

REPUBLIC OF KENYA



REPORT

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| THE NATIONAL ASSEMBLY PAPERS LAID | |
| DATE: 06 APR 2022 | DAY: WED |
| TABLED BY: | MAJORITY NHP |
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OF

THE AUDITOR-GENERAL

ON

PROVIDENT FUND

**FOR THE YEAR ENDED
30 JUNE, 2021**

THE NATIONAL TREASURY



PENSION FUND NAME: PROVIDENT FUND

THE NATIONAL TREASURY

FUND IDENTIFICATION NUMBER: 903

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2021**

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



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1. KEY ENTITY INFORMATION AND MANAGEMENT

(a) Background Information

The National Treasury was established via the Executive Order No. 2 of May 2013. The basis for establishment of the National Treasury is found in Article 225 (i) of the Constitution of Kenya which states that an Act of Parliament shall provide for the establishment, functions and responsibilities of the National Treasury. This has been actualized in Section 11 and 12 of the Public Finance Management (PFM) Act 2012.

At Cabinet level, the National Treasury is represented by the Cabinet Secretary for National Treasury and Planning, who is responsible for the general policy and strategic direction of the Ministry with the assistance of the Chief Administrative Secretary.

Vision

“Excellence in economic and public financial management, and development planning”.

Mission

“To provide leadership in economic and public financial management, for shared growth through formulation, implementation and monitoring of economic and financial policies”.

Core Values

The National Treasury is guided by the following core values: Customer Focus, Results Oriented, Stakeholder Participation, Professionalism, Accountability, Integrity and Transparency and Teamwork all geared towards excellence in service delivery.

Mandate of the National Treasury

The National Treasury derives its mandate from Article 225 of the Constitution, Public Finance Management Act 2012 and the Executive Orders No.2/2013 and No.1/2018. The National Treasury will be executing its mandate in consistency with any other legislation as may be developed or reviewed by Parliament from time to time.

The core functions of the National Treasury as derived from the above legal provisions include;

- Formulate, implement and monitor macro-economic policies involving expenditure and revenue;
- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government;
- Formulate, evaluate and promote economic and financial policies that facilitate social and economic development in conjunction with other national government entities;

- Mobilize domestic and external resources for financing national and county government budgetary requirements;
- Design and prescribe an efficient financial management system for the national and county governments to ensure transparent financial management and standard financial reporting.
- In consultation with the Accounting Standards Board, ensure that uniform accounting standards are applied by the national government and its entities;
- Develop policy for the establishment, management, operation and winding up of public funds;
- Prepare the annual Division of Revenue Bill and the County Allocation of Revenue Bill;
- Strengthen financial and fiscal relations between the national government and county governments and encourage support for county governments;
- Assist county governments to develop their capacity for efficient, effective and transparent financial management;
- To prepare the National Budget, execute/implement and control approved budgetary resources to MDAs and other Government agencies/entities; and
- Coordination and integration of public ports, railway and pipeline services.

Role of the National Treasury in the Devolved System of Government

The National Treasury is mandated by law to:

- Strengthen financial and fiscal relations between the National Government and County Governments and support for county governments in performing their functions;
- Issue guidelines on the preparation of county development planning;
- Prepare the annual legislative proposals on intergovernmental fiscal transfers;
- Provide logistical support to intergovernmental institutions overseeing intergovernmental fiscal relations;
- Coordinate the development and implementation of financial recovery plans for County Governments that are in financial distress;
- Build capacity of County Governments on public finance management matters for efficient, effective and transparent financial management as well as planning, monitoring and evaluation and;
- Administer the Equalization Fund.

(b) Key Management

The National Treasury day-to-day management is under the following key offices;

Office of the Principal Secretary

The Office of the Principal Secretary is responsible for the day to day administration of the National Treasury operations and is the Accounting officer. In addition, the Principal

BANKI
KUU YA
KENYA



CENTRAL
BANK OF
KENYA


11th Floor, State Avenue
P.O. Box 60000 - 00100 Nairobi, Kenya
Telephone: (254) 20 340100 Fax: 340192

July 7, 2021

CERTIFICATE OF BALANCES

Customer: 120373 - NATIONAL TREASURY
Balance Date: 30 JUN 2021

| Account No | Account Name | Balance |
|------------|-------------------------------------|------------------|
| 1000204397 | REC-PENSIONS | 2,039,264,930.27 |
| 1000209518 | NATIONAL TREASURY REVENUE COLL. | 0.00 |
| 1000213744 | EUROPEAN WIDOWS AND ORPHANS PENSION | 172,551,308.65 |
| 1000213752 | ASIAN OFFICERS FAMILY PENSION FUND | 445,483,121.85 |
| 1000213768 | PROVIDENT FUND KE AND EA COMMUNITY | 887,674,635.10 |


LAWRENCE RWERIA
AUTHORISED SIGNATORY
BANKING SERVICES


JOYCE NASIEKU
AUTHORISED SIGNATORY
BANKING SERVICES



Secretary is charged with the responsibility of providing advice to the Cabinet Secretary in order to enhance efficiency and collective responsibility.

Organizational structure of the National Treasury

The National Treasury is organized into five (5) technical Directorates headed by Directors General and (1) Administrative and Support Services Directorate headed by a Principal Administrative Secretary. Each Director General is responsible for a Directorate comprising a cluster of Departments responsible for related policy functions. In addition, the Treasury has two independent departments namely Public Procurement and Internal Auditor General both of which are headed by Directors. The Directorates and Departments are as follows:

Directorate of Budget, Fiscal and Economic Affairs

The Directorate is headed by a Director General, reporting to the Principal Secretary, National Treasury. It is organized into the following five (5) Technical Departments each headed by a Director:

- Budget Department;
- Macro and Fiscal Affairs Department
- Financial and Sectoral Affairs Department;
- Inter-Governmental Fiscal Relations Department

Directorate of Accounting Services and Quality Assurance

The Directorate is headed by a Director General reporting to the Principal Secretary, National Treasury. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Accounting Services;
- Financial Management Information Systems (FMIS)
- National Sub-County Treasuries.
- Government Digital Payments Unit.

Directorate of Portfolio Management

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is organized into the following four (4) Technical Departments each headed by a Director:

- Government Investment and Public Enterprises;
- National Assets and Liabilities Management;
- Pensions Department.
- Public Investment Management Unit

Directorate of Public Debt Management Office

The Directorate is headed by a Director General, reporting to the Principal Secretary. It is

organized into the following three (3) Technical Departments each headed by a Director:

- Resource Mobilization (Front Office);
- Debt Policy, Strategy and Risk Management (Middle Office);
- Debt Recording and Settlement (Back Office).

Directorate of Public Private Partnership Unit

The Directorate is headed by a Director General, reporting to the Principal Secretary on matters relating to Public Private Partnership.

