
| STATEMENT OF FINANCIAL POSITION .....  | 13   |
| STATEMENT OF CHANGES IN NET ASSETS.....  | 14   |
| STATEMENT OF CASH FLOWS.....   | 15   |
| NOTES TO THE FINANCIAL STATEMENTS .....  | 16   |

## KEY ENTITY INFORMATION AND MANAGEMENT

### (a) Background information

#### 1.1 Name and registered office

Intelligence Service Development Fund,  
National Intelligence Service Headquarters,  
Nairobi, Kenya.  
P.O. Box 30091 – 00100,  
NAIROBI.  
Telephone: (254) 344252

#### 1.2 Establishment

The Intelligence Service Fund (ISDF) was established in 2002 vide Legal Notice No.110 of 2002. It was established with a funding of **Kshs. 10,000,000.00** from the Exchequer.

### (b) Principal Activities

The objective of the fund is to provide for and meet the basic intelligence needs of Kenya in a manner consistent with the overall intelligence policy.

The general purposes of the fund include supporting research and training in intelligence matters.

#### **Vision**

To be a premier Fund in the stimulation and support of research and training in intelligence matters.

#### **Mission**

To support training in intelligence and development of information and communication technology.

#### **Core Values**

- Confidentiality
- Integrity
- Professionalism
- Discipline
- Meritocracy
- Respect for national diversity

**(c) Key Management**

The Fund is governed by the Exchequer and Audit (Intelligence Service Development Fund) Regulations of 2002. These regulations prescribe procedures for utilization and administration of the fund.

The day-to-day management of the **Intelligence Service Development Fund** is undertaken by:

- Director General,
- Directors.

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2020 and who had direct fiduciary responsibility were:

| No. | Designation      | Name                                    |
|-----|------------------|---|
| 1.  | Director General | Maj. Gen. (Rtd) Philip Kameru, MGH, CBS |

**(e) Fiduciary Oversight Arrangements**

- ❖ **Office of the Auditor General (OAG) - *Audit activities,***
- ❖ **Parliamentary Committee on Defense and Foreign Relations - *Legislative and oversight functions.***

**(f) Bankers**

The bankers for the current year are:-

Standard Chartered Bank,  
Kenyatta Avenue, Nairobi  
P.O. Box  
Nairobi, Kenya

**(g) Independent Auditors**

Auditor General  
Office of the Auditor General  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**(h) Principal Legal Advisor,**

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

## **STATEMENT OF THE DIRECTOR GENERAL**

The Intelligence Service Development Fund was established to provide for and meet the basic intelligence needs of Kenya in a manner consistent with the overall intelligence policy. This is to be achieved through a variety of activities, which include supporting research and training in intelligence matters.

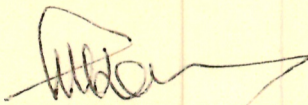
In order to finance its services, operations and development programmes, regulations provide that the Fund shall receive money from the following sources:-

- i. External grants and donations from friendly organizations,
- ii. Receipts from sale of goods and services,
- iii. Rent on lands and buildings,
- iv. Catering fees,
- v. Reimbursement due to the fund,
- vi. Sale of properties, equipment, plant and machinery.

However, it is should be noted that in the recent past, the main source of income has been the sale of lunches at the National Intelligence Academy (NIA) cafeteria.

During the financial year ending 30<sup>th</sup> June 2020, the Fund experienced reduced operations and financial activities as compared to the previous period. These activities included the sale of goods in form of lunches and fees from library services.

Going forward however, the management shall endeavor to optimize on the approved sources of revenue in order to enable the Fund deliver on its mandate more effectively.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
Director General.

Date:..... 8/2/2021 .....

## CORPORATE GOVERNANCE STATEMENT

### a) Management of the Fund

The Fund is governed by the Exchequer and Audit (Intelligence Service Development Fund) Regulations of 2002. These regulations prescribe procedures for utilization and administration of the fund.

