OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF FINANCIAL SECTOR SUPPORT PROJECT (IDA CREDIT NO. 5627-KE)

FOR THE YEAR ENDED 30 JUNE 2016

THE NATIONAL TREASURY
REPORT OF THE AUDITOR-GENERAL ON FINANCIAL SECTOR SUPPORT PROJECT (IDA CREDIT NO. 5627-KE) FOR THE YEAR ENDED 30 JUNE 2016 – THE NATIONAL TREASURY

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of the Financial Sector Support Project set out on pages 14 to 24, which comprise the statement of financial assets as at 30 June 2016, and the statement of receipts and payments, statement of cash flows, statement of comparative budget and actual amounts for the year then ended and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya, Section 35 of the Public Audit Act, 2015 and the Financing Agreement No.5627-KE between the International Development Association (IDA) and the Republic of Kenya dated 4 June 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.

Management’s Responsibility for the Financial Statements

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

The 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, 2015.

Auditor-General’s Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement.

Financial Sector Support Project (IDA Credit No. 5627-KE) – Annual Report and Financial Statements for the year ended 30 June 2016

Promoting Accountability in the Public Sector
of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1. The statement of receipts and payments reflects payments totalling Kshs.39,359,013.00 which differ from the National Treasury's ledger expenditure of Kshs.48,785,710.35 and the total expenditure balance of Kshs.39,414,280.75 reflected by payment vouchers for the year ended 30 June 2016. The differences between the three set of records have not been reconciled or explained.

2. The statement of financial assets reflects under Note 8.2 a bank balance of Kshs.111,223,370.00 as at 30 June 2016 which differs from the bank's certificate balance of Kshs.124,770,240.20 and the cash book bank balance of Kshs.101,040,133.75 reflected on the same date. The differences between the three set of records have, similarly, not been reconciled or explained.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the Financial Sector Support Project as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (Cash Basis) and the Financing Agreement No. 5627-KE dated 4 June 2015.

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

Nairobi

30 December 2016
THE NATIONAL TREASURY

FINANCIAL SECTOR SUPPORT PROJECT (FSSP) PROJECT

IDA CREDIT NUMBER 5627 KE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE, 2016

Prepared in accordance with the Cash Basis of Accounting Method of the International Public Sector Accounting Standards (IPSAS)
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1. PROJECT INFORMATION AND OVERALL PERFORMANCE

1.1 Name and registered office

The official name of the project is Financial Sector Support (FSSP) Project. The project is located at:

Anniversary Towers, North Tower
7th Floor,
University Way/Monrovia Street
NAIROBI

Objective

The main objective of the project is to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long term financing.

Address:

The National Treasury
Anniversary Towers, North Tower
7th Floor,
University Way/Monrovia Street
Nairobi
KENYA.

The address of its registered office is:
P.O.BOX 30007-00100
NAIROBI
Tel: +254-020-2122271/4
Email: info@piu.go.ke

Contacts:

Telephone: (+254) 020-2210271/4
E-mail: info@piu.go.ke
Website: www.pppu.go.ke
## 1.2 Project Information

<table>
<thead>
<tr>
<th>Project Start Date:</th>
<th>The project start date is 30th April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project End Date:</td>
<td>The Project end date is 31st July, 2020</td>
</tr>
<tr>
<td>Project Manager:</td>
<td>The project manager is Mr. Ray Charles Musau</td>
</tr>
<tr>
<td>Project Sponsor:</td>
<td>The project sponsor is International Development Association (IDA)</td>
</tr>
</tbody>
</table>