Directorate of Administrative and Support Services (Common Shared Services)

The Directorate is headed by a Principal Administrative Secretary, reporting to the Principal Secretary. It is organized into twelve (12) specialized functions offering common shared services. The common shared services of the National Treasury consist of functions that are not core to the National Treasury but offer critical support services to the National Treasury. The functions include:

- Accounting,
- Finance,
- Human Resource Management and Development,
- Central Planning and Project Monitoring,
- Supply Chain Management,
- Legal,
- Public Communications,
- General Administration,
- Records Management;
- Internal Audit;
- ICT
- Government Clearing Agency

(c) Fiduciary Management

The key management personnel who held office during the financial year ended 30th June 2021 and who had direct fiduciary responsibility were:

| S/No. | Designation | Name |
|-------|---|------------------------------|
| | Principal Secretary | Dr. Julius Muia, PhD, CBS |
| | Principal Administrative Secretary | Mr. Amos Gathecha, EBS |
| | Director General, BFEA | Mr. Albert Mwenda, HSC |
| | Director General, Accounting Services | Mr. Bernard Ndung'u, MBS |
| | Director General, PIPM | Eng. Stanley Kamau |
| | Director General, PDMO | Dr. Haron Sirma, OGW |
| | Director General, PPP | Mr. Christopher Kirigua, OGW |
| | Director, Macro and Fiscal Affairs Department | Mr. Musa Gathanje |
| | Director, Budget Department | Mr. Francis Anyona, OGW |
| | Director, Financial and Sectoral Affairs Department | Prof. Galgalo Barako |
| | Director, Public Procurement Department | Mr. Eric Korir |
| | Director, Intergovernmental Fiscal Relations Department | Mr. Albert Mwenda, HSC |
| | Deputy Internal Auditor General | Ms. Jane Micheni |
| | Director, Government Accounting Services Department | Mr. Jonah Wala |
| | Ag Director, National Sub County Treasuries | Mr. Francis Kariuki |
| | Director, Financial Management Information System | Mr. Stanley Kamanguya |
| | Director, Public Private Partnership Unit | Mrs. Veronica Okoth |
| | Director, National Assets and Liability Management | Mrs. Beatrice Gathirwa |
| | Director, Government Investment and Public Enterprises | Mr. Kennedy Ondieki |
| | Director, Pensions Department | Mr. Michel Kagika, EBS |
| | Director, Resource Mobilization Department | Mr. Moses Kanagi |
| | Director, Debt Policy, Strategy and Risk Management Department | Mr. Daniel Ndolo |
| | Director, Debt Recording and Settlement Department | Mr. George Kariuki |
| | Secretary Administration | Mr. Hiram Kahiro |
| | Head, Accounts Division | Mr. Nemwel Motanya |
| | Head, Finance | Mr. Kimathi Mugambi, HSC |
| | Head, SCM | Mr. Aggrey kituyi |
| | Head, Internal Audit Unit | Mr. Esther Ngeru |
| | Director, Human Resource Management and Development | Ms. Susan Mucheru |
| | Director, Information Communication and Technology | Mrs. Lynn Nyongesa |
| | Head, Central Planning and Project Monitoring Unit | Mr. Antony Muriu, HSC |
| | Head, Public Communications | Ms. Catherine Njoroge |
| | Programme Coordinator, Public Financial Management Reform Secretariat | Mr. Julius Mutua |
| | Director, Government Clearing Agency | Mr. Felix Ateng |

(d) Fiduciary Oversight Arrangements

To manage the fiduciary risk, the National Treasury has put in place fiduciary oversight arrangements including setting up committees. The key oversight arrangements include:

Internal Audit Unit

The National Treasury has an internal Audit Unit charged with the responsibility of identifying risks in the management and day to day operations of the Ministry through the risk-based audits. The Unit reports directly to the Accounting Officer on a regular basis.

Audit Committees

In line with the Public Finance Management Act, the National Treasury has established a Ministerial Audit Committee comprising five members, three of whom are independent. The Committee provides overall oversight and quality assurance including follow up on the effectiveness of implementation of audit recommendations.

Further, the National Treasury established an audit committee comprising officers from all departments of the Ministry, under the chairmanship of the Senior Chief Finance Officer. The Committee reviews and analyses all audit queries and makes recommendations on how to reduce fiduciary risks. In addition, the committee prepares responses to all audit queries for presentation to the relevant committees of parliament.

Project Implementation Committee

To monitor the implementation of the Government's Infrastructure Projects, the National Treasury has established a Project Steering Committee comprising Principal Secretaries from implementing Ministries and appointed a technical committee comprising officers from the technical departments of the Ministry. The Committees review and analyse the progress made by ministries in the implementation of domestically and externally funded projects and advises accordingly.

Parliamentary Activities

In order to effectively manage the parliamentary activities relating to the Ministry, the National Treasury has established a committee and designated a liaison officer to coordinate the activities under the Office of the Cabinet Secretary in consultation with the Office of the Chief Administrative Secretary.

Development Partner Oversight

To effectively manage Official Development Assistance to the Government, the National Treasury has under the Public Debt Management a department responsible for all matters relating to

Development Partners. The Department has various Units that coordinate different development partner activities in the Country.

Other fiduciary oversight arrangements include the following committees with specific objectives;

Top Management Committee and Other Committees

To monitor the implementation of the Ministry's programmes and performance, the National Treasury has appointed Top Management Committee comprising of Directors General. The Committee receives reports from departments, build consensus on National Treasury responses to emerging issues, challenges and risks and ensures that the decisions made are implemented in a timely manner. Additionally, the Treasury constituted Adhoc Committees to handle specific assignments in the Financial Year 2020/21.

Public Financial Management Sector Working Group

To facilitate the implementation of financial management reforms, the National Treasury has appointed senior officers to the Public Financial Management Sector Working Group. The Committee plays an oversight role in the implementation of financial reforms in the public service in collaboration with the development partners.

Budget Implementation Steering Committee

In order to effectively monitor the implementation of the National Government budget implementation, The National Treasury has established a steering Committee chaired by the Cabinet Secretary, National Treasury and Planning. The Principal Secretaries for the National Treasury and State Department of Planning provide general oversight in the Budget implementation.

Budget Implementation Technical Committee

The Committee is chaired by the Principal Administrative Secretary and comprises the Directors General and various Heads of Department. The Committee is responsible for monitoring the actual implementation of the identified measures and programmes and reporting detailed progress on the same regularly.

Budget Implementation Ministerial Committee

To monitor the implementation of the Ministry's budget, programmes and activities, the National Treasury has appointed a committee comprising of officers from all the Departments of the Ministry. The Committee reviews and analyses the progress made by Departments in the implementation of budget and the planned programmes and activities and advises the management accordingly.

Monitoring and Evaluation

The Ministry undertakes monitoring and evaluation exercises to establish progress made in the implementation of various programmes and projects including those that are funded by the development partners.

(e) The National Treasury Headquarters

P.O. Box 30007- 00100,
Treasury Building,
Harambee, Avenue
Nairobi Kenya

The National Treasury Contacts

Telephone: (254)020-2252299

Email: info@treasury.go.ke

Website: www.treasury.go.ke

(f) The National Treasury Bankers

Central Bank of Kenya
Haile Selassie Avenue
P.O. Box 60000
City Square 00200
Nairobi, Kenya

(g) Independent Auditors

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

(h) Principal Legal Adviser

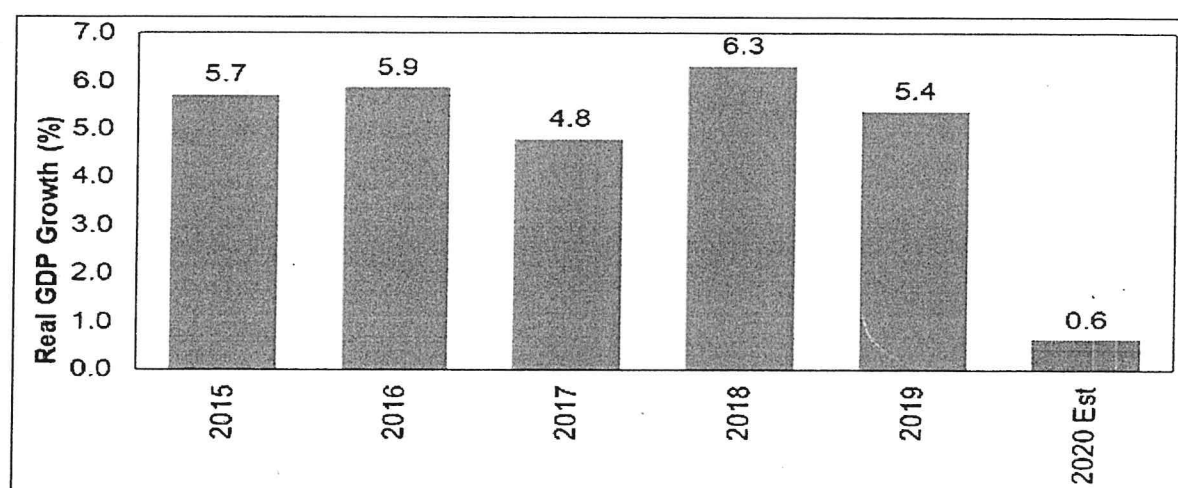
The Attorney General
State Law Office
Harambee Avenue
P.O. Box 40112
City Square 00200
Nairobi, Kenya

2. FORWARD BY THE CABINET SECRETARY

In accordance with Section 12 of the Public Finance Management Act, 2012, the National Treasury is responsible for coordinating the country's economic and financial management. Overall, the National Treasury has continued to maintain a policy environment that is conducive to economic growth and development of the country.