Pursuant to these regulations, the Director General established the **Intelligence Service Development Committee** to manage the fund. The committee comprises of the following:-

- i. Chairman,
- ii. Two (2) Operations representatives,
- iii. Finance representative,
- iv. Legal representative,

### b) Responsibilities of the Accounting Officer

The responsibilities of the Accounting Officer as per the Regulations are as follows:-

- i. Impose conditions, if necessary, of reasonable prohibition, restriction or requirement as to the use to be made of any expenditure authorized by him or on his behalf.
- ii. Provide additional information, books and records on the Fund sought by the Auditor General for the purpose of examination and audit.
- iii. Ensure that every statement of account submitted shall include details of the financial status of the Fund as at the end of the financial year concerned.
- iv. The Accounting Officer or an officer administering the Fund takes responsibility for the finances of the Fund.

## MANAGEMENT DISCUSSION AND ANALYSIS

### a) The Fund's operational and financial performance

During the financial year ending 30<sup>th</sup> June 2020, the Fund experienced reduced operations and financial activities as compared to the previous period. These activities included the sale of goods in form of lunches and offering library services.

### b) Fund's compliance with statutory requirements

The Accounting Officer in charge of the Intelligence Service Development Fund confirms that the Service has complied fully with applicable Government Regulations, and that the Fund's funds received during the period under review were used for the eligible purposes for which they were intended and were properly accounted for.

Further the Accounting Officer confirms that the Intelligence Service Development Fund financial statements have been prepared in a form that complies with relevant accounting standards prescribed by the Public Sector Accounting Standards Board of Kenya.

### c) Key projects and investment decisions the entity is planning/implementing

The Fund does not have any key projects and investment decisions planned for implementation.

### d) Major risks facing the entity

The key risks facing the Fund are Credit and Interest rate risks, arising from bank deposits. Credit risk exposure arises from the possibility that the bank will be unable to pay the deposited amounts in full when demanded to do so.

**e) Material arrears in statutory/financial obligations**

The Fund does not have any arrears in statutory/financial obligations, such as loan default, pending bills, tax default, outstanding staff & pension obligations/actuarial deficit on pension schemes, non payment of dividends and loan redemption to the National Exchequer.

**f) The entity's financial probity and serious governance issues**

The Fund does not have any financial improbity, as confirmed by the internal audit committee, external auditors, or other National Government Agencies providing oversight; and there are no governance issues among the top management, including conflict of interest.

## REPORT OF THE MANAGEMENT COMMITTEE

The Management Committee submits its report together with the audited financial statements for the year ended June 30, 2020 which show the state of the Fund's financial affairs.

### Principal activities

The principal activities of the entity continue to be support of research and training in intelligence matters.

During the 2019/20 financial year, the Fund shall receive money from catering services, reimbursements due from training activities and library charges.

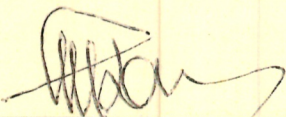
### Results

The results of the entity for the year ended June 30, 2020 are set out on page 12. During the 2019/2020 financial year, the Fund recorded a surplus of **Kshs. 8,210.00**. This represents a decrease of **Kshs. 11,942,860.00** from the surplus of **Kshs. 11,951,070.00** recorded during the 2018/2019 financial year.

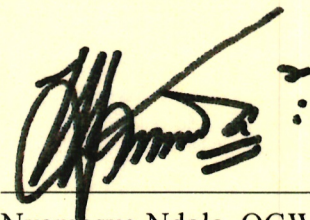
### Auditors

The Auditor General is responsible for the statutory audit of the Fund in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, for the year ended June 30, 2020.

The **Intelligence Service Development Fund** financial statements were approved and signed by the Accounting Officer on 8/2/ 2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
Director General.



Nyamasyo Ndola, OGW  
Head of Accounting Unit.

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 and the Exchequer and Audit (Intelligence Service Development Fund) Regulations of 2002 require the Director General to prepare financial statements in respect of that Fund, which give a true and fair view of the state of affairs of the Fund at the end of the financial year/period and the operating results of the Fund for that year/period. The Director General is required to ensure that the Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Fund. The Director General is also responsible for safeguarding the assets of the Fund.

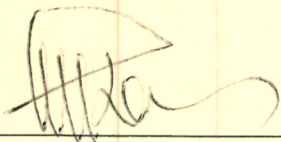
The Director General is responsible for the preparation and presentation of the Fund's financial statements, which give a true and fair view of the state of affairs of the Fund for and as at the end of the financial year (period) ended on June 30, 2020. This responsibility includes: (i) maintaining adequate 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 Fund; (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 Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Exchequer and Audit (Intelligence Service Development Fund) Regulations of 2002. The Director General is of the opinion that the Fund's financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2020, and of the Fund's financial position as at that date. The Director General further confirms the completeness of the accounting records maintained for the Fund, which have been relied upon in the preparation of the Fund's financial statements as well as the adequacy of the systems of internal financial control.