## 1.3 Project Overview

<table>
<thead>
<tr>
<th>Line Ministry/State Department of the project</th>
<th>The project is under the supervision of the National Treasury.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project number</td>
<td>56270 - KF.</td>
</tr>
<tr>
<td>Strategic goals of the project</td>
<td>Overall Objective- to strengthen the legal, regulatory and institutional environment for improved financial stability, access to, and provision of, affordable and long term financing.</td>
</tr>
<tr>
<td>Achievement of overall objective</td>
<td>The project is in YR1 and the following performance status is in comparison to the YR1 targets as documented in the Project Appraisal Document.</td>
</tr>
<tr>
<td></td>
<td>(i) Indicator 1- Progress towards achieving compliance with Essential Criteria of Basel Core Principles 12 (consolidated supervision) and 13 (home-host relations)</td>
</tr>
<tr>
<td></td>
<td>YR 1 Target- No</td>
</tr>
<tr>
<td></td>
<td>Performance- No target for year</td>
</tr>
<tr>
<td></td>
<td>(ii) Indicator 2- Reduced Net Interest Margin</td>
</tr>
<tr>
<td></td>
<td>YR 1 Target- No</td>
</tr>
<tr>
<td></td>
<td>Performance- No target for year</td>
</tr>
<tr>
<td></td>
<td>(iii) Indicator 3- Long-term assets held by pension funds</td>
</tr>
<tr>
<td></td>
<td>YR 1 Target- 48.00</td>
</tr>
<tr>
<td></td>
<td>Performance- To be established during FY 2016/17</td>
</tr>
<tr>
<td>Intermediate Results Indicators</td>
<td><strong>Indicator 1- Mapping exercise of financial conglomerates</strong></td>
</tr>
<tr>
<td></td>
<td>YR 1 Target- No</td>
</tr>
<tr>
<td></td>
<td>Performance- No target for year</td>
</tr>
<tr>
<td></td>
<td><strong>Indicator 2- Number of MDA services using electronic payment instruments</strong></td>
</tr>
<tr>
<td></td>
<td>YR 1 Target- No</td>
</tr>
<tr>
<td></td>
<td>Performance- No target for year</td>
</tr>
</tbody>
</table>
Indicator 3 - Increase in Pension Coverage
YR 1 Target- 15%
Performance- 18.2%

Indicator 4 - Draft framework for sub-national entities on debt management
YR 1 Target- No
Performance- No target for YR 1

Indicator 5 - Increase in banked retail investor accounts accessing TMD
YR 1 Target- No
Performance- No target for YR 1

Indicator 6 - Draft legal framework for a secured transaction regime
YR 1 Target- No
Performance- No target for YR 1

Indicator 7 - Depth of credit information index
YR 1 Target- No
Performance- No target for YR 1

Indicator 8 - Draft framework /regulation for new long term products
YR 1 Target- No
Performance- No target for YR 1

Indicator 9 - Increase in volume of secondary market transactions of government debt
YR 1 Target- No
Performance- No target for YR 1

Indicator 10 - Increase in insurance coverage
YR 1 Target- 4.00
Performance- 2.82%

The GoK's Vision 2030 explicitly puts financial services at the center of higher economic growth in Kenya. The economic pillar of this strategy aspires to achieve high economic growth based on high national savings rates, which highlights the central role to be played by the financial sector. The financial sector is explicitly identified as one of the seven fast-track sectors in Vision 2030. Among its main objectives for financial sector development the strategy identifies: (i) improving stability; (ii) enhancing efficiency in the delivery of credit and other financial services, and; (iii) improving access to financial services products for a much large number of Kenyans. The current Financial Services Medium term Plan II (MTP2) 2013-17 concretizes these goals by listing specific projects/programs that feature on the GoK’s priority list.