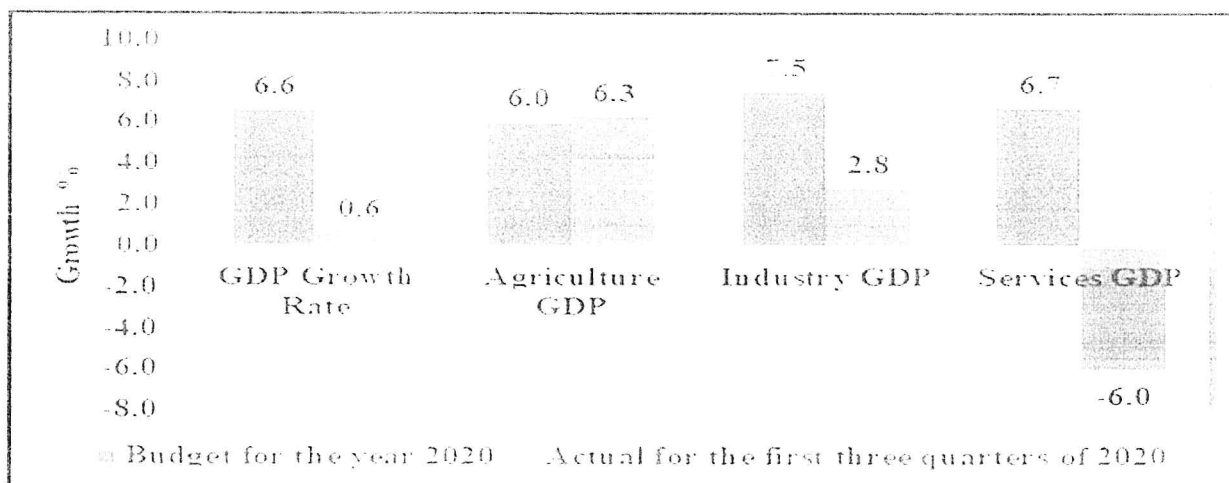
Economic growth in the first three quarters of 2020 contracted by an average of 0.4% compared to a growth of 3.6 percent in the corresponding period of 2019. In 2020, the Kenyan economy was adversely affected by the outbreak of Covid-19 Pandemic and the swift containment measures, which disrupted and scaled down economic activities within the country and in most of the country's major trading partners. Additionally, Kenya faced two other shocks: the invasion of swarms of desert locusts that damaged crops and occurrence of floods following receipt of more than normal rainfall in May 2020. As a result, growth in 2020 is estimated to have contracted by 0.6 percent from a growth of 5.4 percent in 2019 (figure 1).

Figure 1: Annual Real GDP Growth rates (Percent)



The agriculture sector recorded an improved average growth of 6.4 percent in the first three quarters of 2020 compared to a growth of 3.6 percent in the corresponding period of 2019. The non-agriculture (service and industry) sectors were adversely affected by the Covid-19 pandemic. As a result, the sectors contracted by an average of 2.1 percent in the first three quarters of 2020 down from an average growth of 6.1 percent in a similar period in 2019. (Figure 2).

Figure 2: Annual Percentage Economic Growth Rates in 2020/21



Data Source: Quarterly Economic and Budgetary Review(QEBR), MTP III

Additionally, the economic slowdown in fourth quarter was aggravated by contraction in Accommodation and Food Service activities to negative 6 per cent from 6.7 per cent on account of Corona Virus containment measures instituted in our major tourist source markets.

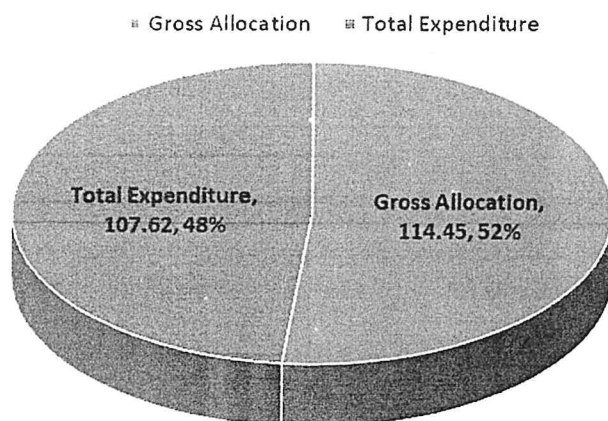
Despite the difficult circumstances faced last year, the country was able to preserve macroeconomic stability with inflation, interest rates and exchange rates remaining largely stable. Leading economic indicators for the fourth quarter of 2020 and the first quarter of 2021 point to strong recovery from the adverse impact of the COVID-19 pandemic.

Budget performance

In terms of budget performance, the National Treasury expenditure stood at **Kshs.107.6 Billion** against an approved budget of **Kshs.114.5 Billion** translating to an overall absorption rate of 94% as demonstrated in that pie chart below:

Figure 3: Total Allocation against Total Expenditure (Kshs. Billion)

Total Allocation against Total Expenditure (KSh. Billion)