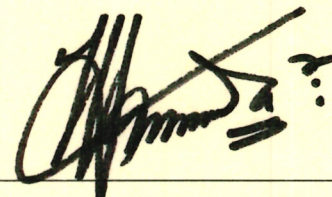
Nothing has come to the attention of the Director General to indicate that the Fund will not remain a going concern for at least the next twelve months from the date of this statement.

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

The **Intelligence Service Development Fund** financial statements were approved and signed by the Accounting Officer on 8/02/ 2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
Director General.



Nyamasyo Ndola, OGW  
Head of Accounting Unit.

# REPUBLIC OF KENYA

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*Enhancing Accountability*

**HEADQUARTERS**  
Anniversary Towers  
Monrovia Street  
P.O. Box 30084-00100  
NAIROBI

## **REPORT OF THE AUDITOR-GENERAL ON INTELLIGENCE SERVICE DEVELOPMENT FUND FOR THE YEAR ENDED 30 JUNE, 2020**

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### REPORT ON THE FINANCIAL STATEMENTS

#### **Opinion**

I have audited the accompanying financial statements of Intelligence Service Development Fund set out on pages 12 to 25, which comprise the statement of financial position as at 30 June, 2020, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Intelligence Service Development Fund as at 30 June, 2020, 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 Intelligence Service Development Fund Regulations of 2002 and Public Finance Management Act, 2012.

#### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Intelligence Service Development Fund Management in accordance with ISSAI 130 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.

#### **Emphasis of Matter**

As disclosed under Note 12 to the financial statements, the Fund is subject to winding up upon the lapse of the maximum ten years provided The Intelligence Service Fund (ISDF) through the Legal Notice No.110 of 2002 and the Exchequer and Audit (Intelligence Service Development Fund). In accordance with Section 209(3) of the Public Finance Management Regulations, 2012, the Management has written to the

Office of the Cabinet Secretary, State Department for Interior and Coordination of the National Government requesting for the approval to wind up the Fund.

My opinion is not modified based on the effects of the matter described above.

### **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 are no key audit matters to report during the year under review.

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

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.

### **Basis for 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 overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. 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 maintained 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 Standards (Accrual Basis) and for maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless Management is aware of the intention to terminate the Fund or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

## **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.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective in way, in accordance with the provisions of Article 229(6) of the

Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.


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.
- 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 applicable 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 Fund's ability 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 Fund to cease sustaining 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 Intelligence Service Development Fund 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.

  
Nancy Gathungu  
**AUDITOR-GENERAL**

**Nairobi**

**22 February, 2021**

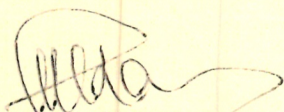
**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2020**

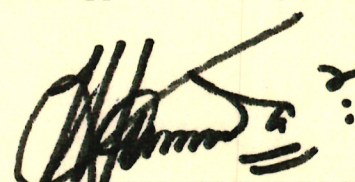
|   | Notes | 2019-2020     | 2018-2019         |
|---|-------|---------------|-------------------|
|   |       | Kshs          | Kshs              |
| <b>Revenue from non-exchange transactions</b> |       |               |                   |
| Fines, penalties and levies                   | 5     | 20,450        | 45,215            |
| <b>Revenue from exchange transactions</b>     |       |               |                   |
| Rendering of services                         | 6     | -             | 10,981,950        |
| Sale of Goods                                 | 7(i)  | -             | 935,975           |
| <b>Total revenue</b>                          |       | <b>20,450</b> | <b>11,963,140</b> |
| <b>Expenses</b>                               |       |               |                   |
| General expenses                              | 8     | 12,240        | 12,070            |
| <b>Total expenses</b>                         |       | <b>12,240</b> | <b>12,070</b>     |
| <b>Surplus/( deficit) for the period/year</b> |       | <b>8,210</b>  | <b>11,951,070</b> |
| Taxation                                      |       | -             | -                 |
| <b>Net Surplus for the year</b>               |       | <b>8,210</b>  | <b>11,951,070</b> |

The notes set out on pages 16 to 21 form an integral part of these Financial Statements

The **Intelligence Service Development Fund** financial statements were approved and signed by the Accounting Officer on 8/02/ 2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
 Director General.