The World Bank support to financial sector development in Kenya over the last decade was delivered largely, but not entirely, under the umbrella of the Financial and Legal Sector Technical Assistance Project (FLSTAP). FLSTAP was approved in October 2014 as a technical assistance loan with an IDA credit of US$18 million and DFID co-financing of US$10 million. The overall development objective (PDO) for the project was to create a sound financial system and strengthened legal framework and judicial capacity that would ensure broad access to financial and related legal services. When the project
was closed in March 2013, almost all off the PDO indicators had been achieved and some cases even exceeded expectations. In addition, the GoK with support from other partners such as Financial Sector Deepening Kenya, has implemented various other reforms in the financial sector. The FSSP project will build on previous financial sector reforms and the gains realized through FLSTAP. It will take into account the progress made on the stability and access fronts by the financial sector over the duration of the project and the evolving needs of the financial and real sector. The project will support Kenyan authorities in further developing regulatory and supervisory frameworks that continue to be effective in mitigating the new risks associated with the financial sector’s rapid development, deepening and expansion across sectors and across borders. It will support the upgrade of the supervisory, regulatory and institutional framework to keep pace with more complex markets and products with the overall objective of cementing stability.

Component 1 – Strengthening Institutions
This component will focus on the overarching reform, modernization, and capacity support to the financial sector institutional framework. This component will deliver technical assistance to various beneficiaries, mostly in the form of consultancies which will include amongst others; to design roadmaps and action plans, and implementation support to realize the planned reforms. It will also support the upgrade of IT equipment and systems and deliver capacity support to ensure a more effective functioning of the financial architecture.

a. Reforming Financial Architecture: The GoK has plans to streamline and make more efficient the overall financial architecture. This includes (i) the consolidation of all the non-banking regulators into a single Financial Services Authority (FSA); (ii) reforms necessary to create a more investor-friendly environment in anticipation of the vast investment needs of the incipient natural resource economy; (iii) An improved interface for the public to access a range of public services through the digitization of the payments for these services; and (iv) strengthening market conduct supervision.

Progress
NT-BFEA
The FSA Bill is being finalized and shall be submitted to Parliament for debate and passage.

Interviews were done for specialists to support the Government Digital Payments Taskforce to Scale-Up implementation of the Digitization Agenda in MDAs. The evaluation report is being finalized and shall be submitted for approval.

b. Modernizing Supervision: This sub-component will support (i) Improving supervision: Banking, Non-Banking and Pensions (ii) Upgrading IT systems.

Progress
NT-BFEA
Procurement of consultant to establish AML/CFT framework was completed and negotiation report approved by the PS Treasury. The report was also submitted to the Bank for NOB.

c. Building Capacity: The Project will also deliver capacity support to the National Treasury and various regulators and other institutions that make up the financial architecture. Relatively new institutions such as Kenya Deposit Insurance Corporation (KDIC), Sacco Societies Regulatory Authority (SASRA) will benefit from this support such that they
are better able to deliver on their mandate. The Project will also support the creation of the Public Debt Management Office (PDMO), a significant step in the development of long-term finance.

Progress
NT-BFEA
- Two (2No.) staff attended training on Financial Services and Markets Regulation, April 25-29, London. 1 staff attended training on Promoting Stable and Inclusive Financial Systems, May 9-13, Washington. Two (2No.) staff attended training in Advanced Sukuk and Islamic Securitization, May 29-31, Dubai. Three (3No.) staff attended training on Eliminating Too-Big-To-Fail: Tackling the Latest Supervisory Challenges, June 12-17, Toronto, Canada.
- Three (3No.) staff attended a training on Financial Regulation and Supervision: Design and Implementation organized by Central Banking Publications from September 8-11, 2015 at Christ’s College, Cambridge, UK.

CMA
- Two (2No.) staff participated in a study tour (Apr 4-14) of the 26th Annual International for Securities Market Growth and Development. Two (2No.) staff participated in the Association of Certified Fraud Examiners (ACFE) Annual Global Conference in the USA (June 12-17). Two (2No.) staff participated in the International Organization of Securities Commissions (IOSCO)/International Forum of Independent Audit Regulators (IFIAR) Global Investor program, in Istanbul (June 12-14).