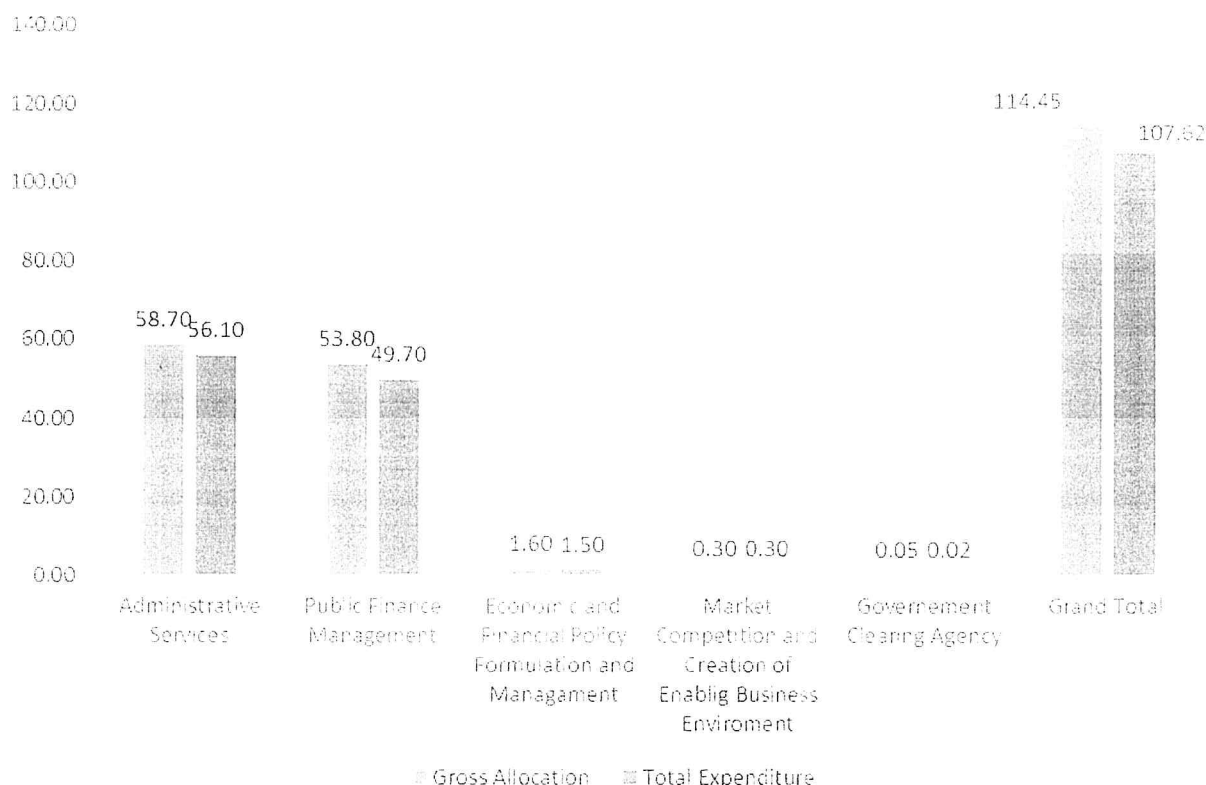


The National Treasury implemented the 2020/21 budget within five economic classifications/programmes. These were General Administration, Planning and Support Services, Public Financial Management, Economic and Financial Policy Formulation and Management, Market Competition and Creation of an Enabling Business Environment, and Government Clearing Agency. As demonstrated in the bar chart below, the Market Competition Programme had the highest absorption at 100% followed by General Administration 96%, Economic and Financial Policy Formulation and Management 94%, and Public Financial Management Programme at 82% while Government Clearing Agency at 30%.

Figure 3: Budget Execution (KSh. Billions) and proportion (%) by Programmes

The 100% absorption rate in Market Competition and Creation of an Enabling Business Environment programme is attributed to transfers to Semi Autonomous Government Agencies (SAGAs) under the National Treasury which implemented this programme.

Budget Execution (KSh. Billions) and proportion (%) by Programmes



The Public Service Superannuation Scheme commenced on 1st January 2021, with the Board of Trustees having been constituted in line with the provisions of the Act that established the scheme. The scheme covers all employees below the age of 45 years of the Public Service Commission, the Teachers Service Commission and the National Police Service. This will be the largest pension fund in the country and will generate growth of capital markets and bring growth in unlocking value in real estate.

The Performance Contract Evaluation report for all Ministries, State Corporations and Tertiary Institutions released in May 2021 ranked the National Treasury and Planning as the best performing Ministry for Fiscal year 2020/2021.

Other key achievements during the period under review are as follows;

- Mobilization of external resources amounting to **Kshs.622 billion** for projects and Kshs.423 billion for budget support to meet the budget deficit equivalent to 40.3% of the fiscal gap;
- Facilitated the National Police Service by leasing 3,400 vehicles towards enhancing security;
- Developed two Public Private Partnership (PPP) Projects Standardized Transactional Templates.

- iv. Developed Government Investment Management Information System (GIMIS);
- v. Conducted 245 value for money (VfM) audits;
- vi. Trained 1,273 Public Finance Management (PFM) users on financial reporting on IFMIS system;

Emerging Issues

The emerging issues that have impacted the operations of the National Treasury include;

- Covid-19 Pandemic and the containment measures led to depressed business environment hence pushing many enterprises and business to scale down operations. This negatively impacted revenue performance, thus exacerbating the pressure for resource at the Ministry level, the containment measures included but not limited to work shift plans and restriction of movements. These constrained the implementation of planned activities for the National Treasury.
- Re-allocation of resources to finance Covid-19 related expenditures thus affecting implementation of some programmes and projects.
- Leveraging on ICT innovations in the delivery of services to the citizenry.
- Change in Government Policies that led to adjustment in the implementation of planned programmes and projects.

Challenges

Some of the challenges the National Treasury faced while implementing the 2020/21 budget include:-

- Resource Constraint
- The rationalization of the budget, occasioned by underperformance of revenue collection and emerging government priorities affected the implementation of programmes on training, hospitality, transfer of conditional grants to County Governments and to semi-autonomous Agencies (SAGAs). The underperformance in revenue also caused delays in disbursement of funds by the National Treasury to MDAs. The underperformance of county governments own source revenue led to overreliance on transfers from the National Government occasioning more pressure on the exchequer.
- Shortage of Key Technical Staff
- The National Treasury experienced staff shortage across all cadres. This is attributed to natural attrition and departure of staff to the county governments and other constitutional bodies. The planned recruitment and promotion of staff by the appointing authorities has been slow hence affecting service delivery and succession management initiatives.
- Shortage of office space especially for key technical staff.
- Lack of a Project Implementation, Monitoring and Evaluation framework.

To amount the above challenges and ensure successful implementation of the National Treasury goals and objectives, the Ministry undertook the following: -

- Continued to implement borrowing policy that provides for domestic borrowing to plug the financing gap created by non-performing revenue,

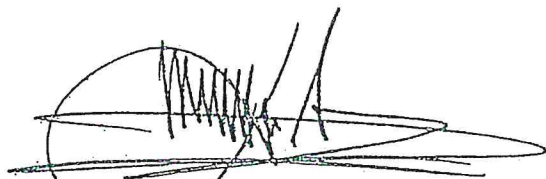
THE NATIONAL TREASURY
Reports and Financial Statements
For the year ended June 30, 2021

- Undertook expenditure reduction strategies such as austerity measures and relevant re-prioritization of projects funding to those with greatest impact.
- Continued to implement succession planning towards progressively filling in staff shortage, continued training and timely promotions.
- Engaged other developments partners for concessional loans and grants as well as pursued strategies to finance government projects.

Recommendations

- Increasing allocation to the sub-Sector to facilitate effective mobilization of resources to finance public expenditure particularly towards facilitation and implementation of post COVID-19 recovery programmes and strategies
- Reforms in Public Financial Management shall be sustained to enable the National Treasury to mobilize adequate financial resources and enhance absorption capacity;
- Sustained implementation of succession planning, especially with respect to recruitment of key technical staff;
- Strengthening Monitoring and Evaluation Framework and capacity.
- Leveraging on the use of ICT in the face of COVID 19 containment measures to ensure timely delivery of targets and through acquisition of modern communication equipment and systems.
- Enhancing working environment and refurbishment of offices to provide accommodation of staff.
- Prioritization of ongoing projects and fast tracking to ensure timely completion

Going forward, the National Treasury will implement a risk management strategy that will identify, monitor and control risks associated to its activities. This will include government investments and cash flows, its banking, money markets and capital market transactions as well as borrowing.



HON. (AMB.) UKUR YATANI, EGH
CABINET SECRETARY/NATIONAL TREASURY & PLANNING

3. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Introduction

Section 81 (2) (f) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, the Accounting officer when preparing financial statements of each National Government entity in accordance with the standards and formats prescribed by the Public Sector Accounting Standards Board includes a statement of the national government entity's performance against predetermined objectives. The key development objectives of the National Treasury's 2018-2022 Plan are to:

Strengthen organization capacity for quality service delivery;
 Enhance mobilization, allocation and utilization of public resources;
 Ensure stable and sustainable macro-economic environment;
 Ensure market structures that encourage competition and orderly conduct of business;
 Progress on Attainment of Strategic Development Objectives