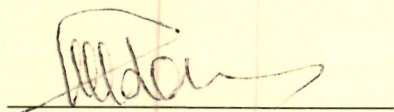
Nyamasyo Ndola, OGW  
 Head of Accounting Unit.

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

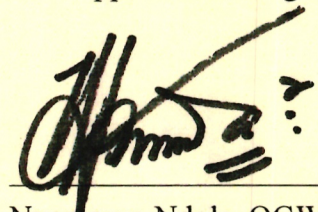
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

|   | Notes | 2019-2020         | 2018-2019         |
|---|-------|-------------------|-------------------|
|   |       | Kshs              | Kshs              |
| <b>Assets</b>                           |       |                   |                   |
| <b>Current assets</b>                   |       |                   |                   |
| Cash and cash equivalents               | 9     | 33,123,619        | 31,214,950        |
| <b>Non-current Assets</b>               |       | -                 | -                 |
|   |       |                   |                   |
| <b>Total Assets</b>                     |       | <b>33,123,619</b> | <b>31,214,950</b> |
|   |       |                   |                   |
| <b>Liabilities</b>                      |       |                   |                   |
| Current Liabilities                     |       | -                 | -                 |
| Non-current liabilities                 |       | -                 | -                 |
|   |       |                   |                   |
| <b>Net assets</b>                       |       | <b>33,123,619</b> | <b>31,214,950</b> |
|   |       |                   |                   |
| Accumulated surplus                     |       | 23,123,619        | 21,214,950        |
| Capital Fund                            |       | 10,000,000        | 10,000,000        |
| <b>Total net assets and liabilities</b> |       | <b>33,123,619</b> | <b>31,214,950</b> |

The **Intelligence Service Development Fund** financial statements were approved and signed by the Accounting Officer on 8/02/ 2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
 Director General.



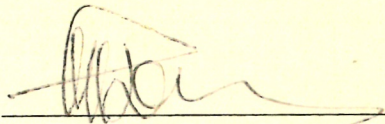
Nyamasyo Ndola, OGW  
 Head of Accounting Unit.

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

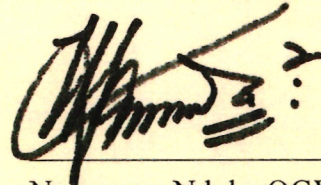
**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

|                            | Capital Fund | Revaluation reserve | Fair value adjustment reserve | Retained earnings | Proposed dividends | Capital/ Development Grants/Fund | Total      |
|----------------------------|--------------|---------------------|-------------------------------|-------------------|--------------------|----------------------------------|------------|
| At July 1, 2018            | 10,000,000   | -                   | -                             | 9,263,880         | -                  | -                                | 19,263,880 |
| Total comprehensive income | -            | -                   | -                             | 11,951,070        | -                  | -                                | 11,951,070 |
| At June 30, 2018           | 10,000,000   | -                   | -                             | 21,214,950        | -                  | -                                | 31,214,950 |
|                            |              |                     |                               |                   |                    |                                  |            |
| At July 1, 2019            | 10,000,000   | -                   | -                             | 21,214,950        | -                  | -                                | 31,214,950 |
| Net surplus for the year   | -            | -                   | -                             | 8,210             | -                  | -                                | 8,210      |
| Deposits                   |              |                     |                               | 1,900,459         |                    |                                  | 1,900,459  |
| At June 30, 2020           | 10,000,000   | -                   | -                             | 23,123,619        | -                  | -                                | 33,123,619 |

The **Intelligence Service Development Fund** financial statements were approved and signed by the Accounting Officer on 8/02/ 2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
 Director General.



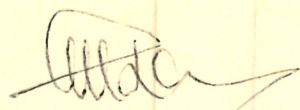
Nyamasyo Ndola, OGW  
 Head of Accounting Unit.

INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)  
Annual Reports and Financial Statements  
For the year ended June 30, 2020

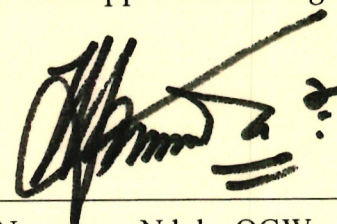
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2020

|   | Notes    | 2019-2020         | 2018-2019         |
|---|----------|-------------------|-------------------|
|   |          | Kshs              | Kshs              |
| <b>Cash flows from operating activities</b>                 |          |                   |                   |
| <b>Receipts</b>   |          |                   |                   |
| Fines, penalties and levies                                 | 5        | 20,450            | 45,215            |
| Rendering of services                                       | 6        | -                 | 10,981,950        |
| Sale of goods   | 7(i)     | -                 | 935,975           |
| Deposits  | 7(ii)    | 1,900,459         | -                 |
| <b>Total Receipts</b>                                       |          | <b>1,920,909</b>  | <b>11,963,140</b> |
| <b>Payments</b>   |          |                   |                   |
| Other payments  | 8        | 12,240            | 12,070            |
| <b>Total Payments</b>                                       |          | <b>12,240</b>     | <b>12,070</b>     |
| <b>Net cash flows from operating activities</b>             |          | <b>1,908,669</b>  | <b>11,951,070</b> |
| <b>Cash flows from investing activities</b>                 |          | -                 | -                 |
| <b>Cash flows from financing activities</b>                 |          | -                 | -                 |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |          | <b>1,908,669</b>  | <b>11,951,070</b> |
| Cash and cash equivalents at 1JULY 2019                     | 9        | 31,214,950        | 19,263,880        |
| <b>Cash and cash equivalents at 30 JUNE 2020</b>            | <b>9</b> | <b>33,123,619</b> | <b>31,214,950</b> |

The Intelligence Service Development Fund financial statements were approved and signed by the Accounting Officer on 8/02/2021.



Maj. Gen. (Rtd) Philip Kameru, MGH, CBS  
Director General.



Nyamasyo Ndola, OGW  
Head of Accounting Unit.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

The Intelligence Service Development Fund (ISDF) is established by and derives its authority and accountability from the Legal Notice No.110 of 2002. The Fund is wholly owned by the Government of Kenya and is domiciled in Kenya. The Fund's principal activity is financing intelligence research.

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

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 judgment in the process of applying the Fund's accounting policies.

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

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

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

**a) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020**

| Standard   | Impact   |
|--|--|
| <p><b>IPSAS 40:</b><br/>Public Sector Combinations</p> | <p><b>Applicable: 1<sup>st</sup> January 2019</b><br/>                     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 are covered purely under Public Sector combinations as amalgamations.</p> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p> |

b) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

| Standard                                      | Effective date and impact:  |
|---|---|
| <p><b>IPSAS 41: Financial Instruments</b></p> | <p><b>Applicable: 1<sup>st</sup> January 2022:</b></p> <p>The objective of IPSAS 41 is to establish principles for the financial reporting of financial assets and liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.</p> <p>IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by:</p> <ul style="list-style-type: none"> <li>• Applying a single classification and measurement model for financial assets that considers the characteristics of the asset's cash flows and the objective for which the asset is held;</li> <li>• Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and</li> <li>• Applying an improved hedge accounting model that broadens the hedging arrangements in scope of the guidance. The model develops a strong link between an entity's risk management strategies and the accounting treatment for instruments held as part of the risk management strategy.</li> </ul> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p> |
| <p><b>IPSAS 42: Social Benefits</b></p>       | <p><b>Applicable: 1<sup>st</sup> January 2022</b></p> <p>The objective of this Standard is to improve the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about social benefits. The information provided should help users of the financial statements and general purpose financial reports assess:</p> <p>(a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and</p> <p>(c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows.</p> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p>   |