KDIC
KDIC coordinated stakeholder Workshop on Crisis Management and Resolution Options on December 7-11, 2015 where a total of 38 Officials from the following institutions participated: Ministry of Industrialization and Enterprise Development (2No.), SASRA (3No.), RBA (5No.), CMA (6No.), IRA (6No.), NT (3No.), CBK (5No.), KDIC (5No.), Policy Holders Compensation Fund (1No.), PSD Kenya (1No.)
- Two (2No.) staff attended training on Disaster Preparedness & Recovery of Physical Records held in Uganda (May 9-20), 1 staff attended course on Financial Stability & Stress Testing, held in Switzerland (May 31-June 2). Two (2No.) staff attended training on Mergers & Acquisitions- A legal Guide to MA (June 1-3) held in England. Three (3No.) staff attended course on Eliminating Too Big-To-Fail, Tackling the latest supervisory challenges in Toronto, Canada (June 12-17). One (1No.) staff attended course on Bank Resolution Frameworks & The Role of Deposit Insurance held in Mexico (June 21-23).

Component 2-Enabling Efficient Financial Intermediation
This component will move forward the financial inclusion agenda in the Republic of Kenya with a focus on strengthening the credit infrastructure and making more transparent the pricing of financial intermediation (savings and lending) so that more businesses and individuals have access to affordable financial products. The component will support activities related to:
(a) Improving credit information data sharing: One of the main issues with the pricing of credit in Kenya is the need to enhance transparency in the process. Credit providers are usually constrained for data, and the Project will support the expansion of the credit reporting system so that all credit providers can participate in full-file credit information sharing.

Progress
The 3rd Regional Credit Information Sharing Conference held February 23-26, 2016 was supported under the Project. An estimated 307 stakeholders participated in the
conference.

(b) **Strengthening the regime for moveable collateral**: Support will be provided to strengthen moveable collateral mechanisms to facilitate increased lending to SMEs at affordable rates by supporting the necessary legal and regulatory reforms for secured transactions, followed by the creation of an electronic moveable assets registry.

**Progress**

**OAG&DJ**

*County Stakeholder workshops on the Moveable Property Security Rights Bill*: This was held 20th-25th March, 2016 in 4 Counties. The number of stakeholders who participated is indicated in brackets; Nakuru (46No.), Kakamega (54No.), Kisumu (60No.) & Mombasa (44No.). Stakeholder workshop on review of the legal and regulatory regime on secured transactions held 28th-29th October 2015. Fifty Five (55) stakeholders participated, CMA Board Retreat was held April 7-9, 2016, Naivasha and 22 participants were in attendance. Delinking Committee of the Business Registration Service Board retreat was held April 25-29, Naivasha.

*Staff Capacity building*: Three (3No.) staff attended the UNCITRAL Working Group IV meeting on E-Commerce, May 7-14, New York. One (1No.) staff attended the European Commerce Registrars Forum (ECRF) May 7-14, New York. Two (2No.) staff attended the International Association of Commercial Administration (IACA) Annual Conference, June 3-10, Ohio, USA. Five (5No.) staff participated in a Study Tour on Secured Transactions Reforms to USA & Costa Rica.

(c) **Supporting implementation of the new insolvency regime**: As the new Insolvency Bill is expected for debate in Parliament, the Project will provide support for the implementation of the bill and building the capacity of key stakeholders to ensure robust regime is in place.

**Progress**

**OAG&DJ**


(d) **Expanding the availability of alternatives savings instruments**: The focus here is on facilitating additional savings mobilization by developing alternatives to bank deposits such as purchases of government bonds by retail investors using the mobile platform.

**Progress**

*Progress pending procurement of consultants*

**Component 3—Mobilizing Long-term Finance**

This component will focus on strengthening the demand for and supply of long-term funds so that Kenya’s growing development finance needs for long-term projects in infrastructure, housing, etc. can be met. The component will include support to
(a) **New term products**: The priority here is to develop and support the uptake of instruments that can channel financing to infrastructure given Kenya’s infrastructure investment gap. Such instruments could include infrastructure project bonds and funds, sharia compliant instruments, housing finance products. Other instruments that could be improved to support infrastructure, as well as other long-term financing needs (e.g. housing and SME financing), include securitization and equity markets.