For purposes of implementing and cascading the above development objectives to specific sectors, all the development objectives were made specific, measurable, achievable, realistic and time-bound (SMART) and converted into development outcomes. Attendant indicators were identified for reasons of tracking progress and performance measurement: Below we provide the progress on attaining the stated objectives:

| MDA Program | Strategic Objective | Outcome | Indicator | Performance |
|---|---|--|--|---|
| General Administration, Planning and Support Services | Strengthen organization capacity for quality service delivery | Efficient and effective service delivery | No. of vehicles | 3,400 security vehicles were leased for the National Police Service towards enhancing security |
| | | | No. of systems | Developed one Government Investments Management Information System (GIMIS) |
| | | | % level of compliance to PSSS | On Boarded and maintained all Permanent and Pensionable (P&P) Public servants of age 45 years and below in the Public Service Super Annuation Scheme (PSSS) |
| Public Financial Management | Enhance mobilization, allocation and utilization of public resources. | Transparent and accountable management of public resources | Consolidated Annual Accounts | Annual accounts prepared |
| | | | Annual national budget presented to Parliament by 30th April | Budget presented to parliament |
| | | | No. of standardized templates | Developed two PPP Projects Standardized Transactional Templates |

| | | | | |
|---|--|--|--|--|
| | | | No. of Strategies | Developed one Medium Term debt strategy |
| | | | No. of VFM Audits reports | Conducted 245 Value for Money Audits due to increased requests for special audit by MDAs |
| | | | No. of Registered AGPO Enterprises | Registered 26,280 AGPO Enterprises |
| | | | No. of Policies | Developed the Assets and Liabilities Management Policy |
| Economic and Financial Policy Formulation and Management | Ensure stable and sustainable macro-economic environment. | Stable macroeconomic environment for economic growth | Real GDP growth rate (%) | 0.6 % |
| | | | Inflation rate (%) | 5.3% |
| | | | Months of import cover | 4.8 months of import cover |
| | | | % of fiscal deficit | (7.7) % of GDP |
| | | | No. of Policies | Developed the Kenya Digital Finance, Policy |
| | | | County Allocation of Revenue Bill (CARB) & Division of Revenue Bill (DORB) | Prepared the County Allocation of Revenue Bill (CARB) & Division of Revenue Bill (DORB) |
| Market Competition and Creation of an Enabling Business Environment | Ensure market structures that encourage competition and orderly conduct of business. | Sustained high productivity and competitive markets | Percentage of consumer complaints investigations concluded | 94% of the consumer complaints investigated |
| | | | No. of guidelines and Merger Notification Forms | Developed the Joint Venture, Informant Reward and Exemption guidelines in order to cater for emerging issues in competition. |

4. CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

The National Treasury exists to transform lives. This is our purpose; the driving force behind everything we do. It's what guides us to deliver our strategy, which is founded on the following core values: customer/Citizen first, delivering relevant goods and services, and improving operational excellence. Below is a brief highlight of our achievements in each pillar:

1. Sustainability Strategy and Profile

To ensure economic sustainability, the National Treasury has put in place several measures geared towards protecting the economy and its citizens against major economic shocks. Some of them include; reduction of VAT and review of income tax to cushion citizens during the COVID 19 pandemic, reorganized the budget to reflect the realities of the current situation and to manage expenditure among others. Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in the Budget Policy Statement (BPS). This will ensure debt is maintained within sustainable levels. The fiscal deficit is expected to decline from 7.7 percent of GDP in FY 2020/21 to 6.3 percent by FY 2023/24. This was occasioned by COVID – 19 pandemics though the desired target is to lower it to the East African Monetary Union's (EAMU) protocol target ceiling of 3.0 percent of GDP. To achieve this target, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization. In the FY 2020/21, the Government continued to implement a raft of tax policy measures through the Budget Policy Statement, the Tax Amendment Law and the Finance Act, 2019. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting the government's fiscal consolidation efforts. Further, the establishment of Public Investment Management (PIM) Unit at the National Treasury continues to play a great role in enhancing efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending. In particular, the implementation of PIM regulations under the Public Finance Act will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

2. Environmental performance

The National Treasury has constituted a Committee comprising officers from the key Departments of the Ministry to oversee all matters relating to environmental sustainability. The Committee has since developed a ministerial policy on the same in line with the National Policy on environmental management.

3. Employee welfare

Employee welfare is critical for effective implementation of the programmes and projects of an organization. Noting the importance of human resources, the National Treasury has a Department established to handle Human Resources Management and Development. The Ministry has also established a Human Resource Management Advisory Committee that process all the promotions, discipline, training, appraisal and general employee matters in line with the Public Service guidelines and procedures. In addition, a committee on occupational safety and health has been established to follow up of the safety conditions in the work place. In order to ensure attracting and retaining competent officers, the National Treasury continued to conduct capacity and training needs assessments 2020/2021- 2021/22 as well as development and implementation of the training projections plan to fill skills gaps. In addition, the National Treasury continued to implement succession management plan by declaring the number of the posts to be filled under the delegated powers and continually implementing the provision of the guidelines on the policy on advancement to the next grade at the entry level in the scheme of service and implementation of the Authorised officers and the PSC decisions. Further, the importance of knowledge management was reinforced through: identification of data needs and data gaps; preparation of a database of sources of knowledge across all levels in the State Department, preparation of a comprehensive report on patterns, trends and attributes of the processed data and information in the State Department; preservation and sharing of knowledge as well as application of knowledge to policy and problem solving within the National Treasury. The National Treasury has continued to build the capacity on the online staff appraisal management system in collaboration with the Public Service Commission to ensure seamless implementation of the system.

4. Market place practices

The National Treasury is responsible for promoting fair trade practices in the economy. To ensure effective implementation of this function assigned by the Constitution, one of the programmes implemented by the Treasury is ensuring that existing market structures encourage competition and orderly conduct of business in order to support high productivity and competitive markets. In addition, the National Treasury developed the Joint Venture, Informant Reward and Exemption guidelines in order to cater for emerging issues in competition.

5. Community Engagements

To mitigate technological hazards, terrorism, fire and natural disasters, the National Treasury engaged a professional security services firm contracted for purposes of enhancing security in the Ministry. The National Treasury continued to improve security within the building and its environs by use of CCTV cameras installed at the Treasury Building and at the entrances and maintained firefighting facilities at the premises in collaboration with the State Department for Public Works.

5. STATEMENT OF THE PROVIDENT FUND MANAGEMENT RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the Provident Fund Act, Cap 191(1951), require the Principal Secretary for the National Treasury to prepare financial statements in respect of that Provident Fund, which give a true and fair view of the state of affairs of the Provident Fund at the end of the financial year/period and the operating results of the Provident Fund for that year/period. The Principal Secretary for the National Treasury is also required to ensure that the Provident Fund keeps proper accounting records which disclose with reasonable accuracy the financial position of the Provident Fund. The Principal Secretary is also responsible for safeguarding the assets of the Provident Fund.

The Principal Secretary for the National Treasury is responsible for the preparation and presentation of the Provident Fund's financial statements, which give a true and fair view of the state of affairs of the Provident Fund for and as at the end of the financial year (period) ended on June 30, 2021. 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 Provident Fund; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

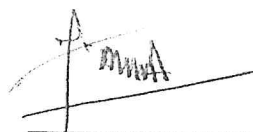
The Principal Secretary for the National Treasury accept responsibility for the Provident Fund's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the PFM Act, 2012 and the Provident Fund Act, Cap 191(1951). The Principal Secretary for the National Treasury is of the opinion that the Provident Fund financial statements give a true and fair view of the state of Fund's transactions during the financial year ended June 30, 2021, and of the Provident Fund's financial position as at that date. The Principal Secretary further confirm the completeness of the accounting records maintained for the Provident Fund, which have been relied upon in the preparation of the Provident Fund financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Principal Secretary to indicate that the Provident Fund

will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the Pension Fund financial statements

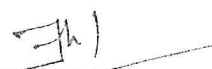
The Provident Fund financial statements were approved by the Accounting Officer for the National Treasury on 23/12, 2021 and signed by them.