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

| Standard   | Effective date and impact:  |
|--|---|
| Amendments to Other IPSAS resulting from IPSAS 41, Financial Instruments | <p><b>Applicable: 1st January 2022:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 5, to update the guidance related to the components of borrowing costs which were inadvertently omitted when IPSAS 41 was issued.</li> <li>b) Amendments to IPSAS 30, regarding illustrative examples on hedging and credit risk which were inadvertently omitted when IPSAS 41 was issued.</li> <li>c) Amendments to IPSAS 30, to update the guidance for accounting for financial guarantee contracts which were inadvertently omitted when IPSAS 41 was issued.</li> </ul> <p>Amendments to IPSAS 33, to update the guidance on classifying financial instruments on initial adoption of accrual basis IPSAS which were inadvertently omitted when IPSAS 41 was issued.</p> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p>   |
| Other Improvements to IPSAS  | <p><b>Applicable: 1st January 2021:</b></p> <ul style="list-style-type: none"> <li>a) Amendments to IPSAS 13, to include the appropriate references to IPSAS on impairment, in place of the current references to other international and/or national accounting frameworks</li> <li>b) IPSAS 13, Leases and IPSAS 17, Property, Plant, and Equipment.<br/>Amendments to remove transitional provisions which should have been deleted when IPSAS 33, First Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs) was approved</li> <li>c) IPSAS 21, Impairment of Non-Cash-Generating Assets and IPSAS 26, Impairment of Cash Generating Assets.<br/>Amendments to ensure consistency of impairment guidance to account for revalued assets in the scope of IPSAS 17, Property, Plant, and Equipment and IPSAS 31, Intangible Assets.</li> <li>d) IPSAS 33, First-time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs).<br/>Amendments to the implementation guidance on deemed cost in IPSAS 33 to make it consistent with the core principles in the Standard</li> </ul> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p> |

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

| Standard | Effective date and impact:   |
|----------|--|
|          | <p>IPSAS 40, Public Sector Combinations.<br/> Amendments to include the effective date paragraph which were inadvertently omitted when IPSAS 40 was issued.</p> <p><i>(The standard did not have an impact on the Fund during the current financial year).</i></p> |

**c) Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2020.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Fees, taxes and fines**

The entity recognizes revenues from fees, taxes and fines when the event occurs and the asset recognition criteria are met. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, deferred income is recognized instead of revenue. Other non-exchange revenues are recognized when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably.

**ii) Revenue from exchange transactions**

***Rendering of services***

The entity recognizes revenue from rendering of services by reference to the stage of completion when the outcome of the transaction can be estimated reliably. The stage of completion is measured by reference to labor hours incurred to date as a percentage of total estimated labor hours.

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

***Sale of goods***

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

**b) Changes in accounting policies and estimates**

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.

**c) Related parties**

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 the Director General and the Committee members.

**d) 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.

**e) Comparative figures**

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

**f) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

**5. FINES, PENALTIES AND LEVIES**

| Description  | 2019-2020     | 2018-2019     |
|--------------|---------------|---------------|
|              | KShs          | KShs          |
| Fines        | 20,450        | 45,215        |
| <b>Total</b> | <b>20,450</b> | <b>45,215</b> |

This is revenue arising from penalties/fines charged on those defaulting on the proper use of library books and services.

6. RENDERING OF SERVICES

| Description                         | 2019-2020 | 2018-2019         |
|-------------------------------------|-----------|-------------------|
|                                     | KShs      | KShs              |
| Reimbursements on training services | -         | 10,981,950        |
| <b>Total</b>                        | <b>-</b>  | <b>10,981,950</b> |

This is revenue arising from reimbursements on training services offered by the University of Nairobi in collaboration with National Intelligence Academy.

7. (i) SALE OF GOODS

| Description     | 2019-2020 | 2018-2019      |
|-----------------|-----------|----------------|
|                 | KShs      | KShs           |
| Sale of Lunches | -         | 935,975        |
| <b>Total</b>    | <b>-</b>  | <b>935,975</b> |

7. (ii) DEPOSITS

| Description  | 2019-2020        | 2018-2019 |
|--------------|------------------|-----------|
|              | KShs             | KShs      |
| Deposits     | 1,900,459        | -         |
| <b>Total</b> | <b>1,900,459</b> | <b>-</b>  |

This relates to payments received from sale of lunches on behalf of National Intelligence Service (NIS)

8. GENERAL EXPENSES

| Description  | 2019-2020     | 2018-2019     |
|--------------|---------------|---------------|
|              | KShs          | KShs          |
| Bank Charges | 12,240        | 12,070        |
| <b>Total</b> | <b>12,240</b> | <b>12,070</b> |