**Progress**

**NT-BFIA**

*Housing conference*- The National Treasury participated in the *Global Housing Finance Conference* held on May 24-26, 2016, Washington D.C.

*Harmonization of Government and Corporate central security depositories (CSDs)* - procurement is underway for consultant to support Harmonization of Government and Corporate central security depositories (CSDs) in readiness for Euro Clear adoption. Evaluation of EOI’s has been completed and contract negotiations shall be done during 1st quarter FY 2016/17.

(b) **Strengthening Institutional Investors**: The priority is to mobilize long term savings by bringing in new savers into the market and developing the local capacity among institutional investors, mainly pension funds and insurance companies, to invest in long term projects through capital markets instruments.

**Progress pending procurement of consultant**

**Component 4—Supporting Project Management**

Funds will be allocated for the purposes of project management. The project will make use of an existing Project Implementation Unit (PIU) that is currently managing the IDA-funded Infrastructure Finance/PPP project (P121019). Discussions with the counterparts have indicated that there will be need to supplement capacity and staffing in this unit as deemed necessary to manage the new Project.

**Progress**

*Recruitment of additional staff*- Positions of Assistant Project Manager, Procurement Specialist and Project Officer were advertised and closed. Interviews scheduled be done in 1st quarter FY 2016/17

*Staff Capacity building*- 1 staff attended workshop on Promoting Stable and Inclusive Financial Systems, May 9-13, by World Bank, in Washington. One (1No.) staff attended training on records management, May 30-June 10, 2016 By ESAMI, in Mombasa.

| Project duration | The project commenced on July 10, 2016 and is expected to run until July 31, 2020 |

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1.4 **Bankers**

The following are the bankers for the current year:

Kenya Commercial Bank Ltd
University Way Branch
University Way

NAIROBI.

1.5 **Auditors**

Office of the Auditor General
Anniversary Towers
University Way/ Monrovia Street

NAIROBI
1.6 Roles and Responsibilities

<table>
<thead>
<tr>
<th>Names</th>
<th>Title designation</th>
<th>Key qualification</th>
<th>Responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eng. Stanley Kamau</td>
<td>Director, PPPLU</td>
<td></td>
<td>Project Coordination at the National Treasury</td>
</tr>
<tr>
<td>Mr. Ray Charles Musau</td>
<td>Project Manager</td>
<td></td>
<td>Project Management</td>
</tr>
<tr>
<td>Mr. Maurice O. Pedo</td>
<td>Financial Management Specialist</td>
<td>• MBA( Finance Option)</td>
<td>Project financial management</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bachelor of Commerce (Finance Option)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• CPA(K)</td>
<td></td>
</tr>
<tr>
<td>Mr. Wycliffe P. Ondieki</td>
<td>Monitoring and Evaluation Specialist</td>
<td>• Master of Education (Educational Psychology)</td>
<td>Establish &amp; oversce implementation of the Monitoring &amp; Evaluation Function &amp; System for the PIU</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Bachelor of Education (Mathematics &amp; B. Studies)</td>
<td></td>
</tr>
<tr>
<td>Ms. Danae N. Ottaro</td>
<td>Procurement Specialist</td>
<td>• Bachelor of Commerce (Business Administration)</td>
<td>Procurement Management</td>
</tr>
<tr>
<td>Ms. Gaudencia N. Mukisu</td>
<td>Assistant Project Accountant</td>
<td>• Bachelor of Commerce (Finance Option)</td>
<td>Provide Management, Financial and Accounting Support to the Project.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• CPA(K)</td>
<td></td>
</tr>
<tr>
<td>Ms. Norah Munyiva</td>
<td>Office Manager</td>
<td>• Bachelor of Commerce (Marketing Option)</td>
<td>Office Administration</td>
</tr>
</tbody>
</table>

1.7 Funding summary

The Project is for duration of 6(years) years from 30th April 2015 to 31st July, 2020. The approved budget of US$ 37.00 Million equivalent to KSh. 3.70 Billion as highlighted in the table below:
### Source of funds