DR. JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY



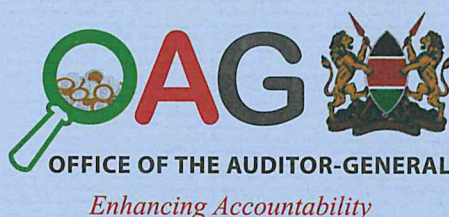
MICHAEL A. KAGIKA, EBS
SECRETARY/DIRECTOR OF
PENSIONS



FRANCIS L. AMUYUNZU
ICPAK NO. 6175
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HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON PROVIDENT FUND FOR THE YEAR ENDED 30 JUNE, 2021 – THE NATIONAL TREASURY

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Provident Fund set out on pages 22 to 47, which comprise of the statement of financial position as at 30 June, 2021, and the statement of financial performance, statement of changes in net assets, 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Provident Fund as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Accrual Basis) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Long Outstanding and Unsupported Other Pending Payables

As disclosed in Note 12.11 to the financial statements, the statement of financial position reflects a balance of Kshs.9,715,111 in respect to other pending payables brought forward from previous years. This represented amounts due to National Government entities. However, the supporting documents or analysis for the balance were not provided for review. The balance has remained outstanding for a long period of time.

In the circumstances, the accuracy and validity of the balances amounting to Kshs.9,715,111 could not be confirmed.

2. Long Outstanding Other Receivables

As disclosed in Note 12.09 to the financial statements, the statement of financial position for the year ended 30 June, 2021 reflects an amount of Kshs.13,806,771 in respect to other receivables which includes a balance of Kshs.3,921,000 that was invested in the defunct Cereals and Sugar Finance Corporation. The amount has been outstanding for a long-time pending conclusion of the winding up process of the Corporation. The fund may never recover the amount owed by the defunct Corporation which is likely translate to loss of public funds.

In the circumstances, the recoverability of other receivables amounting to Kshs.3,921,000 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of The National Treasury 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 qualified opinion.

Emphasis of Matter

Delay in Winding Up the Fund

As indicated in Note 12.07 of the financial statements, the Fund does not have surviving beneficiaries. The National Treasury had formed a task force on the winding up of dormant funds which included the Provident Fund. Thereafter, The National Treasury sought and got legal opinion and recommendations from the Attorney General. A Cabinet Memorandum on winding up of the dormant funds was forwarded to the Attorney General in September, 2019 who advised that draft revocation orders be prepared on the dormant funds.

The Revocation Orders were prepared and submitted to the Cabinet for consideration and approval. On 2 March, 2021, the Head of Public Service communicated the Cabinet approval for Revocation Orders of the dormant funds. The Revocation Orders were submitted to the Attorney General Office for onward transmission to the National Assembly for approval of the winding up of the dormant funds on 12 April, 2021. However, the Revocation Orders had not been acted upon by the National Assembly and the process of winding up the Fund had not been completed as at the time of the audit.

My opinion is not modified in respect of the above matter.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. 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.

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 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 overall 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 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 governance.

In preparing the financial statements, Management is responsible for assessing the Fund's ability to continue 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 intention to abolish 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 money is applied in an effective way.

Those charged with governance are responsible for overseeing the Fund's financial reporting process, reviewing the effectiveness of how Management 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 overall 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 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 overall 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 continue 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 to continue 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 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.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL


Nairobi

21 March, 2022


7. STATEMENT OF FINANCIAL PERFORMANCE FOR YEAR ENDED 30 JUNE 2021

| | Notes | 2020/2021 Kshs. | 2019/2020 Kshs. |
|---------------------------------------|-------|-------------------------|--------------------------|
| Revenue | | | |
| Dividend Income | 12.06 | 3,716,552 | 67,867,933 |
| Other receipts | | - | - |
| Total receipts | | 3,716,552 | 67,867,933 |
| Expenses | | | |
| Payments of Pensions | 12.07 | - | - |
| Total expenses | | | |
| Surplus/(deficit) for the year | | <u>3,716,552</u> | <u>67,867,933</u> |

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements. The financial statements were approved on 23/12, 2021 and signed by:



DR. JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY



FRANCIS L. AMUYUNZU
 ICPAK NO. 6175
 DEPUTY ACCT. GENERAL

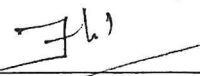
8. STATEMENT OF FINANCIAL POSITION AT 30TH JUNE, 2021

| | Notes | 2020/2021 Kshs. | 2019/2020 Kshs. |
|-------------------------------|-------|--------------------|--------------------|
| Assets | | | |
| Non- current assets | | | |
| Investments | 12.08 | 46,133,457 | 45,860,478 |
| | | 46,133,457 | 45,860,478 |
| Current assets | | | |
| Other Receivables | 12.09 | 13,806,771 | 9,972,598 |
| Bank Balances | 12.10 | 887,674,635 | 887,667,483 |
| | | 901,481,406 | 897,640,081 |
| Total assets | | 947,614,863 | 943,500,559 |
| Liabilities | | | |
| Other Pending payables | 12.11 | 9,715,111 | 9,715,111 |
| | | 9,715,111 | 9,715,111 |
| | | 937,899,752 | 933,785,448 |
| Financed by; | | | |
| Capital contribution | | 50,567,565 | 50,567,565 |
| Accumulated surplus b/f | 12.12 | 887,332,187 | 883,217,883 |
| Net Financial position | | 937,899,752 | 933,785,448 |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23/12, 2021 and signed by:



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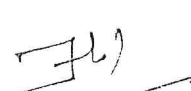
9. STATEMENT OF CHANGES IN NET ASSETS
 FOR THE YEAR ENDED 30 JUNE 2021

| | Ordinary share capital | Retained Earning | Total |
|----------------------------|---------------------------|---------------------|--------------------|
| | Kshs. | Kshs. | Kshs. |
| As at July 1, 2020 | 50,567,565 | 815,349,950 | 865,917,514 |
| Surplus for the year | | 67,867,933 | 67,867,933 |
| As at June 30, 2020 | 50,567,565 | 883,217,883 | 933,785,448 |
| As at July 1, 2020 | 50,567,565 | 883,217,883 | 933,785,448 |
| Issue of new share capital | | | |
| Surplus for the year | | 3,716,552 | 3,716,552 |
| Adjustment | | 397,753 | 397,753 |
| As at June 30, 2021 | 50,567,565 | 887,332,188 | 937,899,753 |

Adjustment for the period is due to changes explained in note 8 and 9.

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23/12, 2021 and signed by



 DR. JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY

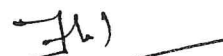

 FRANCIS L. AMUYUNZU
 ICPAK NO. 6175
 DEPUTY ACCT. GENERAL

10. STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

| | Notes | 2020/2021 Kshs. | 2019/2020 Kshs. |
|--|-------|---------------------------|---------------------------|
| Receipts for operating income | | | |
| Dividend Income | 12.06 | 3,716,552 | 67,867,933 |
| Accounts receivable | | (3,834,173) | |
| Increase in Investments | | (272,979) | - |
| Adjustment for non-cash changes | | 397,752 | |
| Cash flow from Investing Activities | | - | 67,867,933 |
| Receipt received from the National Treasury | | - | - |
| Net cash flows from operative activities | | 7,152 | 67,867,933 |
| Net increase in cash and cash equivalents | | 7,152 | 67,867,933 |
| Cash and cash equivalent at the beginning of the year | | <u>887,667,483</u> | <u>819,799,550</u> |
| Cash and cash equivalent at the end of the year | | <u>887,674,635</u> | <u>887,667,483</u> |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23/12, 2021 and signed by:


DR. JULIUS MUIA, PhD, CBS
PRINCIPAL SECRETARY


FRANCIS L. AMUYUNZU
ICPAK NO. 6175
DEPUTY ACCT. GENERAL

11. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2021

| | Original budget | Adjustment | Final budget | Actual on comparable basis | Performance difference |
|-----------------------------------|--------------------|------------|-----------------|----------------------------------|---------------------------|
| Revenue | Kshs | Kshs | Kshs | Kshs | Kshs |
| Dividend | 74,044,784 | | 74,044,784 | 3,716,552 | 70,328,232 |
| Total income | 74,044,784 | | 74,044,784 | 3,716,552 | 70,328,232 |
| Expenses | | | | | |
| Dependant Pension | Nil | | Nil | - | - |
| Total Expenditure | Nil | | Nil | - | - |
| Surplus for the period | 74,044,784 | | 74,044,784 | 3,716,552 | 70,328,232 |

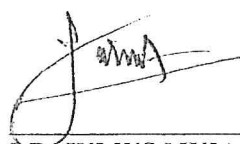
Note

The expected income is dividend from,

A) KPLC- the company declared nil dividend on ordinary share and preference dividend earned Kshs. 7,152/- during the period. Dividend shown as Kshs. 3,716,552 was final dividend for the year 2016 paid in our account on 2/7/2021.