9. CASH AND CASH EQUIVALENTS

| Description                            | 2019-2020         | 2018-2019         |
|--|-------------------|-------------------|
|  | KShs              | KShs              |
| Current account                        | 33,123,619        | 31,214,950        |
| <b>Total cash and cash equivalents</b> | <b>33,123,619</b> | <b>31,214,950</b> |

DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS

| Financial institution     | Account number | 2019-2020         | 2018-2019         |
|---------------------------|----------------|-------------------|-------------------|
|                           |                | KShs              | KShs              |
| <b>a) Current account</b> |                |                   |                   |
| Standard Chartered Bank   | 0102096149200  | 33,123,619        | 31,214,950        |
| <b>Total</b>              |                | <b>33,123,619</b> | <b>31,214,950</b> |

**10. FINANCIAL RISK MANAGEMENT**

The Fund's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The Fund's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimize the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The company does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

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

**(i) Credit risk**

The entity has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the entity's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

|                        | <b>Total amount<br/>Kshs</b> | <b>Fully performing<br/>Kshs</b> | <b>Past due<br/>Kshs</b> | <b>Impaired<br/>Kshs</b> |
|------------------------|------------------------------|----------------------------------|--------------------------|--------------------------|
| <b>At 30 June 2020</b> |                              |                                  |                          |                          |
| Bank balances          | 33,123,619                   | 33,123,619                       | -                        | -                        |
| <b>Total</b>           | <b>33,123,619</b>            | <b>33,123,619</b>                | -                        | -                        |
| <b>At 30 June 2019</b> |                              |                                  |                          |                          |
| Bank balances          | 31,214,950                   | 31,214,950                       | -                        | -                        |
| <b>Total</b>           | <b>31,214,950</b>            | <b>31,214,950</b>                | -                        | -                        |

**INTELLIGENCE SERVICE DEVELOPMENT FUND (ISDF)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2020**

The Fund's exposure to credit risk arises from balances held at the Standard Chartered Bank account. The management considers this exposure not material and has not made any allowance/provision for the same in the financial statements.

**(ii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the entity on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, equity prices and foreign exchange rates which will affect the entity's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Overall responsibility for managing market risk rests with the Audit and Risk Management Committee.

The company's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit and Risk Management Committee) and for the day to day implementation of those policies.

There has been no change to the entity's exposure to market risks or the manner in which it manages and measures the risk.

**(iii) Capital Risk Management**

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

|   | <b>2019-2020</b>    | <b>2018-2019</b>    |
|---|---------------------|---------------------|
|   | <b>Kshs</b>         | <b>Kshs</b>         |
| Retained earnings                           | 23,123,619          | 21,214,950          |
| Capital reserve                             | 10,000,000          | 10,000,000          |
| <b>Total funds</b>                          | <b>33,123,619</b>   | <b>31,214,950</b>   |
| Total borrowings                            | -                   | -                   |
| Less: cash and bank balances                | (33,123,619)        | (31,214,950)        |
| Net debt/(excess cash and cash equivalents) | <b>(33,123,619)</b> | <b>(31,214,950)</b> |
| <b>Gearing</b>                              | <b>0%</b>           | <b>0%</b>           |

## **11. RELATED PARTY BALANCES**

### **Nature of related party relationships**

Entities and other parties related to the entity include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

### **Government of Kenya**

The Government of Kenya is the principal shareholder of the Fund, holding 100% of the Fund's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Fund, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The National Intelligence Service.

The Fund did not receive any funds from the related parties indicated.

## **12. WINDING UP OF ISDF**

The Intelligence Service Development Fund (ISDF) has operated beyond the maximum ten (10) years since it was established. This is beyond the life span after which approval is sought from parliament to extend the life of the Fund. The Management resolved to wind up the Fund as it has ceased to serve the purpose for which it was established, as such, the Accounting Officer approved the winding up process to commence.

Consequently, the Service, in accordance with Public Finance Management Act Regulations, (2015), 209 (3), via a letter Ref No.: LEG-ADM-NIS-POL.F.4/4 VOL. 27(32), dated 24th October 2019, and a follow up letter LEG-ADM-NIS-POL.F.4/4 VOL. 27(85), dated 30th April 2020, wrote to the Office of the Cabinet Secretary, State Department of Interior & Coordination of National Government requesting for the Fund to be wound up.

The Service is still waiting for further direction on the matter from the Office of the Cabinet Secretary.

11

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