<table>
<thead>
<tr>
<th>Source of funds</th>
<th>Donor Commitment-</th>
<th>Amount received to date-(30th June, 2016)</th>
<th>Undrawn balance to date (30th June, 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US$ (A)</td>
<td>Kshs (A')</td>
<td>Donor currency (B)</td>
</tr>
<tr>
<td>(i) Grant</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Loan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Development Association- IDA</td>
<td>37.00 Million</td>
<td>3.7 Billion</td>
<td>2.24 Million</td>
</tr>
<tr>
<td>Total</td>
<td>37.00M</td>
<td>3.70B</td>
<td>2.24 Million</td>
</tr>
</tbody>
</table>

#### 1.8 Summary of Overall Project Performance:

This section summarizes performance of the three project components: Component 1- Strengthening Institutions, Component 2- Enabling Efficient Financial Intermediation, Component 3- Mobilizing Long-term Finance, 4- Support for Program Management.

The project is in its first year of implementation and preparation of TORs for most activities is underway. The progress made so far includes the following:

- As part reforming the financial architecture, the FSA Bill is being finalised and shall be submitted to Parliament for debate and passage. In addition, recruitment is being finalized for specialists to support the Government Digital Payments Taskforce to Scale-Up implementation of the Digitization Agenda in MDAs.
- To enhance modernization of supervision, the NT-BFEA is in the final stages of procuring a consultant who would support establishment AML/CFT framework that would help modernise supervision. In addition, eleven (11No.) staff from NT-BFEA attended trainings related to market supervision and regulation. Also, four (4No.) staff from the CMA attended trainings/courses related to market securities.
- To enhance capacity on crisis management, the KDIC coordinated stakeholder Workshop on Crisis Management and Resolution where most of the 38 officials who attended were from institutions that make up the financial architecture. In addition, nine (9No.) KDIC staff attended trainings in various relevant areas such as disaster preparedness, stress testing, mergers and acquisitions.
- As part of improving credit information sharing, the 3rd Regional Credit Information Sharing Conference held February 23-26, 2016 was supported. An estimated 307 stakeholders participated in the workshop.
- To enhance strengthening the regime for moveable collateral: the OAG facilitated 4 county workshops on the Movable Property Security Rights Bill where 144 stakeholders participated. Also, stakeholder workshop on legal and regulatory regime on secured transactions was held and 55 stakeholders participated. In addition, eleven (11No.) staff from the OAG attended trainings/conferences related to moveable collaterals.
- As part of supporting the new insolvency regime, nine (9No.) staff from the OAG attended various trainings/conferences on insolvency.
To support mobilization of long-term finance including development of new term products, the National Treasury participated in the Global Housing Finance Conference that was held May 24-26, 2016, in Washington D.C.

Recruitment is underway for additional 3 PIU staff. In addition, to enhance management of the project, 2 PIU staff attended trainings in FSSP project thematic areas.

1.9 Summary of Project Compliance

There are no indications of non-compliance of the FSS Project on the overall project performance.
2. STATEMENT OF PROJECT MANAGEMENT RESPONSIBILITIES

The Principal Secretary for the National Treasury and the Project Coordinator for Financial Sector Support Project are responsible for the preparation and presentation of the Project’s financial statements, which give a true and fair view of the state of affairs of the Project and as at the end of the financial year ended on June 30, 2016. This responsibility includes: (i) maintaining adequate financial management arrangement 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 Project; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statement, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Project; (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 and the Project Coordinator for Financial Sector Support Project accept responsibility for the Project’s financial statements, which have been prepared on the Cash Basis Method of Financial Reporting, using appropriate accounting policies in accordance with International Public Sector Accounting Standards.