B) EABL declared nil dividend for the period, hence expected dividend of Kshs. 67,861,260 was never realised during the year.

Expenditure is supposed to be dependant pension due to the surviving individual dependant and none is surviving.



DR. JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY



FRANCIS L. AMUYUNZU
 ICPAK NO. 6175
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12. NOTES TO THE FINANCIAL STATEMENTS

12.01. GENERAL INFORMATION

Provident pension Fund is established by and derives its authority and accountability from Provident Fund Act Cap 191. The entity is wholly owned by the Government of Kenya and is domiciled in Kenya. The entity's principal activity is dependant pension.

12.02 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 judgement in the process of applying the *entity's* accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5.

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

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

12.03 ADOPTION OF NEW AND REVISED STANDARDS

i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2019

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
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 2019**

| Standard | Effective date and impact: |
|---|---|
| IPSAS 41: Financial Instruments | Applicable: 1st January 2022: 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. IPSAS 41 provides users of financial statements with more useful information than IPSAS 29, by: <ul style="list-style-type: none"> • 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; • Applying a single forward-looking expected credit loss model that is applicable to all financial instruments subject to impairment testing; and • 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. |
| IPSAS 42: Social Benefits | Applicable: 1st January 2022 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: <ol style="list-style-type: none"> (a) The nature of such social benefits provided by the entity; (b) The key features of the operation of those social benefit schemes; and (c) The impact of such social benefits provided on the entity's financial performance, financial position and cash flows. |

iii. **Early adoption of standards**

The entity did not early – adopt any new or amended standards in year 2021.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12.04. 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.

Transfers from other government entities

Revenues 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) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the entity and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds

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 labour hours incurred to date as a percentage of total estimated labour hours.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Interest income

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

Dividends

Dividends or similar distributions must be recognized when the shareholder's or the entity's right to receive payments is established.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and included in revenue.

Budget information

The budget for FY 2020-2021 was approved by the Permanent Secretary.

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Entity operates and generates taxable income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

c) Taxes (Continued)

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except in respect of taxable temporary differences associated with investments in controlled entities, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are re-assessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside surplus or deficit is recognized outside surplus or deficit. Deferred tax items are recognized in correlation to the underlying transaction in net assets.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Sales tax

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Investment property

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 30-year period.

Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use.

e) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the entity recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Leases

Finance leases are leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Entity. Assets held under a finance lease are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the future minimum lease payments. The Entity also recognizes the associated lease liability at the inception of the lease. The liability recognized is measured as the present value of the future minimum lease payments at initial recognition.

Subsequent to initial recognition, lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized as finance costs in surplus or deficit.

An asset held under a finance lease is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Entity will obtain ownership of the asset by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Entity. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

g) Intangible assets

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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) 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:

- The technical feasibility of completing the asset so that the asset will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits or service potential
- The availability of resources to complete the asset

The ability to measure reliably the expenditure during development.

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) Financial instruments

a) Financial assets

Initial recognition and measurement

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Entity determines the classification of its financial assets at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Entity has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

Impairment of financial assets

The Entity assesses at each reporting date whether there is objective evidence that a financial asset or an entity of financial assets is impaired. A financial asset or a entity of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the entity of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

i) Financial instruments (Continued)

- The debtors or a entity of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

b) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Entity determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

Loans and borrowing

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

j) Inventories

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

- Raw materials: purchase cost using the weighted average cost method
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs.

i) Inventories (Continued)

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.

k) Provisions

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

l) 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.

m) 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.

n) Nature and purpose of reserves

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) 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.

p) Employee benefits

Retirement benefit plans

The Entity provides retirement benefits for its employees and directors. 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.

q) Foreign currency transactions

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

r) Borrowing costs

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.

s) 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 directors, the CEO and senior managers.

t) Service concession arrangements

The Entity analyses all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. In particular, where a private party contributes an asset to the arrangement, the Entity recognizes that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than 'whole-of-life' assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the Entity also recognizes a corresponding liability, adjusted by a cash consideration paid or received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

u) 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 authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

v) Comparative figures

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

w) 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, 2021.

12.05. SIGNIFICANT JUDGMENT AND SOURCES OF ESTIMATION UNCERTAINTY

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Entity based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Entity. Such changes are reflected in the assumptions when they occur. IPSAS 1.140

Useful lives and residual values

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 12.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

NOTES TO THE FINANCIAL STATEMENTS (Continues)

12.06. DIVIDEND INCOME

| | 2020/2021 | 2019/2020 |
|---|------------------|-------------------|
| | Kshs. | Kshs. |
| Preference dividend from KPLC ltd, for the period | 10,729 | 7,152 |
| Ordinary dividend KPLC ltd | 3,705,823 | |
| Ordinary dividend EABL | | 67,860,781 |
| Total | 3,716,552 | 67,867,933 |

The receipts relate to dividend income from Kenya Power and Lighting Company and East African Breweries Limited:-

| | |
|-------------------------|-------------------|
| Dividend from KP&LC Ltd | Kshs. 3,716,552/= |
| Dividend from EAB Ltd | Kshs. Nil |

12.07. PAYMENT OF PENSIONS

The Fund main purpose was to pay pension to its members and beneficiaries and none is surviving hence nil payment in the fund.

12.08. INVESTMENTS

| | 2020/2021 | 2019/2020 |
|---|-------------------|-------------------|
| | Kshs. | Kshs. |
| Preference shares - KPLC | | |
| 4% Cumulative 8,066 @ kshs.20.00 | 161,320 | |
| 7% Cumulative 500 @ Kshs. 20.00 | 10,000 | |
| Ordinary Shares 12,352,743@Ksh. 2.5- KPLC | 30,881,858 | |
| Ordinary Shares 7,540,140@Ksh.2 - EABL | 15,080,280 | |
| Shares | | 45,860,478 |
| Total | 46,133,457 | 45,860,478 |

The shares relate to Kenya Power and Lighting Company and East African Breweries Limited

The figure of Investment was Kshs. 45,860,478/ for the Financial Year 2019/2020 but adjusted to Kshs.46,133,457/ by an amount of Kshs.272,979/ to conform with the Certificate of Balances.

NOTES TO THE FINANCIAL STATEMENTS (Continues)

12.09. OTHER RECEIVABLES

| | 2020/2021 | 2019/2020 |
|---------------------------------------|-------------------|------------------|
| | Kshs. | Kshs. |
| Cereals and Sugar Finance Corporation | 3,921,000 | 3,796,226 |
| Dividend due from KP&L .co | 9,885,771 | 6,176,372 |
| Total | 13,806,771 | 9,972,598 |

The figure of receivable from CSFC was Kshs. 3,796,226 for the Financial Year 2019/2020 but adjusted to Kshs.3,921,000/ by an amount of Kshs.124,774/ to conform with the Certificate of Balances.

12.10. BANK BALANCE

| NAME OF THE BANK | CENTRAL BANK OF KENYA | |
|------------------|-----------------------|--------------------|
| ACCOUNT NO. | 1000213768 | |
| | 2021 | 2020 |
| | KSHS | KSHS |
| TOTAL | 887,674,635 | 887,667,483 |

12.11. OTHER PENDING PAYABLES

| | 2020/2021 | 2019/2020 |
|--|------------------|------------------|
| | Kshs. | Kshs. |
| Amount due to National Government entities | 9,715,111 | 9,715,111 |
| Total | 9,715,111 | 9,715,111 |

12.12. ACCUMULATED SUPLUS

| | 2020/2021 | 2019/2020 |
|------------------------------|--------------------|--------------------|
| | Kshs. | Kshs. |
| Balance B/f | 883,217,883 | 815,349,950 |
| Profit/(loss) for the period | 3,716,552 | 67,867,933 |
| Adjustment | 397,753 | |
| | 887,332,188 | 883,217,883 |

12.13. FINANCIAL RISK MANAGEMENT

Credit Risk

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:

| | Total amount | Fully performing | Past due | Impaired |
|--|--------------------|---------------------|-------------------|-------------|
| | Kshs | Kshs | Kshs | Kshs |
| At 30 June 2021 | | | | |
| Receivables from exchange transactions | 13,806,771 | 13,806,771 | 13,806,771 | None |
| Bank balances | 887,674,635 | 887,674,635 | - | None |
| Total | 901,481,406 | 901,481,406 | 13,806,771 | None |
| At 30 June 2020 | | | | |
| Receivables from exchange transactions | 9,972,598 | 9,972,598 | 9,972,598 | None |
| Bank balances | 887,667,483 | 887,667,483 | - | None |
| Total | 897,640,081 | 897,640,081 | 9,972,598 | None |

The customers under the fully performing category are paying their debts as they continue trading. The credit risk associated with these receivables is minimal and the allowance for uncollectible amounts that the company has recognised in the financial statements is considered adequate to cover any potentially irrecoverable amounts.

The entity has significant concentration of credit risk on amounts due from CSFC.

The Board of Directors sets the company's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

RELATED PARTY BALANCES

Nature of related party relationships

There were no related parties involved in this entity.

CONTINGENT ASSETS AND CONTINGENT LIABILITIES

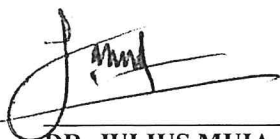
The entity did not have any contingent liabilities.

13. 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.

| Reference No. on the external audit Report | Issue / Observations from Auditor | Management comments | Focal Point person to resolve the issue (Name and designation) | Status: (Resolved / Not Resolved) | Time Frame (Put a date when you expect the issue to be resolved) |
|--|--|---|--|-----------------------------------|--|
| 144 | Un-analyzed balance of Kshs. 9,715,111 | Awaiting recommended from task force committee on how to clear from the old balances. | Michael A. Kagika, EBS Secretary/Director Pensions | Resolved by PAC | |
| 145 | Budgetary Control and Performance | The fund is being wound up and no budget was provided for. | Michael A. Kagika, EBS Secretary/Director Pensions | Not Resolved | |

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The financial statements were approved on 23/12, 2021 and signed by:



DR. JULIUS MUIA, PhD, CBS
 PRINCIPAL SECRETARY



FRANCIS L. AMUYUNZU
 ICPAK NO. 6175
 DEPUTY ACCT. GENERAL

Appendix 1

| | 2020/2021 | 2019/2020 |
|--|----------------------|----------------------|
| | Kshs. | Kshs. |
| Profit/loss on realization of investment | 7,163,992 | 7,163,992 |
| Recovery of interest due from Kenya government | 1,448,783 | 1,448,783 |
| Interest on investment | 1,308,240,489 | 1,297,949,812 |
| Accumulative income & expenditure | 1,372,274 | 1,372,274 |
| Annual Account | 883,162 | 883,162 |
| Sub total | 1,319,108,700 | 1,308,818,024 |
| Less | | |
| Interest on investment | 440,202,307 | 430,316,536 |
| interest credit to deposit | 113,114 | 113,114 |
| Annuity payment | 50,696 | 50,696 |
| Bonus Paid to Depositors | 1,296,168 | 1,296,168 |
| Sub total | 441,662,285 | 431,776,514 |
| Retained Earnings | 877,446,416 | 877,041,510 |
| Add Items not in ledger | | |
| Dividend receivable | 6,176,372 | 6,176,372 |
| Retained Earnings for the year | 883,622,788 | 883,217,882 |
| Profit/(loss) for the year | 7,153 | 67,867,933 |
| Retained Earnings b/f | 883,615,635 | 815,349,949 |

Appendix 2: Trial Balance

| | 2020/2021 | 2019/2020 |
|---|--------------------|--------------------|
| Credits | Kshs. | Kshs. |
| Capital Account | 50,567,565 | 50,567,565 |
| Sundry Debtors | 92,386 | 92,386 |
| Surplus cash remittance by the department | 9,622,725 | 9,622,725 |
| Retained Earnings | 883,615,665 | 815,349,949 |
| Dividend Income | 3,716,522 | 67,867,933 |
| Total | 947,614,863 | 943,500,558 |
| | | |
| Debits | | |
| Investment | 46,133,457 | 45,860,477 |
| Cash on Deposit - cereals and sugar finance | 3,921,000 | 3,796,226 |
| Cash at hand | 887,674,635 | 887,667,483 |
| Dividend receivable | 9,885,771 | 6,176,372 |
| Total | 947,614,863 | 943,500,558 |

Appendix 3

Bank Reconciliation

| REPUBLIC OF KENYA | | |
|--|------|-------------|
| F.O. 30 | | |
| PENSIONS DEPARTMENT | | |
| PROVIDENT FUND & EA COMMUNITY A/C NO. 1000213768 | | |
| BANK RECONCILIATION STATEMENT AS AT 30TH JUNE 2020 | | |
| DETAILS | KSHS | KSHS |
| BANK BALANCE AS PER CERTIFICATE | | 887,674,635 |
| Less 1&2 | | |
| 1 PAYMENTS IN CASH BOOK NOT IN BANK | | |
| (UNPRESENTED CHEQUES) | - | |
| TOTAL UNCLEARED EFFECTS | | |
| 2 RECEIPTS IN BANK NOT IN CASH BOOK | | |
| TOTAL-APENDEX 1 & 2 | - | |
| 3 PAYMENT IN BANK NOT IN CASH BOOK | - | |
| 4 RECEIPTS IN CASH BOOK NOT IN BANK | | |
| TOTAL-APENDEX 1 & 2 | - | |
| BALANCE AS PER THE CASH BOOK | | 887,674,635 |

"DETAILS OF THE ABOVE ATTACHED"

"I CERTIFY THAT I have verified the bank balance in the cash book with the Bank statement and that the above Reconciliation is correct"

Signature.....

Designation PRINCIPAL/CHIEF ACCOUNTANT

DATE.....

BANKI
KUU YA
KENYA

CENTRAL
BANK OF
KENYA


Head Office Avenue
P.O. Box 60000-00100 Nairobi, Kenya
Telephone: 340192 Fax: 340192

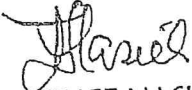
July 7, 2021

CERTIFICATE OF BALANCES

Customer: 120373 – NATIONAL TREASURY
Balance Date: 30 JUN 2021

| Account No | Account Name | Balance |
|------------|-------------------------------------|------------------|
| 1000204397 | REC-PENSIONS | 2,039,264,930.27 |
| 1000209518 | NATIONAL TREASURY REVENUE COLL. | 0.00 |
| 1000213744 | EUROPEAN WIDOWS AND ORPHANS PENSION | 172,551,308.65 |
| 1000213752 | ASIAN OFFICERS FAMILY PENSION FUND | 445,483,121.85 |
| 1000213768 | PROVIDENT FUND KE AND EA COMMUNITY | 887,674,635.10 |


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