The Principal Secretary for the National Treasury and the Project Coordinator for Financial Sector Support Project are of the opinion that the Project’s financial statements give a true and fair view of the state of Project’s transactions during the financial year ended June 30, 2016, and of the Project’s financial position as at that date. The Principal Secretary for the National Treasury and Project Coordinator for Financial Sector Support Project further confirm the completeness of the accounting records maintained for the Project, which have been relied upon in the preparation of the Project financial statements as well as the adequacy of the systems of internal financial control.

The Principal Secretary for the National Treasury and the Project Coordinator for Financial Sector Support Project confirm that the Project has complied fully with applicable Government Regulations and the terms of external financing covenants, and that Project funds received during the financial year under audit were used for the eligible purposes for which they were intended and were properly accounted for.

Approval of the Project financial statements

The Project financial statements were approved by the Principal Secretary for the National Treasury and the Project Coordinator for Financial Sector Support Project on 29/9/2016 and signed by them.

[Signature]
Principal Secretary
Date 30/9/16

[Signature]
Project Coordinator
Date 29/9/16
4. **STATEMENT OF RECEIPTS AND PAYMENTS FOR THE YEAR ENDED 30TH JUNE, 2016**

<table>
<thead>
<tr>
<th>Note</th>
<th>RECEIPTS</th>
<th>Cumulative - to - Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan from external development partners</td>
<td>8.3 (KShs)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th></th>
<th>TOTAL RECEIPTS (158,250,000)</th>
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<thead>
<tr>
<th>PAYMENTS</th>
<th>8.4 (KShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of goods and Services</td>
<td>39,359,013</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TOTAL PAYMENTS</th>
<th>39,359,013</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>SURPLUS FOR THE YEAR</th>
<th>118,890,987</th>
</tr>
</thead>
</table>

The accounting policies and explanatory notes to these financial statements are an integral part of the financial statements.

---

Principal Secretary

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Project Coordinator

---

Date 30/9/16

---

Date 29/9/16
5. STATEMENT OF FINANCIAL ASSETS AS AT 30TH JUNE, 2016

FINANCIAL ASSETS

Cash and Cash Equivalents
Bank and Cash Balances 8.2

TOTAL FINANCIAL ASSETS

REPRESENTED BY:

Cash and cash equivalents 8.2
b/fwd 8.2
Surplus/Deficit for the year 8.2

NET FINANCIAL POSITION

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The Project's financial statements were approved on 29/9/16 and signed by:

Principal Secretary  

Project Coordinator  

Date 3/9/16  

Date 29/9/16
6. **STATEMENT OF CASHFLOW FOR THE YEAR ENDED 30TH JUNE, 2016**

<table>
<thead>
<tr>
<th>Receipts for operating income</th>
<th>Notes 2015/16 (KES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipts for operating income</td>
<td></td>
</tr>
</tbody>
</table>

**Payments for operating expenses**

- Purchase of goods and services

**Net cash flow from operating activities**

**CASHFLOW FROM FINANCING ACTIVITIES**

- Proceeds from external development partners

**Net cashflow from financing activities**

**NET INCREASE IN CASH AND CASH EQUIVALENT**

- Cash and Cash Equivalent at the BEGINNING of the year
- Cash and Cash Equivalent at the END of the year

The accounting policies and explanatory notes to these financial statements form an integral part of the financial statements. The project's financial statements were approved on 29/9/2016 and signed by:

**Principal Secretary**

30/9/16

**Project Coordinator**

29/9/16
7. STATEMENT OF COMPARATIVE BUDGET AND ACTUAL AMOUNTS

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>RECEIPTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Assistance:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from borrowings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IDA Loan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL RECEIPTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAYMENTS</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of goods &amp; services</td>
<td>347,700,400</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL PAYMENTS</td>
<td>347,700,400</td>
<td>-</td>
</tr>
</tbody>
</table>

SURPLUS FOR THE YEAR

(347,700,400) (-39,399,023)

NOTES:
The deficit of actual expenditure over the budget is KSh. 308,341,347 (89.0% under budget). The lower than projected expenditure is largely attributable to:

i. The project being new and as usual new projects take some time to kick off activity implementation as a result of project start up processes;

ii. Budgetary issues due to the fact that the project became effective in July 2015 after the completion of FY2015/16 Government Budget Preparation and approvals and therefore it took some time before the project received authority to spend pending regularization of its estimates;

iii. No significant budget utilisation/performance differences has been realised by the Project to be disclosed in these financial statements.

Principal Secretary

20/9/16

Project Coordinator

29/9/16
8. NOTES TO THE FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of these financial statements are set out below:

8.1 Statement of compliance and basis of preparation

The financial statements have been prepared in accordance with and comply with International Public Sector Accounting Standards (IPSAS) with particular emphasis on Cash Basis Financial Reporting under the Cash Basis of Accounting. The financial statements comply with and conform to the form of presentation prescribed by the Accounting Standards Board of Kenya.

The financial statements are presented in Kenya Shillings, which is the functional and reporting currency of the Project and all values are rounded to the nearest one Shilling. The accounting policies adopted have been consistently applied to all of the years presented.

The financial statements have been prepared on the cash basis following the Government’s standard chart of accounts. The cash basis of accounting recognizes transactions and events only when cash is received or paid out by the Project.

i. Recognition of revenue and expenses

The Project recognizes all revenues from the various sources when the event occurs and the related cash has actually been received by the Project. In addition, the Project recognizes all expenses when the event occurs and the related cash has actually been paid out by the Project.

ii. In-kind donations

In-kind donations are contributions made to the Project in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment or personnel services. Where the financial value of in-kind donations can be reliably determined, the Project includes such value in the statement of receipts and payments both as revenue and as an expense in equal and opposite amounts; otherwise, the donation is not recorded.
iii. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short-term cash imprests and advances to authorized public officers and/or institutions which had not been surrendered or accounted for at the end of the financial year.

iv. Pending bills

Pending bills consist of unpaid liabilities at the end of the financial year arising from contracted goods or services during the year. Pending bills do not involve the payment of cash in the reporting period and have simply been disclosed in the notes to the financial statements.

v. Budget

The budget is developed on the same accounting basis (cash basis), the same accounts classification basis, and for the same period as the financial statements. The Project's budget was approved as required by Law and National Treasury Regulations, as well as by the participating development partners, as detailed in the Government of Kenya Budget Printed Estimates for the year. A high-level assessment of the Project's actual performance against the comparable budget for the financial year under review has been included in an annex to these financial statements.

vi. Exchange rate differences

The accounting records are maintained in the functional currency of the primary economic environment in which the Project operates, Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transactions. Any foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of receipts and payments.
vii. Comparative figures

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

viii. 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, 2016.

8.2 CASH BALANCES

Temporary Imprests
Central Bank of Kenya
FSSP AC.NO.1000237872

i. Cash comprises cash on hand, demand deposits and cash equivalents. Demand deposits and cash equivalents consist of balances with banks, advances given out pending submission of accountability documents, outstanding temporary imprints, prepayments and investments in short-term money market instruments.

ii. The Project Special (Designated) Deposits Bank Account is maintained with Central Bank of Kenya (Account No. 1000237937).
8.3 LOAN FROM EXTERNAL DEVELOPMENT PARTNERS

During the 12 months to 30 June 2016 the Project received funding from development partners in form of loans negotiated by the National Treasury Donors as detailed in the table below:

<table>
<thead>
<tr>
<th>Loans Received from Multilateral Donors (International Organizations)</th>
<th>FY 2015/16</th>
<th>FY 2014/15</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Development Association (IDA).</td>
<td>17.11.2015</td>
<td>1,500,000,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,500,000,000</td>
</tr>
</tbody>
</table>

8.4 PURCHASE OF GOODS AND SERVICES

TRAINING & WORKSHOPS

Capacity Building: Training, Conferences & Workshops

8.5 PENDING BILLS

There were no pending bills as of 30th June, 2016.